

SQUARE ENIX

2022
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.

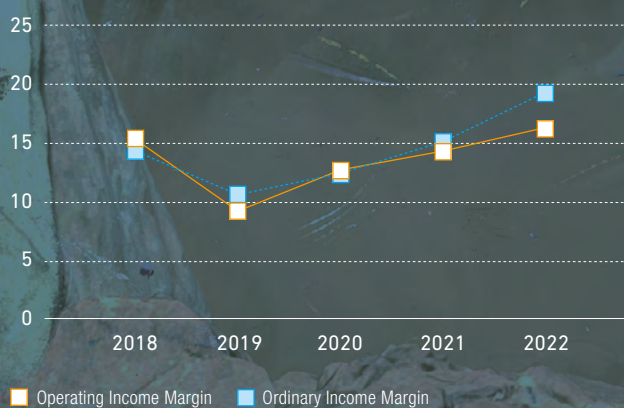
Financial Highlights

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

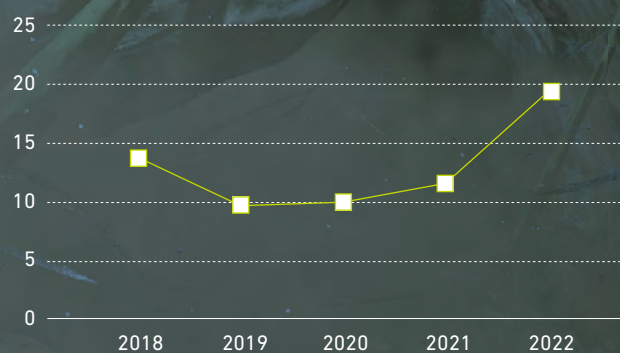
	2018	2019	2020	2021	2022	Thousands of U.S. dollars
	Millions of yen					2022
For the Year						
Net sales	¥ 250,394	¥ 271,276	¥ 260,527	¥ 332,532	¥ 365,275	\$2,984,518
Operating income	38,176	24,635	32,759	47,226	59,261	484,202
Ordinary income	36,124	28,415	32,095	49,983	70,704	577,697
Profit attributable to owners of parent	25,821	19,373	21,346	26,942	51,013	416,811
At Year-end						
Total assets	¥ 259,713	¥ 282,614	¥ 302,634	¥ 336,144	¥ 380,902	\$3,112,203
Total net assets	193,359	206,445	221,928	243,278	284,429	2,323,962
					Yen	U.S. dollars
Per Share of Common Stock						
Earnings	¥ 215.33	¥ 162.57	¥ 179.02	¥ 225.75	¥ 426.82	\$ 3.49
Total net assets	1,617.58	1,726.32	1,854.10	2,029.69	2,370.48	19.37
					%	
Key Ratios						
Operating income margin	15.2%	9.1%	12.6%	14.2%	16.2%	
Ordinary income margin	14.4	10.5	12.3	15.0	19.4	
Return on equity	13.8	9.7	10.0	11.6	19.4	
Equity ratio	74.2	72.8	73.1	72.1	74.4	

Note: For the convenience of readers, amounts in U.S. dollars have been translated using the currency exchange rate at March 31, 2022 of ¥122.39=US\$1.

Operating Income Margin/Ordinary Income Margin (%)



Return on Equity (%)



A Message to Our Shareholders



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

Yosuke Matsuda
President and Representative Director

I am pleased to report that the Group set new records for full-year net sales (¥365.2 billion) and all its profit lines (operating income of ¥59.2 billion, ordinary income of ¥70.7 billion, and profit attributable to owners of parent of ¥51 billion) in the fiscal year ended March 2022, which was the first year of the Medium-Term Earnings Targets and Business Strategy that we unveiled in May 2021.

Digital Entertainment

The High-Definition (HD) Games sub-segment struggled, in part due to the challenging year-on-year comparison created by the release of multiple major titles in the fiscal year ended March

2021. However, “OUTRIDERS,” which was released in April 2021, achieved a global player base in excess of 3.5 million in its first month, becoming a new looter shooter entry in our Group’s library of game IP. In addition, “NieR Replicant ver.1.22474487139...” offered a new way to experience the origins of the NieR franchise. Players whose first contact with the NieR series had been the long-selling title “NieR:Automata” thereby gained a richer enjoyment of the NieR universe, and “NieR Replicant ver.1.22474487139...” also captured the interest of new customers, thus bringing renewed vitality to the franchise.

The Massively Multiplayer Online (MMO) game sub-segment released expansion packs for “FINAL FANTASY XIV” and



OUTRIDERS

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NieR Replicant ver.1.22474487139...

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A Message to Our Shareholders



FINAL FANTASY XIV

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DRAGON QUEST X ONLINE

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“DRAGON QUEST X Online.” “FINAL FANTASY XIV: Endwalker” was received with especially great excitement by fans around the world who had been waiting for a sequel. The expansion pack not only boosted “FINAL FANTASY XIV” to the status of the world’s top MMO games in every sense of the word, but also made a massive contribution to our Group’s business. We remain devoted to our engagement with these passionate fans and will continue to strive for even higher heights in our operation of the game.

The Games for Smart Devices/PC Browsers sub-segment underperformed our initial expectations, largely because many of

our existing titles have reached maturity and offered limited upside and because the new titles that we launched in the fiscal year ended March 2022 did not perform to the levels that we had anticipated at the outset. “DRAGON QUEST WALK” and multiple other key titles continue to deliver solid performances, but in order to return the sub-segment to a growth trajectory by generating new hit titles, we are going to start developing an organizational structure that helps enhance our development capabilities, while also working to bolster our profitability, in part by revisiting our lineup of titles.

Amusement

Conditions in the Amusement segment remain uncertain, given the continued impact of COVID-19. However, our arcade operations are showing gradual signs of recovery. Arcade traffic has picked up since the lifting of Japan's state of emergency declaration and some of its other preventative measures. Moreover, the segment's efforts to make its arcades more attractive have proven successful. These have included rolling out new prize offerings based on assessments of visitors' interests. The result of such initiatives has been steady improvement in the momentum of the business as a whole. We expect to see upside for the segment as the pandemic winds down, including from demand generated by foreign visitors returning to Japan. We will ensure that we do not let such opportunities pass us by and work to maintain and accelerate the segment's recovery.

Publication

The Publication segment saw a phase of sharp growth through the fiscal year ended March 2021. Its growth curve is now



My Dress-Up Darling
©Shinichi Fukuda/SQUARE ENIX

moderating as the segment enters a phase of stable growth. Against this backdrop, the fourth quarter of the fiscal year ended March 2022 saw a major hit from "My Dress-Up Darling." In addition, building on the positive reception of many customers in Japan, the segment began rolling out the "MANGA UP!" app to the wider world with the launch of a global version in July 2022. We will strive for further growth not only by continuing to generate the sort of content that our customers want, but also by focusing on cultivating the market in order to deliver that content to more and more customers.

Merchandising

The Merchandising segment set new records for both net sales and profits by making a marked shift to e-commerce and other digital sales as the pandemic deprived it of some of its traditional sales opportunities by forcing the cancellation or downscaling of in-person events. The crisis created by the pandemic served as an opportunity for it to diversify its sales channels through digital transformation, which is a key theme in the segment. Its success is inspiring not only for the segment itself but also for our other



**FINAL FANTASY® VII REMAKE PLAY ARTS KAI™
ACTION FIGURE TIFA LOCKHART**
FINAL FANTASY® VII REMAKE PLAY ARTS KAI™ ACTION FIGURE TIFA LOCKHART
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CHARACTER DESIGN: TETSUYA NOMURA/ROBERTO FERRARI



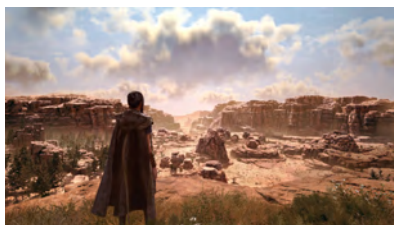
business segments, and we see this success as one of our major achievements over the past several years.

Our outlook

Based on the achievements described above, we see the fiscal year ending March 2023, which is the second year of our Medium-Term Earnings Targets and Business Strategy, as the year to lay the groundwork for the third and final year.

We will not be releasing any HD game titles from our flagship franchises until the fiscal year ending March 2024, but we intend to diversify our title portfolio by releasing mid-sized titles and new IP in the fiscal year ending March 2023.

We find ourselves somewhat treading water in terms of smartphone games partly because, as noted above, our launches during the fiscal year ended March 2022 unfortunately did not include any significant earnings drivers. However, we have already started working on our development structure, and once that



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FULLMETAL ALCHEMIST MOBILE
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CHARACTER DESIGN: TETSUYA NOMURA
CHARACTER ILLUSTRATION: LISA FUJISE

begins producing results, we hope that subsequent launches will produce the big hit that will be our next growth driver.

I will next discuss our future business strategy.

Future business strategy

Revamping our studio portfolio

On May 2, 2022, we announced that we would be selling some of our overseas studios and IP to Sweden-based Embracer Group AB. The sale covered the three studios of Crystal Dynamics, Eidos-Montréal, and Square Enix Montréal, as well as related business assets and IP. The objective of the sale was to build stronger business foundations by revamping our portfolio of titles and studios, thereby enabling us to be selective and focused in leveraging our resources, as game development efforts become more sizable and sophisticated.

Achieving major growth in the game industry is difficult now for companies that compete primarily in the Japanese market, given its graying demographics. As such, it is critical for our business that we produce hit titles that speak to the global market, which offers greater scale in terms of both customers and sales volumes. Furthermore, game development efforts are becoming more sizable and sophisticated as the result of technological advancements in the devices on which they are played, such as consoles or smart devices. The investment required to develop game titles is therefore an order of magnitude greater than in the past. In other words, the Japanese market is no longer sufficient for achieving a level of earnings that enables

us to recoup our development investment and generate a profit, and we therefore need to approach our development efforts based on the assumption that we have to succeed in the global market.

Another change is how easily accessible information on games has become for our customers. We find ourselves in a world where social media spreads information instantaneously, enabling customers the world over to simultaneously obtain the same information on games through a variety of different devices and outlets.

For our Group to better focus on developing titles for the global market in this changing environment, we need to concentrate our limited resources on the development of strong and robust titles. We need to enhance our presence in the global market by quickly establishing an organizational structure that enables us to consistently roll out high-quality content produced through selective and focused resource allocation, which requires the revamping of our title and studio portfolio.

Since our acquisition of Eidos in 2009, the three studios included in the recent sale made major tangible and intangible contributions to our Group as our core overseas studios. However, their portfolios were focused on the development of major titles, which presented the risk of a serious cannibalization of our Group's financial resources over the medium to long term. We therefore decided to divest the studios in order to achieve further growth through the optimal allocation of our resources and the creation of a more robust product pipeline. We look forward to seeing Crystal Dynamics, Eidos-Montréal, and Square Enix Montréal further develop through their new partnership with Embracer Group AB.

A Message to Our Shareholders

The initiative described above represents the first stage of our studio portfolio strategy. For the second stage, we are exploring the question of how to diversify the capital structure of our studios, as detailed below.

Diversifying capital structure of our studios

Our studio portfolio strategy has basically been for the Group to own its studios outright. Our 2005 acquisition of TAITO and 2009 acquisition of Eidos were in keeping with this view. Full ownership meant that since we bore all the development costs, we would stand to receive the entirety of the financial returns. At the same time, however, it also meant that we were exposed to the entirety of the downside risk. In the days before game development efforts reached their present massive scale, this strategy proved very effective because our Group was amply capable of absorbing any volatility on its own, as well as of generating returns that outstripped any risk.

However, as the investment required for development efforts has grown, this strategy has begun to produce side effects of a scale that we cannot ignore. It is now more important than ever that we manage financial volatility and the impact that it has on our accounting because, while development investments fuel our Group's future growth, we must also recognize those investments in the form of our content production account. How to exercise appropriate control over volatility and strike a balance between risk and return when making growth investments are the key questions that we must ask ourselves as we manage our games business going forward, and I believe that the answer lies in a more diversified capital structure of our studios.

By “a more diversified capital structure of our studios,” I refer to not fixating on full ownership and instead making various patterns of the studios' capital structure that enables sharing development risk with partners. Such a strategy would allow us to grow our studio portfolio as a whole while exposing ourselves to less risk. Specifically, we would diversify the capital structure of our studios by not only owning some studios outright, but also by welcoming third parties to take stakes in some of our studios or by our taking stakes in studios outside the Group. In this way, we would create a studio portfolio that spans a continuum from studios that we own outright to those that are equity-method affiliates or less. Under such a strategy, we would also engage in M&A activities, for example, and work to achieve a balance between growth and financial stability.

I will next discuss the blockchain entertainment domain, which is to play a key part in our strategy for future growth.

Blockchain entertainment domain

We have identified AI, the cloud, and blockchain as focus investment areas under our Medium-Term Earnings Targets and Business Strategy. At present, we are positioning the blockchain domain as our most important focus and approaching our investment and business development initiatives accordingly. Leveraging AI and the cloud in game development primarily involves incorporating new technological advancements into the gaming experience. By contrast, the uniqueness of blockchain is not purely technological. It lies more in its philosophical aspects as represented by the concept of decentralization that underlies the blockchain model.



As I stated in my 2022 new year's letter, under the traditional model, game developers have provided gaming experiences that represent a completed product. Players enjoy the gaming experience within the confines controlled by the supplier of the game. It is fair to refer to these as "centralized games."

Blockchain games, on the other hand, involve the participation of players with a variety of motivations. They exercise their own agency in creating and running the world of the game. As such, it is fair to refer to these as "decentralized games." Going forward, we may see the concept of decentralized gaming take off and a proliferation of token economies, which are mechanisms for incentivizing players to take part in decentralized games in various ways. If this leads to the creation of self-sustaining worlds with even greater scalability, I believe that we will see new types of games produced unlike any anyone has ever seen before.

This field is only in its infancy, and we have yet to see any

games providing the type of excitement only possible with blockchain technology. We also acknowledge that some view the very concept of blockchain gaming with suspicion due to what appears to be a bubble in NFT asset sales, the incredible volatility of crypto assets, and the fact that laws, accounting practices, and tax codes are still being established or formalized.

However, I believe that blockchain gaming holds the potential to create new forms of gaming content, and that it represents a new business domain worth our Group addressing alongside traditional games.

Based on this belief, we created a Blockchain Entertainment Business Division in February 2022, marking the meaningful start of our efforts in this field. We have also been ramping up our investments in a variety of both internal and external projects. Rather than limiting ourselves solely to blockchain games, we

A Message to Our Shareholders

intend to pursue a wide range of new types of entertainment under the banner of “blockchain entertainment.” We are a content company. As such, our mission is to create new excitement of a sort never seen before using new technologies and new ways of thinking. Blockchain technology presents us with the challenge of seeing what sort of new excitement we can create with it. We will remain aggressive in taking on this new field.

This concludes my review of our earnings for the year ended March 2022 and my update on our Medium-Term Earnings Targets and Business Strategy, as well as a discussion of our future business strategy with a focus on our studio portfolio strategy, focus investment areas, and our progress in the blockchain entertainment business in particular.

I will close by discussing the new composition of our board of directors and our shareholder return policy.

Our governance apparatus and shareholder return

As of June 23, 2022, we added three new executive officers to our Board of Directors. With this change to our governance apparatus, we will maintain the supervisory capabilities made

possible by a majority of outside directors, while also creating a board that is more balanced in its composition between execution and supervisory functions, thereby driving greater corporate value. In regards to our shareholder return policy, we will maintain our guideline of a consolidated dividend payout ratio of 30%, while working to return profits in a way that is optimally balanced in terms of both reflecting our financial performance and ensuring the stability of rewards.

The environment in which our Group finds itself is at a more significant inflection point than any preceding it, especially with regard to the digital entertainment industry. We will work to achieve greater growth by further fortifying the foundations of our existing businesses and taking on new business domains. We look forward to your continued support to that end.



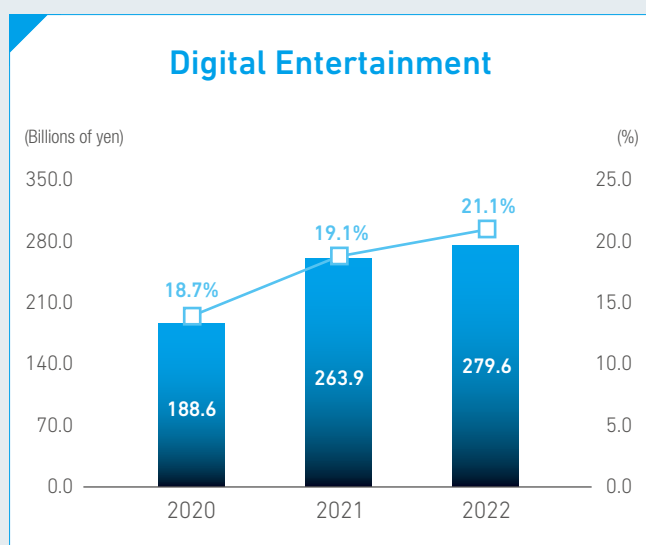
Yosuke Matsuda

President and Representative Director

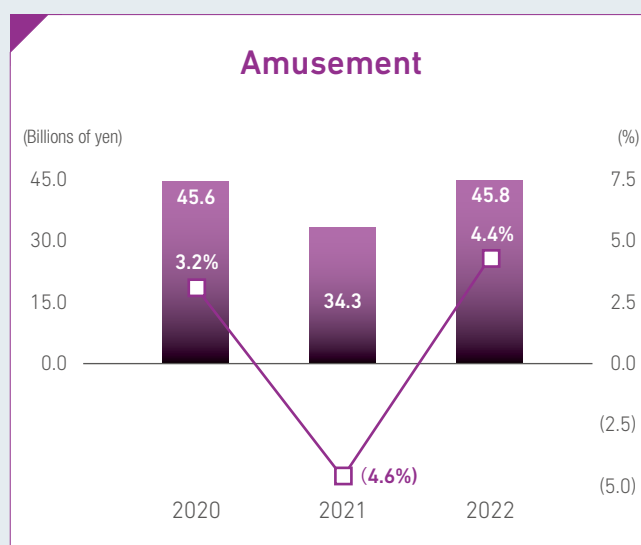
Review of Operations

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

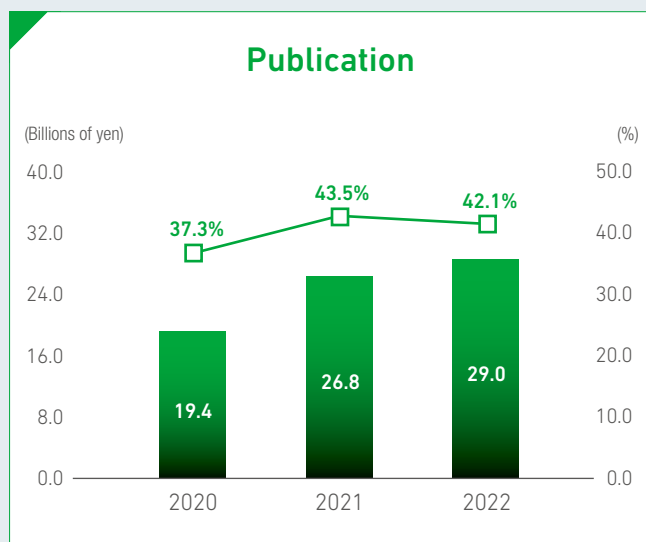
Net sales for the fiscal year ended March 31, 2022 totaled ¥365,275 million (an increase of 9.8% from the prior fiscal year) and operating income amounted to ¥59,261 million (an increase of 25.5% from the prior fiscal year). In foreign exchange rates, the weakness of the Japanese yen compared to the rate as of the end of the prior fiscal year resulted in the booking of a foreign exchange gain amounting to ¥10,489 million. As a result, ordinary income amounted to ¥70,704 million (an increase of 41.5% from the prior fiscal year) and profit attributable to owners of parent amounted to ¥51,013 million (an increase of 89.3% from the prior fiscal year).



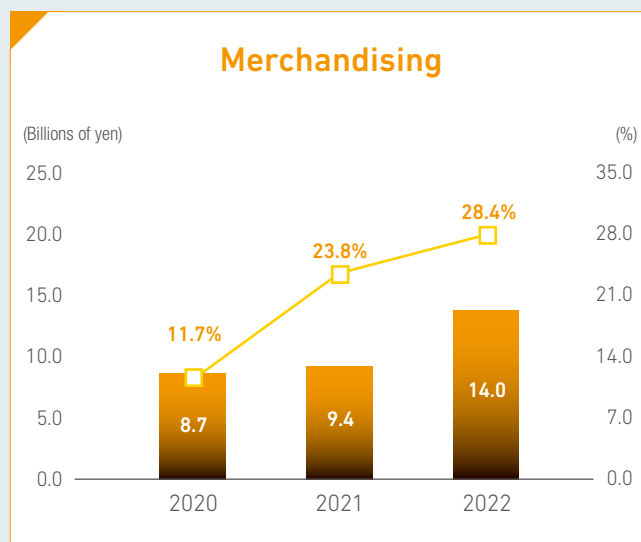
■ Net Sales (left axis) □ Operating Income Margin (right axis)



■ Net Sales (left axis) □ Operating Income Margin (right axis)

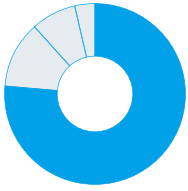


■ Net Sales (left axis) □ Operating Income Margin (right axis)



■ Net Sales (left axis) □ Operating Income Margin (right axis)

Digital Entertainment



Share of Net Sales (FY ended March 2022)

76.6%

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, the fiscal year ended March 31, 2022 saw the release of such titles as “OUTRIDERS,” “NieR Replicant ver.1.22474487139...,” and “Marvel’s Guardians of the Galaxy,” but net sales declined versus the previous year, which had seen the launch of such titles as “FINAL FANTASY VII REMAKE” and “Marvel’s Avengers.”

Net sales rose year on year in the MMO (Massively Multiplayer Online) Game sub-segment due not only to a sharp rise in the number of monthly paying subscribers for “FINAL FANTASY XIV,” but also to the release of an expansion pack for the title.

The Games for Smart Devices/PC Browser sub-segment saw somewhat weak performances from existing titles, but its net sales rose compared to the previous fiscal year due to the application of revised revenue recognition standards.

Net sales and operating income in the Digital Entertainment segment totaled ¥279,679 million (an increase of 6.0% from the prior fiscal year), and ¥58,960 million (an increase of 16.7% from the prior fiscal year), respectively.

OUTRIDERS



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MARVEL GUARDIANS OF THE GALAXY



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ENDWALKER FINAL FANTASY XIV



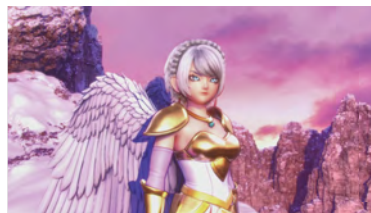
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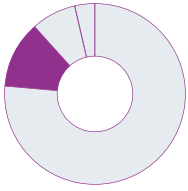


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Amusement



Share of Net Sales (FY ended March 2022)

12.0%

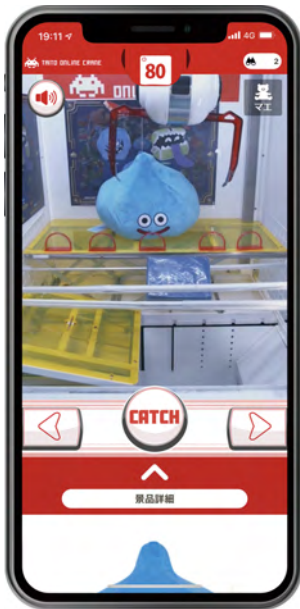
The Amusement segment consists of the operation of amusement facilities and planning, development, and distribution of arcade game machines and related products for amusement facilities.

The Amusement segment was substantially impacted in the fiscal year ended March 31, 2021 by the temporary closure of amusement facilities in Japan, a move undertaken to combat the spread of COVID-19 in response to the Japanese government's declaration of a state of emergency. As such, the segment's net sales were higher in the fiscal year ended March 31, 2022, and it turned to profitability at the operating income line.

Net sales and operating income in the Amusement segment totaled ¥45,882 million (an increase of 33.6% from the prior fiscal year), and ¥2,003 million (operating loss of ¥1,568 million in the prior fiscal year).



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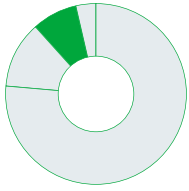
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Publication



Share of Net Sales (FY ended March 2022)

7.9%

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

Net sales and operating income rose year on year in the Publication segment, which saw not only brisk digital sales, but also a solid trend in print media sales, owing in part to the significant popularity of “My Dress-Up Darling.”

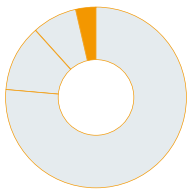
Net sales and operating income in the Publication segment totaled ¥29,032 million (an increase of 8.2% from the prior fiscal year), and ¥12,222 million (an increase of 4.6% from the prior fiscal year), respectively.



Monthly Shonen GANGAN
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GANGAN ONLINE
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MANGA UP!
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Vermeil in Gold
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Toilet-bound Hanako-kun
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The Maid I Hired Recently Is Mysterious
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Chocobo and the Airship: A Final Fantasy Picture Book
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Merchandising



Share of Net Sales (FY ended March 2022)

3.5%

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

In the Merchandising segment, brisk sales of new character merchandise based on the Group’s own content resulted in higher net sales and operating income in the fiscal year ended March 31, 2022 than in the previous fiscal year.

Net sales and operating income in the Merchandising segment totaled ¥14,002 million (an increase of 48.1% from the prior fiscal year), and ¥3,980 million (an increase of 76.9% from the prior fiscal year), respectively.



FINAL FANTASY® VII REMAKE PLAY ARTS KAI™ ACTION FIGURE TIFA LOCKHART
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CHARACTER DESIGN: TETSUYA NOMURA/ROBERTO FERRARI



FINAL FANTASY XIV: Endwalker Collector's Edition
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SQUARE ENIX MASTERLINE NieR:Automata 1/4 Scale Deluxe Ver.
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SQUARE ENIX CAFE
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DELIVERING UNFORGETTABLE EXPERIENCES

FINAL FANTASY

Over 173 million units in global package shipments and digital sales

(as of the end of March 2022)



“FINAL FANTASY” Series

A Japan original. Since the release of the first title in 1987, this role-playing 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 173 million units.

LOGO & IMAGE ILLUSTRATION: © 2022 YOSHITAKA AMANO



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Platforms: PlayStation®5
Launch: Summer 2023 (tentative)





FINAL FANTASY VII 25th ANNIVERSARY



“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 13.9 million units to date.

FINAL FANTASY VII REBIRTH

Platforms: PlayStation®5
Launch: Next winter (tentative)

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CHARACTER DESIGN: TETSUYA NOMURA/ROBERTO FERRARI
LOGO ILLUSTRATION: ©1997 YOSHITAKA AMANO



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CRISIS CORE FINAL FANTASY VII REUNION

Platforms: PlayStation®5/PlayStation®4/Nintendo Switch™/Xbox Series X/S/
Xbox One/Steam®
Launch: December 13, 2022 (tentative)



FINAL FANTASY VII EVERCRISIS

Platforms: iOS/Android
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Powered by Applibot, Inc.
CHARACTER DESIGN: TETSUYA NOMURA
CHARACTER ILLUSTRATION: LISA FUJISE





ENDWALKER

FINAL FANTASY XIV
ONLINE



Platforms: PlayStation®5/PlayStation®4/Windows®/Mac/Steam®

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FINAL FANTASY BRAVE EXVIUS

Platforms: iOS/Android

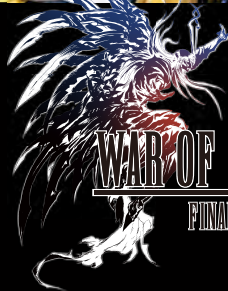
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Developed by gumi Inc.

LOGO ILLUSTRATION:

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WAR OF THE VISIONS

FINAL FANTASY BRAVE EXVIUS

Platforms: iOS/Android

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Co-Developed by gumi Inc.

LOGO ILLUSTRATION:

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Over 85 million units in global package shipments and digital sales

(as of the end of March 2022)

“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 85 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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Platforms: PlayStation®5/PlayStation®4/Nintendo Switch™/Steam®

Launch: September 15, 2022

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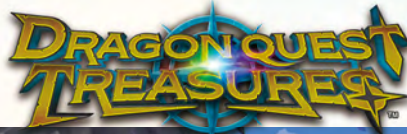
Platforms: PlayStation®5/PlayStation®4/ Nintendo Switch™/Steam®

Launch: TBD

Platforms: Nintendo Switch™

Launch: December 9, 2022 (tentative)

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Erik

Well, we're not going home until we've grabbed every last piece we can find!



©SANJIO RIKU, INADA KOJI/ SHUEISHA, The Adventure of Dai Project

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DRAGON QUEST WALK!

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DRAGON QUEST TACT

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Developed by Aiming Inc.



DRAGON QUEST THE ADVENTURE of DAI A Hero's Bonds

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DRAGON QUEST THE ADVENTURE of DAI A Hero's Bonds

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Over 36 million units in global package shipments and digital sales

(as of the end of March 2022)

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 is celebrating its 20th anniversary this year and has shipped over 36 million units worldwide.



Platforms, Launch: TBD
© Disney. Developed by SQUARE ENIX



Platforms: iOS/Android
© Disney. Developed by SQUARE ENIX





FORSPOKEN



“FORSPOKEN”

“FORSPOKEN” is an action role-playing game originally unveiled in June 2020 under the working title “PROJECT ATHIA.” The game is a thrilling story-led, action-packed adventure in which a young woman named Frey Holland finds herself thrust from our world into the beautiful but forbidding land of Athia, whose mysteries she must unlock by harnessing magical abilities.

The title takes maximum advantage of the PlayStation®5’s features and embodies Luminous Productions’ vision, namely “to create games unlike anything experienced before, fusing the world’s latest technologies with art.”

Platforms: PlayStation®5/PC

Launch: January 24, 2023 (tentative)

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OUTRIDERS WORLDSLAYER © 2022 SQUARE ENIX LTD.
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PEOPLE CAN FLY and the PEOPLE CAN FLY logo are registered
trademarks, all used courtesy of PCF Group S.A.

OUTRIDERS[®] WORLDSLAYER

“OUTRIDERS WORLDSLAYER”

OUTRIDERS WORLDSLAYER is a brutal 1-3 player co-op looter shooter set in an original, dark sci-fi universe.

Create your own Outrider from one of four powerful classes and begin with the original OUTRIDERS campaign or use the all-new Level 30 Boost to jump straight into the WORLDSLAYER content with a fully geared up Outrider, and journey across the diverse and deadly planet of Enoch.

Here you will face off against the most deadly Altered ever encountered, Ereshkigal, in humanity's last fight for survival. Beyond her, even greater horrors exist in the ultimate endgame experience, taking place in the ancient ruins of Tarya Gratar. Combining aggressive gunplay with violent powers and an arsenal of increasingly twisted customizable weaponry and gear-sets, OUTRIDERS WORLDSLAYER offers countless hours of visceral gameplay from one of the finest shooter developers in the industry – People Can Fly.

Platforms: PlayStation[®]5/PlayStation[®]4/Xbox Series X|S/Xbox One/Windows PC (Steam[®] • EPIC GAMES STORE/STADIA*)

Launch: July 1, 2022 (Japan), June 30, 2022 (overseas)

*To be provided when STADIA is available in Japan



OUTRIDERS



STAR OCEAN THE DIVINE FORCE

スターオーシャン6

Platforms: PlayStation®5/PlayStation®4/Xbox Series XIS/Xbox One/Steam®
Launch: October 27, 2022 (tentative)

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Platforms: PlayStation®5/PlayStation®4
Launch: September 29, 2022
Platforms: Steam®
Launch: November 12, 2022 (tentative)
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POWER WASH SIMULATOR

Platforms: PlayStation®5/PlayStation®4/Nintendo Switch™/Xbox Series XIS/Xbox One/Windows10/Steam®
Launch: July 15, 2022
*To release PlayStation®5/PlayStation®4/Nintendo Switch™ soon.

POWERWASH SIMULATOR © 2021, 2022 FuturLab Limited. Published by Square Enix Ltd. Developed by FuturLab Limited.



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©Imari Arita/SQUARE ENIX

社畜さんは
幼女幽霊に
癒されたい。



Platforms: iOS/Android
Launch: August 4, 2022

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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

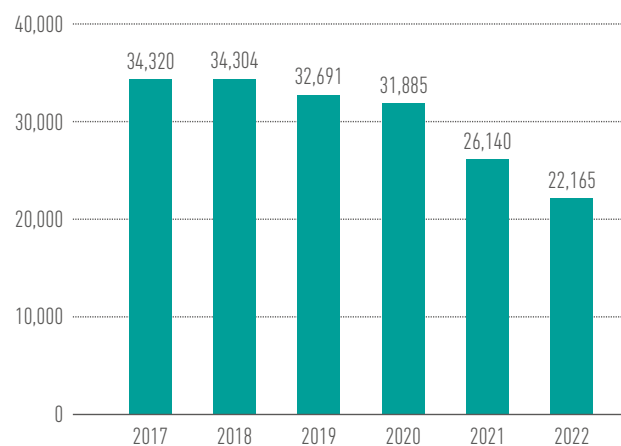
- The President and Representative Director will appoint an executive officer to take responsibility for the implementation of necessary measures in relevant departments associated with the risks in question.
- We will calculate the level of CO₂ emissions pertaining to electricity usage at facilities 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 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. 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. We will continue to collaborate with the university in its efforts to expand both the potential of games, which it views as a form of art, and the field of filmmaking expression.

In 2018, we signed a collaborative agreement with Chuo University to enable the exchange and leveraging of human and intellectual resources. Under this agreement, we are working with the university’s Faculty of Global Informatics to hold a series of special lectures on game planning from 2021 until the second semester of 2022. In addition to the programming and graphics skills required to develop a game, employees from our Group company Square Enix Co., Ltd. have covered a wide variety of topics in the lectures, including translation, artificial intelligence, and visual art direction.

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. We are offering lectures focused on simulations and deep learning with the cooperation and supervision of our Group company SQUARE ENIX AI & ARTS Alchemy. 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

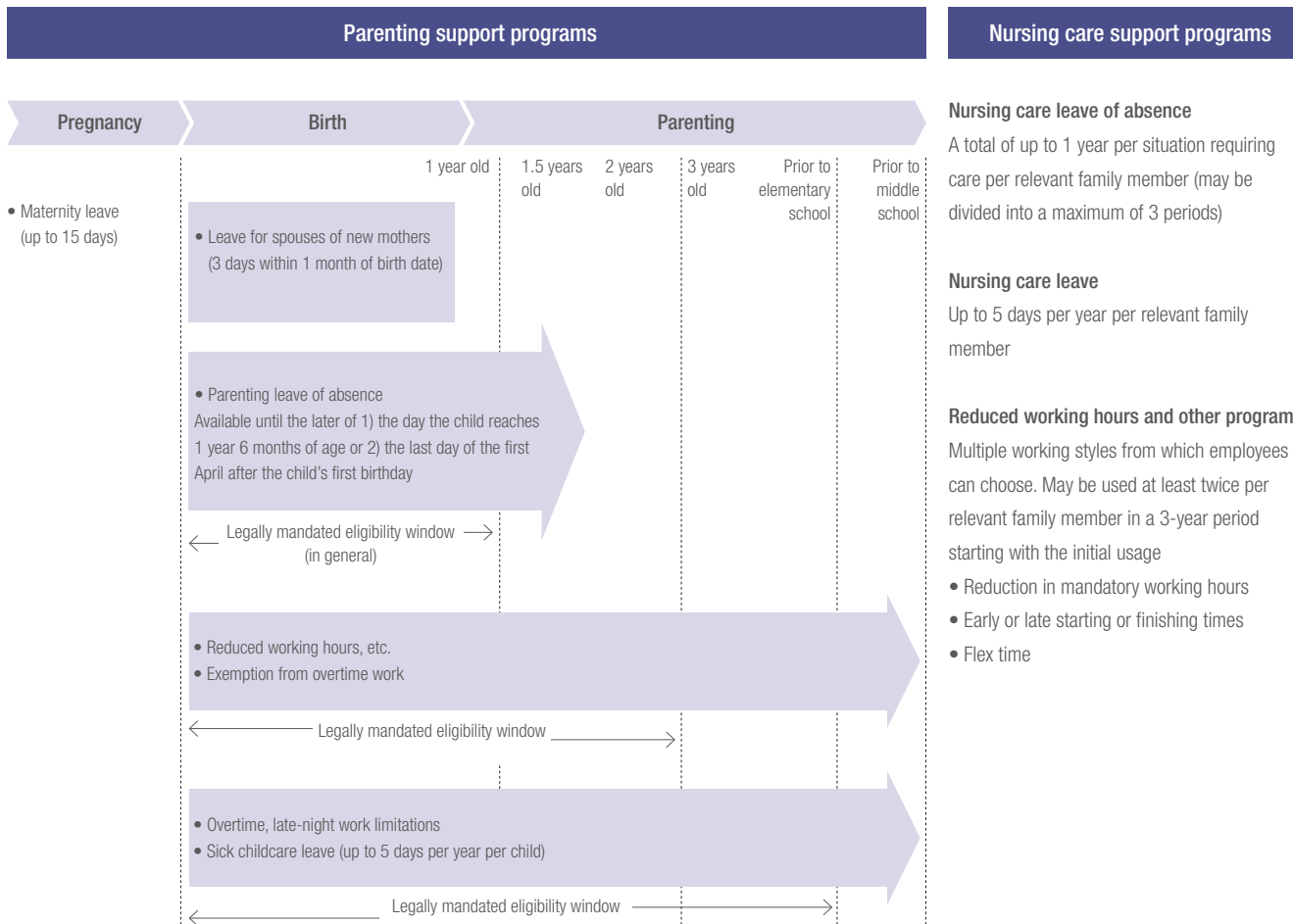
include Japan’s Labor Standards Act, Copyright Act, Payment Services Act, and Act against Unjustifiable Premiums and Misleading Representations. Square Enix also undertakes informational and awareness initiatives targeting the entire employee body in order to ensure that employees gain a better understanding 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.

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.

Creative Business Unit II



Hiroshi Iwai

I took about six months of parenting leave in conjunction with the birth of our second child. I am extremely grateful for my workplace which accommodated me and provided cooperation so that I could take my leave with peace of mind by setting up the necessary system and handing over my work prior to going on leave.

Moreover, with the backup of everyone around me, I was able to smoothly ease back to work. While on leave, I shared parenting and household chores with my wife, which made me aware of the immense work involved as well as allowed me to spend precious time with my family.

Creative Business Unit I



Mai Okauchi

While I was on parenting leave, I used the “daycare concierge service” to efficiently gather information on daycare services.

After returning to work, I have been working under our reduced hour flex and work-from-home programs. By using these programs, I find it comfortable to work because they give me the flexibility to deal with unexpected situations such as my child’s illnesses. I am also grateful to my workplace for allowing me the flexibility to choose my workstyle in line with my lifestyle. Although there are many obstacles to balancing parenting and work, I can continue to work with peace of mind.

Health and Productivity Management

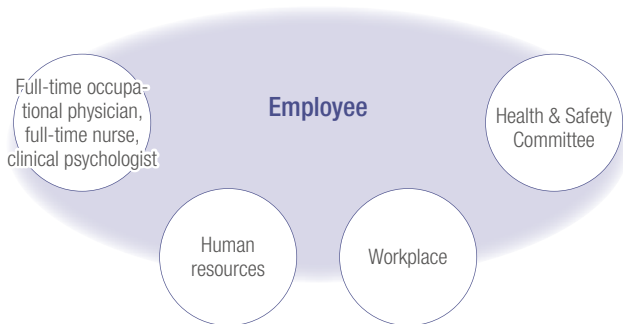
In order to provide its customers with the best products and services, employees have to be healthy. Having employees that are mentally and physically healthy and helping them improve upon that health is therefore a key priority for Square Enix. As such, it undertakes a variety of initiatives to communicate 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.

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.

Enhancing occupational health and safety



Live online stretching class



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

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 10 directors (excluding those who are members of the Audit & Supervisory Committee), six 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. Furthermore, in order to ensure the objectivity and transparency of decisions made regarding executive remuneration and candidates for director positions, the Company has at its discretion established 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 control functions. 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 internal 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 the Affiliate Company Management Rules 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	Yosuke Matsuda	◎		○	◎
Director Chief Strategy Officer	Takashi Kiryu	○			○
Director	Yoshinori Kitase	○			
Director	Yu Miyake	○			
Outside Director	Yukihiro Yamamura	○		○	
Outside Director	Yuji Nishiura	○		○	
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 Accounting Officer	Atsushi Matsuda				○
Chief Legal Officer	Hajime Seki				○
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, 2022
Yosuke Matsuda (President and Representative Director)	100.0% (16 out of 16 meetings)
Yukihiro Yamamura (Outside Director)	100.0% (16 out of 16 meetings)
Yuji Nishiura (Outside Director)	100.0% (16 out of 16 meetings)
Masato Ogawa (Outside Director)	100.0% (16 out of 16 meetings)
Mitsuko Okamoto (Outside Director)	100.0% (16 out of 16 meetings)
Abdullah Aldawood (Outside Director)	92.3% (12 out of 13 meetings)
Ryoichi Kobayashi (Outside Director (Standing Audit & Supervisory Committee Member))	100.0% (16 out of 16 meetings)
Tadao Toyoshima (Outside Director (Audit & Supervisory Committee Member))	100.0% (16 out of 16 meetings)
Hajime Shinji (Outside Director (Audit & Supervisory Committee Member))	100.0% (16 out of 16 meetings)

*Ryoichi Kobayashi has retired as of June 23, 2022.

The number of times Abdullah Aldawood has attended Board of Directors meetings represents the status of his attendance since the 41st Annual Shareholders' Meeting held on June 25, 2021, when he became an outside director.

(11) Status of outside directors

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

The Company has nine 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

Yukihiro Yamamura, Yuji Nishiura, 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 Yukihiro Yamamura, Yuji Nishiura, 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, 2022 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 (16 meetings were held in the fiscal year ended March 31, 2022), 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 eight of the nine, 92.3% for the remaining 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, 2022, 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, 2022
Ryoichi Kobayashi* (Standing Audit & Supervisory Committee Member)	100.0% (21 out of 21 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)

*Retired as of June 23, 2022

Key matters deliberated upon by the Audit & Supervisory Committee include the 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, the Internal Control Committee, and the Information System Management 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

16 years

(iii) Names of responsible certified public accountants

Hirofumi Harashina, Designated Limited Liability Partners, Business Execution Partners

(Consecutive years of audit service: 1)

Miyuki Nakamura, Designated Limited Liability Partners, Business Execution Partners

(Consecutive years of audit service: 3)

(iv) Support team for accounting audit duties

17 certified public accountants and 44 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, 2021		Fiscal year ended March 31, 2022	
	Compensation for statutory audit operations	Compensation for non-audit operations	Compensation for statutory audit operations	Compensation for non-audit operations
The company	75	1	56	1
Consolidated subsidiaries	40	—	73	—
Total	116	1	129	1

The non-audit operations provided by the audit firm for which the Company paid compensation in both the fiscal year ended March 31, 2021 and the fiscal year ended March 31, 2022 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, 2021 or the fiscal year ended March 31, 2022.

(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, 2021		Fiscal year ended March 31, 2022	
	Compensation for statutory audit operations	Compensation for non-audit operations	Compensation for statutory audit operations	Compensation for non-audit operations
The company	—	—	—	—
Consolidated subsidiaries	107	10	127	37
Total	107	10	127	37

There was no compensation for non-audit operations at the Company in either the fiscal year ended March 31, 2021 or the fiscal year ended March 31, 2022.

The non-audit operations at consolidated subsidiaries were tax advisory services in both the fiscal year ended March 31, 2021 and the fiscal year ended March 31, 2022.

(iii) Compensation for other key audit certification work (Fiscal year ended March 31, 2021)

None.

(Fiscal year ended March 31, 2022)

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, 2022 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)	506 (59)	151 (48)	243 (—)	111 (11)	6 (4)
Directors (Audit & Supervisory Committee Members) (Outside Directors)	48 (48)	48 (48)	— (—)	— (—)	3 (3)
Total (Outside Directors)	554 (107)	199 (96)	243 (—)	111 (11)	9 (7)

Notes: 1. It was approved at the 38th Annual Shareholders' Meeting held on June 22, 2018 that the monetary remuneration limit for directors (excluding directors who are Audit & Supervisory Committee members) for the fiscal year ended March 31, 2022 shall be no more than ¥600 million per year (of which ¥48 million is earmarked for outside directors). There were five directors (excluding directors who are Audit & Supervisory Committee members) at the conclusion of the 38th Annual Shareholders' Meeting (of whom three were outside directors). Additionally, the monetary remuneration limit for directors (excluding directors who are Audit & Supervisory Committee members) has been revised to no more than ¥1,200 million per year (of which ¥96 million is earmarked for outside directors) at the 42nd Annual Shareholders' Meeting held on June 23, 2022. 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 approved at the 41st Annual Shareholders' Meeting held on June 25, 2021 that the limit for remuneration as restricted stock remuneration for directors (excluding directors who are Audit & Supervisory Committee members) for the fiscal year ended March 31, 2022 shall be no more than ¥400 million per year (of which ¥32 million is earmarked for outside directors). There were six directors (excluding directors who are Audit & Supervisory Committee members) at the conclusion of the 41st Annual Shareholders' Meeting (of whom five were outside directors). In addition, the limit for remuneration as restricted stock remuneration for directors (excluding directors who are Audit & Supervisory Committee members) has been revised to no more than ¥800 million per year (of which ¥64 million is earmarked for outside directors) at the 42nd Annual Shareholders' Meeting held on June 23, 2022. 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).

3. It was approved 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.

4. The above includes one director (who is not an Audit & Supervisory Committee member) who retired as of the conclusion of the 41st Annual Shareholders' Meeting held on June 25, 2021.

5. It was approved at the 28th Annual Shareholders' Meeting held on June 21, 2008 to abolish the retirement allowance plan for directors and corporate auditors and to pay the directors and corporate auditors, who continued to be in office after the conclusion of the said shareholders' meeting, a retirement allowance corresponding to their terms of office until the abolishment of the retirement allowance plan at the time of retirement of each director and corporate auditor. Based on this resolution, ¥32 million in retirement allowance was paid to one director (who is not an Audit & Supervisory Committee member) who retired during the fiscal year ended March 31, 2022, in addition to the above remuneration, etc.

(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	443	Director	The Company	100	243	99

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 shareholdings at Square Enix Co., Ltd.

As of March 31, 2022, the status of shareholdings by Square Enix Co., Ltd., which has the largest amount of investment securities on its

balance sheet within the Group, is as follows:

- 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	2	0
Shares other than those above	1	174

(Issues for which the number of shares held increased in the fiscal year ended March 31, 2022)

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	1	87	To obtain blockchain technology and expertise for operating UGC (User Generated Content) games
Shares other than those above	—	—	—

(Issues for which the number of shares held declined in the fiscal year ended March 31, 2022)

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, 2022	Fiscal year ended March 31, 2021	Purpose of holdings, quantitative benefits of holdings & reason for increase in shareholdings	Square Enix Holdings shareholders
	Number of shares	Number of shares		
	379,784	379,784	To maintain and enhance the business partnership involving the “MANGA UP!” manga app	None
and factory, inc	174	273		

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

None.

(3) 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	1	28
Shares other than those above	—	—

(Issues for which the number of shares held increased in the fiscal year ended March 31, 2022)

None.

(Issues for which the number of shares held declined in the fiscal year ended March 31, 2022)

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”

None.

“Deemed holdings of equity securities”

None.

b. Investments in shares for purely investment purposes

Category	Fiscal year ended March 31, 2022		Fiscal year ended March 31, 2021	
	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	54	2	75

Category	Fiscal year ended March 31, 2022		
	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	—	41 (—)

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 valuation gain/loss” 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 and Chief Strategy Officer or Chief Accounting Officer providing the briefings.

The Company conducts overseas roadshows for foreign investors three times a year where the President and Representative Director and Chief Strategy Officer provide briefings. Moreover, the Company strives to engage in constructive dialogues with capital markets via individual meetings and small group meetings.

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

The Company posts earnings summaries, 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, 2022



Yosuke Matsuda
President and Representative
Director
Shares owned: 35,238 shares



Takashi Kiryu
Director
Shares owned: 1,871 shares



Yoshinori Kitase
Director
Shares owned: 1,973 shares



Yu Miyake
Director
Shares owned: 5,023 shares



Yukihiro Yamamura
Director*
Shares owned: 1,051 shares



Yuji Nishiura
Director*
Shares owned: 1,051 shares



Masato Ogawa
Director*
Shares owned: 1,051 shares



Mitsuko Okamoto
Director*
Shares owned: 1,051 shares



Abdullah Aldawood
Director*



Naoto Takano
Director*
Shares owned: 502 shares



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



Tadao Toyoshima
Director
(Audit & Supervisory
Committee Member)*



Hajime Shinji
Director
(Audit & Supervisory
Committee Member)*

Executive Officers

Takashi Kiryu	Chief Strategy Officer
Atsushi Matsuda	Chief Accounting Officer
Hajime Seki	Chief Legal Officer
Tsuneto Okuno	Chief Human Resources Officer
Hideaki Sato	Chief Information Officer
John Heinecke	Chief Publishing Officer (EMEA, Americas and Oceania)
Tomoyoshi Osaki	Chief Publishing Officer (Japan and Asia)

Yasuhiro Fukushima
Honorary Chairman

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

Skills Matrix for Directors

Name	Role	Corporate mgt/ global mgt	Media entertainment	IT/ technology	Legal/risk management	Finance/ accounting	Organizational/ talent development
Yosuke Matsuda	President and Representative Director	●	●			●	●
Takashi Kiryu	Director Chief Strategy Officer Executive Officer	●	●			●	●
Yoshinori Kitase	Director	●	●				●
Yu Miyake	Director	●	●				●
Yukihiro Yamamura	Outside Director	●	●	●			●
Yuji Nishiura	Outside 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)				●	●	

Words from Our New Directors



Takashi Kiryu
Director

The Square Enix Group creates a wide range of content and provides it to customers all over the world. Increasingly sophisticated technologies, devices, and infrastructure are producing dramatic changes to the Group's business environment. Armed with passion, professionalism, and creativity, each and every one of its employees is working on the front lines of that change, devoting themselves to the creative process as they strive to deliver exciting content that meets or exceeds customer's expectations.

I also count myself among the Group's customers. From my childhood to this very day, engaging with the Group's content has often excited and moved me in ways that nothing else can. I have also on numerous occasions seen people who do not share a common language or culture open up to one another because they have shared some content-based experience. I firmly believe that superior content has the power to create bonds across national borders and generations, leading society in a positive direction.

I never want to lose sight of the customer's perspective. I will devote myself to the development of an environment that allows us to continue to create excitement and contribute to society, as well as to ensuring that we get even more customers to look forward to engaging with our content because they know it will provide them with an experience that enriches their lives.

I studied filmmaking for a time in university. In those days, cinema was considered a composite art form because it included everything from music to painting and architecture to dance. I see what the Square Enix Group creates as content that goes beyond a composite art form because it also involves the element of interactivity.

The environment in which the Group finds itself is undergoing dramatic change. This is marked by advances in hardware such as CPUs and GPUs, the increased availability of network infrastructure such as 5G and the cloud, the rise of business models such as free-to-play and subscriptions, and technological innovations such as AI and blockchain. These environmental changes do not exist apart from the content itself but are rather key elements that are incorporated into content design and thereby spur further evolution.

The Square Enix Group is home to individuals who possess talents covering a wide expanse of domains, ranging from the artistic to cutting-edge technologies. The Group derives its strength from the environment it has created that allows those talents to connect organically. As someone who has been involved in game development for 32 years, I want to remind myself of that strength and continue contributing to the Group's development by leveraging my perspective from the inside of content production.



Yoshinori Kitase
Director

I joined Enix as a part-timer in 1989. I started out in the Dragon Quest section, handling publication sales and advertising work related to Dragon Quest books and the launch of the *Monthly Shonen Gangan* manga magazine. Then, in 1997, I was transferred to the production department for game software. Since then, I have spent more than two decades involved in game production, with a focus on Dragon Quest titles.

The game industry has evolved dramatically over the past 30 years or so. This evolution has naturally involved technological progress, but also changes in business models, as well as growth in the number of media outlets, the customer base, and geographic sales coverage. During that time, the Square Enix Group has kept abreast of those environmental changes, staying half a step ahead of its customers' expectations so that it could consistently produce content that we ourselves find seriously exciting.

In my view, the strengths that have enabled the Square Enix Group to do that lie in a free corporate culture allowing new ideas and exciting experiments, as well as in its talented employees who bring those to life as content. I will leverage the frontline experiences and knowledge I have gained in over three decades in the game entertainment industry and devote my utmost to ensuring that the Square Enix Group can continue to produce content that is even fresher and more exciting than ever before as it addresses an evolving, changing, growing market.



Yu Miyake
Director



Naoto Takano
Outside Director

I believe that the history of the Square Enix Group has been carved by innovation—innovation that has grown along with its people and always put the Group at the forefront of its times.

We now find ourselves in a world of greatly changing economic and social dynamics.

People's lifestyles have also changed significantly over the past several years. The cultural environment and our infrastructure have also undergone substantial change.

Against this backdrop, I believe that as a provider of entertainment content, the Square Enix Group needs more than ever before to equip itself with a management style and corporate culture that enables it to continue to take on new fields and domains, while staying rooted in its history and traditions. Possessing a diversity of values, ideas, and technical abilities like none ever seen before is of growing importance.

I have a broad range of experience in the fields of finance and corporate management. I am confident that my experience in banking, securities/leasing/investment banking, and venture investments in Western markets, and my management experience at US firms in particular, will add diversity to the management of Square Enix Holdings and contribute to the development of its business strategy. I thank you all in advance for your support.

As a longtime fan of Dragon Quest and Final Fantasy, I have been extremely interested in the Square Enix Group since my twenties. I had also respected it as a company that provides superb and highly creative entertainment.

I could not be more honored by having the opportunity to take part in the management of such an amazingly creative company as an outside director and its Audit & Supervisory Committee Member.

For many years, I worked in various aspects of the financial industry, including funding and investment management. In addition, I have executive management experience involving HR, finance, corporate planning, and overseas entities.

This means that my work experience has been in completely different fields, but I believe that much of that experience will prove relevant from the perspective of corporate management.

I will work to ensure that I can contribute to the global growth of the Square Enix Group by leveraging my many years of experience in corporate management.

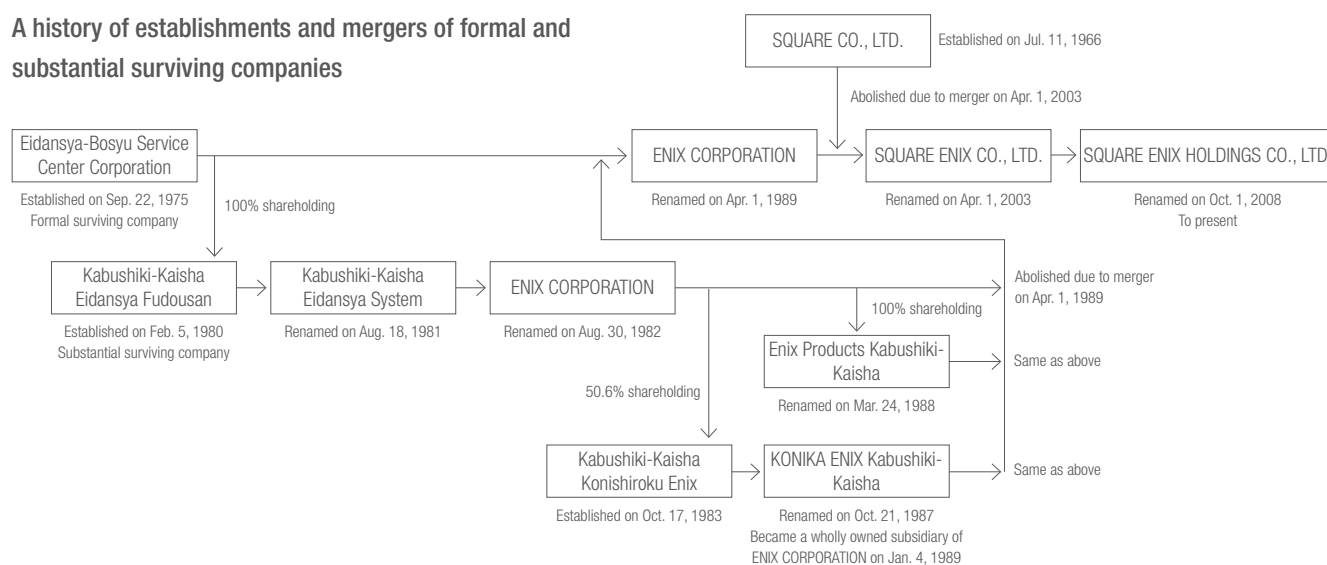


Nobuyuki Iwamoto
Outside Director (Standing Audit
& Supervisory Committee
Member)

History

Feb. 1980	Established a real estate sales and brokerage company Kabushiki-Kaisha Eidansya Fudousan (common stock: ¥5 million; 3-18-12, Toranomon, Minato-ku, Tokyo, Japan) as a wholly owned subsidiary of Eidansya-Bosyu Service Center Corporation.
Aug. 1981	Changed company name to Kabushiki-Kaisha Eidansya System. Moved the headquarters to 7-15-10, Nishi-shinjuku, Shinjuku-ku, Tokyo, Japan.
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; Kita-ku, Tokyo, Japan; 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.)
Jan. 1984	Moved the headquarters to 7-1-8, Nishi-shinjuku, Shinjuku-ku, Tokyo, Japan.
Apr. 1986	Moved the headquarters to 8-20-2, Nishi-shinjuku, Shinjuku-ku, Tokyo, Japan.
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; Shinjuku-ku, Tokyo, Japan)
Apr. 1989	ENIX CORPORATION, Eidansya-Bosyu Service Center Corporation, KONIKA ENIX Kabushiki-Kaisha, Enix Products Kabushiki-Kaisha merged and renamed as ENIX CORPORATION. Moved the headquarters to 7-5-25, Nishi-shinjuku, Shinjuku-ku, Tokyo, Japan.
Feb. 1991	ENIX CORPORATION stock was registered with the Japan Securities Dealers Association (presently Jasadq Securities Exchange, Inc.) for over-the-counter trading.
Aug. 1996	Moved the headquarters to 4-31-8, Yoyogi, Shibuya-ku, Tokyo, Japan.
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.
Aug. 2003	Moved the headquarters to 3-22-7, Yoyogi, Shibuya-ku, Tokyo, Japan.
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.
Oct. 2012	Moved the headquarters to 6-27-30, Shinjuku, Shinjuku-ku, Tokyo, Japan.
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.

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



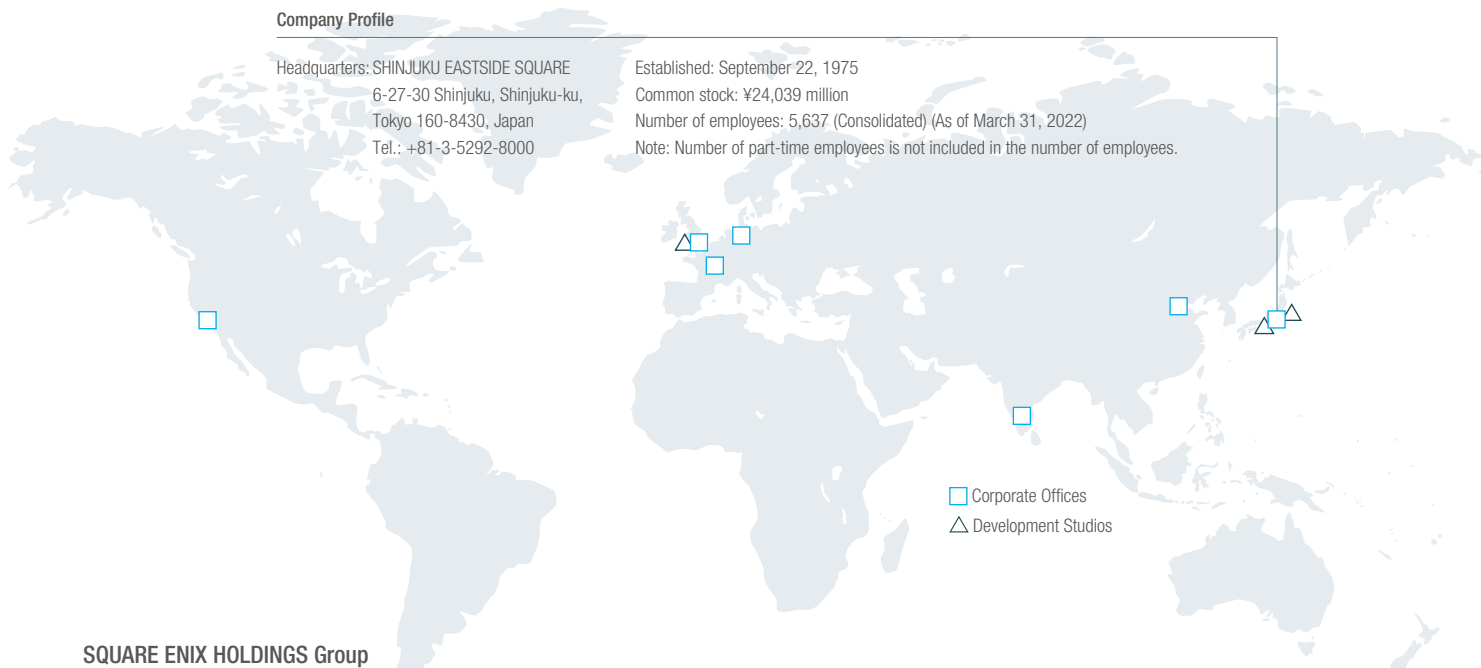
Corporate Data

As of August 31, 2022

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: 5,637 (Consolidated) (As of March 31, 2022)
Note: Number of part-time employees is not included in the number of employees.



□ Corporate Offices
△ Development Studios

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
Luminous Productions Co., Ltd.	July 2018	March	¥5 million	100.0%	Planning and development of entertainment products and services such as games
SQUARE ENIX AI & ARTS Alchemy Co., Ltd.	March 2020	March	¥10 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%	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	199,900 thousand 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.

Investor Information

As of March 31, 2022

Share Information

Number of shares issued: 122,531,596

Number of shareholders: 24,528

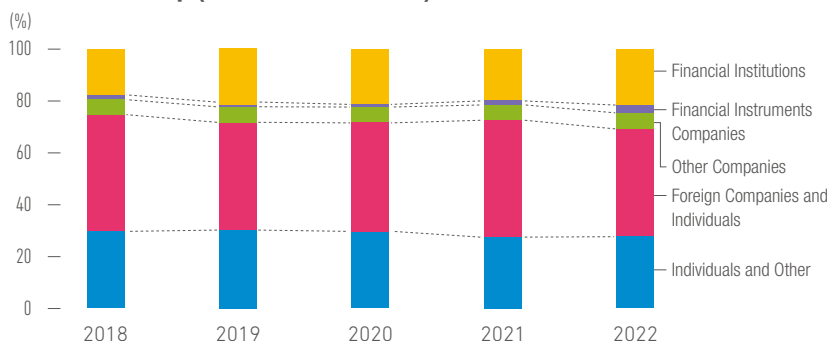
Principal Shareholders

Rank	Shareholder	Investment in Square Enix	
		(Thousands of shares)	(%)
1	Yasuhiro Fukushima	23,626	19.75
2	The Master Trust Bank of Japan, Ltd. (Trust Account)	17,857	14.93
3	Fukushima Planning Co., Ltd.	6,763	5.65
4	JP MORGAN CHASE BANK 380752	6,448	5.39
5	Custody Bank of Japan, Ltd. (Trust Account)	5,735	4.79
6	JP MORGAN CHASE BANK 380815	5,361	4.48
7	THE BANK OF NEW YORK MELLON (INTERNATIONAL) LIMITED 131800	2,511	2.09
8	STATE STREET BANK WEST CLIENT - TREATY 505234	1,412	1.18
9	STATE STREET BANK AND TRUST COMPANY 505001	1,316	1.10
10	Michiko Fukushima	1,243	1.03

Notes: 1. The Company holds 2,927,330 shares of treasury stock, which are excluded from the above table.

2. The holding ratio is calculated without the treasury shares (2,927,330).

Share Ownership (Thousands of shares)



	2018		2019		2020		2021		2022	
Financial Institutions	21,626	(17.7%)	26,562	(21.7%)	26,065	(21.3%)	24,395	(19.9%)	26,224	(21.4%)
Financial Instruments Companies	2,037	(1.7%)	1,390	(1.1%)	1,076	(0.9%)	1,951	(1.6%)	4,000	(3.3%)
Other Companies	7,409	(6.0%)	7,373	(6.0%)	7,352	(6.0%)	7,272	(5.9%)	7,310	(6.0%)
Foreign Companies and Individuals	54,920	(44.9%)	50,459	(41.2%)	52,087	(42.5%)	55,273	(45.1%)	51,033	(41.6%)
Individuals and Other	36,404	(29.7%)	36,745	(30.0%)	35,948	(29.3%)	33,638	(27.5%)	33,962	(27.7%)
Total	122,398	(100.0%)	122,531	(100.0%)	122,531	(100.0%)	122,531	(100.0%)	122,531	(100.0%)

Shareholders' Memo

- Fiscal year:
April 1 to March 31
- Record dates for dividends from retained earnings:
September 30 (Record date for interim dividend)
March 31 (Record date for year-end dividend)
- Annual General Meeting of Shareholders:
June
- Administrator of the register of shareholders:
Mitsubishi UFJ Trust and Banking Corporation
- 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:
<https://www.pronexus.co.jp/koukoku/9684/9684.html>
(Japanese)

(Public notices will be announced in the Nikkei, a Japanese-language newspaper, in case an electronic notice is not possible due to accident or other unavoidable reason.)

SQUARE ENIX HOLDINGS CO., LTD.

www.hd.square-enix.com/



ANNUAL REPORT 2022

FINANCIAL SECTION

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8	Consolidated Balance Sheet (JPNGAAP)
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11	Consolidated Statement of Comprehensive Income (JPNGAAP)
12	Consolidated Statement of Changes in Net Assets (JPNGAAP)
14	Consolidated Statement of Cash Flows (JPNGAAP)
15	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, 2022 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)."

c. Impact of the novel coronavirus (COVID-19)

The Group performs accounting estimates regarding the impact of COVID-19, as indicated in the section titled "Additional Information" in "Notes to Consolidated Financial Statements (JPNGAAP)." If the impact of the COVID-19 pandemic extends beyond the period estimated by management, the Group may record additional losses.

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 ¥160,622 million, providing sufficient liquidity for the Group to carry on its business operations.

Cash flows in the fiscal year ended March 31, 2022, 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 ¥27,570 million, a decrease of 21.2% from the previous fiscal year. The main factors were profit before income taxes of ¥70,223 million, income taxes paid of ¥26,161 million, an increase of inventories of ¥17,207 million, foreign exchange gain of ¥10,043 million, and depreciation and amortization of ¥7,594 million.

(2) Net cash used in investing activities

Net cash used in investing activities totaled ¥8,124 million, an increase of 22.1% from the previous fiscal year. The main factors were purchases of property and equipment of ¥5,494 million and purchases of intangible assets of ¥2,464 million.

(3) Net cash used in financing activities

Net cash used in financing activities totaled ¥9,343 million, an increase of 40.5% from the previous fiscal year. The main factor was cash dividends paid of ¥9,308 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, 2022

■ Assets

Total Assets

March 31	Millions of yen		
	2022	2021	Change
	¥380,902	¥336,144	¥44,758

Total assets as of March 31, 2022 amounted to ¥380,902 million, an increase of ¥44,758 million from the previous fiscal year. The main factors contributing to the change were as follows:

Cash and Deposits

March 31	Millions of yen		
	2022	2021	Change
	¥163,088	¥146,229	¥16,858

Cash and deposits as of March 31, 2022 increased ¥16,858 million, to ¥163,088 million, mainly reflecting an increase in inventories of ¥17,207 million and cash dividends paid of ¥9,308 million, offset by profit before income taxes of ¥70,223 million, among other factors.

Content Production Account

March 31	Millions of yen		
	2022	2021	Change
	¥96,765	¥78,153	¥18,612

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, 2022, the content production account totaled ¥96,765 million, an increase of ¥18,612 million from the previous fiscal year.

Property and Equipment

March 31	Millions of yen		
	2022	2021	Change
	¥19,814	¥19,656	¥158

Total property and equipment as of March 31, 2022 amounted to ¥19,814 million, an increase of ¥158 million from the previous fiscal year.

Intangible Assets

March 31	Millions of yen		
	2022	2021	Change
	¥7,375	¥5,540	¥1,835

Total intangible assets as of March 31, 2022 amounted to ¥7,375 million, an increase of ¥1,835 million from the previous fiscal year.

Investments and Other Assets

March 31	Millions of yen		
	2022	2021	Change
	¥31,257	¥27,325	¥3,932

Total investments and other assets increased ¥3,932 million, to ¥31,257 million, as of March 31, 2022.

■ Liabilities

March 31	Millions of yen		
	2022	2021	Change
	¥96,472	¥92,866	¥3,606

As of March 31, 2022, total liabilities amounted to ¥96,472 million, an increase of ¥3,606 million from the previous fiscal year. The main factors contributing to the change were as follows:

Current Liabilities

March 31	Millions of yen		
	2022	2021	Change
	¥83,800	¥80,345	¥3,455

Total current liabilities increased ¥3,455 million, to ¥83,800 million, as of March 31, 2022. This was mainly due to an increase in notes and accounts payable of ¥3,039 million and an increase in provision for bonuses of ¥3,583 million, offset by a decrease in accrued income taxes of ¥6,151 million.

Non-Current Liabilities

Millions of yen

March 31	2022	2021	Change
	¥12,672	¥12,521	¥151

Total non-current liabilities increased ¥151 million, to ¥12,672 million, as of March 31, 2022. This was mainly due to an increase in net defined benefit liabilities of ¥350 million.

■ Shareholders' Equity/Net Assets

Millions of yen

March 31	2022	2021	Change
Common stock	¥24,039	¥24,039	¥—
Capital surplus	53,880	53,593	287
Retained earnings	221,316	179,722	41,594
Treasury stock	(8,964)	(9,556)	592
Total shareholders' equity	290,272	247,799	42,473
Valuation difference on available-for-sale securities	(24)	59	(83)
Foreign currency translation adjustments	(6,844)	(5,655)	(1,189)
Remeasurements of defined benefit plans	116	160	(44)
Total accumulated other comprehensive income (loss)	(6,752)	(5,435)	(1,317)
Stock acquisition rights	718	762	(44)
Non-controlling interests	191	151	40
Total net assets	¥284,429	¥243,278	¥41,151

As of March 31, 2022, total net assets amounted to ¥284,429 million, up ¥41,151 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 (¥68 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	2022	Composition	2021	Composition	Amount change	Percent change
Net sales	¥365,275	100.0%	¥332,532	100.0%	32,743	9.8%
Gross profit	195,314	53.5%	160,695	48.3%	34,619	21.5%
Reversal of provision for sales returns	—	—%	4,150	1.2%	—	—%
Provision for sales returns	—	—%	5,637	1.7%	—	—%
Net gross profit	195,314	53.5%	159,208	47.9%	36,106	22.7%
Selling, general and administrative expenses	136,053	37.2%	111,982	33.7%	24,071	21.5%
Operating income	¥59,261	16.2%	¥47,226	14.2%	12,035	25.5%

Comparisons by segment with the previous fiscal year are provided on pages 36-38.

Non-Operating Income and Expenses

Millions of yen

Years ended March 31	2022	2021	Change
Non-operating income	¥14,307	¥3,043	¥11,264
Non-operating expenses	2,865	286	2,579

Extraordinary Income and Loss

Millions of yen

Years ended March 31	2022	2021	Change
Extraordinary income	¥730	¥339	¥391
Extraordinary loss	1,212	4,628	(3,416)

Total extraordinary income was ¥730 million, reflecting the recording of ¥353 million in gain on sale of shares of subsidiaries and associates. Total extraordinary loss was ¥1,212 million.

■ Capital Expenditures and Depreciation and Amortization

				Millions of yen
Years ended March 31	2022	2021	Change	
Capital expenditures	¥9,123	¥7,377	¥1,746	
Depreciation and amortization	7,594	7,515	79	

Capital expenditures for the fiscal year ended March 31, 2022 amounted to ¥9,123 million, an increase of ¥1,746 million from the previous fiscal year.

Depreciation and amortization totaled ¥7,594 million, an increase of ¥79 million from the previous fiscal year, primarily due to an increase 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 recurring income base will enable investment in efforts to develop large-scale, innovative content. 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, 2023 is as follows (as of June 30, 2022).

											Millions of yen
Years ended/ending March 31	2013 actual	2014 actual	2015 actual	2016 actual	2017 actual	2018 actual	2019 actual	2020 actual	2021 actual	2022 actual	2023 forecast
Net sales	¥147,981	¥155,023	¥167,891	¥214,101	¥256,824	¥250,394	¥271,276	¥260,527	¥332,532	¥365,275	—
Operating income (loss)	(6,081)	10,543	16,426	26,018	31,295	38,176	24,635	32,759	47,226	59,261	—
Ordinary income (loss)	(4,378)	12,534	16,984	25,322	31,128	36,124	28,415	32,095	49,983	70,704	—
Profit (loss) attributable to owners of parent	(13,714)	6,598	9,831	19,884	20,039	25,821	19,373	21,346	26,942	51,013	—

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, 2022, the Company paid an interim dividend of ¥10 per share and a year-end dividend of ¥119 per share for an annual dividend of ¥129 per share.

The distribution of surplus for the fiscal year ended March 31, 2022 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, 2022 are as follows:

Date of resolution	Total dividends (Millions of yen)	Dividends per share (Yen)
November 5, 2021 Resolution by the Board of Directors	¥1,195	¥10
May 19, 2022 Resolution by the Board of Directors	¥14,232	¥119

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 24, 2022.

(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 releases of next-generation consumer game consoles, game development costs are likely to remain high, going forward. By engaging in more stringent management of development efforts and earnings at the level of individual titles, and by undertaking aggressive marketing and promotional initiatives, the Group is endeavoring to keep its development costs at an appropriate level, while also expanding sales. 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 customers, the Group not only offers its existing intellectual property (IP) via all of its business segments (i.e., Digital Entertainment, Amusement, Publication, and Merchandising), but also leverages it in new business domains such as live entertainment and e-commerce. 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 outbreak of the novel coronavirus

In response to the global outbreak of the novel coronavirus, the Group has placed the utmost priority on the safety of its customers, business partners, and employees, deciding to cancel or postpone its own live events, and instituting telework and other measures aimed at preventing the spread of the virus. At the same time, the Group has revised its operational processes and enhanced its IT systems to ensure the continuity of its business. In this manner, the Group is continuing to work to create a business operation system built around the work-from-home concept.

However, the future outlook of the global economy is expected to remain unclear as a result of the coronavirus pandemic. Risks to the Group’s business domains include the impact on content demand, the impact on the development schedule for new titles, and diminished sales from amusement facility operations. 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	
	2022	2021
Assets		
Current assets		
Cash and deposits	¥163,088	¥146,229
Notes and accounts receivable	*1 44,968	*1 43,036
Merchandise and finished goods	4,687	3,829
Work in progress	18	212
Raw materials and supplies	485	363
Content production account	96,765	78,153
Other	12,711	11,987
Allowance for doubtful accounts	(268)	(190)
Total current assets	322,455	283,622
Non-current assets		
Property and equipment		
Buildings and structures	18,793	18,735
Accumulated depreciation	(13,489)	(12,888)
Buildings and structures (net)	5,303	5,847
Tools and fixtures	19,431	17,716
Accumulated depreciation	(14,730)	(12,992)
Tools and fixtures (net)	4,701	4,723
Amusement equipment	17,008	17,275
Accumulated depreciation	(15,379)	(15,459)
Amusement equipment (net)	1,629	1,816
Other	4,955	4,116
Accumulated depreciation	(1,314)	(1,095)
Other (net)	3,641	3,021
Land	3,782	3,782
Construction in progress	757	465
Total property and equipment	19,814	19,656
Intangible assets		
Other	7,375	5,540
Total intangible assets	7,375	5,540
Investments and other assets		
Investment securities	2,727	2,537
Guarantee deposits	11,028	9,776
Net defined benefit assets	649	477
Deferred tax assets	10,526	9,630
Other	*2 6,384	*2 4,961
Allowance for doubtful accounts	(57)	(57)
Total investments and other assets	31,257	27,325
Total non-current assets	58,447	52,522
Total assets	¥380,902	¥336,144

The accompanying notes are an integral part of these statements.

	Millions of yen	
	2022	2021
Liabilities		
Current liabilities		
Notes and accounts payable	¥27,598	¥24,559
Accrued income taxes	8,442	14,593
Provision for bonuses	6,539	2,956
Provision for sales returns	—	5,873
Refund liabilities	5,616	—
Provision for loss on store closings	—	231
Asset retirement obligations	—	6
Other	*3 35,602	32,122
Total current liabilities	83,800	80,345
Non-current liabilities		
Provision for directors' retirement benefits	17	52
Net defined benefit liabilities	3,842	3,492
Deferred tax liabilities	874	1,642
Asset retirement obligations	3,842	3,715
Other	4,094	3,617
Total non-current liabilities	12,672	12,521
Total liabilities	96,472	92,866
Net Assets		
Shareholders' equity		
Common stock	24,039	24,039
Capital surplus	53,880	53,593
Retained earnings	221,316	179,722
Treasury stock	(8,964)	(9,556)
Total shareholders' equity	290,272	247,799
Accumulated other comprehensive income (loss)		
Valuation difference on available-for-sale securities	(24)	59
Foreign currency translation adjustments	(6,844)	(5,655)
Remeasurements of defined benefit plans	116	160
Total accumulated other comprehensive income (loss)	(6,752)	(5,435)
Stock acquisition rights	718	762
Non-controlling interests	191	151
Total net assets	284,429	243,278
Total liabilities and net assets	¥380,902	¥336,144

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	
	2022	2021
Net sales	*1 ¥365,275	¥332,532
Cost of sales	*2 169,960	*2 171,837
Gross profit	195,314	160,695
Reversal of provision for sales returns	—	4,150
Provision for sales returns	—	5,637
Net gross profit	195,314	159,208
Selling, general and administrative expenses		
Packaging freight charge	2,999	2,436
Advertising expense	24,739	28,239
Sales promotion expense	611	673
Compensation for directors	738	771
Salaries	24,228	21,165
Provision for bonuses	6,484	3,368
Net periodic pension costs	1,002	1,205
Welfare expense	3,396	3,051
Rental expense	2,991	2,882
Commission fee	55,391	35,900
Depreciation and amortization	3,153	2,903
Other	10,314	9,384
Total selling, general and administrative expenses	*3 136,053	*3 111,982
Operating income	59,261	47,226
Non-operating income		
Interest income	101	76
Dividends received	0	0
Foreign exchange gain	10,489	2,727
Rental income	33	17
Gain on sale of crypto assets	2,904	—
Miscellaneous income	777	222
Total non-operating income	14,307	3,043
Non-operating expenses		
Interest expenses	150	87
Commission fee	475	19
Loss on investment securities	—	169
Loss on liquidation of content	1,289	—
Loss on retirement of development related assets	862	—
Miscellaneous loss	86	9
Total non-operating expenses	2,865	286
Ordinary income	70,704	49,983
Extraordinary income		
Gain on sale of non-current assets	*4 6	*4 1
Gain on reversal of stock acquisition rights	8	2
Subsidy income related to COVID-19	290	335
Gain on sale of shares of subsidiaries and associates	353	—
Other	72	—
Total extraordinary income	730	339
Extraordinary losses		
Loss on sale of non-current assets	—	*5 18
Loss on retirement of non-current assets	*6 212	*6 316
Impairment loss	*7 109	*7 520
Loss on valuation of investment securities	351	449
Provision for loss on store closings	—	629
Loss on temporary closure	*8 296	*8 2,392
Loss on valuation of shares of subsidiaries and associates	239	251
Other	1	49
Total extraordinary loss	1,212	4,628
Profit before income taxes	70,223	45,694
Income taxes—current	20,511	19,430
Income taxes—deferred	(1,320)	(690)
Total income taxes	19,191	18,740
Profit	51,031	26,954
Profit attributable to non-controlling interests	17	12
Profit attributable to owners of parent	¥51,013	¥26,942

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	
	2022	2021
Profit	¥51,031	¥26,954
Other comprehensive income (loss)		
Valuation difference on available-for-sale securities	(83)	222
Foreign currency translation adjustments	(1,167)	(567)
Remeasurements of defined benefit plans	(43)	478
Other comprehensive income (loss)	*1 (1,295)	*1 133
Comprehensive income	49,735	27,088
(Breakdown)		
Comprehensive income attributable to owners of parent	49,696	27,074
Comprehensive income attributable to non-controlling interests	¥39	¥14

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

■ 2022

Millions of yen					
	Shareholders' equity				Total shareholders' equity
	Common stock	Capital surplus	Retained earnings	Treasury stock	
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)				Stock acquisition rights	Non-controlling interests	Total net assets
	Valuation difference on available-for-sale securities	Foreign currency translation adjustments	Remeasurements of defined benefit plans	Total accumulated other comprehensive income (loss)			
Balance at the beginning of the year	¥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.

■ 2021

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	¥53,388	¥159,222	¥(9,900)	¥226,750
Changes during the year					
Dividends from retained earnings			(6,442)		(6,442)
Profit attributable to owners of parent			26,942		26,942
Purchase of treasury stock				(18)	(18)
Disposal of treasury stock		204		363	567
Net changes in items other than shareholders' equity					
Total changes during the year	—	204	20,499	344	21,049
Balance at the end of the year	¥24,039	¥53,593	¥179,722	¥(9,556)	¥247,799

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	¥(162)	¥(5,085)	¥(318)	¥(5,567)	¥608	¥137	¥221,928
Changes during the year							
Dividends from retained earnings							(6,442)
Profit attributable to owners of parent							26,942
Purchase of treasury stock							(18)
Disposal of treasury stock							567
Net changes in items other than shareholders' equity	222	(569)	478	131	154	14	300
Total changes during the year	222	(569)	478	131	154	14	21,350
Balance at the end of the year	¥59	¥(5,655)	¥160	¥(5,435)	¥762	¥151	¥243,278

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	
	2022	2021
Cash flows from operating activities		
Profit before income taxes	¥70,223	¥45,694
Depreciation and amortization	7,594	7,515
Impairment loss	109	520
Increase (decrease) in allowance for doubtful accounts	60	(5)
Increase (decrease) in provision for bonuses	3,271	(1,081)
Increase (decrease) in provision for sales returns	—	1,486
Increase (decrease) in refund liabilities	(761)	—
Increase (decrease) in provision for directors' retirement benefits	(34)	—
Increase (decrease) in provision for loss on store closings	(172)	148
Decrease (increase) in net defined benefit assets	(152)	134
Increase (decrease) in net defined benefit liabilities	268	391
Interest and dividends income	(102)	(76)
Subsidy income related to COVID-19	(290)	(335)
Interest expenses paid	150	87
Foreign exchange loss (gain)	(10,043)	(1,860)
Loss (gain) on sale of shares of subsidiaries and associates	(353)	—
Loss (gain) on sale of crypto assets	(2,904)	—
Loss on retirement of non-current assets	212	316
Gain on sale of non-current assets	(6)	(1)
Loss on sale of non-current assets	—	18
Loss (gain) on valuation of investment securities	351	449
Loss on valuation of shares of subsidiaries and associates	239	251
Decrease (increase) in notes and accounts receivable	1,332	(1,207)
Decrease (increase) in inventories	(17,207)	(4,405)
Increase (decrease) in notes and accounts payable	2,641	(835)
Decrease (increase) in other current assets	(575)	(3,477)
Decrease (increase) in other non-current assets	56	(1,016)
Increase (decrease) in other current liabilities	(508)	6,765
Other, net	(321)	290
Subtotal	53,077	49,768
Interest and dividends income received	102	76
Interest expenses paid	(150)	(87)
Subsidy income related to COVID-19 received	290	335
Income taxes paid	(26,161)	(16,764)
Income taxes refund	412	1,672
Net cash provided by operating activities	¥27,570	¥35,000
Cash flows from investing activities		
Payments into time deposits	¥(3,449)	¥(3,284)
Proceeds from withdrawal of time deposits	3,449	3,284
Purchases of property and equipment	(5,494)	(4,949)
Proceeds from sales of property and equipment	7	1
Purchases of intangible assets	(2,464)	(1,449)
Purchase of investment securities	(640)	(527)
Proceeds from investment securities	697	—
Payments for investments in capital	(1,306)	(144)
Purchases of shares of subsidiaries	(687)	(161)
Proceeds from sale of shares of subsidiaries and associates	382	—
Proceeds from sale of crypto assets	2,904	—
Payments for guarantee deposits	(2,059)	(31)
Proceeds from collection of guarantee deposits	527	622
Other, net	7	(11)
Net cash used in investing activities	(8,124)	(6,651)
Cash flows from financing activities		
Repayments of lease obligations	(671)	(623)
Purchase of treasury stock	(8)	(18)
Proceeds from exercise of employee share options	599	425
Cash dividends paid	(9,308)	(6,437)
Other, net	46	5
Net cash used in financing activities	(9,343)	(6,647)
Effect of exchange rate change on cash and cash equivalents	6,458	1,049
Net increase (decrease) in cash and cash equivalents	16,561	22,750
Cash and cash equivalents at the beginning of the year	144,061	121,311
Cash and cash equivalents at end of the year	*1 ¥160,622	*1 ¥144,061

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: 20 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.

CRYSTAL DYNAMICS, INC.

EIDOS INTERACTIVE CORP.

(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, revenue is recognized over the period in which the game content is provided. 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, 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. However, notwithstanding the above, revenue from royalties based on net sales or the volume of use is recognized at the point in time when the latter of the following two events occurs or as the latter of the following two events occurs.

- (i) When the customer records net sales relating to the license of intellectual property or when the customer uses the license of intellectual property
- (ii) When the performance obligation to which a part or all royalties based on net sales or volume of use have been allocated is satisfied (or partially satisfied)

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 consolidated taxation system

The Company has applied the consolidated taxation system.

B) Treatment of tax effect accounting for the transition from the consolidated taxation system to the group tax sharing system

The Company and its domestic consolidated subsidiaries will transition from the consolidated taxation system to the group tax sharing system from the fiscal year ending March 31, 2023. However, the Group has calculated the amounts of deferred tax assets and deferred tax liabilities in accordance with the tax acts before being amended based on the treatment of Paragraph 3 of “Practical Solution on the Treatment of Tax Effect Accounting for the Transition from the Consolidated Taxation System to the Group Tax Sharing System” (ASBJ Practical Issues Task Force No. 39, March 31, 2020) instead of applying the provision on Paragraph 44 of “Implementation Guidance on Tax Effect Accounting” (ASBJ Guidance No. 28, February 16, 2018), regarding the transition to group tax sharing system established in “Act for Partial Amendment of the Income Tax Act, etc.” (Act No. 8 of 2020), and items for which the non-consolidated taxation system has been reviewed in line with the transition to the group tax sharing system.

Effective from the beginning of the fiscal year ending March 31, 2023, the Company plans to apply the “Practical Solution on the Accounting and Disclosure Under the Group Tax Sharing System” (PITF No. 42, August 12, 2021), which provides for accounting treatment and disclosure of corporate and local income taxes and tax effect accounting in the case where a group tax sharing system is applied.

C) 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, 2022

	Millions of yen	
	As of March 31, 2022	As of March 31, 2021
Loss on valuation of inventories	3,838	5,525
Content production account	96,765	78,153

(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.

2) Major assumptions

For each development project, future net sales and development expenses based on historical sales results and historical development expenses with similar titles, as well as various factors such as market trends, are set as major assumptions. Future net sales and development budget are decided by the Investment Committee and revised as necessary according to the changes in the environment. 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.

3) Impact on the consolidated financial statements for the fiscal year ending March 31, 2023

While the major assumptions of future net sales and development expenses 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 and development expenses may have a significant impact on the valuation of the content production account for the fiscal year ending March 31, 2023.

(Refund liabilities)

(1) Amount recorded in the consolidated financial statements for the fiscal year ended March 31, 2022

	Millions of yen	
	As of March 31, 2022	As of March 31, 2021
Provision for sales returns	—	5,489
Refund liabilities	5,088	—

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

1) Calculation method

At certain 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 market consumption ratio of each game title at the fiscal year-end.

2) Major assumptions

The market consumption ratio, calculated based on the historical sales results for each game title, has been set as a major assumption.

3) Impact on the consolidated financial statements for the fiscal year ending March 31, 2023

While the major assumption of the market consumption ratio is based on historical results, 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, in conjunction with changes in the market consumption ratio may have a significant impact on the refund liabilities for the fiscal year ending March 31, 2023.

(Changes in Accounting Policies)

(Application of Accounting Standards for Revenue Recognition)

The Company has applied the Accounting Standard for Revenue Recognition (ASBJ Statement No. 29, March 31, 2020) and other standards effective from the beginning of the fiscal year ended March 31, 2022. The Company now recognizes revenue as the amount expected to be received in exchange for promised goods or services when control of sold goods or services is transferred to the customer.

Changes resulting from the application of the Accounting Standard for Revenue Recognition and other standards are described below.

(Sales of Digital Content)

Previously, regarding certain revenue from digital content through third-party platforms, the Company had recognized as revenue at a net amount after deducting platform commissions from the amount received from the customer. The Company now recognizes revenue at the total amount received from the customer.

(Microtransactions)

Previously, the Company had recognized the microtransaction portion of digital content revenue at the point that the customer derived an in-game item from the transaction. The Company now recognizes the revenue based upon the estimated period over which the customer will use the item.

(Provisions for Sales Returns)

Previously, in anticipation of returns of publications, game software, and other products, the Company posted estimated losses under "Provision for sales returns" and "Reversal of provision for sales returns." The Company now changed to a method that does not recognize net sales and the amount equivalent to cost of sales for products that are expected to be returned. In addition, regarding the "Provision for sales returns" previously recognized under "Current liabilities," the Company now recognizes the provision for sales returns as "Refund liabilities" under "Current liabilities" and as "Other" under "Current assets." Additionally, in accordance with the transitional treatment set forth in Paragraph 89-2 of the Accounting Standard for Revenue Recognition, the consolidated financial statements for the fiscal year ended March 31, 2021 have not been reclassified using the new presentation method.

In applying the Accounting Standard for Revenue Recognition and other standards, the Company has complied with the transitional treatment set forth in Article 84 proviso of the standard. As such, the cumulative effect of retroactively applying the new accounting policy prior to the beginning of the fiscal year ended March 31, 2022, has been added to or deducted from retained earnings at the beginning of the fiscal year ended March 31, 2022, and the application of the new accounting policy commenced at that point.

The result is a ¥22,271 million increase in net sales; a ¥363 million decrease in cost of sales; and a ¥21,541 million increase in selling, general and administrative expenses for the fiscal year ended March 31, 2022. As a result of the adjustment of sales returns above, operating income, ordinary income, and profit before income taxes for the fiscal year ended March 31, 2022 increased by ¥79 million, respectively. In addition, retained earnings at the beginning of the fiscal year ended March 31, 2022 declined by ¥104 million.

The impact on per share information has been stated in the relevant section.

In accordance with the transitional treatment set forth in Paragraph 89-3 of the Accounting Standard for Revenue Recognition, the information on disaggregation of revenue from contracts with customers for the fiscal year ended March 31, 2021 is not presented.

(Application of Accounting Standard for Fair Value Measurement)

The Company has applied the Accounting Standard for Fair Value Measurement (ASBJ Statement No. 30, July 4, 2019; hereinafter "Accounting Standard for Fair Value Measurement") and other standards as of the beginning of the fiscal year ended March 31, 2022. In accordance with the transitional treatment set forth in Article 19 of the Accounting Standard for Fair Value Measurement and Article 44-2 of the Accounting Standard for Financial Instruments (ASBJ Statement No. 10, July 4, 2019), the Company has elected to apply the new accounting policies set by the Accounting Standard for Fair Value Measurement prospectively. This has no effect on the consolidated financial statements. Additionally, the Company has determined to provide a breakdown and other matters relating to the fair value of financial instruments by level in the "Notes Regarding Financial Instruments." However, in accordance with the transitional treatment set forth in Paragraph 7-4 of the "Implementation Guidance on Disclosures about Fair Value of Financial Instruments" (ASBJ Guidance No. 19, July 4, 2019), the description relating to the fiscal year ended March 31, 2021 is not presented in these notes.

Accounting Standards Issued but Not Yet Applied

(Implementation Guidance on Accounting Standard for Fair Value Measurement)

"Implementation Guidance on Accounting Standard for Fair Value Measurement" (ASBJ Guidance No. 31, June 17, 2021)

(1) Outline:

The "Implementation Guidance on Accounting Standard for Fair Value Measurement" (ASBJ Guidance No. 31) was revised on June 17, 2021. When the implementation guidance was first announced on July 4, 2019, as the review of "fair value measurement of investment

trusts” was considered to take a certain period of time for deliberation with related parties and as the notes on fair values of “investments in partnerships for which an amount equivalent to the equity interest is recorded on the balance sheet at a net amount” required a certain review, the implementation guidance mentioned that those reviews would be implemented for approximately one year after the announcement of the “Accounting Standard for Fair Value Measurement.” Now those points for review were amended and the revised implementation guidance was announced.

(2) Effective date:

Effective from the beginning of the fiscal year ending March 31, 2023

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

The impact of the application of the Implementation Guidance on Accounting Standard for Fair Value Measurement on the consolidated financial statements is being assessed.

Change in the Method of Presentation

(Consolidated Statement of Income)

Gain on forgiveness of payable for group tax under non-operating income was presented separately for the fiscal year ended March 31, 2021, but is included in miscellaneous income for the fiscal year ended March 31, 2022, due to a decrease in its monetary significance. To reflect this change in the method of presentation, the consolidated financial statements for the fiscal year ended March 31, 2021 have been reclassified.

Consequently, ¥152 million in gain on forgiveness of payable for group tax under non-operating income in the consolidated statement of income for the fiscal year ended March 31, 2021 has been reclassified as miscellaneous income.

Subsidies for employment adjustment was presented as a major expense item under extraordinary income for the fiscal year ended March 31, 2021, but to clarify the presentation and to better reflect the actual conditions, the name of the item was changed to subsidy income related to COVID-19 from the fiscal year ended March 31, 2022.

Loss on valuation of investment securities and loss on valuation of shares of subsidiaries and associates were included in other under extraordinary losses for the fiscal year ended March 31, 2021, but are presented separately from the fiscal year ended March 31, 2022, due to increases in their monetary significance. To reflect this change in the method of presentation, the consolidated financial statements for the fiscal year ended March 31, 2021 have been reclassified.

Consequently, ¥702 million in other under extraordinary losses in the consolidated statement of income for the fiscal year ended March 31, 2021 has been reclassified as ¥449 million in loss on valuation of investment securities, ¥251 million in loss on valuation of shares of subsidiaries and associates, and ¥2 million in other.

Loss on event cancellations under extraordinary losses was presented separately for the fiscal year ended March 31, 2021, but is included in other for the fiscal year ended March 31, 2022, due to a decrease in its monetary significance. To reflect this change in the method of presentation, the consolidated financial statements for the fiscal year ended March 31, 2021 have been reclassified.

Consequently, ¥47 million in loss on event cancellations under extraordinary losses in the consolidated statement of income for the fiscal year ended March 31, 2021 has been reclassified as other.

(Consolidated Statement of Cash Flows)

Subsidies for employment adjustment was presented as a major expense item under cash flows from operating activities for the fiscal year ended March 31, 2021, but to clarify the presentation and to better reflect the actual conditions, the name of the item was changed to subsidy income related to COVID-19 from the fiscal year ended March 31, 2022.

Subsidies for employment adjustment received was presented as a major expense item under cash flows from operating activities for the fiscal year ended March 31, 2021, but to clarify the presentation and to better reflect the actual conditions, the name of the item was changed to subsidy income related to COVID-19 received from the fiscal year ended March 31, 2022.

Loss (gain) on valuation of investment securities and loss on valuation of shares of subsidiaries and associates were included in other, net under cash flows from operating activities for the fiscal year ended March 31, 2021, but are presented separately from the fiscal year ended March 31, 2022, due to increases in their monetary significance. To reflect this change in the method of presentation, the consolidated financial statements for the fiscal year ended March 31, 2021 have been reclassified.

Consequently, ¥990 million in other, net under cash flows from operating activities in the consolidated statement of cash flows for the fiscal year ended March 31, 2021 has been reclassified as ¥449 million in loss (gain) on valuation of investment securities, ¥251 million in loss on valuation of shares of subsidiaries and associates, and ¥290 million in other, net.

Payments for investments in capital was included in other, net under cash flows from investing activities for the fiscal year ended March 31, 2021, but is presented separately from the fiscal year ended March 31, 2022, due to an increase in its monetary significance. To reflect this change in the method of presentation, the consolidated financial statements for the fiscal year ended March 31, 2021 have been reclassified.

Consequently, ¥(156) million in other, net under cash flows from investing activities in the consolidated statement of cash flows for the fiscal year ended March 31, 2021 has been reclassified as ¥(144) million in payments for investments in capital and ¥(11) million in other, net.

Changes in Accounting Estimates

(Changes in estimates of asset retirement obligations)

With respect to asset retirement obligations recognized for restoration costs based on real estate lease contracts for offices at the headquarters and amusement facility arcades, the Company and certain consolidated subsidiaries changed the estimates relating to such restoration costs, because it became possible to make more precise estimates through obtaining new information such as recent actual restoration costs.

Based on these updated estimates, the Company added ¥193 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 increased by ¥3 million, respectively, for the fiscal year ended March 31, 2022.

Additional Information

(Impact of the outbreak of the novel coronavirus (COVID-19) on accounting estimates)

In the fiscal year ended March 31, 2022, the Amusement segment was asked to temporarily close or shorten the business hours of operation of amusement facilities by certain municipal governments, in conjunction with the declaration of a state of emergency by the Japanese government. In compliance with this request, certain facilities closed temporarily or shortened their business hours.

Consequently, the Company has made accounting estimates including whether to record impairment losses on non-current assets associated with the affected amusement facilities, the recoverability of deferred tax assets, and other matters, based on the assumption that the impact of COVID-19 will continue for some time.

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, 2022	As of March 31, 2021
Notes receivable	¥271	¥134
Accounts receivable	44,696	42,901

*2 Investments in non-consolidated subsidiaries and affiliates

	Millions of yen	
	As of March 31, 2022	As of March 31, 2021
Other (investments and other assets)	¥1,923	¥1,504

*3 The amount of contract liabilities among other

	Millions of yen	
	As of March 31, 2022	As of March 31, 2021
Contract liabilities	¥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, 2022	Fiscal year ended March 31, 2021
	¥3,622	¥5,836

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

	Millions of yen	
	Fiscal year ended March 31, 2022	Fiscal year ended March 31, 2021
	¥5,104	¥4,002

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

	Millions of yen	
	Fiscal year ended March 31, 2022	Fiscal year ended March 31, 2021
Buildings and structures	¥6	¥1
Tools and fixtures	0	—
Total	¥6	¥1

*5 Breakdown of loss on sale of non-current assets

	Millions of yen	
	Fiscal year ended March 31, 2022	Fiscal year ended March 31, 2021
Buildings and structures	¥—	¥6
Tools and fixtures	—	12
Total	¥—	¥18

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

	Millions of yen	
	Fiscal year ended March 31, 2022	Fiscal year ended March 31, 2021
Buildings and structures	¥0	¥45
Tools and fixtures	14	22
Amusement equipment	38	248
Other	159	0
Total	¥212	¥316

*7 Impairment loss

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.

In the fiscal year ended March 31, 2021, the Group posted an impairment loss on the following groups of assets.

			Millions of yen
Location	Usage	Category	Impairment amount
Shinjuku-ku, Tokyo	Idle assets	Amusement equipment	¥32
		Other	0
Shinjuku-ku, Tokyo	Assets planned for disposal	Buildings and structures	266
		Tools and fixtures	50
		Amusement equipment	3
		Other	56
Shinjuku-ku, Tokyo, Funabashi-shi	Stores	Buildings and structures	102
		Tools and fixtures	1
		Other	6
Total			¥520

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 and assets at stores, 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, 2022	Fiscal year ended March 31, 2021
Valuation difference on available-for-sale securities:		
Gains (losses) arising during the year	¥(118)	¥(128)
Reclassification adjustments	—	449
Total amount before tax-effect	(118)	320
Tax-effect	34	(98)
Valuation difference on available-for-sale securities	(83)	222
Foreign currency translation adjustments:		
Exchange differences arising during the year	(1,167)	(567)
Reclassification adjustments relating to foreign operations	—	—
Total amount before tax-effect	(1,167)	(567)
Tax-effect	—	—
Foreign currency translation adjustments	(1,167)	(567)
Remeasurements of defined benefit plans:		
Defined benefit obligations arising during the year	54	445
Reclassification adjustments relating to defined benefit plans	(115)	280
Total amount before tax-effect	(61)	725
Tax-effect	18	(246)
Remeasurements of defined benefit plans	(43)	478
Total other comprehensive income (loss)	¥(1,295)	¥133

Notes to Consolidated Statement of Changes in Net Assets

■ Year ended March 31, 2022

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, 2021	Share increases during the year	Share decreases during the year	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

■ Year ended March 31, 2021

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

	Shares as of April 1, 2020	Share increases during the year	Share decreases during the year	Thousands of shares Shares as of March 31, 2021
Shares issued and outstanding				
Common stock	122,531	—	—	122,531
Total	122,531	—	—	122,531
Treasury stock				
Common stock ^{1,2}	3,237	3	118	3,122
Total	3,237	3	118	3,122

Notes: 1 The increase of 3 thousand shares of treasury stock was due to the acquisition of fractional shares constituting less than one trading unit.

2 The decrease of 118 thousand shares of treasury stock was due to the delivery of 111 thousand shares due to the exercise of stock acquisition rights as stock options, the delivery of 7 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, 2021 (Millions of yen)
			As of April 1, 2020	Increase during the year	Decrease during the year	As of March 31, 2021	
Supplying company (parent company)	Stock acquisition rights as stock options	—	—	—	—	—	¥762
	Total	—	—	—	—	—	¥762

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 20, 2020 (Board of Directors' Meeting)	Common stock	¥5,248	¥44	March 31, 2020	June 4, 2020
November 6, 2020 (Board of Directors' Meeting)	Common stock	1,193	10	September 30, 2020	December 4, 2020

(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 21, 2021 (Board of Directors' Meeting)	Common stock	¥8,119	Retained earnings	¥68	March 31, 2021	June 7, 2021

Note: Dividends per share of ¥68 includes a special dividend of ¥10.

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, 2022	Fiscal year ended March 31, 2021
Cash and deposits	¥163,088	¥146,229
Time deposits with maturity periods over three months	(2,465)	(2,167)
Cash and cash equivalents	¥160,622	¥144,061

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. Short-term loans are used to meet short-term working capital requirements. The Group avoids the settlement liquidity risk associated with short-term payables, including notes and accounts payable, accrued corporate taxes and short-term loans, through the monthly review of its funding plan and other methods. Although foreign currency-denominated trade payables involve exposure to exchange rate fluctuations, the Group reduces this risk through similar methods to those used to manage the risk associated with foreign currency-denominated trade receivables. The Group is exposed to interest rate fluctuation through short-term loans. The Group, however, is able to respond flexibly to interest rate fluctuations since the borrowing periods are short.

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

(3) Supplementary information regarding the fair value, and others, of financial instruments

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, 2022 and 2021, the estimated fair value and the difference between these amounts are as follows.

■ 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)
Total assets	¥219,067	¥218,814	¥(253)

(*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, 2022
Unlisted shares	¥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 omitted. The value of these financial instruments presented on the consolidated balance sheet is as follows.

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

■ As of March 31, 2021

	Millions of yen		
Assets:	Book value	Fair value	Difference
(1) Cash and deposits	¥146,229	¥146,229	¥—
(2) Notes and accounts receivable	43,036		
Allowance for doubtful accounts	(190)		
Notes and accounts receivable, net	42,845	42,845	—
(3) Investment securities	370	370	—
(4) Guarantee deposits	9,776	9,621	(154)
Total assets	199,221	199,066	(154)
Liabilities:			
(1) Notes and accounts payable	24,559	24,559	—
(2) Accrued income taxes	14,593	14,593	—
Total liabilities	¥39,153	¥39,153	¥—

(*1) Matters concerning the methods for estimating fair value of financial instruments, and securities and derivative transactions

Assets

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

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

(3) Investment securities

Investment securities comprise stock market listed shares, and fair value is the stock market trading price. For information relating to each of the holding purposes of securities, please refer to the note titled “Securities.”

(4) Guarantee deposits

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

Liabilities

(1) Notes and accounts payable and (2) Accrued income taxes

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

Derivative transactions

Please refer to the information on “Derivative Transactions.”

(*2) The following financial instruments are not included in “(3) Investment securities” above, owing to the recognition of their lack of market prices and the extreme difficulty in estimating fair value. The value of these financial instruments presented on the consolidated balance sheet is as follows.

	Millions of yen
Item	As of March 31, 2021
Unlisted shares	¥331
Investments in investment limited partnerships	1,836

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

	As of March 31, 2022				As of March 31, 2021			
	Within 1 year	More than 1 year but within 5 years	More than 5 years but within 10 years	More than 10 years	Within 1 year	More than 1 year but within 5 years	More than 5 years but within 10 years	More than 10 years
	Deposits	¥161,055	¥—	¥—	¥—	¥144,268	¥—	¥—
Notes receivable	271	—	—	—	134	—	—	—
Accounts receivable	44,696	—	—	—	42,901	—	—	—
Guarantee deposits	4,117	3,549	3,360	—	4,890	774	4,110	—
Total	¥210,141	¥3,549	¥3,360	¥—	¥192,195	¥774	¥4,110	¥—

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, 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, 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, 2022			As of March 31, 2021		
Type		Book value	Acquisition cost	Difference	Book value	Acquisition cost	Difference
Securities with book value exceeding acquisition cost	(1) Stocks	¥77	¥31	¥45	¥96	¥31	¥65
	(2) Bonds						
	a. Government bonds and municipal bonds	—	—	—	—	—	—
	b. Corporate bonds	—	—	—	—	—	—
	c. Other	—	—	—	—	—	—
	(3) Other	—	—	—	—	—	—
	Subtotal	77	31	45	96	31	65
Securities with acquisition cost exceeding book value	(1) Stocks	174	273	(99)	273	273	—
	(2) Bonds						
	a. Government bonds and municipal bonds	—	—	—	—	—	—
	b. Corporate bonds	—	—	—	—	—	—
	c. Other	—	—	—	—	—	—
	(3) Other	—	—	—	—	—	—
	Subtotal	174	273	(99)	273	273	—
Total	¥251	¥304	¥(53)	¥370	¥304	¥65	

4. Securities sold during the year
Not applicable

5. Impairment losses on securities

■ 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.

■ Year ended March 31, 2021

Not applicable

Derivative Transactions

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

Currency derivatives

■ Year ended March 31, 2022

Not applicable

■ Year ended March 31, 2021

Not applicable

2. Derivative transactions for which hedge accounting has been applied

■ Year ended March 31, 2022

Not applicable

■ Year ended March 31, 2021

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, 2022	Fiscal year ended March 31, 2021
Balance of retirement benefit obligations at the beginning of the year	¥12,807	¥12,557
Service cost	690	662
Interest cost	36	23
Actuarial (gains) losses arising during the year	(83)	(18)
Retirement benefits paid	(639)	(417)
Balance of retirement benefit obligations at the end of the year	¥12,811	¥12,807

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

	Millions of yen	
	Fiscal year ended March 31, 2022	Fiscal year ended March 31, 2021
Balance of plan assets at the beginning of the year	¥9,791	¥9,342
Expected return on plan assets	141	135
Actuarial gains (losses) arising during the year	(28)	426
Employer contribution	237	246
Retirement benefits paid	(523)	(358)
Balance of plan assets at the end of the year	¥9,618	¥9,791

(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, 2022	Fiscal year ended March 31, 2021
Retirement benefit obligation for funded plans	¥8,968	¥9,314
Plan assets	(9,618)	(9,791)
Retirement benefit obligation for unfunded plans	(649)	(477)
Net defined benefit liabilities and assets recorded in the consolidated balance sheet	3,193	3,015
Net defined benefit liabilities	3,842	3,492
Net defined benefit assets	649	477
Net defined benefit liabilities and assets recorded in the consolidated balance sheet	¥3,193	¥3,015

(4) Components of net periodic pension costs

	Millions of yen	
	Fiscal year ended March 31, 2022	Fiscal year ended March 31, 2021
Service cost	¥690	¥662
Interest cost	36	23
Expected return on plan assets	(141)	(135)
Amortization of net actuarial (gains) losses	(115)	280
Net periodic pension costs relating to defined benefit plan	¥469	¥831

(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, 2022	Fiscal year ended March 31, 2021
Actuarial gains (losses)	¥(61)	¥725
Total	¥(61)	¥725

(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, 2022	As of March 31, 2021
Unrecognized actuarial gains (losses)	¥(180)	¥(241)
Total	¥(180)	¥(241)

(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:

	As of March 31, 2022	As of March 31, 2021	Percent
Bonds	35	38	
Stocks	15	14	
General accounts	34	33	
Cash and deposits	4	4	
Others	12	11	
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, 2022 and 2021, 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, 2022	As of March 31, 2021	Percent
Discount rate	0.298 to 0.569	0.129 to 0.331	
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 ¥1,107 million and ¥954 million for the years ended March 31, 2022 and 2021, respectively.

Stock Options

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

	Fiscal year ended March 31, 2022	Fiscal year ended March 31, 2021	Millions of yen
Selling, general and administrative expenses	¥111	¥247	

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

	Fiscal year ended March 31, 2022	Fiscal year ended March 31, 2021	Millions of yen
Reversal of stock acquisition rights	¥8	¥2	

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	2016 stock options	2017 stock options	2017 stock options	2018 stock options	2018 stock options	2019 stock options
Category of grantees	Company directors	Company employees, and directors and employees of the Company's subsidiaries	Company directors	Company employees, and directors and employees of the Company's subsidiaries	Company directors (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)
Number of grantees	6	21	6	23	5	24	5
Number of stock options	21,000 shares of common stock	116,000 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
Date granted	July 20, 2016	July 20, 2016	July 19, 2017	August 30, 2017	August 30, 2018	August 30, 2018	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	June 25, 2018 to June 24, 2021	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

	2019 stock options	2020 stock options	2020 stock options	2021 stock options
Category of grantees	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 employees, and directors and employees of the Company's subsidiaries
Number of grantees	22	6	22	23
Number of stock options	190,100 shares of common stock	22,700 shares of common stock	97,000 shares of common stock	113,100 shares of common stock
Date granted	July 17, 2019	July 20, 2020	July 20, 2020	July 14, 2021
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	June 22, 2021 to June 21, 2024	July 21, 2020 to July 20, 2040	June 25, 2022 to June 24, 2025	June 26, 2023 to June 25, 2026

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	2016 stock options	2017 stock options
Before vesting (shares)										
March 31, 2021	—	—	—	—	—	—	—	—	—	—
Granted	—	—	—	—	—	—	—	—	—	—
Forfeited	—	—	—	—	—	—	—	—	—	—
Vested	—	—	—	—	—	—	—	—	—	—
Unvested balance	—	—	—	—	—	—	—	—	—	—
After vesting (shares)										
March 31, 2021	3,700	11,000	16,000	16,000	16,000	8,000	11,000	11,000	25,800	11,000
Vested	—	—	—	—	—	—	—	—	—	—
Exercised	600	1,000	1,000	1,000	1,000	1,000	1,000	1,000	25,800	1,000
Forfeited	—	—	—	—	—	—	—	—	—	—
Balance unexercised	3,100	10,000	15,000	15,000	15,000	7,000	10,000	10,000	—	10,000

	2017 stock options	2018 stock options	2018 stock options	2019 stock options	2019 stock options	2020 stock options	2020 stock options	2021 stock options
Before vesting (shares)								
March 31, 2021	—	—	—	—	185,300	—	97,000	—
Granted	—	—	—	—	—	—	—	113,100
Forfeited	—	—	—	—	—	—	7,500	8,800
Vested	—	—	—	—	185,300	—	—	—
Unvested balance	—	—	—	—	—	—	89,500	104,300
After vesting (shares)								
March 31, 2021	77,400	11,700	102,400	18,100	—	22,700	—	—
Vested	—	—	—	—	185,300	—	—	—
Exercised	37,500	700	18,500	1,100	73,900	600	—	—
Forfeited	—	—	10,300	—	—	—	—	—
Balance unexercised	39,900	11,000	73,600	17,000	111,400	22,100	—	—

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	2016 stock options	2017 stock options	Yen
Exercise price	¥1	¥1	¥1	¥1	¥1	¥1	¥1	¥1	¥3,290	¥1	
Average share price at exercise	5,350	5,350	5,350	5,350	5,350	5,350	5,350	5,350	5,755	5,350	
Fair market value on grant date	3,171	2,107	1,464	1,312	948	2,041	2,864	2,843	896	3,187	

	2017 stock options	2018 stock options	2018 stock options	2019 stock options	2019 stock options	2020 stock options	2020 stock options	2021 stock options
Exercise price	¥3,820	¥1	¥5,205	¥1	¥3,720	¥1	¥5,760	¥6,426
Average share price at exercise	6,477	5,350	6,558	5,350	6,311	5,350	—	—
Fair market value on grant date	761	4,206	789	3,157	714	5,243	1,375	1,154

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

The fair value of the 2021 stock options granted during the fiscal year ended March 31, 2022 was estimated using the following method.

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

(2) Main assumptions:

	2021 stock options
Expected share price volatility ¹	41.3%
Expected life ²	3.5 years
Expected dividend yield ³	1.44%
Risk-free interest rate ⁴	(0.14)%

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 2021 stock options, this was calculated based on the actual dividend applicable to the fiscal year ended March 31, 2021.

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, 2022
Expense for stock-based compensation in selling, general and administrative expenses	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
Category and number of grantees	Five Company directors (excluding directors who are Audit & Supervisory Committee members)
Type and number of shares granted	20,511 shares of common stock
Grant date	July 21, 2021
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.)
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
As of March 31, 2021 (shares)	—
Stock granted (shares)	20,511
Stock forfeited (shares)	—
Stock vested (shares)	—
Unvested balance (shares)	20,511

2) Price information

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

(3) Method of estimating fair valuation

The fair valuation 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 24, 2021).

(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, 2022	As of March 31, 2021
Deferred tax assets		
Tax loss carried forward (Note 1)	¥24,189	¥15,727
Enterprise tax payable	600	1,007
Business office tax payable	47	47
Provision for bonuses	1,088	574
Accrued expenses	1,617	1,723
Provision for sales returns	—	268
Refund liabilities	327	—
Loss on write-offs of content production account	2,539	2,848
Loss on inventory revaluation	415	383
Net defined benefit liabilities	1,102	1,002
Provision for directors' retirement benefits	10	25
Expense for stock-based compensation	255	244
Non-deductible depreciation expense of property and equipment	1,076	715
Asset retirement obligations	1,193	1,180
Impairment loss	258	262
Loss on evaluation of investment securities	1,127	941
Non-deductible portion of allowance for doubtful accounts	87	48
Non-deductible portion of excess expenses on lump-sum depreciable assets	89	80
Provision for loss on store closings	8	80
Tax credits	1,409	699
Other	332	267
Total gross deferred tax assets	37,779	28,129
Valuation allowance for net operating loss carryforwards (Note 1)	(22,843)	(14,365)
Valuation allowance for aggregate deductible temporary differences	(3,640)	(3,461)
Total valuation allowance	(26,483)	(17,826)
Total deferred tax assets	11,295	10,302
Deferred tax liabilities		
Accrued expenses and other cost calculation details	(290)	(221)
Non-current assets	(1,351)	(1,608)
Tax effects from intangible non-current assets relating to business combinations	—	(478)
Other	(2)	(5)
Total deferred tax liabilities	(1,643)	(2,314)
Balance: Net deferred tax assets	¥9,651	¥7,988

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, 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

■ As of March 31, 2021

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)	¥372	¥—	¥15,354	¥15,727
Valuation allowance	—	—	(14,365)	(14,365)
Deferred tax assets	372	—	989	1,362

(*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, 2022	As of March 31, 2021
Statutory tax rate	30.62%	30.62%
(Adjustments)		
Entertainment expense and others excluded from deductible expenses	0.03	0.03
Dividends received and others excluded from gross revenue	(0.00)	(0.09)
Capital gains on stocks of specified subsidiaries excluded from gross revenue	(1.25)	—
Valuation allowance	2.74	12.66
Taxation on a per capita basis for inhabitants' tax	0.12	0.18
Special deduction for income growth	—	(0.57)
Tax credit for R&D expenses	(3.89)	(4.06)
Reduction of deferred tax assets and liabilities at fiscal year-end due to changes in corporate tax rate	(0.17)	0.11
Differences in tax rate from the parent company's statutory tax rate	0.02	1.86
Other	(0.89)	0.27
Effective tax rate	27.33	41.01

Business Combinations

■ Year ended March 31, 2022

Not applicable

■ Year ended March 31, 2021

Not applicable

Asset Retirement Obligations

Balance Sheet Amount for Asset Retirement Obligations

a) Summary of applicable asset retirement obligations

Asset retirement obligations include the duty of restoration arising from contractual requirements set forth in real estate leases for buildings, including offices at the headquarters, as well as amusement facility arcades.

b) Assumptions used in calculating applicable asset retirement obligations

Asset retirement obligations on buildings, including offices at the headquarters, are based on estimated useful life, generally ranging between 3 and 15 years, and a discount rate generally set between 0.000% and 2.147%.

For amusement facility arcades, asset retirement obligations are based on 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 0.640%.

c) Changes to aggregate asset retirement obligations

Millions of yen

	Fiscal year ended March 31, 2022	Fiscal year ended March 31, 2021
Beginning balance	¥3,722	¥3,295
Increase due to procurement of property and equipment	69	39
Increase due to changes in estimates	193	421
Accretion expense	8	6
Decrease due to fulfillment of asset retirement obligations	(147)	(40)
Other changes	(3)	—
Ending balance	¥3,842	¥3,722

Matters Relating to Real Estate Leases, Etc.

■ Year ended March 31, 2022

Not applicable

■ Year ended March 31, 2021

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, 2022
Receivables from contracts with customers (balance at the beginning of the fiscal year)	45,207
Receivables from contracts with customers (balance at the end of the fiscal year)	44,968
Contract liabilities (balance at the beginning of the fiscal year)	10,773
Contract liabilities (balance at the end of the fiscal year)	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 amount of the balance of contract liabilities at the beginning of the fiscal year included in the amount of revenues recognized during the fiscal year under review was ¥10,773 million.

(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, 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
	Digital Entertainment	Amusement	Publication	Merchandising	Total		Consolidated total (Note 2)
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	—	—	—	—	—	—	—
(1) Sales to outside customers	279,655	43,899	28,871	12,849	365,275	—	365,275
(2) 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.

4. Matters related to changes in reportable segments, etc.

As described in “Changes in Accounting Policies,” the Accounting Standard for Revenue Recognition and other standards have been applied and the accounting method regarding revenue recognition has been changed, effective from the beginning of the fiscal year ended March 31, 2022. Therefore, the method of calculating segment income has also changed. As a result, the amounts for the fiscal year ended March 31, 2022 are as follows.

(Digital Entertainment segment)

Net sales increased by ¥21,725 million and operating income increased by ¥69 million.

(Publication segment)

Net sales increased by ¥587 million and operating income decreased by ¥3 million.

(Amusement segment)

Net sales decreased by ¥41 million and operating income increased by ¥13 million.

■ Year ended March 31, 2021

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 by reporting segment

	Reporting segments					Adjustment (Note 1)	Millions of yen
	Digital Entertainment	Amusement	Publication	Merchandising	Total		Consolidated total (Note 2)
Net sales							
(1) Sales to outside customers	¥263,900	¥33,163	¥26,825	¥8,642	¥332,532	¥—	¥332,532
(2) Intersegment sales	9	1,185	17	810	2,023	(2,023)	—
Total	263,909	34,349	26,843	9,452	334,555	(2,023)	332,532
Segment operating income (loss)	¥50,536	¥(1,568)	¥11,687	¥2,249	¥62,904	¥(15,678)	¥47,226
Segment assets	¥134,110	¥21,920	¥8,631	¥1,639	¥166,302	¥169,841	¥336,144
Other items							
Depreciation and amortization	3,609	2,921	43	43	6,619	895	7,515
Increases in property and equipment and intangible assets	2,963	2,522	7	135	5,627	1,749	7,377

Notes: 1 (1) Segment adjustments (¥15,678 million) include unallocated corporate operating expenses (¥15,949 million).

(2) Unallocated assets amounting to ¥170,583 million are included in the ¥169,841 million adjustment to segment assets. Most of this amount comprises funds for management of surplus funds (cash and deposits).

(3) The ¥895 million adjustment to depreciation and amortization is associated with unallocated assets that do not belong to any reporting segment.

(4) The ¥1,749 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 (loss) corresponds to operating income on the Consolidated Statement of Income.

[Related Information]

■ 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.

■ Year ended March 31, 2021

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	
¥224,339	¥67,980	¥26,039	¥14,173	¥332,532	

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	
¥13,446	¥4,414	¥1,754	¥41	¥19,656	

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, 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.

■ Year ended March 31, 2021

						Millions of yen
	Digital Entertainment	Amusement	Publication	Merchandising	Eliminations or unallocated (Note)	Total
Impairment losses	¥—	¥520	¥—	¥—	¥0	¥520

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, 2022**

Not applicable

■ Year ended March 31, 2021

Not applicable

[Information related to gain on negative goodwill in each reporting segment]**■ Year ended March 31, 2022**

Not applicable

■ Year ended March 31, 2021

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, 2022

Not applicable

■ Year ended March 31, 2021

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

■ Year ended March 31, 2021

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)	—	Exercising of stock options (Note 1)	¥11	—	¥—	
					Direct						0.00
						(Held)					
						Direct					
	Yoshinori Kitase	—	—	Director of subsidiary	(Held)	—		Exercising of stock options (Note 1)	¥33	—	¥—
					Direct						
	Yosuke Saito	—	—	Director of subsidiary	(Held)	—		Exercising of stock options (Note 1)	¥23	—	¥—
					Direct						
	Hirokazu Nishikado	—	—	Director of subsidiary	(Held)	—		Exercising of stock options (Note 1)	¥23	—	¥—
					Direct						
	Shinji Hashimoto	—	—	Director of subsidiary	(Held)	—		Exercising of stock options (Note 1)	¥23	—	¥—
					Direct						
	Katsuyoshi Matsuura	—	—	Director of subsidiary	(Held)	—		Exercising of stock options (Note 1)	¥16	—	¥—
					Direct						
Yuu Miyake	—	—	Director of subsidiary	(Held)	—		Exercising of stock options (Note 1)	¥11	—	¥—	
				Direct							0.00
Naoki Yoshida	—	—	Director of subsidiary	(Held)	—		Exercising of stock options (Note 1)	¥45	—	¥—	
				Direct							—
Koichi Ishii	—	—	Director of subsidiary	(Held)	—		Exercising of stock options (Note 1)	¥11	—	¥—	
				Direct							—
Tetsu Yamada	—	—	Director of subsidiary	(Held)	—		Exercising of stock options (Note 1)	¥11	—	¥—	
				Direct							0.00
Michihiro Sasaki	—	—	Audit & supervisory board member of subsidiary	(Held)	—		Exercising of stock options (Note 1)	¥11	—	¥—	
				Direct							0.00
Philip Timo Rogers	—	—	Director of subsidiary	(Held)	—		Contribution in-kind of the monetary compensation claim (Note 2)	¥33	—	¥—	
				Direct							—

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, 2021 was pursuant to the resolutions of the Board of Directors on June 24, 2016, on August 4, 2017 and on August 7, 2018.
“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, 2021.
- 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, 2021 was pursuant to the resolutions of the Board of the Directors on August 7, 2018 and on July 30, 2019.
“Amount of transactions” represents the amount obtained by multiplication of the number of shares granted in the fiscal year ended March 31, 2021 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, 2022	Fiscal year ended March 31, 2021
Net assets per share	¥2,370.48	¥2,029.69
Earnings per share	426.82	225.75
Diluted earnings per share	425.95	225.18

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

	Millions of yen	
	Fiscal year ended March 31, 2022	Fiscal year ended March 31, 2021
Earnings per share:		
Profit attributable to owners of parent	¥51,013	¥26,942
Profit not available to common shareholders	—	—
Profit attributable to common shareholders of parent	51,013	26,942
Average number of shares of common stock outstanding during the fiscal year (thousands of shares)	119,520	119,345
Diluted earnings per share:		
Adjustments to profit attributable to owners of parent	—	—
Increase in the number of shares of common stock (thousands of shares)	244	301
[Number of shares reserved for the purpose of new share issuances for exercise of share subscription rights]	[244]	[301]
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: 104,300 shares	Issuance of July 2020 stock acquisition rights, pursuant to a resolution of the Board of Directors on June 24, 2020: 97,000 shares

Note: As described in "Changes in Accounting Policies," the Company has applied the Accounting Standard for Revenue Recognition (ASBJ Statement No. 29, March 31, 2020) and has complied with the transitional treatment set forth in Article 84 proviso of the standard. As a result, for the fiscal year ended March 31, 2022, net assets per share decreased by ¥0.38 while earnings per share and diluted earnings per share increased by ¥0.49, respectively.

Significant Subsequent Events

(Transfer of subsidiary shares)

On May 2, 2022, the Company concluded a share transfer agreement with Sweden-based Embracer Group AB concerning the sale of select Group overseas studios and intellectual property.

The primary assets to be divested are studios such as CRYSTAL DYNAMICS, INC. and EIDOS INTERACTIVE CORP., which are owned by Group subsidiaries, and select intellectual property, including the TOMB RAIDER, Deus Ex, Thief, and Legacy of Kain franchises.

The Company's Board of Directors voted at its April 27, 2022 meeting to entrust all decision-making authority on the matter to Representative Director Yosuke Matsuda.

(1) Reasons for the share transfer

The objective of the transaction is to enable the Company to allocate its 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.

It is based on the above policy that the Company has decided to transfer all the shares in studios including CRYSTAL DYNAMICS, INC. and EIDOS INTERACTIVE CORP., as well as select intellectual property, to Embracer Group AB.

(2) Name of share transfer counterparty

Embracer Group AB

(3) Date of share transfer

Between July and September 2022 (tentative)

(4) Names and businesses description of relevant subsidiaries, relationships with the Company

Name	CRYSTAL DYNAMICS, INC.
Businesses description	Planning and development of entertainment products
Relationship	The firm plans and develops content published by a Group subsidiary.

Name	EIDOS INTERACTIVE CORP.
Businesses description	Planning and development of entertainment products
Relationship	The firm plans and develops content published by a Group subsidiary.

(5) Shares to be transferred, transfer price, gains or losses from transfer, and post-transfer share ownership

Name	CRYSTAL DYNAMICS, INC.
Shares to be transferred	100,000 shares (Voting rights: 100%)
Post-transfer share ownership	— shares (Voting rights: —%)

Name	EIDOS INTERACTIVE CORP.
Shares to be transferred	620,000 shares (Voting rights: 100%)
Post-transfer share ownership	— shares (Voting rights: —%)

*The price of the transfer is 300 million US dollars. The Company is currently assessing how the transaction might impact its consolidated earnings for the fiscal year ending March 31, 2023.

(6) Name of reporting segment in which relevant subsidiaries were included
Digital Entertainment segment

(Issuance of stock acquisition rights pursuant to a resolution of the Board of Directors held on June 23, 2022)
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, 2022, 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, 2021 (Millions of yen)	Balance as of March 31, 2022 (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	808	832	—	—
Long-term borrowings (excluding the amount due for repayment within one year)	—	—	—	—
Lease obligations (excluding the amount due for repayment within one year)	2,973	3,504	—	May 2024 to September 2032
Other interest-bearing liabilities	—	—	—	—
Total	¥3,782	¥4,337	—	—

- Notes: 1 The average interest rate shown is the weighted average interest rate on the balance of borrowings as of March 31, 2022.
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, 2022 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	¥837	¥875	¥712	¥496

[Asset retirement obligations]

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

[Other]

Quarterly Financial Information

	Millions of yen			
Cumulative period	1Q April 1, 2021 to June 30, 2021	2Q April 1, 2021 to September 30, 2021	3Q April 1, 2021 to December 31, 2021	4Q April 1, 2021 to March 31, 2022
Net sales	¥88,604	¥168,917	¥273,627	¥365,275
Profit before income taxes	17,703	31,685	54,678	70,223
Profit attributable to owners of parent	12,655	22,991	39,844	51,013
Earnings per share (yen)	105.98	192.48	333.44	426.82
Quarterly	1Q April 1, 2021 to June 30, 2021	2Q July 1, 2021 to September 30, 2021	3Q October 1, 2021 to December 31, 2021	4Q January 1, 2022 to March 31, 2022
Earnings per share (yen)	¥105.98	¥86.50	¥140.93	¥93.39