

SQUARE ENIX

2023
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.

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

Disclaimer Regarding Forward-Looking Statements

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

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

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

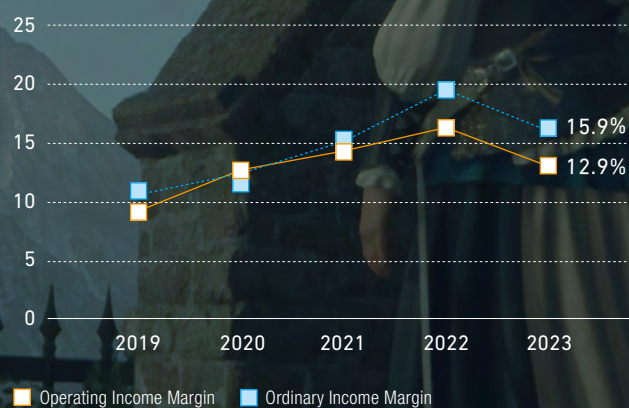
» Financial Highlights

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

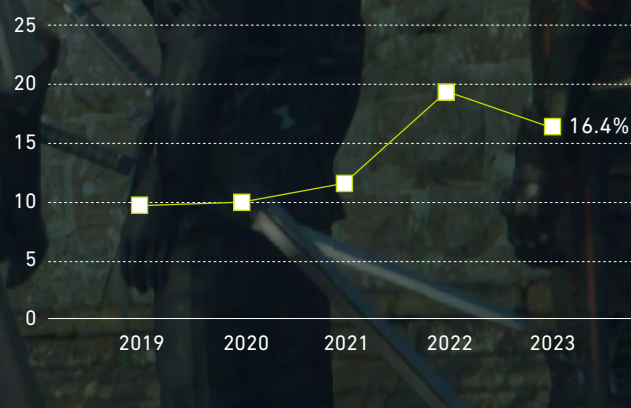
	2019	2020	2021	2022	Millions of yen 2023	Thousands of U.S. dollars 2023
For the Year						
Net sales	¥ 271,276	¥ 260,527	¥ 332,532	¥ 365,275	¥ 343,267	\$2,570,712
Operating income	24,635	32,759	47,226	59,261	44,331	331,996
Ordinary income	28,415	32,095	49,983	70,704	54,709	409,719
Profit attributable to owners of parent	19,373	21,346	26,942	51,013	49,264	368,942
At Year-end						
Total assets	¥ 282,614	¥ 302,634	¥ 336,144	¥ 380,902	¥ 399,634	\$2,992,843
Total net assets	206,445	221,928	243,278	284,429	317,266	2,375,990
					Yen	U.S. dollars
Per Share of Common Stock						
Earnings	¥ 162.57	¥ 179.02	¥ 225.75	¥ 426.82	¥ 411.62	\$ 3.08
Total net assets	1,726.32	1,854.10	2,029.69	2,370.48	2,641.74	19.78
					%	
Key Ratios						
Operating income margin	9.1%	12.6%	14.2%	16.2%	12.9%	
Ordinary income margin	10.5	12.3	15.0	19.4	15.9	
Return on equity	9.7	10.0	11.6	19.4	16.4	
Equity ratio	72.8	73.1	72.1	74.4	79.1	

Note: For the convenience of readers, amounts in U.S. dollars have been translated using the currency exchange rate at March 31, 2023 of ¥133.53=US\$1.

Operating Income Margin/Ordinary Income Margin (%)



Return on Equity (%)



» A Message to Our Stakeholders



Takashi Kiryu

President and Representative Director

PROFILE

Jun. 2020 General Manager, Corporate Planning Division, SQUARE ENIX HOLDINGS CO., LTD.
Apr. 2021 Chief Strategy Officer and Executive Officer, Corporate Strategy and Corporate Communications
Jun. 2022 Director
Jul. 2022 Chief Strategy Officer
Executive Officer, Corporate Strategy, Financial Strategy and Corporate Communications (incumbent)
Jun. 2023 President and Representative Director (incumbent)

Significant positions concurrently held

President and Representative Director, SQUARE ENIX CO., LTD.
Director, TAITO CORPORATION
President and Director, SQUARE ENIX OF AMERICA HOLDINGS, INC.
(the Group's intermediate holding company in the Americas)
Director, SQUARE ENIX LTD. (the Group's operating and intermediate holding company in Europe and other regions)
Chairman of the Board, SQUARE ENIX (China) CO., LTD. (the Group's operating company in China)

Thank you for your continued support of the Square Enix Group.

On becoming president

My name is Takashi Kiryu. I recently assumed the offices of President and Representative Director. The value of the Square Enix Group lies in its ability to create and deliver high-quality content, services, and products that form lifelong memories for our customers, thereby helping them discover a happiness all their own.

I know this because Square Enix content has given me memories that have enriched my own life dating back to my early childhood. However, I would know this to be true even without my own personal formative experiences because so many customers have shared the same sentiment with me since I took office.

These memories would not be possible if not for the individuality and creativity of each and every one of our employees. My mission is to ensure the sustained growth of our Group by providing our employees with a space that enables them to display these attributes to their fullest measure and by creating an environment in which they can continue to produce attractive content, services, and products.

On our fiscal year ended March 2023

The fiscal year ended March 2023 was the second year of the Medium-Term Earnings Targets and Business Strategy that we unveiled in May 2021. We recorded full-year net sales of ¥343.2 billion, operating income of ¥44.3 billion, ordinary income of ¥54.7 billion, and profit attributable to owners of parent of ¥49.2 billion.

Below I will describe the performances of our individual segments.

Digital Entertainment

The Digital Entertainment segment recorded net sales of ¥245.5 billion and operating income of ¥41.2 billion in the fiscal year ended March 2023.

The High-Definition (HD) Games sub-segment released the latest installments in such existing franchises as “Octopath Traveler II,” as well as multiple titles featuring new IPs, including “FORSPOKEN.” However, the sub-segment’s net sales declined, failing to reach the scale of the previous year, which had seen the release of such titles as “OUTRIDERS” and “NieR Replicant ver.1.22474487139...”

Through the development of “FORSPOKEN,” Luminous Productions Co., Ltd. gained experience and insights that we wanted to leverage in bolstering the development skills of our entire Group. As such, we

A Message to Our Stakeholders

decided to merge Luminous Productions with SQUARE ENIX CO., LTD. in May 2023. The merger is part of our current drive to step up our internal development capabilities, and we are hopeful that it will bring renewed vitality to development projects that are underway as well to other endeavors.

In addition, “PowerWash Simulator,” which our UK-based studio discovered and our Group published, has proven incredibly popular. Many customers that we had previously been unable to reach are among those enjoying the title’s simple playability, making it a distinctive presence occupying a unique spot in our portfolio. We intend to further expand its earnings by continuing to regularly offer downloadable content and the like.

The Massively Multiplayer Online (MMO) Game sub-segment saw net sales decline in the fiscal year ended March 2023, partly because it was an off year for expansion packs for our core “FINAL FANTASY XIV” and “DRAGON QUEST X” titles. The sub-segment nonetheless delivered a solid performance as our retention efforts proved successful thanks to a variety of operational initiatives.

The Games for Smart Devices/PC Browsers sub-segment worked to create new titles capable of compensating for the decline in earnings from long-lived titles, but its net sales fell as the new titles did not achieve the level expected. The sub-segment competes primarily in Japan, where the smart device market has matured and hit titles have become more difficult to produce. However, we will strive to grow the business by maintaining solid operations for core titles like “DRAGON QUEST WALK” while also working to create new titles capable of generating stable earnings.

Amusement

Net sales rose to ¥56.3 billion, and operating income grew to ¥5.2 billion at the Amusement segment. Japan saw in-person businesses pick up in general, partly because of the government’s redesignation of COVID-19 as a Class 5 disease. Against this backdrop, sales at our existing arcades significantly exceeded those of the previous year. We believe that the segment will continue to deliver a solid performance given the likelihood that demand from overseas tourists will expand, in part because Japan has eased its entry requirements.

In addition, our Group company TAITO CORPORATION, which runs amusement facilities, has been rolling out a variety of initiatives in 2023 to celebrate its 70th anniversary.

Publication

The Publication segment reported net sales of ¥29.1 billion and operating income of ¥11.6 billion. Net sales grew, fueled partly by the creation of new works such as “Daemons of the Shadow Realm,” the latest work from “Fullmetal Alchemist” creator Hiromu Arakawa. Despite this, operating income declined year on year.



In addition to our aforementioned efforts creating new titles, we were also successful at growing sales from popular existing titles like “My Happy Marriage” and “Barakamon,” whose live-action adaptations were much talked about.

Merchandising

The Merchandising segment reported net sales of ¥15.6 billion and operating income of ¥3.7 billion. While net sales grew thanks to brisk sales of merchandise featuring characters from our popular IPs, operating income declined, partly because of product mix changes.

Medium-term business plan progress & challenges

In the fiscal year ended March 2023, we overhauled our studio portfolio in our existing businesses, and in the realm of new businesses, we stepped up our efforts in our focus investment fields.

In May 2022, we announced the sale of three of our overseas studios and some of our IPs to the Sweden-based Embracer Group AB. The move was part of our efforts to right-size the Digital Entertainment segment's title portfolio for the medium to long term and to optimize our resource allocation based on that. The divestiture's objective was to consolidate the portion of our development footprint that lies outside of Japan.

We view this as only the beginning of our efforts to transform the structure of the entire Digital Entertainment segment, which is home primarily to our HD games. Going forward we will revisit our title portfolio from a medium- to long-term perspective and make our development organization stronger so that it is capable of producing the portfolio we envision. Specifically, I mean that we will further strengthen our



internal development resources while also beginning to take our domestic and overseas publishing functions to greater levels of sophistication and optimization.

Incredible performance gains by all types of consoles and devices have increased the difficulty and prolonged the timelines for developing game titles. Recruiting and training the teams and resources capable of producing high-quality content that our customers will find satisfying requires an amount of time reflective of these changes. In addition, recent years have seen the competition to attract talent intensify, and the number of external partner companies capable of handling large-scale development projects has diminished. For these reasons and others, it is currently extremely difficult to build a development organization that can ensure both quality and quantity with short turnaround times. Furthermore, as I stated at the outset, I believe that the most important elements in the creation of our Group's content is the individuality and creativity of each and every one of our employees. Therefore, we need to pursue our structural transformation while giving due consideration to the various projects we currently have under way and the productivity of the employees involved in them. As such, it is my view that the development and construction of our internal development organization is a challenge that we need to roll up our sleeves and take ample time to tackle. It involves a diversity of issues including strengthening our ability to structure our development process, recruiting talent, and establishing training capabilities. We will devise an agenda based on these and work our way steadily through it step by step.

In addition, customers are increasingly accessing our Digital Entertainment offerings—especially our HD games—via the digital world rather than the physical world. I believe that this gives critical importance not only to the distribution channels that we use to deliver our products to our customers, but also to the creation of appropriate contact points and communication initiatives within the context of our marketing and sales

activities because it is these that enable our customers to learn about our content before they decide to purchase it. By increasing the sophistication of our publishing functions both in Japan and overseas, we will strive to maximize our sales of both new and catalog titles.

We will work from a medium- to long-term perspective to optimize the allocation of our resources for both development and publishing and to build the optimal organizations to utilize those resources. In so doing, we will bolster the profitability of our Digital Entertainment segment and our HD games in particular.

I will next discuss new business domains. To date, we have named three focus domains: blockchain entertainment/Web3, AI, and the cloud. Among those, we have devoted special effort to the blockchain entertainment/Web3 domain. We launched a new internal organization dedicated to this domain in February 2022 and have also been investing in start-ups globally with the help of the business development organizations at our overseas offices.

We will continue such efforts going forward. However, my intention not only in the case of the blockchain entertainment/Web3 domain but also the AI and cloud domains is to pursue our efforts by striking a good balance between our use of internal and external resources.

In the case of AI in particular, we will revisit the missions of our internal AI-dedicated R&D organization and our AI-specialized Group operating company SQUARE ENIX AI & ARTS Alchemy Co., Ltd. In addition, we will strive to establish a structure within our Group that takes a broader view of the possibilities AI presents for our businesses, including in terms of investments and tie-ups with external partners. Furthermore, we will apply a broader definition to “digital entertainment content” and be more aggressive in trying our hand at new businesses, thereby enabling the expansion and development of the AI domain.

Governance and shareholder return

Outside directors account for 70% of our board. We are working to achieve transparent corporate management by maintaining a board that combines oversight from an external perspective with execution from an internal perspective in a well-balanced manner. Moreover, regardless of their genders or nationalities, our outside directors possess a wealth of achievements and experiences in a diversity of domains, including corporate management, the law, finance, technology, and art/media. As such, they provide us assessments and advice on our management efforts from a wide range of angles.

On the question of shareholder return, we will continue to target a consolidated dividend payout ratio of 30%, while also working to respond to the expectations of our shareholders by striking the optimal balance between growth investment and shareholder return.

Conclusion

The needs of customers who enjoy digital entertainment change with each passing day. In keeping with that, tremendous changes are underway in the industry surrounding us. However, as devices become increasingly sophisticated, the excitement that customers want from their digital entertainment is not necessarily something that only greater sophistication can provide. I believe that precisely because technology is advancing so rapidly, the true essence of excitement is all the more important in today's world. Refining our strengths so that we can distill that essence into content and put it into the hands of as many customers around the world as possible. Maximizing the value of our customers' experience through these efforts. This is what in my view will enable the maximization of the value of our Group's IP and content and ultimately the maximization of our corporate value.

The year 2023 marks the milestone 20th anniversary of the merger of ENIX CORPORATION and SQUARE CO., LTD. We will strive for further growth so that we will be able to provide more customers around the world with wonderful memories over the next 10 years, the next 20 years, and beyond. I look forward to your understanding and continued support.



Takashi Kiryu

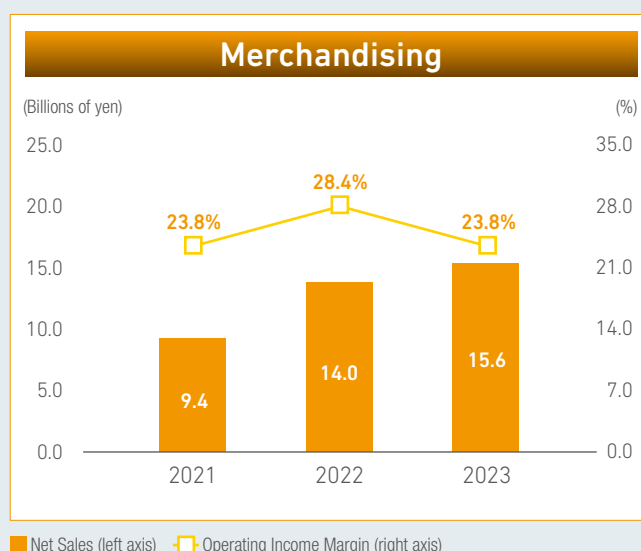
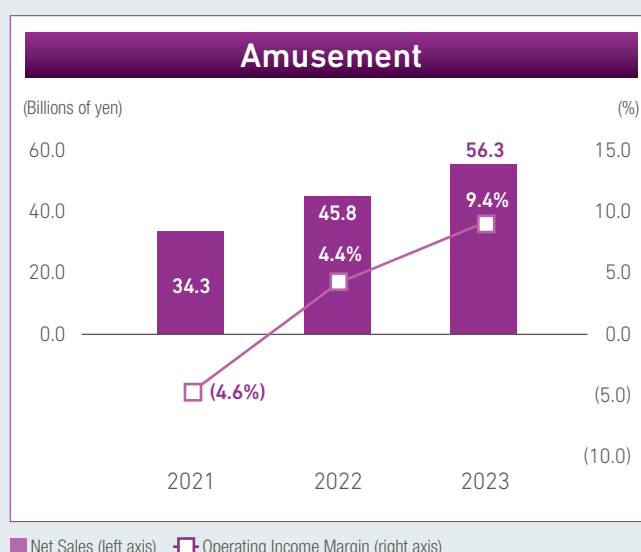
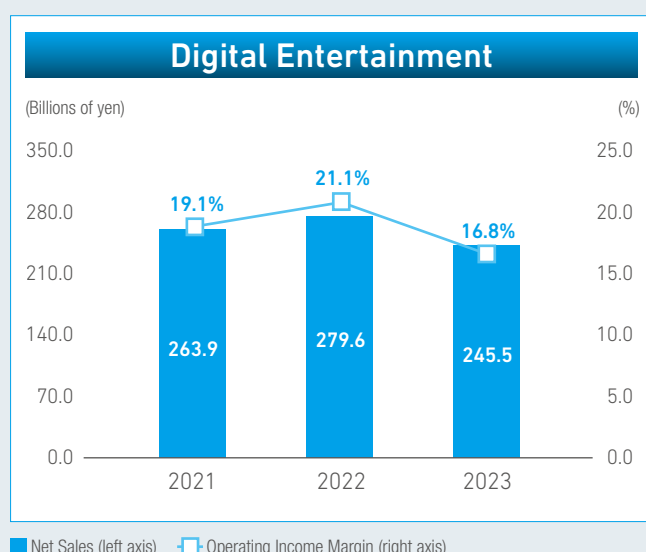
President and Representative Director

» Review of Operations

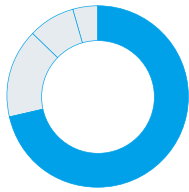
The Square Enix Group (the “Group”) is continuing determined efforts to strengthen the competitiveness and profitability of its business segments of Digital Entertainment, Amusement, Publication and Merchandising.

Net sales for the fiscal year ended March 31, 2023 totaled ¥343,267 million (a decrease of 6.0% from the prior fiscal year) and operating income amounted to ¥44,331 million (a decrease of 25.2% from the prior fiscal year). In foreign exchange rates, the weakness of the Japanese yen compared to the rate as of the end of last fiscal year resulted in the booking of a foreign exchange gain amounting to ¥10,365 million. As a result, ordinary income amounted to

¥54,709 million (a decrease of 22.6% from the prior fiscal year). In addition, the execution of a share transfer agreement concerning the divestiture of select Group overseas studios and intellectual property resulted in ¥9,465 million in gains on the sales of affiliate shares. The Company also booked ¥6,303 million in extraordinary losses, partly associated with the disposal of a portion of its content production account undertaken to optimize the business structure of its domestic studios and enhance its internal development capabilities. These and other factors resulted in profit attributable to owners of parent of ¥49,264 million (a decrease of 3.4% from the prior fiscal year).



Digital Entertainment



Share of Net Sales (FY ended March 2023)

71.5%

The Digital Entertainment segment consists of planning, development, distribution, and operation of digital entertainment content primarily in the form of game. 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.

At the HD (High-Definition) Game sub-segment, the fiscal year ended March 31, 2023 saw the release of “CRISIS CORE -FINAL FANTASY VII- REUNION,” “FORSPOKEN,” and “OCTOPATH TRAVELER II.” However, because new titles generated lower earnings than in the previous year, which had seen the launch of “OUTRIDERS,” “NieR Replicant ver.1.22474487139...,” and “Marvel’s Guardians of the Galaxy,” the sub-segment’s net sales declined versus the previous fiscal year.

Net sales declined versus the previous fiscal year in the MMO (Massively Multiplayer Online) Game sub-segment, in part because of the lack of any expansion pack launches for “FINAL FANTASY XIV.”

The Games for Smart Devices/PC Browser sub-segment saw a decline in net sales versus the previous fiscal year because of weak performances by existing titles.

Net sales and operating income in the Digital Entertainment segment totaled ¥245,548 million (a decrease of 12.2% from the prior fiscal year) and ¥41,253 million (a decrease of 30.0% from the prior fiscal year), respectively.

CRISIS CORE
FINAL FANTASY VII
REUNION



© SQUARE ENIX
CHARACTER DESIGN: TETSUYA NOMURA

FORSPOKEN



© SQUARE ENIX

OCTOPATH
TRAVELER
II



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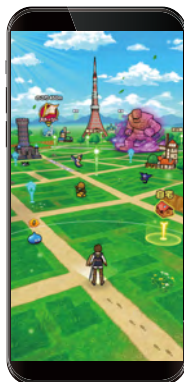
FINAL FANTASY XIV
ONLINE



© SQUARE ENIX
LOGO ILLUSTRATION: © YOSHITAKA AMANO



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Developed by Aiming Inc.

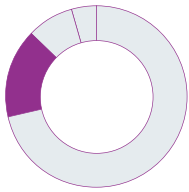


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Amusement



Share of Net Sales (FY ended March 2023)

15.8%

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.

Net sales and operating income for the fiscal year ended March 31, 2023 rose versus the previous year because of a sharp year-on-year increase in same-store sales.

Net sales and operating income in the Amusement segment totaled ¥56,376 million (an increase of 22.9% from the prior fiscal year) and ¥5,285 million (an increase of 163.9% from the prior fiscal year).



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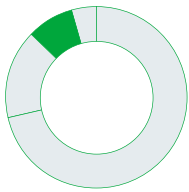


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Publication



Share of Net Sales (FY ended March 2023)

8.5%

The Publication segment consists of publication and licensing of comic magazines, comic books, and game-related books.

Sales of both digital and print media were solid in the fiscal year ended March 31, 2023, but higher prices on printing paper and other inputs led to higher costs. This, combined with other factors such as increased advertising expenses led to a year-on-year decline in operating income.

Net sales and operating income in the Publication segment totaled ¥29,164 million (an increase of 0.5% from the prior fiscal year) and ¥11,641 million (a decrease of 4.8% from the prior fiscal year), respectively.



Monthly Shonen GANGAN
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GANGAN ONLINE
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MANGA UP!
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My Happy Marriage
©Akumi Agitogi Licensed by KADOKAWA CORPORATION
©Rito Kohnaka/SQUARE ENIX

The Apothecary Diaries
©2023 Natsu Hyuuga/Imagica Infos Co., Ltd.
©Nekokurage/SQUARE ENIX
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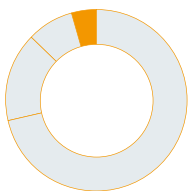
The Girl I Like Forgot Her Glasses
©Koume Fujichika/SQUARE ENIX

Dead Mount Death Play
©Ryohgo Narita/SQUARE ENIX
©Shinta Fujimoto/SQUARE ENIX

My Dress-Up Darling
©Shinichi Fukuda/SQUARE ENIX

DRAGON QUEST WALK OFFICIAL FAN BOOK 3rd Anniversary
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Merchandising



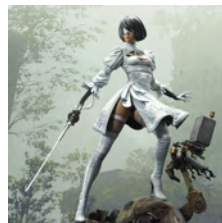
Share of Net Sales (FY ended March 2023)

4.2%

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

The fiscal year ended March 31, 2023 saw brisk sales of products including new character merchandise based on major intellectual properties. However, while net sales rose versus the previous fiscal year, operating income declined, partly due to changes in the sales mix by product.

Net sales and operating income in the Merchandising segment totaled ¥15,664 million (an increase of 11.9% from the prior fiscal year) and ¥3,723 million (a decrease of 6.5% from the prior fiscal year), respectively.



SQUARE ENIX MASTERLINE NieR:Automata 1/4 Scale
- 2B (YoRHa No. 2 Type B) 2P Color Ver.
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FINAL FANTASY VII REMAKE™ PLAY ARTS KAI™ Action Figure
- AERITH GAINSBOROUGH DRESS Ver.
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CHARACTER DESIGN: TETSUYA NOMURA/ROBERTO FERRARI



FINAL FANTASY TRADING CARD GAME
Anniversary collection set 2022 Japanese ver
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SQUARE ENIX CAFE
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DELIVERING UNFORGETTABLE EXPERIENCES

FINAL FANTASY

**Over 185 million units in
global package shipments
and digital sales**

(as of the end of June 2023)

“FINAL FANTASY” Series

A Japan original. Since the release of the first title in 1987, this roleplaying game franchise has been lauded by customers the world over for its use of cutting-edge visual technologies, the distinctive look and feel of its universe, and its rich stories.

Thanks in part to our commitment to bringing “FINAL FANTASY” to the Western markets as well, cumulative global physical and digital sales have topped 185 million units.



Platforms: PlayStation®5
Launch: June 22, 2023



“FINAL FANTASY VII”

Since the release in 1997, this game franchise has attracted many players with its epic and touching stories, fascinating characters, and its use of cutting-edge visual technologies of the time. Physical and digital sales have topped 14.4 million units to date.



Platforms: PlayStation®5

Launch: February 29, 2024 (tentative)

© SQUARE ENIX

CHARACTER DESIGN: TETSUYA NOMURA / ROBERTO FERRARI

LOGO ILLUSTRATION: © YOSHITAKA AMANO



Platforms: iOS/Android

© SQUARE ENIX

Powered by Applibot, Inc.

CHARACTER DESIGN: TETSUYA NOMURA / CHARACTER ILLUSTRATION: LISA FUJISE





Platforms: PlayStation®5/PlayStation®4/
Xbox Series X|S/Windows®/Mac/Steam®
Launch: Summer 2024 (tentative)

© SQUARE ENIX
LOGO ILLUSTRATION: © YOSHITAKA AMANO



Platforms: iOS/Android
© SQUARE ENIX
LOGO ILLUSTRATION: © YOSHITAKA AMANO



Platforms: iOS/Android/PC
© SQUARE ENIX Co-Developed by gumi Inc.
LOGO ILLUSTRATION: © YOSHITAKA AMANO





Over 88 million units in global package shipments and digital sales

(as of the end of June 2023)

“DRAGON QUEST” Series

In 2021, the “DRAGON QUEST” series celebrated its 35th anniversary. This series of popular roleplaying games has sold a total of over 88 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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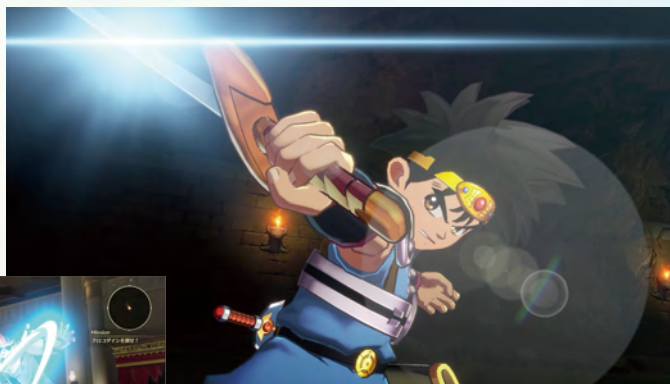
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Platforms: Nintendo Switch™
Launch: December 1, 2023 (tentative)



Platforms: PlayStation®5/PlayStation®4/
Nintendo Switch™/Xbox Series XIS/
Microsoft Store
Launch: September 28, 2023
Platforms: Steam®
Launch: September 29, 2023



©SANJO RIKU, INADA KOJI/ SHUEISHA, The Adventure of Dai Project
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Developed by Aiming Inc.



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SQUARE ENIX



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**Over 36 million units
in global package shipments
and digital sales**

(as of the end of June 2023)



About the KINGDOM HEARTS Series

KINGDOM HEARTS is a series of role-playing games created through the collaboration of Disney 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 20th anniversary last year and has shipped over 36 million units worldwide.

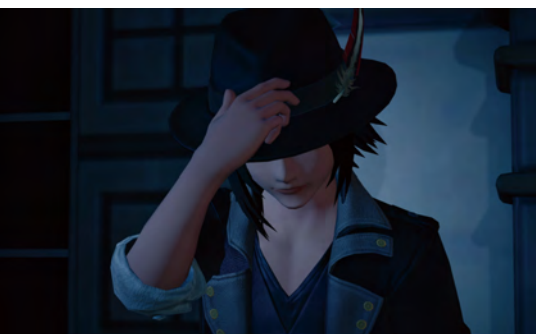
Platforms, Launch: TBD

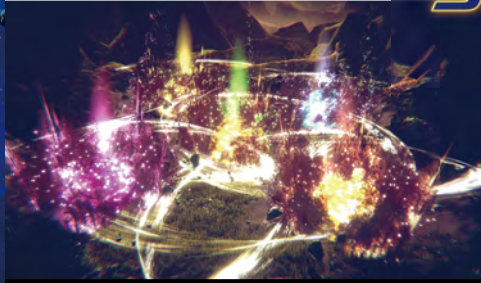
© Disney. Developed by SQUARE ENIX



Platforms: iOS/Android

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Original version developed by tri-Ace Inc.

Platforms: PlayStation®5/PlayStation®4/Nintendo Switch™

Launch: November 2, 2023 (tentative)

Platforms: Steam®

Launch: November 3, 2023 (tentative)



FOAMSTARS™

Platforms: PlayStation®5/PlayStation®4

Launch: Early 2024 (tentative)

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» Environment, Social and Governance

Sustainability Initiatives

Impact of climate change-related risks and earnings opportunities on business activities and earnings

Organizational Governance Relating to Climate-Related Risks and Opportunities

- The Board of Directors will evaluate and monitor climate change-related risks and executive management's measures to counter them based on reports provided as appropriate by the President and Representative Director.
- The President and Representative Director will analyze the risks according to the scope of our Group business activities, formulate and execute requisite measures, and report regularly to the Board of Directors.

Strategies

Risks and their impact

- Rise in business costs with future introduction of policies such as carbon taxes
- Rise in cost of materials, production and procurement costs with restrictions on use of plastic
- Disruptions to business continuity, physical damage, and impact on employee workstyles and lifestyles from natural disasters and global warming

Opportunities and their impact

- Carbon tax reduction via shift to renewable energy
- Reduced costs such as for plastic with increased shift to digital

Addressing the risks and opportunities for the Group

- We recognize that switching our source of electricity to renewable energy would be an effective and feasible method of limiting our Group greenhouse gas emissions. We have plans to switch each of our Japanese offices and data centers to renewable energy, and will further consider our handling of emissions from other facilities.

Risk Management

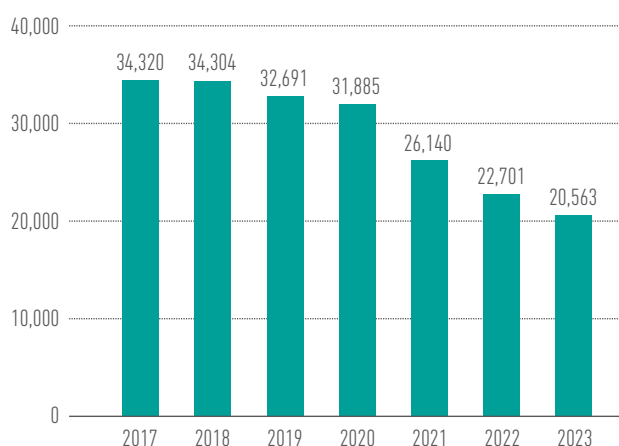
- The President and Representative Director will appoint an executive officer to take responsibility for the implementation of necessary measures in relevant departments associated with the risks in question.
- We will calculate the level of CO₂ emissions pertaining to electricity usage at facilities used by our Group and track our progress relative to our reduction targets.

Metrics and Targets

- Our quantitative metric is the amount of CO₂ emitted by Japanese offices, data centers, and amusement facilities through the use of electricity. We target virtually zero emissions from Japanese offices and data centers by 2030. We aim to reduce emissions from amusement facilities by 50% by 2050.

CO₂ emissions from electricity use

(tCO₂) *Figures include some approximations and interim figures.



Environmental and Social Initiatives

Through its environmental and social initiatives, the Group works 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. The 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 our Group sells in regions such as Japan, North America, and Europe with age suitability and other information as dictated by 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.

*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 “Gacha” or loot boxes (a method of providing random in-game items in direct exchange for money or for virtual currency that can be purchased with real money) and the odds of obtaining them.

Collaborations with academia to support the development of society and our industry

Our Group actively engages in joint initiatives with academia in an effort to pursue new possibilities in expression and to further the development and messaging power of the content industry.

In 2017, we asked ourselves, “What would it be like if there were a

Department of Games at the Tokyo University of the Arts?” To answer that question, we created just such a department for a limited time with the help of the university’s Graduate School of Film and New Media and its Center of Innovation. We held an exhibition in each of the next two years that showcased works from a variety of projects under the mentorship of creators from our Group company Luminous Productions Co., Ltd. (merged with Square Enix in May 2023) These initiatives paved the way for the creation in the fiscal year ended March 2020 of the Game Course at the Graduate School of Film and New Media at the Tokyo University of the Arts. In addition, the employees of the Group also conduct a series of eight lectures on “Art and Information,” a course available for all students at the university’s Art Media Center. Each year they share their expertise in various fields of game production from the perspective of the students. We will continue to cooperate with the university’s attempt to “view games as a field of art and contribute to expanding the possibilities of games and the field of visual expression through research and production,” and will work to develop human resources involved in the entertainment industry.

Additionally, from 2021 to the second semester of 2022, we held a series of special lectures on game planning at the Faculty of Global Informatics at Chuo University. In addition to the programming and graphics skills required to develop a game, employees from our Group company Square Enix Co., Ltd. had covered a wide variety of topics in the lectures, including translation, artificial intelligence, and visual art direction, which were well received.

From the second semester of 2021, we are also collaborating with the Matsuo Lab at the University of Tokyo’s School of Engineering to provide a sponsored course on world models and simulators. In addition to offering lectures focused on simulations and deep learning with the cooperation and supervision of our Group company SQUARE ENIX AI & ARTS Alchemy, we are developing games that incorporate this technology into actual games. We will continue to collaborate with the Matsuo Lab, which is a leader in the field of deep learning in Japan, in an effort to further enhance the technology for constructing simulations for games and other digital content and to pursue potential applications for that technology.

Human Resources Initiatives

“To spread happiness across the globe by providing unforgettable experiences.” That is the Group’s corporate philosophy, and the Group works to provide an environment that consistently embodies it. An internal environment in which all employees can fully demonstrate their potential is one that gives rise to creative and innovative ideas. The Group provides that sort of corporate culture and workplace environment, while also establishing human resource programs that support a diversity of working styles. The following programs implemented by SQUARE ENIX CO., LTD. (“Square Enix”) are prime examples of the Group’s human resource initiatives.

Human Resource Training

Helping all employees grow and maximizing their individual manifest abilities while also ensuring they can bring those attributes to bear in the best way possible serves as a major driver of sustainable growth for the Group. Square Enix proactively engages in human resource training through a variety of opportunities.

New employee onboarding: “GAME DEV BOOT CAMP”

New employees are divided into teams and experience a mock game development effort that starts with planning and continues all the way through to launch. They acquire basic job skills and experience the importance of working



collaboratively with teammates firsthand. In addition, the process inspires participants to tackle new challenges without fear of failure. Once employees are assigned to their respective workplaces, they receive on-the-job training that emphasizes their own agency by encouraging them to think, decide, and act on their own.

Compliance training

Square Enix provides compliance training primarily to managerial employees to ensure that they have an accurate understanding of the regulatory environment as it relates to Square Enix’s businesses and use that understanding to inform their daily business activities. Focuses include Japan’s Labor Standards Act, Copyright Act, Payment Services Act, and Act against Unjustifiable Premiums and Misleading Representations. Square Enix also undertakes informational and awareness initiatives targeting the entire employee body in order to ensure that employees gain a better understanding of compliance topics and to further raise compliance consciousness companywide.

Global resource training

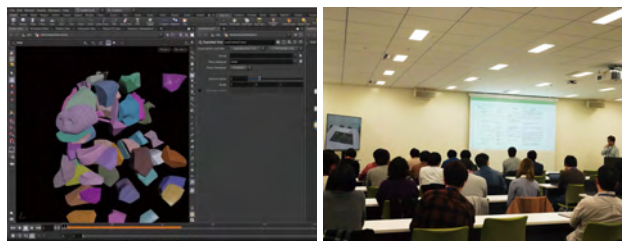
With employees encountering more and more opportunities for global communication, the demand for English skills is greater than ever. Square Enix helps non-English speaking employees enhance their language skills, including by offering English classes at the office and online.

Cutting-edge technology training and in-house development knowledge workshops

In order to enhance the technological literacy of Square Enix’s employees regarding cutting-edge technologies such as AI (artificial intelligence) and blockchain and to leverage such technologies in its content development efforts, Square Enix regularly holds information-sharing meetings and internal seminars, and also promotes the sharing and self-study of information on cutting-edge technologies using our online resources. Additionally, Square Enix provides numerous opportunities for sharing actual content development knowledge across divisions and projects to encourage efficient and high-quality content development. Furthermore, to address the lack of communication resulting from employees working from home, we are promoting various revitalization measures through the exchange of technology centered on these themes of cutting-edge technology and in-house knowledge.

Basic skills training and reskilling

We offer basic development skills training for new graduate employees to acquire the fundamental skills such as various DCC tools and engines which are necessary for development. For other employees, we also provide opportunities to understand new tools and engines in response to reskilling needs in order to raise the level of employees’ development skills.



Working Style Diversification

Employees view their work through the lens of an increasingly diverse range of values, and their needs change as they progress through different stages of life. In order to accommodate such diversity and change, Square Enix has introduced working options and unique benefit programs that go above and beyond legal requirements in order to help its employees enjoy an optimal work-life balance.

“Daycare concierge service”

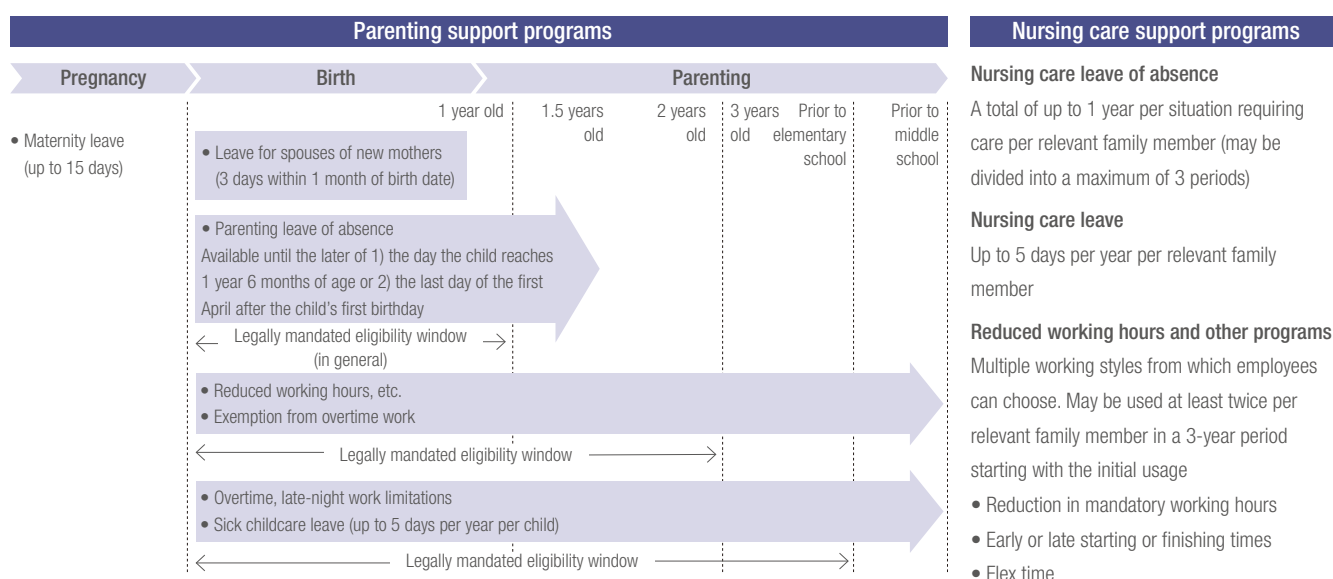
Employees have access to a third-party “daycare concierge service.” Experts share know-how, information, and advice to help new parents efficiently identify the best daycare option for them and make a smooth transition back to the workplace after the birth of a child.

Work-from-home program

We officially institutionalized our work-from-home program as of December 1, 2020, with the goals of creating a flexible and diverse working environment, further enhancing productivity, and achieving the optimal work-life balance. The program is available to all executive

officers and employees of all job types. At present, approximately 80% of our employees work from home.

The program gives employees more options about how they work and enables us to attract diverse human resources. We will also build the capacity to respond to unexpected situations such as disasters and changes in employment models. We will work to further enhance our corporate value by providing our employees with new ways of working for a new world so that they can be even more creative and continue to deliver content and services that meet the expectations of our customers around the globe.



Information Technology Division



Yoshimasa Ohtsuka

I took parenting leave for about six months after receiving warm words and support from many team members who understood the importance of childcare and encouraged me to actively use

the system. Having the time to devote to childcare allowed me to be close to my child, who has been growing day by day since being born. Also, by splitting the housework and childcare duties 50-50 with my wife, I gained a better understanding of the difficulties of childcare and those who are already raising a child.

Since returning to work, I have been able to continue to spend time with my family by working from home and using the flex time program.

Publication Business Unit



Saki Sakesaku

I was pregnant with twins and had an imminent premature delivery and took maternity and parenting leave earlier than expected. In consideration of my twin pregnancy, I was

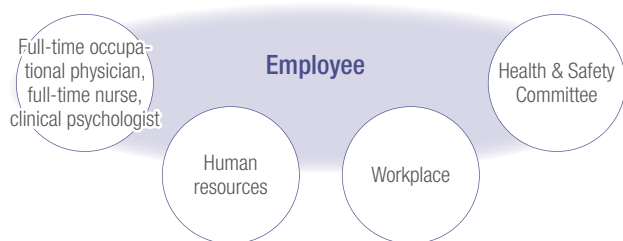
allowed to transition out of work early, allowing me to take the leave with peace of mind. After returning to work, I was able to balance work and raise twins by choosing reduced working hours. Although my twins often get sick, I am able to work while taking turns with my husband in taking care of them by using the work-from-home and flex time programs.

I am very grateful for the support of colleagues in the workplace, which has helped me to keep my duties on track.

Health and Productivity Management

In order to provide its customers with the best products and services, employees have to be healthy. Having employees that are mentally and physically healthy and helping them improve upon that health is therefore a key priority for Square Enix. As such, it undertakes a variety of initiatives to communicate the importance of daily health management and regular exercise in order to promote a corporate culture where all employees are mindful of and take good care of their health.

Enhancing occupational health and safety



Support for physical exercise regardless of workstyles

As workstyles based on work-from-home become the norm, we are providing monthly online health initiatives that employees can participate in from home, including stretch programs by professional instructors and yoga lessons. Additionally, walking events to improve employee health as well as encourage in-house communications are held twice a year, in spring and fall, where employees team up and using pedometer apps,

aim for the targeted number of steps while taking on various game challenges on the way. In addition to these efforts, we will continue to proactively provide measures to improve the health of our employees.



Live online stretching class



PC wallpaper designed by a Square Enix employee promoting the walking event

Providing incentives for health promotion activities

To create a sustainable environment in which employees can take the initiative to improve their health, we have introduced a point-based incentive system for activities that contribute to employee health, such as participating in exercise programs, recording lifestyle habits, and accessing health promotion information.



Implemented internally under the name Wellness-HP

Corporate Governance

1. Overview of Corporate Governance

(1) Basic views on corporate governance

The Company is a pure holding company governing the Square Enix Group, which develops a wide range of content and services. The Company believes that it is essential for the achievement of the Group's continuous growth and the maximization of its corporate value in the medium and long term to respect the interests of all the Company's stakeholders such as shareholders, customers, business partners, employees, and society, and to maintain good relationships with them under an agile, transparent, and sound management system. As such, the Company recognizes that the enrichment and enhancement of its corporate governance is a key management challenge, and the entire Group devotes itself to that end on an ongoing basis.

(2) 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 as of June 22, 2018. The establishment of the 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 has strengthened the monitoring functions of the Board of Directors by staffing it primarily with outside directors. Meanwhile, the Company has established an organization to increase the efficiency and speed of operational execution by dictating in its Articles of Incorporation that the Board of Directors can empower directors to make decisions regarding the execution of key operational matters.

The Company has seven directors (excluding those who are members of the Audit & Supervisory Committee), four of which are outside directors, and three directors who are members of the Audit & Supervisory Committee, all of which are outside directors, with one being full time. The Company designates all of its outside directors as independent directors as defined by the Tokyo Stock Exchange rule.

As a general principle, meetings of the Board of Directors are convened once a month, and deliberations and exchanges of opinions between the individual directors bring greater vitality to the management of the Company while also serving to sufficiently enhance the mutual check and balance between directors.

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 the Remuneration & Nomination Committee on which the majority is formed by independent outside directors and the chairperson is an independent outside director. This committee determines the individual amounts and the nature of remuneration for directors (excluding directors who are Audit & Supervisory Committee members) based on the basic policy on the executive remuneration system set forth by the Board of Directors, determines the nomination criteria for directors, and also determines candidates for directors, etc., to be submitted to the Board of Directors.

As a general principle, the Audit & Supervisory Committee meets once a month and based on the Audit & Supervisory Committee Standards, and in light of the status of the development and operation of internal control systems, audits the legality and appropriateness of directors' execution of their duties, in coordination with the Internal Audit Department. A member of the Audit & Supervisory Committee possesses extensive expertise in finance and accounting matters.

In the interest of executing and advancing management initiatives, the Company has established the role of executive officer in order to clearly identify the party responsible for operational execution in each domain and to strengthen cross-functional ties. This report includes a list of the Company's incumbent executive officers.

The Board of Directors has passed a resolution establishing the Company's Guidelines on the Development of an Internal Control System. By maintaining and promoting these guidelines, the Company works to ensure that auditing and supervisory functions are robust, 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.

Moreover, the Company clearly specifies the importance of compliance in the Code of Conduct in order to ensure a rigorous compliance system. The Company has established the Internal Control Committee and whistle-blowing systems, 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 IT controls and efficient operational functions, the Company has established the Information System Management Committee to oversee information systems on a Company-wide basis.

In addition, 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 control divisions, and the establishment of the Internal Control Committee and whistle-blowing systems.

To ensure its subsidiaries properly execute business activities, the Company has set forth rules on affiliate company management and engages in the management and supervision of subsidiaries in a manner

befitting the scale of said companies and their importance to the Group. Based on the aforementioned rules, the Company requests reports regarding the running of subsidiaries and other important information, and by employing methods such as holding monthly and ad hoc briefings, the primary subsidiaries make it possible for the Company to assess the status of the running of subsidiaries in a timely fashion as well as to take necessary measures in a timely and accurate fashion.

The members of the main meeting bodies are as follows:

◎: Chairman or Committee chairperson

Position	Name	Board of Directors	Audit & Supervisory Committee	Remuneration & Nomination Committee	Internal Control Committee
President and Representative Director	Takashi Kiryu	◎		○	◎
Director	Yoshinori Kitase	○			
Director	Yu Miyake	○			
Outside Director	Masato Ogawa	○		◎	
Outside Director	Mitsuko Okamoto	○		○	
Outside Director	Abdullah Aldawood	○			
Outside Director	Naoto Takano	○		○	
Outside Director (Standing Audit & Supervisory Committee Member)	Nobuyuki Iwamoto	○	◎	○	○
Outside Director (Audit & Supervisory Committee Member)	Tadao Toyoshima	○	○		
Outside Director (Audit & Supervisory Committee Member)	Hajime Shinji	○	○		
Chief Legal Officer	Hajime Seki				○
Chief Accounting Officer	Atsushi Matsuda				○
General Manager of Internal Audit Office	Satoshi Shinohara				○

(3) 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.

(4) Overview of the executive liability insurance policy

The Company has entered into an executive liability insurance policy with an insurer in order to offset damages that the insured parties may incur arising from accepting liability involving the execution of their duties or being subject to claims associated with efforts to hold them liable for

reasons involving the execution of their duties (provided, however, that the damages in question are not the result of willful misconduct or gross negligence). The insured parties under such insurance policy are directors and employees, etc., of the Company and its subsidiaries. The insurance premiums are paid entirely by the Company.

(5) 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 four.

(6) 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 General Shareholders' Meeting where shareholders in attendance hold one-third or more of outstanding voting rights.

(7) 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.

(8) 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 execute their duties to the maximum of their abilities and are able to fulfill the roles expected of them.

(9) Matters requiring special resolutions at the General 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 General 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 General Shareholders' Meeting by relaxing the special resolution requirements.

(10) Status of attendance of Board of Directors meetings

Name (Position)	Status of attendance of Board of Directors meetings for the fiscal year ended March 31, 2023
Yosuke Matsuda (President and Representative Director)	100.0% (17 out of 17 meetings)
Takashi Kiryu (Director)	100.0% (13 out of 13 meetings)
Yoshinori Kitase (Director)	100.0% (13 out of 13 meetings)
Yu Miyake (Director)	92.3% (12 out of 13 meetings)
Yukihiro Yamamura (Outside Director)	100.0% (17 out of 17 meetings)
Yuji Nishiura (Outside Director)	100.0% (17 out of 17 meetings)
Masato Ogawa (Outside Director)	100.0% (17 out of 17 meetings)
Mitsuko Okamoto (Outside Director)	100.0% (17 out of 17 meetings)
Abdullah Aldawood (Outside Director)	94.1% (16 out of 17 meetings)
Naoto Takano (Outside Director)	100.0% (13 out of 13 meetings)
Nobuyuki Iwamoto (Outside Director (Standing Audit & Supervisory Committee Member))	100.0% (13 out of 13 meetings)
Tadao Toyoshima (Outside Director (Audit & Supervisory Committee Member))	100.0% (17 out of 17 meetings)
Hajime Shinji (Outside Director (Audit & Supervisory Committee Member))	100.0% (17 out of 17 meetings)

*The total number of meetings held is that of the period during which the relevant director was serving.

(11) Status of outside directors

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

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

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

Masato Ogawa and Naoto Takano possess abundant experience and broad-ranging insight as corporate executives. While having had no previous involvement with corporate management, Mitsuko Okamoto possesses abundant experience and broad-ranging knowledge and insight in the field of animation and other content. Abdullah Aldawood possesses a track record as a national leader in the development of the

field of entertainment in the Kingdom of Saudi Arabia, abundant experience in international financial institutions, and a wealth of experience and broad-ranging insight in global corporate management. Based on these attributes, each of them has, since assuming the role of outside director, supervised and served as a check on directors in the execution of their roles. In addition, at Board of Directors meetings, they have provided comments from an independent perspective with the goals of enabling the sustained growth of the Group, bolstering its corporate value over the medium and long term, and further enhancing its corporate governance capabilities.

The functions and roles of Nobuyuki Iwamoto, Tadao Toyoshima, and Hajime Shinji under the Company's corporate governance structure are described in (1) Status of audits by Audit & Supervisory Committee under 2. Status of Audits below.

(iii) Standards and policy on independence from the Company in the appointment of outside directors

The Company has not established any particular provisions regarding independence in appointing outside directors but selects individuals who can be expected to execute their duties appropriately and 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 have any conflicts of interest with general shareholders.

The maximum total term of office for outside directors shall be 10 years.

The Company has notified the Tokyo Stock Exchange that Masato Ogawa, Mitsuko Okamoto, Abdullah Aldawood, Naoto Takano, Nobuyuki Iwamoto, Tadao Toyoshima, and Hajime Shinji are designated as independent directors pursuant to the rules established by the stock exchange.

(12) Mutual cooperation between supervision and audits by outside directors and internal audits, audits by Audit & Supervisory Committee, and audits by the audit firm, and relationship with the internal control unit

The outside directors promote mutual cooperation with the Internal Audit Department, Audit & Supervisory Committee, and the Company's audit firm. The situation of such mutual cooperation is reported to and discussed by the Board of Directors, Audit & Supervisory Committee, Internal Control Committee, and other corporate forums as appropriate.

(13) Analysis and evaluation of the effectiveness of the Board of Directors

The way in which meetings of the Board of Directors were held in the fiscal year ended March 31, 2023 is described below. Moreover, the Company conducted a survey on the effectiveness of Board meetings and received positive feedback on the effectiveness of the meetings from the Board members. 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 (17 meetings were held in the fiscal year ended March 31, 2023), whereupon the Board engages in discussions and makes decisions on matters that require the Board's resolution in a timely manner, while also receiving reports on the Group's businesses and providing supervision over operational execution.
- All directors had high rates of attendance (100% for 11 of the 13, 94.1% for one, and 92.3% for one director), and sufficient time was secured for active discussions at the Board meetings.
- The Board subjects operational execution 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 efforts to improve the effectiveness of the Board meetings by soliciting feedback from Board members in a timely manner.

2. Status of Audits

(1) Status of audits by Audit & Supervisory Committee

Audits by the Audit & Supervisory Committee are carried out by three Audit & Supervisory Committee members, all of whom are outside directors. The Committee also requests regular reports from the Internal Audit Department on operational audits, while instructing the division to assist the Committee's duties, as necessary.

The Audit & Supervisory Committee convened a total of 21 times during the fiscal year ended March 31, 2023, and attendance by the committee members was as follows:

Name (Position)	Status of attendance of Audit & Supervisory Committee meetings for the fiscal year ended March 31, 2023
Nobuyuki Iwamoto (Standing Audit & Supervisory Committee Member)	100.0% (17 out of 17 meetings)
Tadao Toyoshima (Audit & Supervisory Committee Member)	100.0% (21 out of 21 meetings)
Hajime Shinji (Audit & Supervisory Committee Member)	100.0% (21 out of 21 meetings)

*The total number of meetings held is that of the period during which the relevant Audit & Supervisory Committee Member was serving.

The Audit & Supervisory Committee for the fiscal year ended March 31, 2023 specifically deliberated on the following matters: drafting of audit policies and plans, the status of the execution of directors' duties, the status of the development and operation of internal control systems, the status of audits at subsidiaries, coordination with the Internal Audit Department and the development of the auditing environment, the nomination of directors who are Audit & Supervisory Committee members, and the nomination and remuneration of directors (excluding those who are members of the Audit & Supervisory Committee).

In addition, the Audit & Supervisory Committee confirmed the status of the execution of the duties of the Accounting Auditor and assessed the validity of the audit methods and results of the Accounting Auditor. It also deliberated matters regarding the appointment, dismissal, or non-reappointment of the Accounting Auditor, as well as the remuneration of the Accounting Auditor.

Each member of the Audit & Supervisory Committee, based on his or her wealth of experience and deep insight, offered opinions at the meetings of the Board of Directors from an independent standpoint in order to create sustainable growth for the Group, bolster corporate value in the medium and long term, and further enhance the corporate governance system.

Nobuyuki Iwamoto has supervised and served as a check on directors' execution of their duties as an outside director who is an Audit & Supervisory Committee member based on his abundant experience and broad-ranging insight in such areas as finance and accounting, as a corporate executive. In addition, in his role as a standing member of the Audit & Supervisory Committee, he has shared with other Audit & Supervisory Committee members information he has obtained by attending key meetings other than those of the Board of Directors (e.g., the Remuneration & Nomination Committee and the Internal Control Committee) and by reviewing the minutes of key meetings, contracts, internal decision-making records, and financial data.

Tadao Toyoshima does not have experience in corporate management excluding previous instances of serving as an outside director. However, he holds a qualification as a certified public accountant (CPA) and since assuming the role of outside director who is an Audit & Supervisory Committee member, he has supervised and served as a check on directors' execution of their duties based on his insight into financial and accounting matters.

Hajime Shinji does not have experience in corporate management excluding previous instances of serving as an outside director. However, he is a qualified attorney and since assuming the role of outside director who is an Audit & Supervisory Committee member, he has supervised and served as a check on directors' execution of their duties based on his abundant experience and broad-ranging insight in the field of law.

(2) Status of internal audit

Internal audits are carried out by the Internal Audit Office, which reports directly to the President. The Internal Audit Office performs regular monitoring, reviews and evaluations (internal evaluations) of internal control systems and operational processes, 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 Internal Audit Office's functions are carried out while sharing information with the Audit & Supervisory Committee and the Accounting Auditor.

The Audit & Supervisory Committee and the audit firm meet at the timing of quarterly and full-year earnings (i.e., a total of four times per annum) to report and exchange views. In addition, they arrange forums for exchanging views as appropriate, and incorporate the results of such discussions into the performance of their auditing duties.

Furthermore, the Board of Directors and Internal Control Committee are provided with reports on such audits as appropriate.

(3) Status of audits by Accounting Auditor

(i) Name of the Accounting Auditor

Ernst & Young ShinNihon LLC

(ii) Consecutive duration of audit service

17 years

(iii) Names of responsible certified public accountants

Hirofumi Harashina, Designated Limited Liability Partners, Business Execution Partners

(Consecutive years of audit service: 2)

Taro Kuramochi, Designated Limited Liability Partners, Business Execution Partners

(Consecutive years of audit service: 1)

(iv) Support team for accounting audit duties

12 certified public accountants and 34 others

(v) Policies and reasons for selection of Accounting Auditor

When selecting an audit firm as its Accounting Auditor, the Company comprehensively considers whether it has a system for centralized auditing of the Company's international business activities, in addition to whether it has the expertise, independence, suitability and quality control/screening systems necessary for an Accounting Auditor. Accordingly, Ernst & Young ShinNihon has been determined to be qualified.

Furthermore, in the case of dismissal of the Accounting Auditor by the Audit & Supervisory Committee as provided for under Article 340 of the Companies Act or other cases where it is found to be difficult for an

audit firm to perform its duties as Accounting Auditor appropriately, the Company shall, in principle, submit a proposal to the General Shareholders' Meeting regarding the dismissal or non-reappointment of the Accounting Auditor, after the passage of a resolution by the Audit & Supervisory Committee.

(vi) Evaluation of the Accounting Auditor by the Audit & Supervisory Committee

After having evaluated, in accordance with the Accounting Auditor Selection and Evaluation Standards determined by the Audit & Supervisory Committee, the quality control status of the audit firm, the expertise, independence and system for the execution of duties of the audit team, and the Group audits conducted in cooperation with overseas network firms, the Company has determined that there is no problem in any of the above.

(4) Compensation to audit firm

(i) Compensation paid to the audit firm

(Millions of yen)

Category	Fiscal year ended March 31, 2022		Fiscal year ended March 31, 2023	
	Compensation for statutory audit operations	Compensation for non-audit operations	Compensation for statutory audit operations	Compensation for non-audit operations
The company	56	1	59	1
Consolidated subsidiaries	73	—	75	—
Total	129	1	135	1

The non-audit operations provided by the audit firm for which the Company paid compensation in both the fiscal year ended March 31, 2022 and the fiscal year ended March 31, 2023 were guidance and advice regarding the preparation of English financial statements.

There was no compensation for non-audit operations at consolidated subsidiaries in either the fiscal year ended March 31, 2022 or the fiscal year ended March 31, 2023.

(ii) Compensation paid to organizations belonging to the international auditing network of the Ernst & Young Group, with which the audit firm is affiliated (excluding (i))

(Millions of yen)

Category	Fiscal year ended March 31, 2022		Fiscal year ended March 31, 2023	
	Compensation for statutory audit operations	Compensation for non-audit operations	Compensation for statutory audit operations	Compensation for non-audit operations
The company	—	—	—	11
Consolidated subsidiaries	127	37	162	53
Total	127	37	162	65

The compensation for non-audit operations at the Company in the fiscal year ended March 31, 2023 consisted of tax advisory services.

The non-audit operations at consolidated subsidiaries were tax advisory services in both the fiscal year ended March 31, 2022 and the fiscal year ended March 31, 2023.

(iii) Compensation for other key audit certification work

(Fiscal year ended March 31, 2022)

None.

(Fiscal year ended March 31, 2023)

None.

(iv) Policy on determining audit compensation

The Company's policy on determining compensation for audits conducted by the audit firm as Accounting Auditor 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 services provided.

(v) Reason for the Audit & Supervisory Committee's consent to Accounting Auditor compensation

The reason why the Company's Audit & Supervisory Committee gave consent provided under Article 399, Paragraph 1 of the Companies Act to compensation paid to the Accounting Auditor is that audit hours and compensation in the fiscal year ended March 31, 2023 were judged to be appropriate as a result of comparisons with audit hours and compensation in the previous fiscal year and comparisons with the audit compensation of companies of the same scale and companies in the same industry.

3. Executive Remuneration

(1) Matters regarding policies on determination of the amount or calculation method of executive remuneration

The Company's basic policy and determination process regarding the executive remuneration system is as described below.

In order to ensure the objectivity and transparency of the Executive Remuneration System, the Company has at its discretion established a Remuneration & Nomination Committee, of which the majority is formed by independent outside directors and the chairperson is an independent outside director. The Board of Directors establishes the Basic Policy on the Executive Remuneration System based on consultation with this committee, and the committee decides the individual amounts and the nature of remuneration for directors (excluding directors who are Audit & Supervisory Committee members) in accordance with the Basic Policy on the Executive Remuneration System established by the Board of Directors, based on the authority granted to it by the Board of Directors.

Basic Policy on the Executive Remuneration System

Directors (excluding Directors who are Audit & Supervisory Committee Members):

- Remuneration for Executive Directors shall comprise fixed remuneration (monetary), performance-linked remuneration (monetary), and restricted stock remuneration. The ratio for the President and Representative Director shall be approximately 10:9 (base remuneration amount, which varies depending on performance):10. For other Executive Directors, the ratio shall be determined on an individual basis, taking into account earnings performance and other achievements in the director's realm of responsibility. Directors who additionally serve in such roles as directors of subsidiaries may also receive remuneration from the relevant subsidiary.
- Remuneration for Non-Executive Directors and outside directors shall comprise fixed remuneration (monetary) and restricted stock remuneration. The ratio shall be approximately 4:1.
- Fixed remuneration (monetary) shall be determined based upon role, remuneration in past years, the company performance to date, the need to retain talented human resources, research by specialized third-party organizations, remuneration trends at comparable companies, and economic conditions. Fixed remuneration (monetary) shall be paid monthly.
- For the President and Representative Director, the amount of performance-linked remuneration (monetary) is calculated using consolidated net sales and consolidated operating income as metrics, in order to strive for growth that strikes a balance between scale and profitability. Specifically, the amount of performance-linked remuneration is obtained by multiplying the basic remuneration amount

(¥90 million) by a multiple (no greater than 400% and no less than 0%) that is pre-determined according to the degree of deviation from the base amount determined by the Remuneration & Nomination Committee, and then multiplying the result by a pre-determined coefficient (no greater than 1.5 and no less than 0.5) in accordance with the relative growth rate of the Company in the peer group determined by the Remuneration & Nomination Committee. Performance-linked remuneration (monetary) shall be paid once a year after the business results for each fiscal year are determined.

- The Company offers restricted stock remuneration in order to provide a long-term incentive to directors (excluding directors who are Audit & Supervisory Committee members) to work to achieve sustained growth and to enhance corporate value, as well as to encourage them to have an even greater sense of shared value with shareholders. Such a program is offered because it provides a sustained incentive to bolster the share price when it is down and because it serves as a replacement for the discontinued retirement allowance for directors. The Remuneration & Nomination Committee determines the remuneration value of the restricted stock, taking into account the balance with the monetary remuneration. The restricted stock is granted once annually during the second quarter.

Directors who are Audit & Supervisory Committee Members:

- In consideration of independence from management, only monetary remuneration shall be made.
- Fixed remuneration (monetary) shall be determined based upon role, remuneration in past years, the need to retain talented human resources, research by specialized third-party organizations, remuneration trends at comparable companies, and economic conditions. Fixed remuneration (monetary) shall be paid monthly.

Director Remuneration Determination Process

- Individual amounts and the nature of remuneration for directors (excluding directors who are Audit & Supervisory Committee members) shall be determined by the Remuneration & Nomination Committee based on the Basic Policy on the Executive Remuneration System established by the Board of Directors.
- Individual amounts and the nature of remuneration for directors who are Audit & Supervisory Committee members shall be determined via discussions by the directors who are Audit & Supervisory Committee members, with reference made to the basic policy determined by the Board of Directors.
- Individual amounts and the nature of remuneration shall be set within the confines of the remuneration allocation approved at the General

Shareholders' Meeting and shall be determined based upon a comprehensive consideration of annual earnings and each director's performance in his or her role and contribution to corporate earnings,

remuneration in past years, the need to retain talented human resources, research by specialized third-party organizations, remuneration trends at comparable companies, and economic conditions.

(2) Total remuneration paid to directors, total remuneration for each category of directors, and the total number of directors

Executive category	Total remuneration (Millions of yen)	Remuneration breakdown (Millions of yen)			Number of individuals
		Fixed remuneration	Performance-linked remuneration	Restricted stock remuneration	
Directors (excluding Audit & Supervisory Committee Members) (Outside Directors)	534 (72)	247 (57)	145 (—)	142 (15)	9 (5)
Directors (Audit & Supervisory Committee Members) (Outside Directors)	48 (48)	48 (48)	— (—)	— (—)	4 (4)
Total (Outside Directors)	582 (120)	295 (105)	145 (—)	142 (15)	13 (9)

Notes: 1. It was resolved at the 42nd Annual Shareholders' Meeting held on June 23, 2022 that the monetary remuneration limit for directors (excluding directors who are Audit & Supervisory Committee members) shall be no more than ¥1,200 million per year (of which ¥96 million is earmarked for outside directors). Additionally, it was resolved at the 42nd Annual Shareholders' Meeting held on June 23, 2022 that the limit for remuneration as restricted stock remuneration for directors (excluding directors who are Audit & Supervisory Committee members) shall be no more than ¥800 million per year (of which ¥64 million is earmarked for outside directors). There were 10 directors (excluding directors who are Audit & Supervisory Committee members) at the conclusion of the 42nd Annual Shareholders' Meeting (of whom six were outside directors).
2. It was resolved at the 38th Annual Shareholders' Meeting held on June 22, 2018 that the remuneration limit for directors who are Audit & Supervisory Committee members shall be no more than ¥80 million per year. As of the conclusion of the 38th Annual Shareholders' Meeting, the number of directors who are Audit & Supervisory Committee members was three.
3. The above includes one director (who is an Audit & Supervisory Committee member) who retired as of the conclusion of the 42nd Annual Shareholders' Meeting held on June 23, 2022.

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

Name	Total consolidated remuneration (Millions of yen)	Executive category	Company category	Consolidated total remuneration breakdown (Millions of yen)		
				Fixed remuneration	Performance-linked remuneration	Restricted stock remuneration
Yosuke Matsuda	308	Director	The Company	100	108	100

Note: The above director retired as of the conclusion of the 43rd Annual Shareholders' Meeting held on June 23, 2023.

4. Matters Relating to the Company's Holdings of Shares

(1) Standards and concepts for categorizing investments in shares

The Group's policy is to categorize shares acquired for the purpose of profiting from value fluctuations or associated dividends as shares held for purely investment purposes and those acquired for the purposes of business alliances or trade relationships as shares held for purposes other than purely investment purposes.

(2) Status of the Company's shareholdings

- a. Investments in shares for purposes other than purely investment purposes
 - (i) Shareholding policy, method of assessing rationale of shareholdings, and nature of Board of Directors' assessment of appropriateness of holding individual issues

The Company's basic policy is to hold publicly traded shares for the purpose of strengthening business alliances or trade relationships in

instances where doing so will contribute to the enhancement of its corporate value over the medium or long term. Each year the Board of Directors and other bodies validate the rationale for holding listed shares by reviewing the status of achievement of the intended objective of the holdings and determining whether to continue holding the shares. The approach to assessing the appropriateness of holding individual issues is holistic, involving the performance of quantitative reviews of current and future earnings conditions and qualitative reviews on the status of achieving the intended purpose.

(ii) Number of issues and balance sheet value

Category	Companies in which shares are held	Total amount presented on balance sheets (Millions of yen)
Unlisted shares	5	387
Shares other than those above	1	896

(Issues for which the number of shares held increased in the fiscal year ended March 31, 2023)

Category	Companies in which shares are held	Total acquisition cost related to increase in shareholdings (Millions of yen)	Reason for increase in shareholdings
Unlisted shares	4	416	Acquire and utilize knowledge in the blockchain entertainment domain
Shares other than those above	1	835	(1) Alliance for the development and distribution of mobile online games and blockchain games (2) Alliance to study the establishment of a dedicated platform for blockchain games (3) Alliance through mutual utilization of networks in the Web 3.0 domain

(Issues for which the number of shares held declined in the fiscal year ended March 31, 2023)

None.

(iii) Number of shares, balance sheet value, and other information on “specified investment equity securities held” or “deemed holdings of equity securities” by issue

“Specified investment equity securities held”

Companies in which shares are held	Fiscal year ended March 31, 2023	Fiscal year ended March 31, 2022	Purpose of holdings, outline of business alliance, quantitative benefits of holdings, and reason for increase in shareholdings	Square Enix Holdings shareholders
	Number of shares	Number of shares		
	Amount presented on balance sheets (Millions of yen)	Amount presented on balance sheets (Millions of yen)		
	1,180,000	—	(1) Alliance for the development and distribution of mobile online games and blockchain games (2) Alliance to study the establishment of a dedicated platform for blockchain games (3) Alliance through mutual utilization of networks in the Web 3.0 domain	
gumi Inc.	896	—		None

Note: Describing the benefits of shareholdings in quantitative terms is difficult. The Board of Directors validates the rationale for the holdings annually by reviewing the status of achieving the intended purpose and determining whether to maintain the holdings.

“Deemed holdings of equity securities”

None.

b. Investments in shares for purely investment purposes

Category	Fiscal year ended March 31, 2023		Fiscal year ended March 31, 2022	
	Companies in which shares are held	Total amount presented on balance sheets (Millions of yen)	Companies in which shares are held	Total amount presented on balance sheets (Millions of yen)
Unlisted shares	4	0	4	0
Shares other than those above	2	68	2	54

Category	Fiscal year ended March 31, 2023		
	Total dividends received	Total gain on sale of shares	Total gain on revaluation of shares
Unlisted shares	—	—	Note 1
Shares other than those above	0	—	55 (—)

Notes: 1. No total valuation gain/loss figure is provided for non-listed shares as they have no market prices.

2. Figures denoted with parentheses under "Total gain on revaluation of shares" indicate impairment losses for the fiscal year in question.

5. 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 discloses in a timely fashion 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 promoting understanding of the Company. The Company's general principles of IR activities are as follows.

Briefing sessions are held quarterly for institutional investors and

analysts, with the President and Representative Director mainly providing the briefings. The Company conducts overseas roadshows for foreign investors annually, as appropriate, where the President and Representative Director mainly provide briefings. Moreover, the Company strives to engage in constructive dialogues with capital markets via individual meetings and small group meetings.

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

» Executive Members

As of July 31, 2023

Directors



Takashi Kiryu
President and Representative
Director
Shares owned: 15,376 shares



Yoshinori Kitase
Director
Shares owned: 3,764 shares



Yu Miyake
Director
Shares owned: 9,314 shares



Masato Ogawa
Director*
Shares owned: 1,469 shares



Mitsuko Okamoto
Director*
Shares owned: 1,469 shares



Abdullah Aldawood
Director*



Naoto Takano
Director*
Shares owned: 920 shares



Nobuyuki Iwamoto
Director
(Standing Audit & Supervisory
Committee Member)*



Tadao Toyoshima
Director
(Audit & Supervisory
Committee Member)*



Hajime Shinji
Director
(Audit & Supervisory
Committee Member)*

Honorary Chairman

Yasuhiro Fukushima

Executive Officers

Takashi Kiryu

Hajime Seki Chief Legal Officer

Hideaki Sato Chief Information Officer

Atsushi Matsuda Chief Accounting Officer

Tsuneto Okuno Chief Human Resources Officer

John Heinecke Chief Publishing Officer
(EMEA, Americas and Oceania)

Tomoyoshi Osaki Chief Publishing Officer
(Japan and Asia)

*Outside Directors as defined in Article 2-15 of Japan's Companies Act

Executive Members

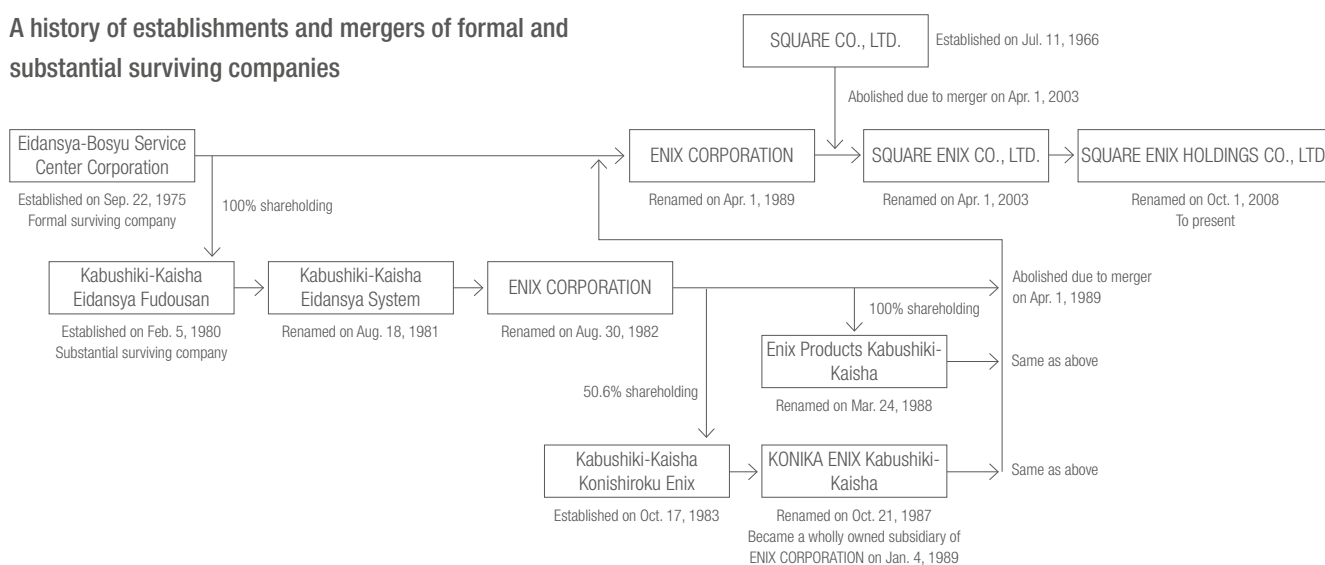
Skills Matrix for Directors

Name	Role	Corporate mgt/ global mgt	Media entertainment	IT/ technology	Legal/risk management	Finance/ accounting	Organizational/ talent development
Takashi Kiryu	President and Representative Director	●	●			●	●
Yoshinori Kitase	Director	●	●				●
Yu Miyake	Director	●	●				●
Masato Ogawa	Outside Director	●			●		●
Mitsuko Okamoto	Outside Director		●				●
Abdullah Aldawood	Outside Director	●	●	●		●	
Naoto Takano	Outside Director	●				●	●
Nobuyuki Iwamoto	Outside Director (Standing Audit & Supervisory Committee Member)	●				●	●
Tadao Toyoshima	Outside Director (Audit & Supervisory Committee Member)				●	●	
Hajime Shinji	Outside Director (Audit & Supervisory Committee Member)				●	●	

» History

Feb. 1980	Established a real estate sales and brokerage company Kabushiki-Kaisha Eidansya Fudousan (common stock: ¥5 million) as a wholly owned subsidiary of Eidansya-Bosyu Service Center Corporation.
Aug. 1981	Changed company name to Kabushiki-Kaisha Eidansya System.
Aug. 1982	Changed company name to ENIX CORPORATION.
Oct. 1983	Established Kabushiki-Kaisha Konishiroku Enix jointly with Konishiroku Photo Industry Co., Ltd. and other companies. (common stock: ¥60 million; shareholding of ENIX CORPORATION was 50.6% at the time of the establishment and decreased to 49% from June 1984. Kabushiki-Kaisha Konishiroku Enix was renamed KONIKA ENIX Kabushiki-Kaisha in October 1987.)
Mar. 1988	Established Enix Products Kabushiki-Kaisha, a company developing and selling publications and character goods. (common stock: ¥30 million; a wholly owned subsidiary of ENIX CORPORATION)
Apr. 1989	ENIX CORPORATION, Eidansya-Bosyu Service Center Corporation, KONIKA ENIX Kabushiki-Kaisha, Enix Products Kabushiki-Kaisha merged and renamed as ENIX CORPORATION.
Feb. 1991	ENIX CORPORATION stock was registered with the Japan Securities Dealers Association (presently Jasdaq Securities Exchange, Inc.) for over-the-counter trading.
Aug. 1999	ENIX CORPORATION was listed on the First Section of the Tokyo Stock Exchange.
Apr. 2003	ENIX CORPORATION and SQUARE CO., LTD. merged and the new company was subsequently renamed SQUARE ENIX CO., LTD.
Jul. 2004	Applied new management systems to subsidiaries in North America and Europe and renamed them SQUARE ENIX, INC. and SQUARE ENIX LTD. to unify corporate brand names in the global market.
Jan. 2005	Established SQUARE ENIX (China) CO., LTD. (Beijing, China) as a wholly owned subsidiary.
Sep. 2005	Acquired TAITO CORPORATION as a consolidated subsidiary (TAITO became a wholly owned subsidiary in March 2006).
Nov. 2006	Established SQUARE ENIX OF AMERICA HOLDINGS, INC. (Los Angeles, California, U.S.A.) as a holding company to control management and operations of the Company's subsidiaries in North America.
Oct. 2008	Applied a pure holding company system and subsequently renamed the Company SQUARE ENIX HOLDINGS CO., LTD.
Apr. 2009	Acquired EIDOS PLC. as a wholly owned subsidiary.
Jun. 2018	Transitioned to a Company with an Audit & Supervisory Committee.
Apr. 2022	Transitioned from the First Section to the Prime Market of the Tokyo Stock Exchange in conjunction with the revision of the market categories by the Tokyo Stock Exchange.
Aug. 2022	Sold CRYSTAL DYNAMICS, INC., EIDOS INTERACTIVE CORP., and others.

A history of establishments and mergers of formal and substantial surviving companies



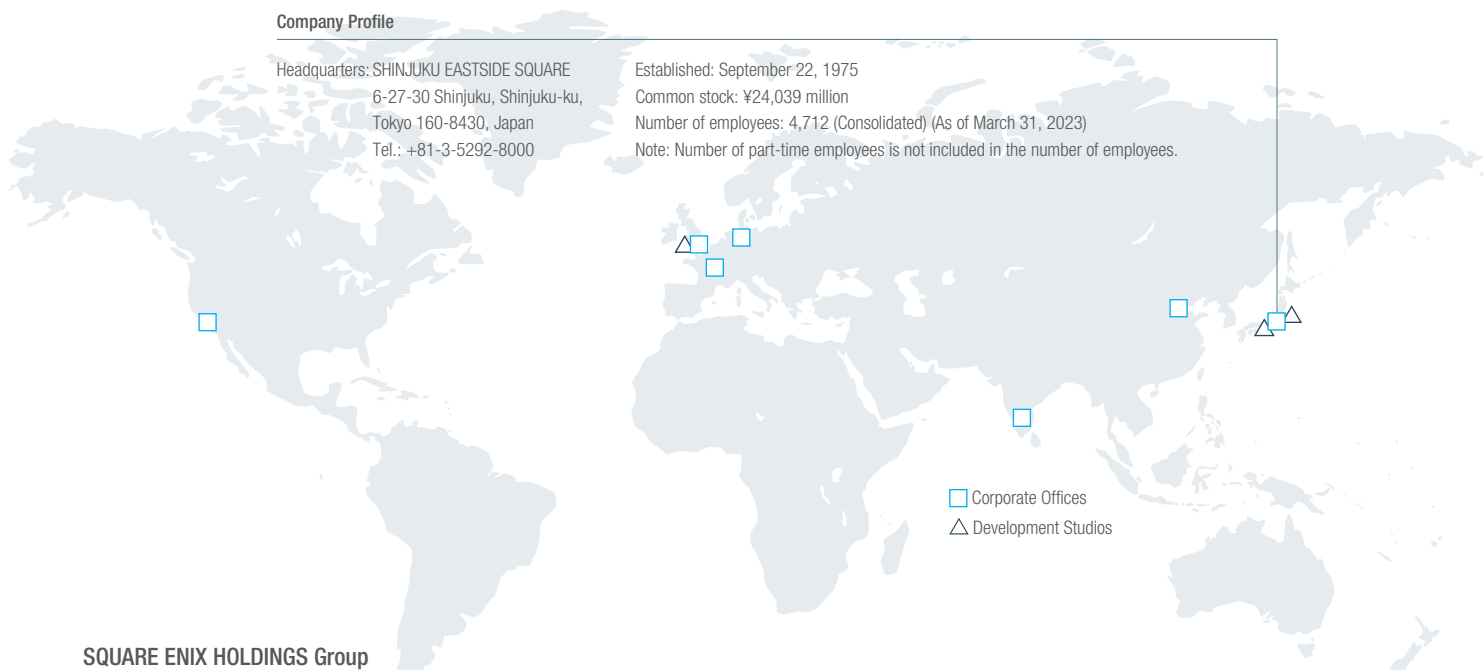
» Corporate Data

As of August 31, 2023

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: ¥24,039 million
Number of employees: 4,712 (Consolidated) (As of March 31, 2023)
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 Group Companies					
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
SQUARE ENIX AI & ARTS Alchemy Co., Ltd.	March 2020	March	¥85 million	100.0%	R&D/business involving products that combine AI, computer graphics, and art
North America					
SQUARE ENIX OF AMERICA HOLDINGS, INC.	November 2006	March	US\$1	100.0% (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
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
SQUARE ENIX PVT. LTD.	September 2012	March	454 million INR	100.0%	Promotion, planning and publishing of entertainment products and services in India

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.

Share Information

Number of shares issued: 122,531,596

Number of shareholders: 22,159

Principal Shareholders

Rank	Shareholder	Investment in Square Enix (Thousands of shares)	(%)
1	Yasuhiro Fukushima	23,626	19.73
2	The Master Trust Bank of Japan, Ltd. (Trust Account)	18,707	15.62
3	Custody Bank of Japan, Ltd. (Trust Account)	7,215	6.02
4	Fukushima Planning Co., Ltd.	6,763	5.64
5	JP MORGAN CHASE BANK 380752	6,448	5.38
6	JP MORGAN CHASE BANK 380815	5,361	4.47
7	THE BANK OF NEW YORK MELLON (INTERNATIONAL) LIMITED 131800	2,235	1.86
8	STATE STREET BANK WEST CLIENT - TREATY 505234	1,479	1.23
9	JPMorgan Securities Japan Co., Ltd.	1,273	1.06
10	Michiko Fukushima	1,243	1.03

Notes: 1. The Company holds 2,803,293 shares of treasury stock, which are excluded from the above table.

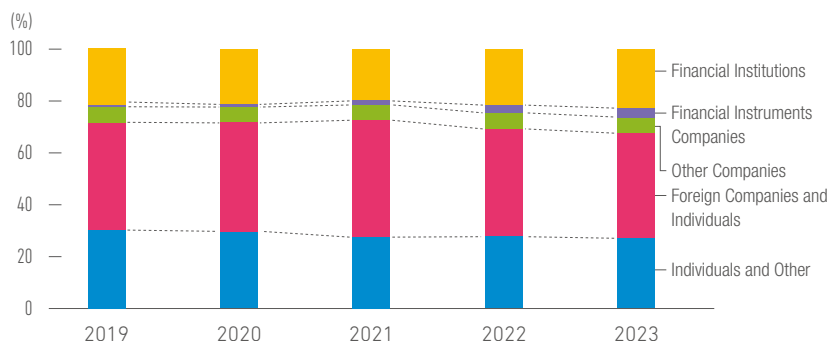
2. The holding ratio is calculated without the treasury shares (2,803,293).

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
- Inquiries and mailing address:
Securities Agency Division
Mitsubishi UFJ Trust and Banking Corporation
Shin-Tokyo Post Office Post-office Box No. 29,
137-8081
TEL.: 0120-232-711
(Toll-free number within Japan)
- Listed on:
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.)

Share Ownership (Thousands of shares)



	2019		2020		2021		2022		2023	
Financial Institutions	26,562	(21.7%)	26,065	(21.3%)	24,395	(19.9%)	26,224	(21.4%)	27,929	(22.8%)
Financial Instruments Companies	1,390	(1.1%)	1,076	(0.9%)	1,951	(1.6%)	4,000	(3.3%)	4,600	(3.7%)
Other Companies	7,373	(6.0%)	7,352	(6.0%)	7,272	(5.9%)	7,310	(6.0%)	7,211	(5.9%)
Foreign Companies and Individuals	50,459	(41.2%)	52,087	(42.5%)	55,273	(45.1%)	51,033	(41.6%)	49,687	(40.6%)
Individuals and Other	36,745	(30.0%)	35,948	(29.3%)	33,638	(27.5%)	33,962	(27.7%)	33,101	(27.0%)
Total	122,531	(100.0%)	122,531	(100.0%)	122,531	(100.0%)	122,531	(100.0%)	122,531	(100.0%)

SQUARE ENIX HOLDINGS CO., LTD.

www.hd.square-enix.com/

ANNUAL REPORT 2023

FINANCIAL SECTION

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8	Consolidated Balance Sheet (JPNGAAP)
10	Consolidated Statement of Income (JPNGAAP)
11	Consolidated Statement of Comprehensive Income (JPNGAAP)
12	Consolidated Statement of Changes in Net Assets (JPNGAAP)
14	Consolidated Statement of Cash Flows (JPNGAAP)
16	Notes to Consolidated Financial Statements (JPNGAAP)

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, 2023 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 Assumptions Used in the 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 the preparation of these consolidated financial statements, estimates and assumptions that affect the reported amounts of assets, liabilities, income, and expenses have been used. However, amounts obtained based on these estimates and assumptions may differ from actual results. 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. Valuation of the content production account

The Group recognizes the valuation of the content production account to be a significant accounting estimate, as indicated in the section titled "Significant Accounting Estimates" in "Notes to Consolidated Financial Statements (JPNGAAP)."

b. Refund liabilities

The Group recognizes refund liabilities to be a significant accounting estimate, as indicated in the section titled "Significant Accounting Estimates" in "Notes to Consolidated Financial Statements (JPNGAAP)."

2. Analysis of Financial Policy, Capital Resources and Liquidity

The Group meets its working capital and capital investment requirements through internal funding resources.

Cash and cash equivalents at the end of the year totaled ¥190,903 million, providing sufficient liquidity for the Group to carry on its business operations.

Cash flows in the fiscal year ended March 31, 2023, 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 ¥12,226 million, a decrease of 55.7% from the previous fiscal year. The main factors were profit before income taxes of ¥58,431 million, income taxes paid of ¥19,755 million, gain on sale of shares of subsidiaries and associates of ¥9,465 million, foreign exchange gain of ¥9,635 million, an increase of inventories of ¥13,711 million, and depreciation and amortization of ¥6,921 million.

(2) Net cash provided by investing activities

Net cash provided by investing activities totaled ¥27,602 million (compared to net cash used in investing activities of ¥8,124 million in the previous fiscal year). The main factors were proceeds from sale of shares of subsidiaries resulting in change in scope of consolidation of ¥36,122 million, purchases of property and equipment of ¥5,676 million and purchases of intangible assets of ¥2,873 million.

(3) Net cash used in financing activities

Net cash used in financing activities totaled ¥15,523 million, an increase of 66.1% from the previous fiscal year. The main factor was cash dividends paid of ¥15,418 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, 2023

■ Assets

Total Assets

	Millions of yen		
March 31	2023	2022	Change
	¥399,634	¥380,902	¥18,732

Total assets as of March 31, 2023 amounted to ¥399,634 million, an increase of ¥18,732 million from the previous fiscal year. The main factors contributing to the change were as follows:

Cash and Deposits

	Millions of yen		
March 31	2023	2022	Change
	¥193,501	¥163,088	¥30,413

Cash and deposits as of March 31, 2023 increased ¥30,413 million, to ¥193,501 million, mainly reflecting an increase in inventories of ¥13,711 million and cash dividends paid of ¥15,418 million, offset by profit before income taxes of ¥58,431 million, among other factors.

Content Production Account

	Millions of yen		
March 31	2023	2022	Change
	¥87,217	¥96,765	¥(9,548)

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, 2023, the content production account totaled ¥87,217 million, a decrease of ¥9,548 million from the previous fiscal year.

Property and Equipment

	Millions of yen		
March 31	2023	2022	Change
	¥17,743	¥19,814	¥(2,071)

Total property and equipment as of March 31, 2023 amounted to ¥17,743 million, a decrease of ¥2,071 million from the previous fiscal year.

Intangible Assets

	Millions of yen		
March 31	2023	2022	Change
	¥5,856	¥7,375	¥(1,519)

Total intangible assets as of March 31, 2023 amounted to ¥5,856 million, a decrease of ¥1,519 million from the previous fiscal year.

Investments and Other Assets

	Millions of yen		
March 31	2023	2022	Change
	¥33,775	¥31,257	¥2,518

Total investments and other assets increased ¥2,518 million, to ¥33,775 million, as of March 31, 2023.

■ Liabilities

	Millions of yen		
March 31	2023	2022	Change
	¥82,368	¥96,472	¥(14,104)

As of March 31, 2023, total liabilities amounted to ¥82,368 million, a decrease of ¥14,104 million from the previous fiscal year. The main factors contributing to the change were as follows:

Current Liabilities

	Millions of yen		
March 31	2023	2022	Change
	¥71,704	¥83,800	¥(12,096)

Total current liabilities decreased ¥12,096 million, to ¥71,704 million, as of March 31, 2023. This was mainly due to a decrease in accrued income taxes of ¥4,990 million, a decrease in notes and accounts payable of ¥4,040 million and a decrease in provision for bonuses of ¥2,006 million.

Non-Current Liabilities

Millions of yen			
March 31	2023	2022	Change
	¥10,663	¥12,672	¥(2,009)

Total non-current liabilities decreased ¥2,009 million, to ¥10,663 million, as of March 31, 2023. This was mainly due to a decrease in deferred tax liabilities of ¥874 million.

■ Shareholders' Equity/Net Assets

Millions of yen			
March 31	2023	2022	Change
Common stock	¥24,039	¥24,039	¥—
Capital surplus	54,142	53,880	262
Retained earnings	255,151	221,316	33,835
Treasury stock	(8,587)	(8,964)	377
Total shareholders' equity	324,745	290,272	34,473
Valuation difference on available-for-sale securities	2	(24)	26
Foreign currency translation adjustments	(8,765)	(6,844)	(1,921)
Remeasurements of defined benefit plans	308	116	192
Total accumulated other comprehensive income (loss)	(8,454)	(6,752)	(1,702)
Stock acquisition rights	752	718	34
Non-controlling interests	222	191	31
Total net assets	¥317,266	¥284,429	¥32,837

As of March 31, 2023, total net assets amounted to ¥317,266 million, up ¥32,837 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 (¥119 per share) for the previous fiscal year and interim dividends (¥10 per share) for the fiscal year under review.

■ Consolidated Statement of Income

Net Sales and Operating Income

Millions of yen						
Years ended March 31	2023	Composition	2022	Composition	Amount change	Percent change
Net sales	¥343,267	100.0%	¥365,275	100.0%	¥(22,008)	-6.0%
Gross profit	175,889	51.2%	195,314	53.5%	(19,425)	-9.9%
Selling, general and administrative expenses	131,557	38.3%	136,053	37.2%	(4,496)	-3.3%
Operating income	¥44,331	12.9%	¥59,261	16.2%	¥(14,930)	-25.2%

Comparisons by segment with the previous fiscal year are provided on pages 37-39.

Non-Operating Income and Expenses

Millions of yen			
Years ended March 31	2023	2022	Change
Non-operating income	¥16,940	¥14,307	¥2,633
Non-operating expenses	6,562	2,865	3,697

Extraordinary Income and Loss

Millions of yen			
Years ended March 31	2023	2022	Change
Extraordinary income	¥11,033	¥730	¥10,303
Extraordinary loss	7,312	1,212	6,100

Total extraordinary income was ¥11,033 million, reflecting the recording of ¥9,465 million in gain on sale of shares of subsidiaries and associates. Total extraordinary loss was ¥7,312 million.

■ Capital Expenditures and Depreciation and Amortization

Millions of yen			
Years ended March 31	2023	2022	Change
Capital expenditures	¥9,695	¥9,123	¥572
Depreciation and amortization	6,921	7,594	(673)

Capital expenditures for the fiscal year ended March 31, 2023 amounted to ¥9,695 million, an increase of ¥572 million from the previous fiscal year.

Depreciation and amortization totaled ¥6,921 million, a decrease of ¥673 million from the previous fiscal year, primarily due to a decrease in depreciation and amortization in the Amusement segment.

4. Strategic Outlook, Issues Facing Management and Future Direction

The Group aims to create advanced, high-quality content that allows for medium- and long-term growth while maintaining profitability. Nowadays, advancements in the development and popularization of information technology (IT) and network environments have led to increasing consumer demands for contents and services through multi-functional devices and networks. At the same time, the industrial structure of digital entertainment is changing significantly, with the diversification of delivery methods for content as well as changes in 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 in a timely and flexible manner to become a pioneer in a new era in digital entertainment.

The Group recognizes the need to prioritize the expansion of stable recurring income base as a means of creating sustained earnings growth. As the digital entertainment industry undergoes significant structural changes, the Group is being called upon to develop and distribute new content designed to suit diverse customer needs and content distribution methods, which requires significant investment. To date, the Group has primarily worked to stabilize earnings by expanding recurring income base from massively multiplayer online (MMO) games, games for smart devices/PC browsers, the Amusement segment, and the Publication segment. Going forward, it will further bolster these efforts while also expanding them to other businesses. Establishing a stable recurring income base will enable continued investment in content with a focus on the development of HD games. The recurring income generated from that content will expand the Group's overall earnings, thereby allowing the Group to achieve sustained growth.

The Group's operating forecast for the fiscal year ending March 31, 2024 is as follows (as of June 30, 2023):

Millions of yen											
Years ended/ending March 31	2014 actual	2015 actual	2016 actual	2017 actual	2018 actual	2019 actual	2020 actual	2021 actual	2022 actual	2023 actual	2024 forecast
Net sales	¥155,023	¥167,891	¥214,101	¥256,824	¥250,394	¥271,276	¥260,527	¥332,532	¥365,275	¥343,267	¥360,000
Operating income (loss)	10,543	16,426	26,018	31,295	38,176	24,635	32,759	47,226	59,261	44,331	55,000
Ordinary income (loss)	12,534	16,984	25,322	31,128	36,124	28,415	32,095	49,983	70,704	54,709	55,000
Profit (loss) attributable to owners of parent	6,598	9,831	19,884	20,039	25,821	19,373	21,346	26,942	51,013	49,264	38,500

5. Basic Policy for Profit Distribution and Dividends

The Group strives to enhance its corporate value through sustained growth achieved by undertaking investments in game development and other efforts funded by securing an appropriate level of retained earnings. At the same time, one of management's key policies is to return profits to shareholders. By rewarding shareholders, primarily with dividends, the Group works to return profits in a way that strikes the optimal balance between recognizing the level of earnings achieved and providing stable rewards. 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, 2023, the Company paid an interim dividend of ¥10 per share and a year-end dividend of ¥114 per share for an annual dividend of ¥124 per share.

The distribution of surplus for the fiscal year ended March 31, 2023 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, 2023 are as follows:

Date of resolution	Total dividends (Millions of yen)	Dividends per share (Yen)
November 7, 2022 Resolution by the Board of Directors	¥1,197	¥10
May 18, 2023 Resolution by the Board of Directors	¥13,649	¥114

6. Risk Factors

Management recognizes the items listed below as major risk factors that could materially affect the financial position, operating results, and cash flows of the consolidated companies, among the items related to the business overview, accounting status, and other matters stated in the Annual Report.

Forward-looking statements in the Annual Report are in accordance with the management's judgment as of June 26, 2023.

(1) Risks related to business activities

1) Higher game development costs

Advances in performance and functionality are enabling more diverse and sophisticated content experiences on consumer game consoles, PCs, smartphones, and other platforms for which the Company provides games. This trend is gaining momentum with each passing year, and since the Company needs to provide content that keeps pace, its game development costs are on the rise. With the release of next-generation consumer game consoles, content is becoming even more sophisticated, and the Group expects its game development costs to continue to rise going forward. By engaging in more stringent management of our development efforts and earnings at the level of individual titles, the Group is endeavoring to keep our development costs at an appropriate level. However, the Group's business performance may be impacted if the Group were to sell fewer units than initially anticipated, and therefore be unable to sufficiently recoup development costs.

The Group, in light of the above business environment, is also striving to ensure the optimal allocation of management resources to develop attractive titles that accurately capture customers' needs while at the same time improving profitability. The Group is working to stabilize earnings across its businesses by creating a diverse monetization base of recurring income from its massively multiplayer online (MMO) games, and smart device and PC browser games, as well as the Amusement and Publication segments.

2) The Group's ability to respond to changing customer tastes and increasingly diverse business models

Major structural changes are underway in the digital entertainment industry as high-speed telecommunications infrastructure becomes more advanced and widely available, and streaming and other cloud-based content delivery methods result in more diverse means and business models by which to provide content. The Group's business performance may be impacted if the Group were to be unable to respond to such changes in an appropriate and timely manner.

In order to respond to the diverse needs of our customers, the Group provides its content, service and products by utilizing mainly its existing intellectual property (IP) via its business segments (i.e., Digital Entertainment, Amusement, Publication, and Merchandising). By doing so, the Group expands its customer base and enhances customer engagement, thereby maximizing earnings. The Group has designated the new growth domains of AI, the cloud, and blockchain games as focused investment areas and will engage in aggressive research and development efforts and investment in these areas.

3) Securing human resources to execute the Group's growth strategies concentrating on the creation of new content and services and the promotion of global businesses

The Group's business environment is undergoing major changes. In order to respond to such environmental changes in an appropriate and timely manner, securing talented human resources is crucial. The Group's business performance may be impacted if its efforts to secure the necessary human resources were unable to keep pace.

In the Group's view, recruiting talented human resources and enabling each to display their utmost abilities in an optimal manner fuels sustained growth. For this reason, the Group is striving to create an attractive corporate culture, maintain competitive compensation, and operate an employee evaluation system that is fair and equitable.

4) The Group's international business operations

Regarding the Group's international business operations, a variety of factors that are 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, and social conditions.

(2) Risks related to the economic environment

1) Changes in the economic environment

In the event of a harsh downturn in the economy resulting in a decline in consumer demand, consumer spending for the Group's products and services in the entertainment field may fall. Such circumstances may affect the Group's business performance.

2) 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 business performance if they fluctuate beyond management forecasts.

(3) Risks related to laws and regulations and litigation

1) Information and network systems

The Group appropriately develops and manages the information and network systems that are required to execute its businesses and 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, operated, and managed solid preventive and defensive measures against so-called security incidents, including cyberattacks against, or unauthorized access to the systems, as well as infections by computer viruses. However, in the event that a security incident occurs that cannot be prevented by the above measures, the execution of its businesses or operations could be disrupted, and the Group could incur opportunity losses and additional expenses. The Group could also 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, as well as the occurrence of additional expenses.

2) 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, audit & supervisory board members and employees. However, in the event that a security incident, as described in “1) Information and network systems” above, occurs, and personal information is leaked to third parties, the Group’s business performance may be affected.

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

4) Litigation and other claims

The Group has established a code of conduct, of which its officers and employees are made thoroughly aware, that includes legal and regulatory compliance as well as respect for the rights of third parties. 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. Should any litigation in which the Group is named as a defendant or other such legal procedures be initiated, despite the Group’s efforts for an early settlement under conditions that are favorable to the Group, the outcome thereof may affect the Group’s business performance.

(4) Risks related to disasters, etc.

1) Accidents and disasters

The Group periodically carries out accident prevention checks, facility inspections, development of its evacuation guidance capabilities, and appropriate regular disaster-readiness and evacuation drills in order 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.

2) Impact from the spread of infectious diseases

In responding to the spread of the novel coronavirus (COVID-19), the Group made the safety of its customers, business partners, and employees its top priority, electing to cancel or postpone the events the Group hosts and to enable work from home in an effort to prevent the spread of the virus. Moreover, in order to maintain business continuity, the Group revisited its operational processes and enhanced its IT systems in an ongoing effort to create a business operation system built around the work-from-home concept.

However, in the event of another widespread and severe infectious disease outbreak, there is a risk, based on the Group’s business domains, that such an event could impact the demand for content and development timelines for new game titles, as well as lead to lower sales at amusement facilities. Such developments may affect the Group’s business performance.

Consolidated Balance Sheet (JPNGAAP)

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

Millions of yen

	2023	2022
Assets		
Current assets		
Cash and deposits	¥193,501	¥163,088
Notes and accounts receivable	*1 39,908	*1 44,968
Merchandise and finished goods	4,872	4,687
Work in progress	—	18
Raw materials and supplies	827	485
Content production account	87,217	96,765
Other	16,185	12,711
Allowance for doubtful accounts	(255)	(268)
Total current assets	342,258	322,455
Non-current assets		
Property and equipment		
Buildings and structures	18,275	18,793
Accumulated depreciation	(13,971)	(13,489)
Buildings and structures (net)	4,303	5,303
Tools and fixtures	17,232	19,431
Accumulated depreciation	(13,241)	(14,730)
Tools and fixtures (net)	3,990	4,701
Amusement equipment	17,815	17,008
Accumulated depreciation	(15,791)	(15,379)
Amusement equipment (net)	2,023	1,629
Other	3,050	4,955
Accumulated depreciation	(1,223)	(1,314)
Other (net)	1,826	3,641
Land	3,782	3,782
Construction in progress	1,815	757
Total property and equipment	17,743	19,814
Intangible assets		
Other	5,856	7,375
Total intangible assets	5,856	7,375
Investments and other assets		
Investment securities	4,629	2,727
Guarantee deposits	11,074	11,028
Net defined benefit assets	795	649
Deferred tax assets	11,027	10,526
Other	*2 6,279	*2 6,384
Allowance for doubtful accounts	(30)	(57)
Total investments and other assets	33,775	31,257
Total non-current assets	57,376	58,447
Total assets	¥399,634	¥380,902

The accompanying notes are an integral part of these statements.

	Millions of yen	
	2023	2022
Liabilities		
Current liabilities		
Notes and accounts payable	¥23,558	¥27,598
Accrued income taxes	3,452	8,442
Provision for bonuses	4,532	6,539
Refund liabilities	5,186	5,616
Other	^{*3} 34,974	^{*3} 35,602
Total current liabilities	71,704	83,800
Non-current liabilities		
Provision for directors' retirement benefits	7	17
Net defined benefit liabilities	3,908	3,842
Deferred tax liabilities	0	874
Asset retirement obligations	4,424	3,842
Other	2,322	4,094
Total non-current liabilities	10,663	12,672
Total liabilities	82,368	96,472
Net Assets		
Shareholders' equity		
Common stock	24,039	24,039
Capital surplus	54,142	53,880
Retained earnings	255,151	221,316
Treasury stock	(8,587)	(8,964)
Total shareholders' equity	324,745	290,272
Accumulated other comprehensive income (loss)		
Valuation difference on available-for-sale securities	2	(24)
Foreign currency translation adjustments	(8,765)	(6,844)
Remeasurements of defined benefit plans	308	116
Total accumulated other comprehensive income (loss)	(8,454)	(6,752)
Stock acquisition rights	752	718
Non-controlling interests	222	191
Total net assets	317,266	284,429
Total liabilities and net assets	¥399,634	¥380,902

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	
	2023	2022
Net sales	*1 ¥343,267	*1 ¥365,275
Cost of sales	*2 167,377	*2 169,960
Gross profit	175,889	195,314
Selling, general and administrative expenses		
Packaging freight charge	3,459	2,999
Advertising expense	24,744	24,739
Sales promotion expense	309	611
Compensation for directors	587	738
Salaries	24,540	24,228
Provision for bonuses	3,978	6,484
Net periodic pension costs	1,221	1,002
Welfare expense	3,587	3,396
Rental expense	3,027	2,991
Commission fee	52,875	55,391
Depreciation and amortization	2,874	3,153
Other	10,353	10,314
Total selling, general and administrative expenses	*3 131,557	*3 136,053
Operating income	44,331	59,261
Non-operating income		
Interest income	714	101
Dividends received	0	0
Foreign exchange gain	10,365	10,489
Rental income	38	33
Gain on sale of crypto assets	1,358	2,904
Revenue from business held for sale	*5 4,051	—
Miscellaneous income	411	777
Total non-operating income	16,940	14,307
Non-operating expenses		
Interest expenses	72	150
Commission fee	1,249	475
Loss on liquidation of content	—	1,289
Loss on retirement of development related assets	—	862
Expenses from business held for sale	*5 5,191	—
Miscellaneous loss	48	86
Total non-operating expenses	6,562	2,865
Ordinary income	54,709	70,704
Extraordinary income		
Gain on sale of non-current assets	*4 826	*4 6
Gain on sale of registered trademarks	680	—
Gain on reversal of stock acquisition rights	4	8
Subsidy income related to COVID-19	11	290
Gain on sale of shares of subsidiaries and associates	*5 9,465	353
Other	46	72
Total extraordinary income	11,033	730
Extraordinary losses		
Loss on retirement of non-current assets	*6 112	*6 212
Impairment loss	*7 73	*7 109
Loss on valuation of investment securities	162	351
Loss on temporary closure	—	*8 296
Loss on valuation of shares of subsidiaries and associates	498	239
Loss on disposal of content	*5 6,303	—
Other	161	1
Total extraordinary loss	7,312	1,212
Profit before income taxes	58,431	70,223
Income taxes—current	11,060	20,511
Income taxes—deferred	(1,916)	(1,320)
Total income taxes	9,143	19,191
Profit	49,287	51,031
Profit attributable to non-controlling interests	22	17
Profit attributable to owners of parent	¥49,264	¥51,013

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	
	2023	2022
Profit	¥49,287	¥51,031
Other comprehensive income (loss)		
Valuation difference on available-for-sale securities	27	(83)
Foreign currency translation adjustments	(1,911)	(1,167)
Remeasurements of defined benefit plans	191	(43)
Other comprehensive income (loss)	*1 (1,692)	*1 (1,295)
Comprehensive income	47,594	49,735
(Breakdown)		
Comprehensive income attributable to owners of parent	47,562	49,696
Comprehensive income attributable to non-controlling interests	¥31	¥39

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

■ 2023

	Shareholders' equity					Millions of yen
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity	
Balance at the beginning of the year	¥24,039	¥53,880	¥221,316	¥(8,964)	¥290,272	
Changes during the year						
Dividends from retained earnings			(15,430)		(15,430)	
Profit attributable to owners of parent			49,264		49,264	
Purchase of treasury stock				(5)	(5)	
Disposal of treasury stock		261		382	644	
Net changes in items other than shareholders' equity						
Total changes during the year	—	261	33,834	376	34,473	
Balance at the end of the year	¥24,039	¥54,142	¥255,151	¥(8,587)	¥324,745	

	Accumulated other comprehensive income (loss)							Millions of yen
	Valuation difference on available-for-sale securities	Foreign currency translation adjustments	Remeasurements of defined benefit plans	Total accumulated other comprehensive income (loss)	Stock acquisition rights	Non-controlling interests	Total net assets	
Balance at the beginning of the year	¥(24)	¥(6,844)	¥116	¥(6,752)	¥718	¥191	¥284,429	
Changes during the year								
Dividends from retained earnings							(15,430)	
Profit attributable to owners of parent							49,264	
Purchase of treasury stock							(5)	
Disposal of treasury stock							644	
Net changes in items other than shareholders' equity	27	(1,921)	191	(1,702)	33	31	(1,636)	
Total changes during the year	27	(1,921)	191	(1,702)	33	31	32,836	
Balance at the end of the year	¥2	¥(8,765)	¥308	¥(8,454)	¥752	¥222	¥317,266	

The accompanying notes are an integral part of these statements.

■ 2022

Millions of yen					
	Shareholders' equity				
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
Balance at the beginning of the year	¥24,039	¥53,593	¥179,722	¥(9,556)	¥247,799
Cumulative effects of changes in accounting policies			(104)		(104)
Restated balance	24,039	53,593	179,617	(9,556)	247,695
Changes during the year					
Dividends from retained earnings			(9,315)		(9,315)
Profit attributable to owners of parent			51,013		51,013
Purchase of treasury stock				(8)	(8)
Disposal of treasury stock		287		600	887
Net changes in items other than shareholders' equity					
Total changes during the year	—	287	41,698	591	42,577
Balance at the end of the year	¥24,039	¥53,880	¥221,316	¥(8,964)	¥290,272

Millions of yen							
Accumulated other comprehensive income (loss)							
	Valuation difference on available-for-sale securities	Foreign currency translation adjustments	Remeasurements of defined benefit plans	Total accumulated other comprehensive income (loss)	Stock acquisition rights	Non-controlling interests	Total net assets
Balance at the beginning of the year	¥59	¥(5,655)	¥160	¥(5,435)	¥762	¥151	¥243,278
Cumulative effects of changes in accounting policies							(104)
Restated balance	59	(5,655)	160	(5,435)	762	151	243,174
Changes during the year							
Dividends from retained earnings							(9,315)
Profit attributable to owners of parent							51,013
Purchase of treasury stock							(8)
Disposal of treasury stock							887
Net changes in items other than shareholders' equity	(83)	(1,189)	(43)	(1,317)	(43)	39	(1,321)
Total changes during the year	(83)	(1,189)	(43)	(1,317)	(43)	39	41,255
Balance at the end of the year	¥(24)	¥(6,844)	¥116	¥(6,752)	¥718	¥191	¥284,429

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	
	2023	2022
Cash flows from operating activities		
Profit before income taxes	¥58,431	¥70,223
Depreciation and amortization	6,921	7,594
Impairment loss	73	109
Increase (decrease) in allowance for doubtful accounts	(59)	60
Increase (decrease) in provision for bonuses	(2,408)	3,271
Increase (decrease) in refund liabilities	(909)	(761)
Increase (decrease) in provision for directors' retirement benefits	(10)	(34)
Increase (decrease) in provision for loss on store closings	—	(172)
Decrease (increase) in net defined benefit assets	(91)	(152)
Increase (decrease) in net defined benefit liabilities	291	268
Interest and dividends income	(715)	(102)
Subsidy income related to COVID-19	(11)	(290)
Interest expenses paid	72	150
Foreign exchange loss (gain)	(9,635)	(10,043)
Loss (gain) on sale of shares of subsidiaries and associates	(9,465)	(353)
Loss (gain) on sale of crypto assets	(1,358)	(2,904)
Loss on retirement of non-current assets	112	212
Gain on sale of non-current assets	(826)	(6)
Gain on sale of registered trademarks	(680)	—
Loss (gain) on valuation of investment securities	162	351
Loss on valuation of shares of subsidiaries and associates	498	239
Loss on disposal of content	6,303	—
Decrease (increase) in notes and accounts receivable	6,463	1,332
Decrease (increase) in inventories	(13,711)	(17,207)
Increase (decrease) in notes and accounts payable	(5,455)	2,641
Decrease (increase) in other current assets	(3,372)	(575)
Decrease (increase) in other non-current assets	(83)	56
Increase (decrease) in other current liabilities	24	(508)
Other, net	548	(321)
Subtotal	31,108	53,077
Interest and dividends income received	715	102
Interest expenses paid	(72)	(150)
Subsidy income related to COVID-19 received	11	290
Income taxes paid	(19,755)	(26,161)
Income taxes refund	219	412
Net cash provided by operating activities	¥12,226	¥27,570
Cash flows from investing activities		
Payments into time deposits	¥(3,933)	¥(3,449)
Proceeds from withdrawal of time deposits	3,929	3,449
Purchases of property and equipment	(5,676)	(5,494)
Proceeds from sale of property and equipment	—	7
Purchases of intangible assets	(2,873)	(2,464)
Proceeds from sale of intangible assets	1,506	—
Purchase of investment securities	(1,606)	(640)
Proceeds from investment securities	—	697
Payments for investments in capital	(348)	(1,306)
Purchases of shares of subsidiaries	(682)	(687)
Proceeds from sale of shares of subsidiaries and associates	—	382
Proceeds from sale of shares of subsidiaries resulting in change in scope of consolidation	*2 36,122	—
Proceeds from sale of crypto assets	1,358	2,904
Payments for guarantee deposits	(265)	(2,059)
Proceeds from collection of guarantee deposits	225	527
Other, net	(151)	7
Net cash provided by (used in) investing activities	27,602	(8,124)

The accompanying notes are an integral part of these statements.

	(Millions of yen)	
	2023	2022
Cash flows from financing activities		
Repayments of lease obligations	(454)	(671)
Purchase of treasury stock	(5)	(8)
Proceeds from exercise of employee share options	354	599
Cash dividends paid	(15,418)	(9,308)
Other, net	0	46
Net cash used in financing activities	(15,523)	(9,343)
Effect of exchange rate change on cash and cash equivalents	5,975	6,458
Net increase (decrease) in cash and cash equivalents	30,280	16,561
Cash and cash equivalents at the beginning of the year	160,622	144,061
Cash and cash equivalents at end of the year	*1 ¥190,903	*1 ¥160,622

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: 17 companies

Names of principal consolidated subsidiaries

SQUARE ENIX OF AMERICA HOLDINGS, INC.

SQUARE ENIX CO., LTD.

TAITO CORPORATION

Luminous Productions Co., Ltd.

SQUARE ENIX, INC.

SQUARE ENIX LTD.

SQUARE ENIX (China) CO., LTD.

SQUARE ENIX NEWCO LIMITED was established in April 2022 and became a consolidated subsidiary.

SQUARE ENIX NEWCO LIMITED, CRYSTAL DYNAMICS, INC., EIDOS INTERACTIVE CORP. and EIDOS CREATIVE SOFTWARE (SHANGHAI) CO., LTD were excluded from the scope of consolidation because they were sold during the fiscal year ended March 31, 2023.

(2) Names of principal non-consolidated subsidiaries:

Tokyo RPG Factory Co., Ltd.

SQUARE ENIX Business Support, CO., LTD.

SQUARE ENIX AI & ARTS Alchemy Co., Ltd.

SQUARE ENIX PRIVATE LIMITED

(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, profit (corresponding to the share), and retained earnings (corresponding to the share) are deemed to have an immaterial effect on the Company's financial performance and consolidated financial statements.

2. Application of the Equity Method of Accounting

(1) There are no non-consolidated subsidiaries or affiliates that are accounted for under the equity method.

(2) Non-consolidated subsidiaries that were not accounted for under the equity method, including Tokyo RPG Factory Co., Ltd., SQUARE ENIX Business Support, CO., LTD., SQUARE ENIX AI & ARTS Alchemy Co., Ltd. and SQUARE ENIX PRIVATE LIMITED, 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. and HUANG LONG CO., LTD. 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 other than securities without market prices:

Market value, 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 without market prices:

Stated at cost determined by the moving-average method

As for investments in investment limited partnerships and similar partnerships, which are deemed to be investment securities under Article 2, Paragraph 2 of the Financial Instruments and Exchange Act, the net amount equivalent to equity is recorded based on the financial results available as of the financial reporting date stipulated in the partnership agreement.

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 and right-of-use 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	2–60 years
Tools and fixtures	2–20 years
Amusement equipment	3–5 years

B) Intangible assets (excluding leased assets and right-of-use 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.

D) Right-of-use assets

Depreciation for right-of-use 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 loss on store 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.

D) 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 this 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 following 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) Accounting for significant revenue and expenses:

The Group applies the following five-step approach to recognize revenue.

Step 1: Identify contracts with customers.

Step 2: Identify performance obligations in contracts.

Step 3: Calculate transaction prices.

Step 4: Allocate transaction prices to performance obligations in contracts.

Step 5: Recognize revenue when or as performance obligations are satisfied.

In cases where the Group does not assume the major responsibility for providing the services or does not have discretion in setting prices, revenue is recognized on a net basis.

The Group is engaged in business activities globally in its reporting segments of Digital Entertainment, Amusement, Publication,

and Merchandising.

A) Digital Entertainment

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.

In the HD (High-Definition) Game sub-segment, games are distributed through disk and digital media. In the MMO (Massively Multiplayer Online) Game sub-segment, games are distributed through disk and digital media as well as through the operation of recurring subscriptions and other methods. As for content for smart devices, PC browsers, and other platforms, digital content is distributed by using microtransactions and other methods. In addition, the Group receives licensing income from customers associated with game streaming rights and other licenses.

For disk and digital media whose performance obligations can be determined to have been satisfied at the time of delivery to customers, revenue is recognized at a certain point in time. If there are any undelivered elements to customers, the estimated selling price of such undelivered elements is calculated and the amount equivalent to such selling price is recognized as revenue based on the status of delivery. In the domestic distribution of disk media, the Group recognizes revenue at the time of shipment, if the goods are delivered to the customer in a normal period of time from the date of shipment. For recurring subscriptions, the Group adopts a monthly subscription system and determines performance obligations are satisfied over time. Therefore, revenue is recognized over the contract period. In microtransactions, performance obligations are determined to be satisfied when the customer, the user, uses the in-game item and the Group provides services prescribed for each item. Accordingly, revenue is recognized based upon the estimated period over which the customer will use the item. In terms of licensing income from customers associated with game streaming rights and other licenses, depending on the nature of the promise to provide the license to customers, as the customer has the right to use the intellectual property at the point at which the license is granted, revenue is recognized at a certain point in time. However, notwithstanding the above, revenue from royalties based on net sales is recognized at the point in time upon the receipt of a royalty report for the month in which the licensee records net sales and by determining the point in time the performance obligations are satisfied taking into consideration when such net sales occurred.

In the overseas distribution of disk media, the amount is calculated as the consideration promised in the contract with the customer, from which the estimated amount of future refunds is deducted.

Consideration for these transactions is received within one year after the fulfillment of the performance obligation and does not include a significant financing component.

B) Amusement

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.

In the operation of amusement facilities, each time a customer plays a game, the performance obligation is determined to have been satisfied and revenue is recognized at a certain point in time. In the distribution of arcade game machines and related products for amusement facilities, the performance obligation is determined to have been satisfied when the goods are delivered to the customer and revenue is recognized at a certain point in time. The Group recognizes revenue at the time of shipment, if the goods are delivered to the customer in a normal period of time from the date of shipment.

Consideration for these transactions is received within one year after the fulfillment of the performance obligation and thus does not include a significant financing component.

C) Publication

The Publication segment consists of publication and licensing of comic magazines, comic books, and game-related books.

The Group distributes comic magazines, comic books, and game-related books through paper and digital media. In addition, the Group receives licensing income from customers associated with the licensing of publishing and other rights.

For paper and digital media, performance obligations are determined to have been satisfied at the time of delivery to customers, and revenue is recognized at a certain point in time. In terms of licensing income from customers associated with the licensing of publishing and other rights, depending on the nature of the promise to provide the license to customers, if the customer has the right to access the intellectual property throughout the license period, revenue is recognized over a certain period: while, if the customer has the right to use the intellectual property at the point at which the license is granted, revenue is recognized at a certain point in time.

Additionally, the amount of revenue is calculated as the consideration promised in the contract with the customer, from which the estimated amount of future refunds is deducted.

Consideration for these transactions is received within one year after the fulfillment of the performance obligation and thus does not include a significant financing component.

D) Merchandising

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

In the distribution of the IP derivative products, such as character merchandise, performance obligations are determined to have been satisfied at the time of delivery to customers, and revenue is recognized at a certain point in time. In the domestic distribution of merchandise, the Group recognizes revenue at the time of shipment, if the goods are delivered to the customer in a normal period of time from the date of shipment.

The Group's IP derivative products, such as music and video merchandise, are distributed through disk and digital media. For such merchandise, performance obligations are determined to have been satisfied at the time of delivery to customers, and revenue is recognized at a certain point in time. In the domestic distribution of disk media, the Group recognizes revenue at the time of shipment, if the goods are delivered to the customer in a normal period of time from the date of shipment.

In terms of licensing income from customers associated with licensing of derivative products utilizing IP, depending on the nature of the promise to provide the license to customers, if the customer has the right to access the intellectual property throughout the license period, revenue is recognized over a certain period, while, if the customer has the right to use the intellectual property at the point at which the license is granted, revenue is recognized at a certain point in time.

Consideration for these transactions is received within one year after the fulfillment of the performance obligation and thus does not

include a significant financing component.

(6) 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.

(7) Scope of cash and cash equivalents in the consolidated statement of cash flows:

Cash and cash equivalents in the consolidated statement 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.

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

A) Application of group tax sharing system

The Company has applied the group tax sharing system.

B) Treatment of significant expenses

The content production account is recorded in cost of sales based on expected sales revenue.

Significant Accounting Estimates

(Valuation of the content production account)

(1) Amount recorded in the consolidated financial statements for the fiscal year ended March 31, 2023

Millions of yen		
	As of March 31, 2023	As of March 31, 2022
Loss on valuation of inventories	5,308	3,838
Content production account	87,217	96,765

(2) Other information that would contribute to the users' understanding of the consolidated financial statements

1) Calculation method

For each development project, if, at the end of the fiscal year, the net realizable value based on the expected selling price at the time of future sales is determined to be less than the book value of the content production account, a loss on valuation of inventories is recorded. The net realizable value is calculated based on future net sales and development costs estimated based on historical sales results and historical development costs of similar titles as well as market trends. Future net sales and development costs and other factors to be used for making estimates are determined by the Investment Committee and revised as necessary according to the changes in the environment.

2) Major assumptions

Future net sales comprise the average sales price per unit and sales volume (number of disks sold and number of downloads) for HD games and MMO games, and the average charge per user and number of users for devices such as smart devices, which are set as major assumptions.

3) Impact on the consolidated financial statements for the fiscal year ending March 31, 2024

While the major assumptions of the average sales price per unit and sales volume for HD games and MMO games and the average charge per user and number of users for devices such as smart devices are based on historical results, etc., these estimates have a high level of uncertainty, given that they are impacted by demand and the market conditions at the time of release. Fluctuations in net realizable value based on the expected selling price at the time of future sales, in conjunction with changes in future net sales may have a significant impact on the valuation of the content production account for the fiscal year ending March 31, 2024.

(Refund liabilities)

(1) Amount recorded in the consolidated financial statements for the fiscal year ended March 31, 2023

Millions of yen		
	As of March 31, 2023	As of March 31, 2022
Refund liabilities	4,649	5,088

(2) Other information that would contribute to the users' understanding of the consolidated financial statements

1) Calculation method

At certain overseas consolidated subsidiaries of the Group, refund liabilities are recorded to prepare for losses due to the return of game software, etc., at an amount calculated based on the estimated amount of future losses for each game title. The estimated amount of future losses is calculated based on the rate of future refund to wholesalers and retailers of each game title at the fiscal year-end.

2) Major assumptions

The future refund rate of each game title has been set as a major assumption.

3) Impact on the consolidated financial statements for the fiscal year ending March 31, 2024

While the major assumption of the future refund rate is based on the refund rate for historical sales results and sales at wholesalers and retailers, etc., these estimates have a high level of uncertainty, given that they are impacted by future demand and the market environments, etc. Fluctuations in the estimated amount of future losses for each game title may have a significant impact on the refund liabilities for the fiscal year ending March 31, 2024.

Changes in Accounting Policies

(Application of Implementation Guidance on Accounting Standard for Fair Value Measurement)

The Company has applied the Implementation Guidance on Accounting Standard for Fair Value Measurement (Accounting Standards Board of Japan (“ASBJ”) Guidance No. 31 of June 17, 2021; “Implementation Guidance for Fair Value Measurement”) effective from the beginning of the fiscal year ended March 31, 2023. In accordance with the transitional treatment described in Paragraph 27-2 of the Implementation Guidance for Fair Value Measurement, the Company will apply new accounting practices set forth under the Implementation Guidance for Fair Value Measurement prospectively. There is no impact to the consolidated financial statements for the fiscal year ended March 31, 2023 as a result of this change.

Accounting Standards Issued but Not Yet Applied

(Application of Accounting Standard for Current Income Taxes, etc.)

- “Accounting Standard for Current Income Taxes” (ASBJ Statement No. 27, October 28, 2022)
- “Accounting Standard for Presentation of Comprehensive Income” (ASBJ Statement No. 25, October 28, 2022)
- “Guidance on Accounting Standard for Tax Effect Accounting” (ASBJ Guidance No. 28, October 28, 2022)

(1) Outline:

In February 2018, ASBJ issued ASBJ Statement No. 28, “Partial Amendments to Accounting Standard for Tax Effect Accounting,” etc. (hereinafter, “ASBJ Statement No. 28, etc.”), and the transfer of the practical guidance on tax effect accounting from the Japanese Institute of Certified Public Accountants (JICPA) to ASBJ was completed. However, in the course of the deliberation process, it was determined that the following two issues would be reviewed after the release of ASBJ Statement No. 28, etc., and they were discussed and released:

- Classification of tax expense (taxation on other comprehensive income)
- Tax effect on sale of shares of subsidiaries (shares of subsidiaries or associates) in the case where the group tax sharing system is applied.

(2) Effective date:

Effective from the beginning of the fiscal year ending March 31, 2025

(3) Impact of the application of accounting standards and implementation guidance:

The impact of the application of the Accounting Standard for Current Income Taxes, etc., on the consolidated financial statements is being assessed.

Change in the Method of Presentation

Not applicable

Changes in Accounting Estimates

(Changes in Estimates of Asset Retirement Obligations)

With respect to asset retirement obligations recognized for restoration costs based on real estate lease contracts, the Company and a portion of its consolidated subsidiaries changed the estimates relating to such restoration costs required at the time of head office relocations and game arcade closures in consideration of recent inflation and other factors.

Based on these updated estimates, the Company added ¥577 million to its asset retirement obligation balance.

As a result, compared with the amounts that would have been recognized under the previous estimates, operating income, ordinary income and profit before income taxes decreased by ¥99 million, respectively, for the fiscal year ended March 31, 2023.

Additional Information

(Application of the Practical Solution on Accounting and Disclosure under the Group Tax Sharing System)

The Company and its domestic consolidated subsidiaries have transitioned from the consolidated tax payment system to the group tax sharing system from the start of the fiscal year ended March 31, 2023. As a result, the Company’s accounting for and disclosure of corporate tax, local corporation tax, and tax effects complies with the Practical Solution on Accounting and Disclosure under the Group Tax Sharing System (Practical Solution No. 42 of August 12, 2021). Also, based on Paragraph 32-1 of Practical Solution No. 42, the Company deems that changes in accounting practices associated with the application of Practical Solution No. 42 have had no impact on its consolidated financial results.

Notes to Consolidated Balance Sheet

*1 The amount of receivables from contracts with customers among notes and accounts receivable

	Millions of yen	
	As of March 31, 2023	As of March 31, 2022
Notes receivable	¥257	¥271
Accounts receivable	39,650	44,696

*2 Investments in non-consolidated subsidiaries and affiliates

	Millions of yen	
	As of March 31, 2023	As of March 31, 2022
Other (investments and other assets)	¥2,107	¥1,923

*3 The amount of contract liabilities among other

	Millions of yen	
	As of March 31, 2023	As of March 31, 2022
Contract liabilities	¥15,370	¥13,648

Notes to Consolidated Statement of Income

*1 Revenues from contracts with customers

Net sales are not stated as revenue from contracts with customers separately from other revenue. The amount of revenue from contracts with customers is stated in “Notes to Consolidated Financial Statements (Revenue Recognition) 1. Disaggregation of revenue from contracts with customers.”

*2 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, 2023	Fiscal year ended March 31, 2022
¥5,337	¥3,622

*3 Selling, general and administrative expenses include research and development costs

Millions of yen	
Fiscal year ended March 31, 2023	Fiscal year ended March 31, 2022
¥1,126	¥5,104

*4 Breakdown of gain on sale of non-current assets

Millions of yen		
	Fiscal year ended March 31, 2023	Fiscal year ended March 31, 2022
Buildings and structures	¥—	¥6
Tools and fixtures	—	0
Other	826	—
Total	¥826	¥6

*5 In keeping with the policy of business structure optimization set forth in the Medium-term Business Strategy it unveiled on May 13, 2021, the Company decided to optimize its overseas studio business structure and intellectual property portfolio, while also optimizing its domestic studio business structure and enhancing its internal development capabilities.

These efforts led the Company to book gains on sales of affiliate shares, which resulted when it transferred shares in some of its overseas consolidated subsidiaries, namely, SQUARE ENIX NEWCO Ltd, CRYSTAL DYNAMICS, INC., EIDOS INTERACTIVE CORP., and EIDOS CREATIVE SOFTWARE (SHANGHAI) Co., Ltd. The loss on disposal of content is the result of cancelling the development of some content at the Digital Entertainment Segment.

Additionally, for the period between the signing of the share transfer agreement and the completion of the transfer, the revenue and expenses related to the parts of the business that were sold are shown in the non-operating income and non-operating expenses because ordinary business activities did not take place during that period.

*6 Breakdown of loss on retirement of non-current assets

Millions of yen		
	Fiscal year ended March 31, 2023	Fiscal year ended March 31, 2022
Buildings and structures	¥4	¥0
Tools and fixtures	53	14
Amusement equipment	48	38
Other	6	159
Total	¥112	¥212

*7 Impairment loss

In the fiscal year ended March 31, 2023, 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	¥51
Shinjuku-ku, Tokyo	Assets planned for disposal	Amusement equipment	0
Kita-kyushu, Fukuoka, Aomori, Aomori	Stores	Buildings and structures	11
		Tools and fixtures	0
		Other	2
Shinjuku-ku, Tokyo	Development of consumer game	Tools and fixtures	0
Atsugi, Kanagawa	Development of arcade game machines	Tools and fixtures	0
		Other	6
Total			¥73

In the Amusement business segment, each captive outlet and each division including rented outlets, franchise outlets and amusement equipment production and sales, is classified as one asset-grouping unit. Idle assets that are not used for operational purposes and assets planned for disposal are classified individually.

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, assets at stores, and assets of the development of consumer game and arcade game machines, 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, 2022, the Group posted an impairment loss on the following groups of assets.

in the fiscal year ended March 31, 2022, 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	¥72
		Other	0
Shinjuku-ku, Tokyo	Assets planned for disposal	Amusement equipment	7
Taito-ku, Tokyo, Kanazawa-shi, Ishikawa	Stores	Buildings and structures	17
		Tools and fixtures	2
		Other	3
Shinjuku-ku, Tokyo	Arcade game machines development and distribution division	Tools and fixtures	0
		Other	6
Total			¥109

In the Amusement business segment, each captive outlet and each division including rented outlets, franchise outlets and amusement equipment production and sales, is classified as one asset-grouping unit. Idle assets that are not used for operational purposes and assets planned for disposal are classified individually.

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, assets at stores, and assets of the arcade game machines development and distribution division, 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.

***8 Loss on temporary closure**

The Group posted a loss on temporary closure, which consisted of fixed expenses incurred during the temporary closure of amusement facilities in the Amusement segment and development studios in the Digital Entertainment segment, to prevent the spread of COVID-19 as an extraordinary loss.

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, 2023	Fiscal year ended March 31, 2022
Valuation difference on available-for-sale securities:		
Gains (losses) arising during the year	¥35	¥(118)
Reclassification adjustments	—	—
Total amount before tax-effect	35	(118)
Tax-effect	(8)	34
Valuation difference on available-for-sale securities	27	(83)
Foreign currency translation adjustments:		
Exchange differences arising during the year	(1,911)	(1,167)
Reclassification adjustments relating to foreign operations	—	—
Total amount before tax-effect	(1,911)	(1,167)
Tax-effect	—	—
Foreign currency translation adjustments	(1,911)	(1,167)
Remeasurements of defined benefit plans:		
Defined benefit obligations arising during the year	260	54
Reclassification adjustments relating to defined benefit plans	18	(115)
Total amount before tax-effect	279	(61)
Tax-effect	(87)	18
Remeasurements of defined benefit plans	191	(43)
Total other comprehensive income (loss)	¥(1,692)	¥(1,295)

Notes to Consolidated Statement of Changes in Net Assets

■ Year ended March 31, 2023

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, 2022	Share increases during the year	Share decreases during the year	Shares as of March 31, 2023
Shares issued and outstanding	122,531	—	—	122,531
Common stock				
Total	122,531	—	—	122,531
Treasury stock				
Common stock ^{1, 2}	2,927	0	124	2,803
Total	2,927	0	124	2,803

Notes: 1 The increase of 0 thousand shares of treasury stock was due to the acquisition of fractional shares constituting less than one trading unit.

2 The decrease of 124 thousand shares of treasury stock was due to the delivery of 87 thousand shares due to the exercise of stock acquisition rights as stock options, the delivery of 23 thousand shares as a restricted stock remuneration plan, the delivery of 13 thousand shares as a post-delivery type stock remuneration plan, and the sale of 0 thousand 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, 2023 (Millions of yen)
			As of April 1, 2022	Increase during the year	Decrease during the year	As of March 31, 2023	
Supplying company (parent company)	Stock acquisition rights as stock options	—	—	—	—	—	¥752
	Total	—	—	—	—	—	¥752

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 19, 2022 (Board of Directors' Meeting)	Common stock	¥14,232	¥119	March 31, 2022	June 3, 2022
November 7, 2022 (Board of Directors' Meeting)	Common stock	1,197	10	September 30, 2022	December 6, 2022

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

Date of approval	Type of shares	Total dividends (Millions of yen)	Source of dividends	Dividends per share (Yen)	Record date	Effective date
May 18, 2023 (Board of Directors' Meeting)	Common stock	¥13,649	Retained earnings	¥114	March 31, 2023	June 5, 2023

■ Year ended March 31, 2022

1. Type and number of shares issued and outstanding, and type and number of shares of treasury stock

	Shares as of April 1, 2021	Share increases during the year	Share decreases during the year	Thousands of shares Shares as of March 31, 2022
Shares issued and outstanding				
Common stock	122,531	—	—	122,531
Total	122,531	—	—	122,531
Treasury stock				
Common stock ^{1,2}	3,122	1	196	2,927
Total	3,122	1	196	2,927

Notes: 1 The increase of 1 thousand shares of treasury stock was due to the acquisition of fractional shares constituting less than one trading unit.

2 The decrease of 196 thousand shares of treasury stock was due to the delivery of 166 thousand shares due to the exercise of stock acquisition rights as stock options, the delivery of 20 thousand shares as a restricted stock remuneration plan, and the delivery of 9 thousand shares as a post-delivery-type stock remuneration plan.

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, 2022 (Millions of yen)
			As of April 1, 2021	Increase during the year	Decrease during the year	As of March 31, 2022	
Supplying company (parent company)	Stock acquisition rights as stock options	—	—	—	—	—	¥718
	Total	—	—	—	—	—	¥718

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 21, 2021 (Board of Directors' Meeting)	Common stock	¥8,119	¥68	March 31, 2021	June 7, 2021
November 5, 2021 (Board of Directors' Meeting)	Common stock	1,195	10	September 30, 2021	December 6, 2021

Note: Dividends per share of ¥68 approved in the Board of Directors' Meeting held on May 21, 2021, include a special dividend of ¥10.

(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 19, 2022 (Board of Directors' Meeting)	Common stock	¥14,232	Retained earnings	¥119	March 31, 2022	June 3, 2022

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, 2023	Fiscal year ended March 31, 2022
Cash and deposits	¥193,501	¥163,088
Time deposits with maturity periods over three months	(2,598)	(2,465)
Cash and cash equivalents	¥190,903	¥160,622

*2 Breakdown of assets and liabilities of companies that ceased to be consolidated subsidiaries due to the sale of shares during the fiscal year ended March 31, 2023

(Transfer of business of consolidated subsidiaries (sub-subsidiaries))

Breakdown of assets and liabilities at the time of sale of shares in SQUARE ENIX NEWCO Ltd, CRYSTAL DYNAMICS, INC., EIDOS INTERACTIVE CORP., and EIDOS CREATIVE SOFTWARE (SHANGHAI) Co., Ltd that ceased to be consolidated subsidiaries due to the sale of shares, and proceeds from sale of shares, are as follows:

	(Millions of yen)
Current assets	¥33,141
Non-current assets	6,828
Current liabilities	(1,972)
Non-current liabilities	(1,623)
Gain on sale of shares	9,465
Sale value of shares	45,838
Cash and cash equivalents	(9,716)
Net proceeds from sale	36,122

Lease Transactions

1. Finance lease transactions

Finance lease transactions that do not transfer ownership

(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

3. Right-of-use assets

(1) Type of right-of-use assets

Mainly offices for rental purposes

(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.”

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 investments in investment limited partners. Although stock market listed shares are exposed to market price fluctuation risk, fair values are monitored and regularly reported to the Board of Directors.

With regard to investments in investment limited partners, financial results are obtained and monitored as well as 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. The Group avoids the settlement liquidity risk associated with notes and accounts payable, and accrued income taxes 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.

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

Since variable factors are included in the calculation of the fair value of financial instruments, 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, 2023 and 2022, the estimated fair value and the difference between these amounts are as follows.

■ As of March 31, 2023

	Millions of yen		
Assets:	Book value	Fair value	Difference
(1) Investment securities	¥1,122	¥1,122	¥—
(2) Guarantee deposits	11,074	10,786	(288)

(*1) “Cash and deposits,” “notes receivable,” “accounts receivable,” “notes and accounts payable,” and “accrued income taxes” are omitted, as they are cash and their fair value approximates book value, since they are settled on a short-term basis.

(*2) Securities without market prices are not included in “(1) Investment securities.” The value of these financial instruments presented on the consolidated balance sheet is as follows.

	Millions of yen	
Item	As of March 31, 2023	As of March 31, 2022
Unlisted shares	¥558	¥66

(*3) Investments in partnerships and other quasi-entities for which an amount equivalent to the equity interest is recorded on the balance sheet on a net amount are not included. The value of these financial instruments presented on the consolidated balance sheet is as follows.

	Millions of yen	
Item	As of March 31, 2023	As of March 31, 2022
Investments in investment limited partnerships	¥2,948	¥2,408

■ As of March 31, 2022

	Millions of yen		
Assets:	Book value	Fair value	Difference
(1) Investment securities	¥251	¥251	¥—
(2) Guarantee deposits	11,028	10,774	(253)

Note: 1. Planned redemption amounts subsequent to the consolidated balance sheet date for monetary claims

■ As of March 31, 2023

	Millions of yen			
	Within 1 year	More than 1 year but within 5 years	More than 5 years but within 10 years	More than 10 years
Deposits	¥191,157	¥—	¥—	¥—
Notes receivable	257	—	—	—
Accounts receivable	39,650	—	—	—
Guarantee deposits	4,067	4,400	2,587	19
Total	¥235,133	¥4,400	¥2,587	¥19

■ As of March 31, 2022

	Millions of yen			
	Within 1 year	More than 1 year but within 5 years	More than 5 years but within 10 years	More than 10 years
Deposits	¥161,055	¥—	¥—	¥—
Notes receivable	271	—	—	—
Accounts receivable	44,696	—	—	—
Guarantee deposits	4,117	3,549	3,360	—
Total	¥210,141	¥3,549	¥3,360	¥—

3. Breakdown and other matters relating to the fair value of financial instruments by level

The Company classifies the fair value of financial instruments into the following three levels, according to the observability and materiality of the inputs used to measure fair value.

Level 1 fair value: Fair value measured using the (unadjusted) quoted market prices of same assets or liabilities in active markets

Level 2 fair value: Fair value measured using directly or indirectly observable inputs other than the inputs of level 1

Level 3 fair value: Fair value measured using material unobservable inputs

When multiple inputs that have a significant impact on the measurement of fair value are used, fair value is classified into the level

with the lowest priority in the measurement of fair value among the levels to which each of those inputs belongs.

(1) Financial instruments presented at fair value on the consolidated balance sheet

■ As of March 31, 2023

Classification	Fair value			
	Level 1	Level 2	Level 3	Total
Investment securities				
Available-for-sale securities	¥1,122	—	—	¥1,122
Stocks				
Total assets	¥1,122	—	—	¥1,122

■ As of March 31, 2022

Classification	Fair value			
	Level 1	Level 2	Level 3	Total
Investment securities				
Available-for-sale securities	¥251	—	—	¥251
Stocks				
Total assets	¥251	—	—	¥251

(2) Financial instruments other than those presented at fair value on the consolidated balance sheet

■ As of March 31, 2023

Classification	Fair value			
	Level 1	Level 2	Level 3	Total
Guarantee deposits	—	¥10,786	—	¥10,786
Total assets	—	¥10,786	—	¥10,786

■ As of March 31, 2022

Classification	Fair value			
	Level 1	Level 2	Level 3	Total
Guarantee deposits	—	¥10,774	—	¥10,774
Total assets	—	¥10,774	—	¥10,774

Note: Description of valuation method used for and inputs related to the measurement of fair value

Investment securities

Listed stocks are measured using the quoted market price. Since listed stocks are traded in active markets, their fair value is classified into level 1 fair value.

Guarantee deposits

The fair value of guarantee deposits is measured using the present value discounted by the interest rate corresponding to the period until the deposit is returned and counterparty credit risk, and accordingly is classified into level 2 fair value.

Securities

1. Held-for-sale securities

Not applicable

2. Held-to-maturity securities

Not applicable

3. Available-for-sale securities

■ As of March 31, 2023

		Millions of yen		
	Type	Book value	Acquisition cost	Difference
Securities with book value exceeding acquisition cost	(1) Stocks	¥965	¥848	¥116
	(2) Bonds			
	a. Government bonds and municipal bonds	—	—	—
	b. Corporate bonds	—	—	—
	c. Other	—	—	—
	(3) Other	—	—	—
	Subtotal	965	848	116
Securities with acquisition cost exceeding book value	(1) Stocks	157	291	(134)
	(2) Bonds			
	a. Government bonds and municipal bonds	—	—	—
	b. Corporate bonds	—	—	—
	c. Other	—	—	—
	(3) Other	—	—	—
	Subtotal	157	291	(134)
Total		¥1,122	¥1,140	¥(17)

■ As of March 31, 2022

		Millions of yen		
	Type	Book value	Acquisition cost	Difference
Securities with book value exceeding acquisition cost	(1) Stocks	¥77	¥31	¥45
	(2) Bonds			
	a. Government bonds and municipal bonds	—	—	—
	b. Corporate bonds	—	—	—
	c. Other	—	—	—
	(3) Other	—	—	—
	Subtotal	77	31	45
Securities with acquisition cost exceeding book value	(1) Stocks	174	273	(99)
	(2) Bonds			
	a. Government bonds and municipal bonds	—	—	—
	b. Corporate bonds	—	—	—
	c. Other	—	—	—
	(3) Other	—	—	—
	Subtotal	174	273	(99)
Total		¥251	¥304	¥(53)

4. Securities sold during the year
Not applicable

5. Impairment losses on securities

■ Year ended March 31, 2023

Impairment loss of ¥162 million was posted on securities (¥162 million for shares under available-for-sale securities).

Impairment loss is recorded for all securities whose fair value at the end of the fiscal year has fallen 50% or more compared to the acquisition cost, and for securities whose fair value has fallen by around 30 to 50%, impairment loss is recorded, in the amount deemed necessary by taking into account such factors as recoverability.

■ Year ended March 31, 2022

Impairment loss of ¥351 million was posted on securities (¥351 million for shares under available-for-sale securities).

Impairment loss is recorded for all securities whose fair value at the end of the fiscal year has fallen 50% or more compared to the acquisition cost, and for securities whose fair value has fallen by around 30 to 50%, impairment loss is recorded, in the amount deemed necessary by taking into account such factors as recoverability.

Derivative Transactions

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

Currency derivatives

■ Year ended March 31, 2023

Not applicable

■ Year ended March 31, 2022

Not applicable

2. Derivative transactions for which hedge accounting has been applied

■ Year ended March 31, 2023

Not applicable

■ Year ended March 31, 2022

Not applicable

Employees' Retirement Benefits

1. Overview of employees' retirement benefit plans:

The Company and certain of its domestic consolidated subsidiaries have a lump-sum retirement payment plan and defined contribution retirement pension plans, 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 plans.

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, 2023	Fiscal year ended March 31, 2022
Balance of retirement benefit obligations at the beginning of the year	¥12,811		¥12,807
Service cost	719		690
Interest cost	48		36
Actuarial (gains) losses arising during the year	(378)		(83)
Retirement benefits paid	(686)		(639)
Balance of retirement benefit obligations at the end of the year	¥12,513		¥12,811

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

	Millions of yen	
	Fiscal year ended March 31, 2023	Fiscal year ended March 31, 2022
Balance of plan assets at the beginning of the year	¥9,618	¥9,791
Expected return on plan assets	139	141
Actuarial gains (losses) arising during the year	(117)	(28)
Employer contribution	230	237
Retirement benefits paid	(469)	(523)
Balance of plan assets at the end of the year	¥9,400	¥9,618

(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, 2023	Fiscal year ended March 31, 2022
Retirement benefit obligation for funded plans	¥8,604	¥8,968
Plan assets	(9,400)	(9,618)
Retirement benefit obligation for unfunded plans	(795)	(649)
Net defined benefit liabilities and assets recorded in the consolidated balance sheet	3,113	3,193
Net defined benefit liabilities	3,908	3,842
Net defined benefit assets	795	649
Net defined benefit liabilities and assets recorded in the consolidated balance sheet	¥3,113	¥3,193

(4) Components of net periodic pension costs

	Millions of yen	
	Fiscal year ended March 31, 2023	Fiscal year ended March 31, 2022
Service cost	¥719	¥690
Interest cost	48	36
Expected return on plan assets	(139)	(141)
Amortization of net actuarial (gains) losses	18	(115)
Net periodic pension costs relating to defined benefit plan	¥647	¥469

(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, 2023	Fiscal year ended March 31, 2022
Actuarial gains (losses)	¥279	¥(61)
Total	¥279	¥(61)

(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 defined benefit plans.

	Millions of yen	
	As of March 31, 2023	As of March 31, 2022
Unrecognized actuarial gains (losses)	¥(459)	¥(180)
Total	¥(459)	¥(180)

(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, 2023	As of March 31, 2022
Bonds	31	35
Stocks	17	15
General accounts	35	34
Cash and deposits	5	4
Others	12	12
Total	100	100

Note: Total plan assets include 3% and 3% of the retirement benefit trust plan, which has been established for the corporate pension plan, for the years ended March 31, 2023 and 2022, 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

	As of March 31, 2023	As of March 31, 2022	Percent
Discount rate	0.488 to 1.191	0.298 to 0.569	
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 the Company and its consolidated subsidiaries were ¥1,168 million and ¥1,107 million for the years ended March 31, 2023 and 2022, respectively.

Stock Options

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

	Fiscal year ended March 31, 2023	Fiscal year ended March 31, 2022	Millions of yen
Selling, general and administrative expenses	¥105	¥111	

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

	Fiscal year ended March 31, 2023	Fiscal year ended March 31, 2022	Millions of yen
Reversal of stock acquisition rights	¥4	¥8	

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	2014 stock options	2015 stock options
Category of grantees	Company directors	Company directors	Company directors	Company directors	Company directors	Company directors	Company directors
Number of grantees	5	5	5	5	5	6	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	16,000 shares of common stock	21,000 shares of common stock
Date granted	August 21, 2008	October 21, 2009	August 23, 2010	July 21, 2011	July 26, 2012	September 25, 2014	July 16, 2015
Conditions for vesting of interests	No conditions have been set for vesting interests	No conditions have been set for vesting interests	No conditions have been set for vesting interests	No conditions have been set for vesting interests	No conditions have been set for vesting 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	September 26, 2014 to September 25, 2034	July 17, 2015 to July 16, 2035

	2016 stock options	2017 stock options	2017 stock options	2018 stock options	2018 stock options	2019 stock options	2019 stock options
Category of grantees	Company directors	Company directors	Company employees, and directors and employees of the Company's subsidiaries	Company directors (excluding directors who are Audit & Supervisory Committee members)	Directors and employees of the Company's subsidiaries	Company directors (excluding directors who are Audit & Supervisory Committee members)	Directors and employees of the Company's subsidiaries
Number of grantees	6	6	23	5	24	5	22
Number of stock options	21,000 shares of common stock	21,000 shares of common stock	179,000 shares of common stock	11,700 shares of common stock	126,300 shares of common stock	18,100 shares of common stock	190,100 shares of common stock
Date granted	July 20, 2016	July 19, 2017	August 30, 2017	August 30, 2018	August 30, 2018	July 17, 2019	July 17, 2019
Conditions for vesting of interests	No conditions have been set for vesting interests	No conditions have been set for vesting interests	No conditions have been set for vesting interests	No conditions have been set for vesting interests	No conditions have been set for vesting interests	No conditions have been set for vesting interests	No conditions have been set for vesting interests
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	July 21, 2016 to July 20, 2036	July 20, 2017 to July 19, 2037	August 5, 2019 to August 4, 2022	August 31, 2018 to August 30, 2038	August 8, 2020 to August 7, 2023	July 18, 2019 to July 17, 2039	June 22, 2021 to June 21, 2024

	2020 stock options	2020 stock options	2021 stock options	2022 stock options
Category of grantees	Company directors (excluding directors who are Audit & Supervisory Committee members)	Directors and employees of the Company's subsidiaries	Company employees, and directors and employees of the Company's subsidiaries	Company employees, and directors and employees of the Company's subsidiaries
Number of grantees	6	22	23	14
Number of stock options	22,700 shares of common stock	97,000 shares of common stock	113,100 shares of common stock	60,100 shares of common stock
Date granted	July 20, 2020	July 20, 2020	July 14, 2021	July 12, 2022
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
Service period	No service period established	No service period established	No service period established	No service period established
Rights exercise period	July 21, 2020 to July 20, 2040	June 25, 2022 to June 24, 2025	June 26, 2023 to June 25, 2026	June 24, 2024 to June 23, 2027

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	2014 stock options	2015 stock options	2016 stock options	2017 stock options	2017 stock options
Before vesting (shares)										
March 31, 2022	—	—	—	—	—	—	—	—	—	—
Granted	—	—	—	—	—	—	—	—	—	—
Forfeited	—	—	—	—	—	—	—	—	—	—
Vested	—	—	—	—	—	—	—	—	—	—
Unvested balance	—	—	—	—	—	—	—	—	—	—
After vesting (shares)										
March 31, 2022	3,100	10,000	15,000	15,000	15,000	7,000	10,000	10,000	10,000	39,900
Vested	—	—	—	—	—	—	—	—	—	—
Exercised	—	—	—	—	—	—	—	—	—	39,900
Forfeited	—	—	—	—	—	—	—	—	—	—
Balance unexercised	3,100	10,000	15,000	15,000	15,000	7,000	10,000	10,000	10,000	—

	2018 stock options	2018 stock options	2019 stock options	2019 stock options	2020 stock options	2020 stock options	2021 stock options	2022 stock options
Before vesting (shares)								
March 31, 2022	—	—	—	—	—	89,500	104,300	—
Granted	—	—	—	—	—	—	—	60,100
Forfeited	—	—	—	—	—	—	6,200	—
Vested	—	—	—	—	—	89,500	—	—
Unvested balance	—	—	—	—	—	—	98,100	60,100
After vesting (shares)								
March 31, 2022	11,000	73,600	17,000	111,400	22,100	—	—	—
Vested	—	—	—	—	—	89,500	—	—
Exercised	—	10,500	—	31,700	—	5,100	—	—
Forfeited	—	—	—	1,500	—	2,300	—	—
Balance unexercised	11,000	63,100	17,000	78,200	22,100	82,100	—	—

2) Price information

	2008 stock options	2009 stock options	2010 stock options	2011 stock options	2012 stock options	2014 stock options	2015 stock options	2016 stock options	2017 stock options	2017 stock options
Exercise price	¥1	¥1	¥1	¥1	¥1	¥1	¥1	¥1	¥1	¥3,820
Average share price at exercise	—	—	—	—	—	—	—	—	—	6,028
Fair market value on grant date	3,171	2,107	1,464	1,312	948	2,041	2,864	2,843	3,187	761

	2018 stock options	2018 stock options	2019 stock options	2019 stock options	2020 stock options	2020 stock options	2021 stock options	2022 stock options
Exercise price	¥1	¥5,205	¥1	¥3,720	¥1	¥5,760	¥6,426	¥6,220
Average share price at exercise	—	6,265	—	6,253	—	6,343	—	—
Fair market value on grant date	4,206	789	3,157	714	5,243	1,375	1,154	1,572

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

The fair value of the 2022 stock options granted during the fiscal year ended March 31, 2023 was estimated using the following method.

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

(2) Main assumptions:

	2022 stock options
Expected share price volatility ¹	40.8%
Expected life ²	3.5 years
Expected dividend yield ³	2.07%
Risk-free interest rate ⁴	(0.05)%

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 2022 stock options, this was calculated based on the actual dividend applicable to the fiscal year ended March 31, 2022.

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.

6. Amount and corresponding account item for shares to be delivered without consideration to directors as compensation, etc. as part of the pre-delivery-type stock remuneration plan

	Millions of yen	
	Fiscal year ended March 31, 2023	Fiscal year ended March 31, 2022
Expense for stock-based compensation in selling, general and administrative expenses	134	83

7. For the transaction involving shares to be delivered without consideration to directors as compensation, etc., details, size and change in pre-delivery-type stock remuneration plan

(1) Details of pre-delivery-type stock remuneration plan

	Restricted stock granted on July 21, 2021	Restricted stock granted on July 19, 2022
Category and number of grantees	Five Company directors (excluding directors who are Audit & Supervisory Committee members)	Five Company directors (excluding directors who are Audit & Supervisory Committee members)
Type and number of shares granted	20,511 shares of common stock	23,750 shares of common stock
Grant date	July 21, 2021	July 19, 2022
Restricted period	From July 21, 2021 (date of allocation) until the date that a director (excluding a director who is an Audit & Supervisory Committee member) loses his or her position as a Company director (Note that the restrictions remain in effect if a director should lose and be simultaneously reappointed to the position.)	From July 19, 2022 (date of allocation) until the date that a director (excluding a director who is an Audit & Supervisory Committee member) loses his or her position as a Company director (Note that the restrictions remain in effect if a director should lose and be simultaneously reappointed to the position.)
Conditions for lifting the restrictions	Upon the completion of the restricted period, the Company will lift the restrictions on all allocated stocks, contingent upon the eligible director having remained continuously in the position of a Company director from the date of the Company's Annual Shareholders' Meeting immediately prior to the allocation date of the allocated stocks until the date of the Company's Annual Shareholders' Meeting held the following year (the "Service Provision Period"). However, should the eligible director lose his or her position as a Company director prior to the completion of the Service Provision Period for reasons that the Company's Board of Directors recognizes to be legitimate such as demise, upon the completion of the restricted period, the Company will lift the restrictions on the allocated stocks, in a number derived by dividing by 12 the number of months from the month following the month in which the Service Provision Period commenced to the month in which the eligible director lost his or her position as a Company director and then multiplying the result by the number of the allocated stocks (However, if the calculation results in a fraction of less than one share, it shall be rounded down to the nearest integer.).	

(2) Size and change in pre-delivery-type stock remuneration plan

1) Number of shares

	Restricted stock granted on July 21, 2021	Restricted stock granted on July 19, 2022
As of March 31, 2022 (shares)	20,511	—
Stock granted (shares)	—	23,750
Stock forfeited (shares)	—	—
Stock vested (shares)	19,413	17,727
Unvested balance (shares)	1,098	6,023

2) Price information

	Restricted stock granted on July 21, 2021	Restricted stock granted on July 19, 2022
Fair valuation on grant date (yen)	5,460	5,980

(3) Method of estimating fair valuation

The fair valuation of the restricted stock granted during the fiscal year ended March 31, 2023 is the closing price for the Company's common shares on the Tokyo Stock Exchange (TSE) on the business day prior to the day of the Board of Directors' resolution related to grant of the restricted stock (June 22, 2022).

(4) Method of estimating the number of restricted stock for which restrictions to be lifted

For the pre-delivery-type stock remuneration plan, the Company has basically adopted the method of only reflecting the actual number of shares acquired without consideration because it is difficult to reasonably estimate the number of shares that will be acquired without consideration in the future.

Tax Effect Accounting

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

	Millions of yen	
	As of March 31, 2023	As of March 31, 2022
Deferred tax assets		
Tax loss carried forward (Note 1)	¥27,037	¥24,189
Enterprise tax payable	231	600
Business office tax payable	43	47
Provision for bonuses	1,118	1,088
Accrued expenses	2,124	1,617
Refund liabilities	291	327
Loss on write-offs of content production account	3,622	2,539
Loss on inventory revaluation	531	415
Net defined benefit liabilities	1,104	1,102
Provision for directors' retirement benefits	2	10
Expense for stock-based compensation	299	255
Non-deductible depreciation expense of property and equipment	1,278	1,076
Asset retirement obligations	1,397	1,193
Impairment loss	263	258
Loss on evaluation of investment securities	1,031	1,127
Non-deductible portion of allowance for doubtful accounts	73	87
Non-deductible portion of excess expenses on lump-sum depreciable assets	98	89
Provision for loss on store closings	—	8
Tax credits	65	1,409
Other	339	332
Total gross deferred tax assets	40,956	37,779
Valuation allowance for net operating loss carryforwards (Note 1)	(25,511)	(22,843)
Valuation allowance for aggregate deductible temporary differences	(3,460)	(3,640)
Total valuation allowance	(28,972)	(26,483)
Total deferred tax assets	11,984	11,295
Deferred tax liabilities		
Accrued expenses and other cost calculation details	(341)	(290)
Non-current assets	(591)	(1,351)
Other	(24)	(2)
Total deferred tax liabilities	(957)	(1,643)
Balance: Net deferred tax assets	¥11,026	¥9,651

Note: 1. The main reason for the changes in the amount deducted from gross deferred tax assets (valuation allowance) is due to an increase in net operating loss carryforwards.

Note: 2. A breakdown of net operating loss carryforwards and valuation allowance by expiry date is as follows:

■ As of March 31, 2023

	Millions of yen			
	Due after 1 year through 5 years	Due after 5 years through 10 years	Due after 10 years	Total
Net operating loss carryforwards (*1)	¥138	¥720	¥26,178	¥27,037
Valuation allowance	—	(7)	(25,504)	(25,511)
Deferred tax assets	138	712	673	1,525

■ As of March 31, 2022

	Millions of yen			
	Due after 1 year through 5 years	Due after 5 years through 10 years	Due after 10 years	Total
Net operating loss carryforwards (*1)	¥235	¥—	¥23,954	¥24,189
Valuation allowance	—	—	(22,843)	(22,843)
Deferred tax assets	235	—	1,110	1,345

(*1) The amounts are determined by multiplying the corresponding net operating loss carryforwards by the effective statutory tax rate.

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

	As of March 31, 2023	As of March 31, 2022
Statutory tax rate	30.62%	30.62%
(Adjustments)		
Entertainment expense and others excluded from deductible expenses	0.06	0.03
Dividends received and others excluded from gross revenue	(0.00)	(0.00)
Capital gains on stocks of specified subsidiaries excluded from gross revenue	—	(1.25)
Valuation allowance	(0.79)	2.74
Gain on sale of shares of subsidiaries and associates	(4.64)	—
Taxation on a per capita basis for inhabitants' tax	0.14	0.12
Special deduction for income tax due to increase in employees' salary and other benefits	(0.90)	—
Tax credit for R&D expenses	(5.93)	(3.89)
Reduction of deferred tax assets and liabilities at fiscal year-end due to changes in corporate tax rate	—	(0.17)
Differences in tax rate from the parent company's statutory tax rate	(3.33)	0.02
Other	0.42	(0.89)
Effective tax rate	15.65	27.33

3. Accounting treatment of corporate tax, local corporation tax, and tax effects

The Company and its domestic consolidated subsidiaries have applied the group tax sharing system from the fiscal year ended March 31, 2023. Also, the Company's accounting for and disclosure of corporate tax, local corporation tax, and tax effects is in compliance with the Practical Solution on Accounting and Disclosure under the Group Tax Sharing System (Practical Solution No. 42 of August 12, 2021).

Business Combinations

Business Divestiture

(Transfer of business of consolidated subsidiaries (sub-subsidiaries))

On June 1, 2022, the Company has a part of the Digital Entertainment segment in SQUARE ENIX LTD., its consolidated subsidiary, succeeded by SQUARE ENIX NEWCO Ltd through a company split (incorporation-type company split). Following the succession, on August 26, 2022, the Company transferred all shares of its four consolidated subsidiaries, namely, SQUARE ENIX NEWCO Ltd, CRYSTAL DYNAMICS, INC., EIDOS INTERACTIVE CORP., and EIDOS CREATIVE SOFTWARE (SHANGHAI) Co., Ltd to Embracer Group AB.

1. Outline of the business divestiture

(1) Name of the newly established company through company split and name of the share transferee

1) Name of the newly established company through company split

SQUARE ENIX NEWCO Ltd

2) Name of the share transferee

Embracer Group AB

(2) Name of the reporting segment divested

Digital Entertainment segment

(3) Reasons for the business divestiture

The objective of the transaction is to enable the Company to allocate its management resources more efficiently and to accelerate the growth of its core businesses and the launch of new businesses as it addresses the major changes underway in the global business environment. The move is in keeping with the policy of business structure optimization that the Company set forth under the Medium-term Business Strategy unveiled on May 13, 2021.

In other words, the transaction will allow the Company to revisit the Group's business portfolio, engage in even greater selection and concentration in the digital entertainment business domain, and achieve further growth, while also enabling it to pursue investments in fields such as blockchain, AI, and the cloud and to accelerate the launch of new businesses.

(4) Date of the business divestiture

August 26, 2022

(5) Other matters regarding outline of the transaction including legal form

1) Company split

Incorporation-type company split in which SQUARE ENIX LTD is a split company and SQUARE ENIX NEWCO LTD is a newly established company

2) Share transfer

Share transfer for which the consideration to be received is cash or other properties only

2. Outline of the accounting treatment performed

(1) Amount of transfer profit or loss

Gain on sale of shares of subsidiaries and associates ¥9,465 million

(2) Appropriate book value of assets and liabilities related to the transferred business and their major breakdown

Current assets ¥33,141 million

Non-current assets ¥6,828 million

Total assets ¥39,969 million

Current liabilities ¥1,972 million

Non-current liabilities ¥1,623 million

Total liabilities ¥3,596 million

(3) Accounting treatment

The difference between the consolidated book value of the transferred shares and the sale price is recorded as extraordinary income as gain on sale of shares of subsidiaries and associates.

3. Name of the reporting segment in which the divested business was included

Digital Entertainment segment

4. Estimated revenue and expenses of the divested business recorded on the consolidated financial statements for the fiscal year ended March 31, 2023

Business revenues ¥4,603 million

Business expenses ¥1,896 million

The above amounts include revenue from business held for sale and expenses from business held for sale that are recorded in the non-operating line.

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 1 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 estimated useful life, generally ranging between 2 and 15 years, as estimated based on the average operating period for arcades that have been closed (10 years) and the lease term, and a discount rate between (0.175)% and 0.934%.

c) Changes to aggregate asset retirement obligations

	Millions of yen	
	Fiscal year ended March 31, 2023	Fiscal year ended March 31, 2022
Beginning balance	¥3,842	¥3,722
Increase due to procurement of property and equipment	34	69
Increase due to changes in estimates	577	193
Accretion expense	1	8
Decrease due to fulfillment of asset retirement obligations	(2)	(147)
Other changes	(28)	(3)
Ending balance	¥4,424	¥3,842

Matters Relating to Real Estate Leases, Etc.

■ Year ended March 31, 2023

Not applicable

■ Year ended March 31, 2022

Not applicable

(Revenue Recognition)

1. Disaggregation of revenue from contracts with customers

Disaggregation of revenue from contracts with customers is disclosed in “Notes to Consolidated Financial Statements (Segment Information).”

2. Basic information for understanding revenue from contracts with customers

Basic information for understanding revenue from contracts with customers is disclosed in “Notes to Consolidated Financial Statements (Summary of Significant Accounting Policies Used in the Preparation of Consolidated Financial Statements) 4. Summary of Significant Accounting Policies (5) Accounting for significant revenue and expenses.”

3. Information on the relationship between the fulfillment of performance obligations under contracts with customers and cash flows from such contracts, and the amount and timing of revenues from contracts with customers existing as of the end of the fiscal year under review, which are expected to be recognized in and after the following fiscal year

(1) Balance of receivables from contracts with customers and contract liabilities

The breakdown of receivables from contracts with customers and contract liabilities is as follows.

	Millions of yen	
	Fiscal year ended March 31, 2023	Fiscal year ended March 31, 2022
Receivables from contracts with customers (balance at the beginning of the fiscal year)	44,968	45,207
Receivables from contracts with customers (balance at the end of the fiscal year)	39,908	44,968
Contract liabilities (balance at the beginning of the fiscal year)	13,648	10,773
Contract liabilities (balance at the end of the fiscal year)	15,370	13,648

Contract liabilities are advances received from customers and remaining performance obligation relating to microtransactions, and advances received on licensing income from customers relating to game streaming rights and other licenses.

The balance of contract liabilities at the beginning of the fiscal year included in revenue recognized during the fiscal year ended March 31, 2022 was ¥10,773 million. In addition, for the previous fiscal year, there was no revenue recognized from performance obligations satisfied in previous periods.

The balance of contract liabilities at the beginning of the fiscal year included in revenue recognized during the fiscal year under review was ¥13,648 million. In addition, for the fiscal year under review, there was no revenue recognized from performance obligations satisfied in previous periods.

(2) Transaction price allocated to the remaining performance obligations

The Group is not engaged in any significant transactions whose individual contract period exceeds one year. Additionally, there are no significant amounts in the consideration from contracts with customers that are not included in the transaction price.

Segment Information

[Segment Information]

■ Year ended March 31, 2023

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 and licensing of comic magazines, comic books and game-related books; 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 disaggregated revenue disclosures by reporting segment

	Reporting segments					Adjustment (Note 1)	Millions of yen Consolidated total (Note 2)
	Digital Entertainment	Amusement	Publication	Merchandising	Total		
Net sales							
Domestic	¥138,319	¥53,167	¥27,010	¥7,143	¥225,641	—	¥225,641
Overseas	107,182	1,140	2,005	7,275	117,603	—	117,603
Revenue from contracts with customers	245,501	54,308	29,016	14,418	343,244	—	343,244
Other revenue	22	—	—	—	22	—	22
Sales to outside customers	245,524	54,308	29,016	14,418	343,267	—	343,267
Intersegment sales	24	2,068	148	1,245	3,486	(3,486)	—
Total	245,548	56,376	29,164	15,664	346,753	(3,486)	343,267
Segment operating income	¥41,253	¥5,285	¥11,641	¥3,723	¥61,904	¥(17,572)	¥44,331
Segment assets	¥137,172	¥22,655	¥9,373	¥2,620	¥171,822	¥227,811	¥399,634
Other items							
Depreciation and amortization	3,174	2,427	169	31	5,802	1,118	6,921
Increases in property and equipment and intangible assets	3,907	3,264	53	85	7,310	2,385	9,695

Notes: 1 (1) Segment adjustments (¥17,572 million) include unallocated corporate operating expenses (¥17,750 million).

(2) Unallocated assets amounting to ¥228,297 million are included in the ¥227,811 million adjustment to segment assets. Most of this amount comprises funds for management of surplus funds (cash and deposits).

(3) The ¥1,118 million adjustment to depreciation and amortization is associated with unallocated assets that do not belong to any reporting segment.

(4) The ¥2,385 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.

3 Disaggregated revenue disclosures are distinguished between Domestic and Overseas.

■ Year ended March 31, 2022

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 and licensing of comic magazines, comic books and game-related books; 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 disaggregated revenue disclosures by reporting segment

	Reporting segments					Adjustment (Note 1)	Millions of yen Consolidated total (Note 2)
	Digital Entertainment	Amusement	Publication	Merchandising	Total		
Net sales							
Domestic	¥147,151	¥43,605	¥27,690	¥6,517	¥224,965	—	¥224,965
Overseas	132,503	293	1,180	6,331	140,309	—	140,309
Revenue from contracts with customers	279,655	43,899	28,871	12,849	365,275	—	365,275
Other revenue	—	—	—	—	—	—	—
Sales to outside customers	279,655	43,899	28,871	12,849	365,275	—	365,275
Intersegment sales	24	1,983	161	1,152	3,322	(3,322)	—
Total	279,679	45,882	29,032	14,002	368,597	(3,322)	365,275
Segment operating income	¥58,960	¥2,003	¥12,222	¥3,980	¥77,166	¥(17,905)	¥59,261
Segment assets	¥156,663	¥22,334	¥9,294	¥1,679	¥189,973	¥190,929	¥380,902
Other items							
Depreciation and amortization	3,075	3,232	191	76	6,575	1,018	7,594
Increases in property and equipment and intangible assets	4,247	2,593	130	2	6,974	2,149	9,123

- Notes: 1 (1) Segment adjustments (¥17,905 million) include unallocated corporate operating expenses (¥18,204 million).
(2) Unallocated assets amounting to ¥191,487 million are included in the ¥190,929 million adjustment to segment assets. Most of this amount comprises funds for management of surplus funds (cash and deposits).
(3) The ¥1,018 million adjustment to depreciation and amortization is associated with unallocated assets that do not belong to any reporting segment.
(4) The ¥2,149 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.
3 Disaggregated revenue disclosures are distinguished between Domestic and Overseas.

[Related Information]
■ Year ended March 31, 2023

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
¥225,663	¥69,925	¥27,603	¥20,074	¥343,267

Note: 1 Sales are grouped by country or region, based on customer location.

(2) Property and equipment

Millions of yen				
Japan	North America	Europe	Asia	Total
¥13,279	¥1,600	¥2,566	¥297	¥17,743

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, 2022

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
¥224,965	¥81,046	¥40,112	¥19,150	¥365,275

Note: 1 Sales are grouped by country or region, based on customer location.

(2) Property and equipment

Millions of yen				
Japan	North America	Europe	Asia	Total
¥12,629	¥4,385	¥2,377	¥422	¥19,814

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 non-current assets in each reporting segment]**■ Year ended March 31, 2023**

Millions of yen						
	Digital Entertainment	Amusement	Publication	Merchandising	Eliminations or unallocated (Note)	Total
Impairment losses	¥0	¥72	¥—	¥—	¥—	¥73

■ Year ended March 31, 2022

Millions of yen						
	Digital Entertainment	Amusement	Publication	Merchandising	Eliminations or unallocated (Note)	Total
Impairment losses	¥—	¥109	¥—	¥—	¥0	¥109

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, 2023**

Not applicable

■ Year ended March 31, 2022

Not applicable

[Information related to gain on negative goodwill in each reporting segment]**■ Year ended March 31, 2023**

Not applicable

■ Year ended March 31, 2022

Not applicable

[Related party transactions]

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

1. Non-consolidated subsidiaries and affiliates of the consolidated financial statement-submitting company

■ Year ended March 31, 2023

Not applicable

■ Year ended March 31, 2022

Not applicable

2. 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, 2023

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	Tsuneto Okuno	—	—	Director of subsidiary and audit & supervisory board member of subsidiary	(Held)						
					Direct	0.00	—	Exercising of stock options (Note 1)	¥11	—	¥ —
	Yoshinori Kitase	—	—	Director of the Company and Director of subsidiary	(Held)						
					Direct	0.00	—	Exercising of stock options (Note 1)	¥60	—	¥ —
	Yosuke Saito	—	—	Director of subsidiary	(Held)						
					Direct	—	—	Exercising of stock options (Note 1)	¥57	—	¥ —
	Katsuyoshi Matsuura	—	—	Director of subsidiary	(Held)						
					Direct	—	—	Exercising of stock options (Note 1)	¥11	—	¥ —
	Yuu Miyake	—	—	Director of the Company and Director of subsidiary	(Held)						
					Direct	0.00	—	Exercising of stock options (Note 1)	¥11	—	¥ —
	Naoki Yoshida	—	—	Director of subsidiary	(Held)						
					Direct	—	—	Exercising of stock options (Note 1)	¥35	—	¥ —
	Philip Timo Rogers	—	—	Director of subsidiary	(Held)						
					Direct	—	—	Contribution in-kind of the monetary compensation claim (Note 2)	¥40	—	¥ —

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

Notes: 1 The exercise of stock acquisition rights as stock options during the fiscal year ended March 31, 2023 was pursuant to the resolutions of the Board of Directors on August 4, 2017, on August 7, 2018 and June 21, 2019.

“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, 2023.

2 The contribution in-kind of the monetary compensation claim of the post-delivery type stock remuneration plan (service-based) during the fiscal year ended March 31, 2023 was pursuant to the resolutions of the Board of the Directors on July 30, 2019, on July 30, 2020 and on July 29, 2021.

“Amount of transactions” represents the amount obtained by multiplication of the number of shares granted in the fiscal year ended March 31, 2023 due to the contribution in-kind of the monetary compensation claim of post-delivery type stock remuneration plan (service-based), by the fair value of said shares.

■ Year ended March 31, 2022

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	Tsuneto Okuno	—	—	Director of subsidiary and audit & supervisory board member of subsidiary	(Held) Direct 0.00	—	Exercising of stock options (Note 1)	¥11	—	¥ —
					Indirect —					
	Yoshinori Kitase	—	—	Director of subsidiary	(Held) Direct 0.00	—	Exercising of stock options (Note 1)	¥33	—	¥ —
					Indirect —					
	Hirokazu Nishikado	—	—	Director of subsidiary	(Held) Direct 0.00	—	Exercising of stock options (Note 1)	¥23	—	¥ —
					Indirect —					
	Yuu Miyake	—	—	Director of subsidiary	(Held) Direct 0.00	—	Exercising of stock options (Note 1)	¥11	—	¥ —
					Indirect —					
	Tetsu Yamada	—	—	Director of subsidiary	(Held) Direct 0.00	—	Exercising of stock options (Note 1)	¥17	—	¥ —
					Indirect —					
	Philip Timo Rogers	—	—	Director of subsidiary	(Held) Direct —	—	Contribution in-kind of the monetary compensation claim (Note 2)	¥41	—	¥ —
					Indirect —					

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

- Notes: 1 The exercise of stock acquisition rights as stock options during the fiscal year ended March 31, 2022 was pursuant to the resolutions of the Board of Directors on June 24, 2016, on August 4, 2017, on August 7, 2018 and on June 21, 2019.
“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, 2022.
- 2 The contribution in-kind of the monetary compensation claim of the post-delivery type stock remuneration plan (service-based) during the fiscal year ended March 31, 2022 was pursuant to the resolutions of the Board of the Directors on August 7, 2018, on July 30, 2019 and on July 30, 2020.
“Amount of transactions” represents the amount obtained by multiplication of the number of shares granted in the fiscal year ended March 31, 2022 due to the contribution in-kind of the monetary compensation claim of post-delivery type stock remuneration plan (service-based), by the fair value of said shares.

Per Share Information

	Yen	
	Fiscal year ended March 31, 2023	Fiscal year ended March 31, 2022
Net assets per share	¥2,641.74	¥2,370.48
Earnings per share	411.62	426.82
Diluted earnings per share	410.93	425.95

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

	Millions of yen	
	Fiscal year ended March 31, 2023	Fiscal year ended March 31, 2022
Earnings per share:		
Profit attributable to owners of parent	¥49,264	¥51,013
Profit not available to common shareholders	—	—
Profit attributable to common shareholders of parent	49,264	51,013
Average number of shares of common stock outstanding during the fiscal year (thousands of shares)	119,684	119,520
Diluted earnings per share:		
Adjustments to profit attributable to owners of parent	—	—
Increase in the number of shares of common stock (thousands of shares)	201	244
[Number of shares reserved for the purpose of new share issuances for exercise of share subscription rights]	[201]	[244]
Summary of residual securities that do not dilute the Company's earnings per share	Issuance of July 2021 stock acquisition rights, pursuant to a resolution of the Board of Directors on June 25, 2021: 98,100 shares Issuance of July 2022 stock acquisition rights, pursuant to a resolution of the Board of Directors on June 23, 2022: 60,100 shares	Issuance of July 2021 stock acquisition rights, pursuant to a resolution of the Board of Directors on June 25, 2021: 104,300 shares

Significant Subsequent Events

Issuance of stock acquisition rights pursuant to a resolution of the Board of Directors held on June 23, 2023

In accordance with Articles 236, 238, and 240 of the Companies Act, the Company resolved at the Board of Directors meeting held on June 23, 2023, to issue stock acquisition rights as stock options to employees of the Company and directors and employees of the Company's subsidiaries, as part of their remuneration.

Supplementary Schedule

[Borrowings]

Category	Balance as of April 1, 2022 (Millions of yen)	Balance as of March 31, 2023 (Millions of yen)	Average interest rate (%)	Repayment date
Short-term loans	¥—	¥—	—	—
Long-term borrowings due for repayment within one year	—	—	—	—
Lease obligations due for repayment within one year	832	485	—	—
Long-term borrowings (excluding the amount due for repayment within one year)	—	—	—	—
Lease obligations (excluding the amount due for repayment within one year)	3,504	1,683	—	May 2024 to September 2029
Other interest-bearing liabilities	—	—	—	—
Total	¥4,337	¥2,169	—	—

Notes: 1 The average interest rate shown is the weighted average interest rate on the balance of borrowings as of March 31, 2023.

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, 2023 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	¥503	¥372	¥275	¥252

[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			
	1Q	2Q	3Q	4Q
Cumulative period	April 1, 2022 to June 30, 2022	April 1, 2022 to September 30, 2022	April 1, 2022 to December 31, 2022	April 1, 2022 to March 31, 2023
Net sales	¥74,876	¥163,392	¥255,616	¥343,267
Profit before income taxes	26,242	52,317	59,544	58,431
Profit attributable to owners of parent	18,355	39,473	46,397	49,264
Earnings per share (yen)	153.45	329.91	387.71	411.62

	Yen			
	1Q	2Q	3Q	4Q
Quarterly	April 1, 2022 to June 30, 2022	July 1, 2022 to September 30, 2022	October 1, 2022 to December 31, 2022	January 1, 2023 to March 31, 2023
Earnings per share	¥153.45	¥176.45	¥57.84	¥23.95