ANNUAL REPORT 2020
FINANCIAL SECTION

CONTENTS

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

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

The following statements are based on management's view on SQUARE ENIX HOLDINGS CO., LTD. (the "Company") as of June 30, 2020 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. Content production account
When the Group determines that the estimated market value of the content production account—based on expected future demand and market conditions—has fallen below book value, the Group recognizes a write-down, while recording loss on valuation of inventories. If future demand and market conditions are worse than management's forecasts, there is the possibility that an additional recording of loss on valuation of inventories will become necessary.

b. Other intangible assets (brand)
With regard to other intangible assets (brand), the Group conducts an impairment test once per year, in the fourth quarter, or more frequently if events occur indicating that an impairment test is required, including changes in the market environment, or when a new game title relating to such brand is launched during the fiscal year. We use independent third-party valuation specialist. Impairment losses are recognized if the book value exceeds the estimated undiscounted future cash flows. When an impairment loss is posted as a result of the impairment test, the book value is written down to the applicable recoverable value. The calculation of the recoverable amount is based on fair value less costs to sell or value in use. In addition, if future demand and market conditions are worse than management's forecasts, there is the possibility that it will be necessary to recognize additional impairment losses.

c. Provision for sales returns
The Group records provisions for sales returns in case of the return of published materials and game software. If future demand and market conditions are worse than management's forecasts, there is the possibility that it will be necessary to recognize an additional provision for sales returns.

d. Allowance for doubtful accounts
The Group provides an allowance for doubtful accounts based on estimated irrecoverable amounts to prepare for bad debt losses on receivables. In the event that the financial condition of a counterparty deteriorates and its solvency declines, the Group may provide additional amounts to the allowance for doubtful accounts or record bad debt losses.

e. Unrealized losses on investments
The Group owns shares in companies with which it sells or purchases goods. These shareholdings include stock in listed companies subject to price fluctuation risk in the stock market and stock in privately held companies for which share prices are difficult to calculate. In the event that the fair value of these shares as of the end of the fiscal year declines by 50% or more of their acquisition cost, such a reduction is treated as an impairment loss. In addition, in the event that the fair value of marketable shares declines by 30% to 50%, an amount determined as necessary considering the importance and potential for recovery of the shares is treated as an impairment loss. Worsening market conditions or unstable performance at invested companies may require the recording of revaluation losses in the event that losses are not reflected in the current book value or the book value becomes irrecoverable.

f. Loss on investments in investment limited partnerships
The Group makes investments in investment limited partnerships, with a view toward creating new businesses by connecting our content with new technologies provided by ventures. For such investments, the Group records a gain or loss on investment by stating the net value of equities, based on the financial statements available at each financial reporting date prescribed in the partnership agreement. In the event that the businesses of such privately held investees do not proceed as planned, or their performance deteriorates due to a failure to achieve the expected results as a result of changes in the market environment, etc., the Group may record an additional loss on investment.

g. Deferred tax assets
The Group records a valuation allowance to provide for amounts of deferred tax assets thought likely to be recovered. In evaluating the necessity of a valuation allowance, the Company examines possible tax planning, including the prospect of future taxable income, for deferred tax assets with a high likelihood of realization. If the Company determines that all or a portion of net deferred tax assets cannot be realized in the future, the Company writes down such deferred tax assets during the fiscal year in which the determination is made. If the Company determines that deferred tax assets in excess of the recorded amount can be realized in the future, deferred tax assets which were written down in the past shall be reversed during the period in which the determination is made.

h. Impact of the novel coronavirus (COVID-19)
The Group made best estimation under COVID-19 circumstances as of June 25, 2020. However if the circumstances become more serious, 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 principally through internal funding resources and borrowings, of which funds raised by borrowings are used to meet short-term working capital requirements. As of March 31, 2020, the Group's balance of interest-bearing debt including borrowings and lease obligations was ¥8,504 million.

Cash and cash equivalents at the end of the year totaled ¥121,311 million, providing sufficient liquidity for the Group to carry on its business operations.

Cash flows in the fiscal year ended March 31, 2020, 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 ¥18,005 million, an increase of 48.4% from the previous fiscal year. The main factors were profit before income taxes of ¥30,793 million and depreciation and amortization of ¥7,417 million offset by an increase in inventories of ¥22,632 million.

(2) Net cash used in investing activities
Net cash used in investing activities totaled ¥10,039 million, a decrease of 22.0% from the previous fiscal year. The main factor was purchases of property and equipment of ¥5,827 million.

(3) Net cash used in financing activities
Net cash used in financing activities totaled ¥14,048 million, an increase of 83.5% from the previous fiscal year. The main factors were repayments of short-term borrowings of ¥8,525 million and cash dividends paid of ¥5,599 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, 2020

■ Assets

Total Assets

Millions of yen

March 31	2020	2019	Change
	¥302,634	¥282,614	¥20,020

Total assets as of March 31, 2020 amounted to ¥302,634 million, an increase of ¥20,220 million from the previous fiscal year. The main factors contributing to the change were as follows:

Cash and Deposits

Millions of yen

March 31	2020	2019	Change
	¥123,450	¥129,468	¥(6,018)

Cash and deposits as of March 31, 2020 decreased ¥6,018 million, to ¥123,450 million, mainly reflecting an increase in inventories of ¥22,632 million and cash dividends paid of ¥5,599 million, offset by profit before income taxes of ¥30,793 million, among other factors.

Content Production Account

Millions of yen

March 31	2020	2019	Change
	¥71,479	¥50,620	¥20,859

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, 2020, the content production account totaled ¥71,479 million, an increase of ¥20,859 million from the previous fiscal year.

Property and Equipment

Millions of yen

March 31	2020	2019	Change
	¥20,547	¥17,889	¥2,658

Total property and equipment as of March 31, 2020 amounted to ¥20,547 million, an increase of ¥2,658 million from the previous fiscal year, as there were no significant capital expenditures or sale of property and equipment.

Intangible Assets

Millions of yen

March 31	2020	2019	Change
	¥5,387	¥5,105	¥282

Total intangible assets as of March 31, 2020 amounted to ¥5,387 million, an increase of ¥282 million from the previous fiscal year.

Investments and Other Assets

Millions of yen

March 31	2020	2019	Change
	¥25,802	¥24,809	¥993

Total investments and other assets increased ¥993 million, to ¥25,802 million, as of March 31, 2020.

■ Liabilities

Millions of yen

March 31	2020	2019	Change
	¥80,705	¥76,168	¥4,537

As of March 31, 2020, total liabilities amounted to ¥80,705 million, an increase of ¥4,537 million from the previous fiscal year. The main factors contributing to the change were as follows:

Current Liabilities

Millions of yen

March 31	2020	2019	Change
	¥69,344	¥67,449	¥1,895

Total current liabilities increased ¥1,895 million, to ¥69,344 million, as of March 31, 2020. This was mainly due to an increase in notes and accounts payable of ¥1,945 million and an increase in accrued income taxes of ¥8,465 million, offset by a decrease in provision for sales returns of ¥4,925 million and a decrease in short-term borrowings of ¥8,525 million.

Non-Current Liabilities

Millions of yen

March 31	2020	2019	Change
	¥11,360	¥8,719	¥2,641

Total non-current liabilities increased ¥2,641 million, to ¥11,360 million, as of March 31, 2020. This was mainly due to an increase in net defined benefit liabilities of ¥321 million.

■ Shareholders' Equity/Net Assets

Millions of yen

March 31	2020	2019	Change
Common stock	¥24,039	¥24,039	¥0
Capital surplus	53,388	53,281	107
Retained earnings	159,222	143,451	15,771
Treasury stock	(9,900)	(10,162)	262
Total shareholders' equity	226,750	210,610	16,140
Valuation difference on available-for-sale securities	(162)	116	(278)
Foreign currency translation adjustments	(5,085)	(4,651)	(434)
Remeasurements of defined benefit plans	(318)	(285)	(33)
Total accumulated other comprehensive income (loss)	(5,567)	(4,820)	(747)
Stock acquisition rights	608	517	91
Non-controlling interests	137	139	(2)
Total net assets	¥221,928	¥206,445	¥15,483

As of March 31, 2020, total net assets amounted to ¥221,928 million, up ¥15,483 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 (¥37 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	2020	Composition	2019	Composition	Amount change	Percent change
Net sales	¥260,527	100.0%	¥271,276	100.0%	(10,749)	(4.0)%
Gross profit	121,515	46.6%	124,368	45.8%	(2,853)	(2.3)%
Reversal of provision for sales returns	9,016	3.5%	4,152	1.5%	4,864	117.1%
Provision for sales returns	4,257	1.6%	9,185	3.4%	(4,928)	(53.7)%
Net gross profit	126,274	48.5%	119,335	44.0%	6,939	5.8%
Selling, general and administrative expenses	93,515	35.9%	94,699	34.9%	(1,184)	(1.3)%
Operating income	¥32,759	12.6%	¥24,635	9.1%	8,124	33.0%

Comparisons by segment with the previous fiscal year are provided on pages 34-36.

Non-Operating Income and Expenses

Millions of yen

Years ended March 31	2020	2019	Change
Non-operating income	¥969	¥3,999	¥(3,030)
Non-operating expenses	1,633	219	1,414

Extraordinary Income and Loss

Millions of yen

Years ended March 31	2020	2019	Change
Extraordinary income	¥9	¥23	¥(14)
Extraordinary loss	1,311	5,307	(3,996)

Total extraordinary income was ¥9 million. Total extraordinary loss was ¥1,311 million, reflecting the recording of loss on event cancellations of ¥544 million.

■ **Capital Expenditures and Depreciation and Amortization**

Millions of yen

Years ended March 31	2020	2019	Change
Capital expenditures	¥9,657	¥9,581	¥76
Depreciation and amortization	7,417	6,801	616

Capital expenditures for the fiscal year ended March 31, 2020 amounted to ¥9,657 million, an increase of ¥76 million from the previous fiscal year.

Depreciation and amortization totaled ¥7,417 million, an increase of ¥616 million from the previous fiscal year, primarily due to an increase in depreciation and amortization in the Digital Entertainment segment.

4. Strategic Outlook, Issues Facing Management and Future Direction

Management's key task is to provide advanced, high-quality content and services that allow the Group to grow in the medium and long term while maintaining profitability. Advancements in the development and popularization of information technology (IT) and network environments have been contributing to greater diversification of delivery methods for content as well as changes in the accompanying business models. Not only that, they enable us to provide digital content through multi-function high-performance devices and networks, resulting in a broadening of consumer needs in the area of digital entertainment. On the other hand, users' preferences and their basic attitudes or expectations regarding the consumption of content have changed significantly, as seen in the increasing popularity of live entertainment. 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 business environment changes in a timely and flexible manner, by turning them into opportunities for growth, in order to become a pioneer in a new era in digital entertainment.

In order for the Group to achieve its medium- to long-term strategy, it is imperative that it develops its global business focusing on emerging markets and meets customers' diverse needs for entertainment content and services. It is critically important that the Group acquires and develops ideally suited human resources to that end.

The Group's operating forecast for the fiscal year ending March 31, 2021 is as follows (as of June 30, 2020).

Millions of yen

Years ended/ending March 31	2011 actual	2012 actual	2013 actual	2014 actual	2015 actual	2016 actual	2017 actual	2018 actual	2019 actual	2020 actual	2021 forecast
Net sales	¥125,271	¥127,896	¥147,981	¥155,023	¥167,891	¥214,101	¥256,824	¥250,394	¥271,276	¥260,527	
Operating income (loss)	7,325	10,713	(6,081)	10,543	16,426	26,018	31,295	38,176	24,635	32,759	
Ordinary income (loss)	5,390	10,297	(4,378)	12,534	16,984	25,322	31,128	36,124	28,415	32,095	
Profit (loss) attributable to owners of parent	(12,043)	6,060	(13,714)	6,598	9,831	19,884	20,039	25,821	19,373	21,346	

Notes: 1 Effective from the fiscal year ended March 31, 2020, changes have been made to the accounting policy regarding sales of digital content. This change in accounting policy has been applied retrospectively to the amounts recognized for the fiscal year ended March 31, 2019.

2 The Group has not determined a forecast for the fiscal year ending March 31, 2021 due to the difficulty in doing so reliably at present because the impact of the coronavirus pandemic on the Group's businesses remains uncertain.

5. Basic Policy for Profit Distribution and Dividends

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

It is the Company's basic policy for profit distribution to pay dividends from retained earnings twice a year (interim dividends and year-end dividends), and for the fiscal year ended March 31, 2020, the Company paid an interim dividend of ¥10 per share and a year-end dividend of ¥44 per share for an annual dividend of ¥54 per share.

The distribution of surplus for the fiscal year ended March 31, 2020 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, 2020 are as follows:

Date of resolution	Total dividends (Millions of yen)	Dividends per share (Yen)
November 7, 2019 Resolution by the Board of Directors	¥1,192	¥10
May 20, 2020 Resolution by the Board of Directors	¥5,248	¥44

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 25, 2020.

(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 next-generation consumer game consoles slated for release in the latter half of 2020, 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 enriches its game portfolio and hedges its risk by creating an optimum mix of AAA and smaller titles. In addition, it is striving to improve the profitability of its HD games by expanding post-launch sales (especially via digital downloads), seizing the additional earnings opportunities presented by the GaaS (Games as a Service) model, and otherwise creating a diverse base of recurring income. Moreover, 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.

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 (COVID-19), 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 potential for the worldwide coronavirus pandemic to slow the global economy by disrupting production, distribution, and consumption is a concern. Risks to the Group's business domains include a pullback in content demand, impacts to the manufacturing and distribution processes for packaged products, 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

	2020	2019
Assets		
Current assets		
Cash and deposits	¥123,450	¥129,468
Notes and accounts receivable	41,474	40,396
Merchandise and finished goods	5,850	4,484
Work in progress	206	5
Raw materials and supplies	433	330
Content production account	71,479	50,620
Other	8,163	9,770
Allowance for doubtful accounts	(161)	(265)
Total current assets	250,896	234,811
Non-current assets		
Property and equipment		
Buildings and structures	18,341	17,179
Accumulated depreciation	(11,603)	(10,663)
Buildings and structures (net)	6,738	6,515
Tools and fixtures	15,943	14,759
Accumulated depreciation	(11,112)	(10,065)
Tools and fixtures (net)	4,830	4,693
Amusement equipment	17,529	17,435
Accumulated depreciation	(15,420)	(14,790)
Amusement equipment (net)	2,108	2,645
Other	3,425	184
Accumulated depreciation	(484)	(115)
Other (net)	2,940	68
Land	3,782	3,782
Construction in progress	147	183
Total property and equipment	20,547	17,889
Intangible assets		
Other	5,387	5,105
Total intangible assets	5,387	5,105
Investments and other assets		
Investment securities	2,308	1,226
Guarantee deposits	10,612	10,373
Net defined benefit assets	—	93
Deferred tax assets	8,731	7,757
Other	*1 4,238	*1 5,418
Allowance for doubtful accounts	(88)	(61)
Total investments and other assets	25,802	24,809
Total non-current assets	51,737	47,803
Total assets	¥302,634	¥282,614

The accompanying notes are an integral part of these statements.

	2020	2019
Liabilities		
Current liabilities		
Notes and accounts payable	*2 ¥25,537	*2 ¥23,592
Short-term loans	—	8,685
Accrued income taxes	10,159	1,694
Provision for bonuses	4,061	3,273
Provision for sales returns	4,253	9,178
Provision for game arcade closings	43	49
Asset retirement obligations	3	5
Other	25,285	20,968
Total current liabilities	69,344	67,449
Non-current liabilities		
Provision for directors' retirement benefits	52	52
Provision for game arcade closings	40	—
Net defined benefit liabilities	3,214	2,893
Deferred tax liabilities	1,062	1,383
Asset retirement obligations	3,291	3,132
Other	3,698	1,257
Total non-current liabilities	11,360	8,719
Total liabilities	80,705	76,168
Net Assets		
Shareholders' equity		
Common stock	24,039	24,039
Capital surplus	53,388	53,281
Retained earnings	159,222	143,451
Treasury stock	(9,900)	(10,162)
Total shareholders' equity	226,750	210,610
Accumulated other comprehensive income (loss)		
Valuation difference on available-for-sale securities	(162)	116
Foreign currency translation adjustments	(5,085)	(4,651)
Remeasurements of defined benefit plans	(318)	(285)
Total accumulated other comprehensive income (loss)	(5,567)	(4,820)
Stock acquisition rights	608	517
Non-controlling interests	137	139
Total net assets	221,928	206,445
Total liabilities and net assets	¥302,634	¥282,614

Millions of yen

The accompanying notes are an integral part of these statements.

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

Millions of yen

	2020	2019
Net sales	¥260,527	¥271,276
Cost of sales	*1 139,012	*1 146,907
Gross profit	121,515	124,368
Reversal of provision for sales returns	9,016	4,152
Provision for sales returns	4,257	9,185
Net gross profit	126,274	119,335
Selling, general and administrative expenses		
Packaging freight charge	2,304	2,062
Advertising expense	21,006	29,460
Sales promotion expense	159	120
Compensation for directors	497	470
Salaries	18,901	17,396
Provision for bonuses	4,005	3,433
Net periodic pension costs	1,021	692
Welfare expense	2,835	2,642
Rental expense	2,919	2,699
Commission fee	28,377	24,700
Depreciation and amortization	2,725	2,410
Other	8,762	8,610
Total selling, general and administrative expenses	*2 93,515	*2 94,699
Operating income	32,759	24,635
Non-operating income		
Interest income	363	167
Dividends received	0	0
Foreign exchange gain	—	3,459
Rental income	36	72
Gain on forgiveness of payable for group tax	370	37
Outsourcing service income	104	125
Miscellaneous income	94	136
Total non-operating income	969	3,999
Non-operating expenses		
Interest expenses	135	107
Commission fee	5	5
Loss on investments in securities	127	40
Office transfer-related expenses	155	65
Foreign exchange losses	1,173	—
Miscellaneous loss	35	0
Total non-operating expenses	1,633	219
Ordinary income	32,095	28,415
Extraordinary income		
Gain on sale of property and equipment	*3 2	*3 15
Gain on sale of investment securities	—	0
Gain on reversal of stock acquisition rights	7	—
Other	—	8
Total extraordinary income	9	23
Extraordinary losses		
Loss on disposal of property and equipment	*4 130	*4 198
Impairment loss	*5 367	*5 368
Loss on valuation of shares of subsidiaries and associates	—	680
Loss on disposal of content and other losses	—	*6 3,638
Loss on event cancellations	*7 544	—
Other	268	422
Total extraordinary loss	1,311	5,307
Profit before income taxes	30,793	23,131
Income taxes–current	10,581	2,968
Income taxes–deferred	(1,136)	784
Total income taxes	9,444	3,753
Profit	21,348	19,378
Profit attributable to non-controlling interests	1	4
Profit attributable to owners of parent	¥21,346	¥19,373

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

	2020	2019
Profit	¥21,348	¥19,378
Other comprehensive income (loss)		
Valuation difference on available-for-sale securities	(279)	27
Foreign currency translation adjustments	(438)	(986)
Remeasurements of defined benefit plans	(33)	(153)
Other comprehensive income (loss)	*1 (750)	*1 (1,112)
Comprehensive income	20,598	18,266
(Breakdown)		
Comprehensive income attributable to owners of parent	20,600	18,271
Comprehensive income (loss) attributable to non-controlling interests	¥(2)	¥(4)

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

■ 2020

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	¥53,281	¥143,451	¥(10,162)	¥210,610
Cumulative effects of changes in accounting policies					
Restated balance	24,039	53,281	143,451	(10,162)	210,610
Changes during the year					
Issuance of new stocks					
Dividends from retained earnings			(5,602)		(5,602)
Profit attributable to owners of parent			21,346		21,346
Purchase of treasury stock				(9)	(9)
Disposal of treasury stock		107		271	378
Change in scope of consolidation			27		27
Net changes in items other than shareholders' equity					
Total changes during the year	—	107	15,771	261	16,140
Balance at the end of the year	¥24,039	¥53,388	¥159,222	¥(9,900)	¥226,750

Millions of yen

	Accumulated other comprehensive income (loss)						
	Valuation difference on available-for-sale securities	Foreign currency translation adjustments	Remeasure-ments of defined benefit plans	Total accumulated other comprehensive income (loss)	Stock acquisition rights	Non-controlling interests	Total net assets
Balance at the beginning of the year	¥116	¥(4,651)	¥(285)	¥(4,820)	¥517	¥139	¥206,445
Cumulative effects of changes in accounting policies							
Restated balance	116	(4,651)	(285)	(4,820)	517	139	206,445
Changes during the year							
Issuance of new stocks							
Dividends from retained earnings							(5,602)
Profit attributable to owners of parent							21,346
Purchase of treasury stock							(9)
Disposal of treasury stock							378
Change in scope of consolidation							27
Net changes in items other than shareholders' equity	(279)	(433)	(33)	(746)	90	(2)	(657)
Total changes during the year	(279)	(433)	(33)	(746)	90	(2)	15,482
Balance at the end of the year	¥(162)	¥(5,085)	¥(318)	¥(5,567)	¥608	¥137	¥221,928

The accompanying notes are an integral part of these statements.

■ 2019

Millions of yen

	Shareholders' equity				
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
Balance at the beginning of the year	¥23,868	¥53,107	¥129,513	¥(10,159)	¥196,330
Cumulative effects of changes in accounting policies			2,305		2,305
Restated balance	23,868	53,107	131,818	(10,159)	198,635
Changes during the year					
Issuance of new stocks	171	171			343
Dividends from retained earnings			(7,741)		(7,741)
Profit attributable to owners of parent			19,373		19,373
Purchase of treasury stock				(8)	(8)
Disposal of treasury stock		1		5	7
Change in scope of consolidation					
Net changes in items other than shareholders' equity					
Total changes during the year	171	173	11,632	(3)	11,974
Balance at the end of the year	¥24,039	¥53,281	¥143,451	¥(10,162)	¥210,610

Millions of yen

	Accumulated other comprehensive income (loss)						
	Valuation difference on available-for-sale securities	Foreign currency translation adjustments	Remeasure-ments of defined benefit plans	Total accumulated other comprehensive income (loss)	Stock acquisition rights	Non-controlling interests	Total net assets
Balance at the beginning of the year	¥89	¥(3,674)	¥(132)	¥(3,718)	¥603	¥144	¥193,359
Cumulative effects of changes in accounting policies							2,305
Restated balance	89	(3,674)	(132)	(3,718)	603	144	195,665
Changes during the year							
Issuance of new stocks							343
Dividends from retained earnings							(7,741)
Profit attributable to owners of parent							19,373
Purchase of treasury stock							(8)
Disposal of treasury stock							7
Change in scope of consolidation							
Net changes in items other than shareholders' equity	27	(977)	(153)	(1,102)	(86)	(4)	(1,194)
Total changes during the year	27	(977)	(153)	(1,102)	(86)	(4)	10,780
Balance at the end of the year	¥116	¥(4,651)	¥(285)	¥(4,820)	¥517	¥139	¥206,445

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
	2020	2019
Cash flows from operating activities		
Profit before income taxes	¥30,793	¥23,131
Depreciation and amortization	7,417	6,801
Impairment loss	367	368
Increase (decrease) in allowance for doubtful accounts	(73)	44
Increase (decrease) in provision for bonuses	780	(36)
Increase (decrease) in provision for sales returns	(4,759)	5,032
Increase (decrease) in provision for directors' retirement benefits	—	(35)
Increase (decrease) in provision for game arcade closing	36	(50)
Decrease (increase) in net defined benefit assets	96	(44)
Increase (decrease) in net defined benefit liabilities	271	96
Interest and dividends income	(363)	(167)
Interest expenses paid	135	107
Foreign exchange loss (gain)	665	(4,072)
Loss (gain) on sales of investment securities	—	(0)
Loss on disposal of non-current assets	130	198
Gain on sales of non-current assets	(2)	(15)
Loss on valuation of shares of subsidiaries and associates	—	680
Decrease (increase) in notes and accounts receivable	(1,195)	(10,799)
Decrease (increase) in inventories	(22,632)	(7,108)
Increase (decrease) in notes and accounts payable	1,581	7,720
Decrease (increase) in other current assets	(614)	(2,307)
Decrease (increase) in other non-current assets	1,298	(659)
Increase (decrease) in other current liabilities	3,585	2,038
Other, net	270	1,065
Subtotal	17,791	21,988
Interest and dividends income received	363	167
Interest expenses paid	(142)	(106)
Income taxes paid	(2,538)	(12,683)
Income taxes refund	2,530	2,768
Net cash provided by operating activities	¥18,005	¥12,135
Cash flows from investing activities		
Payments into time deposits	¥(5,141)	¥(3,993)
Proceeds from withdrawal of time deposits	5,220	3,976
Purchases of property and equipment	(5,827)	(8,450)
Proceeds from sales of property and equipment	2	15
Purchases of intangible assets	(1,587)	(1,190)
Purchase of investment securities	(1,612)	(1,074)
Proceeds from sales of investment securities	—	0
Purchases of shares of subsidiaries	(85)	(380)
Purchase of shares of subsidiaries and associates	—	(294)
Purchase of bonds of subsidiaries and associates	—	(697)
Payments for guarantee deposits	(433)	(760)
Proceeds from collection of guarantee deposits	193	208
Other, net	(767)	(235)
Net cash used in investing activities	(10,039)	(12,875)
Cash flows from financing activities		
Repayments of short-term borrowings	(8,525)	—
Proceeds from issuance of new stocks	—	106
Purchase of treasury stock	(9)	(8)
Repayments of lease obligations	(485)	—
Proceeds from exercise of employee share options	293	5
Cash dividends paid	(5,599)	(7,735)
Other, net	276	(23)
Net cash used in financing activities	(14,048)	(7,656)
Effect of exchange rate change on cash and cash equivalents	(479)	1,221
Net increase (decrease) in cash and cash equivalents	(6,562)	(7,173)
Cash and cash equivalents at the beginning of the year	127,181	134,355
Increase (decrease) in cash and cash equivalents resulting from change in scope of consolidation	691	—
Cash and cash equivalents at end of the year	*1 ¥121,311	*1 ¥127,181

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.
Luminous Productions Co., Ltd. has been included in the scope of consolidation from the fiscal year ended March 31, 2020, due to an increase in its materiality. SQUARE PICTURES, INC. has been excluded from the scope of consolidation, due to a decrease in its materiality as well as its current status of being under liquidation.

(2) Names of principal non-consolidated subsidiaries:
Tokyo RPG Factory Co., Ltd.
SQUARE ENIX Business Support, 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. 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., HUANG LONG CO., LTD., and SQUARE PICTURES, INC. end on December 31.

In the preparation of the accompanying consolidated financial statements, such financial statements that have a December 31 fiscal year-end have been used. Significant transactions between the fiscal year-end and the consolidated balance sheet date of March 31 are reconciled for consolidation.

4. Summary of Significant Accounting Policies

(1) Standards and valuation methods for major assets:
A) Investment securities
Other investment securities
Securities for which fair values are available:
Market value, determined by the quoted market price as of the balance sheet date, with unrealized gains and losses reported as a separate component of net assets at a net-of-tax amount, and cost of sales determined by the moving-average method
Securities for which fair values are unavailable:
Stated at cost determined by the moving-average method
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 sales returns
At certain consolidated subsidiaries, provisions are provided for losses on the return of published materials, at an amount calculated based on historical experience prior to this fiscal year and provisions are provided for losses on the return of game software and other, comprising an estimated amount of future losses assessed based on the probability of the return by each game title, etc.

D) Provision for game arcade closings
For closures of game arcades, etc., that have been determined at certain consolidated subsidiaries, a provision is provided at an amount in line with reasonable estimates of future losses on such closures.

E) Provision for directors' retirement benefits
At the Company, a provision for directors' retirement benefits is provided to adequately cover the costs of directors' retirement benefits, which are accounted for on an accrual basis in accordance with internal policy.

(4) Accounting treatment methods for retirement benefits:
A) Periodic attribution method for projected retirement benefits
In the calculation of retirement benefit obligations, the Company and certain consolidated subsidiaries apply the benefit formula basis in attributing projected benefits to the service period until the end of 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) Translation of foreign currency transactions and accounts:
All monetary assets and liabilities of the Company and its overseas consolidated subsidiaries denominated in foreign currencies are translated at the balance sheet date at the year-end rates. The resulting translation gains or losses are credited or charged to income. All assets and liabilities of overseas consolidated subsidiaries are translated as of the balance sheet date at the year-end rates, and all income and expense accounts are translated at the average rates for their respective periods. The resulting translation adjustments are recorded in net assets as foreign currency translation adjustments and are included in non-controlling interests.

(6) Scope of cash and cash equivalents in the consolidated 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.

(7) Additional accounting policies used to prepare consolidated financial statements:
A) Accounting treatment of consumption taxes and local consumption taxes
Statements of income items are presented exclusive of consumption taxes and local consumption taxes. Non-deductible consumption taxes charged on assets and local consumption taxes are recognized as expenses for the year when the related transactions have occurred.

B) Application of consolidated taxation system
The Company has applied the consolidated taxation system.

C) Treatment of tax effect accounting for the transition from the consolidated taxation system to the group tax sharing system
For the items covered under the transition to the group tax sharing system established under the Act for Partial Amendment to the Income Tax Act, etc. (Act No. 8 of 2020), as well as under the review of the non-consolidated taxation system in association with the aforementioned transition, the Company and some of its domestic consolidated subsidiaries have opted not to apply the provisions of Section 44 of the Implementation Guidance on Tax Effect Accounting (ASBJ Guidance No. 28, February 16, 2018), but to instead apply the provisions of the Income Tax Act before the amendment, to the amounts of deferred tax assets and deferred tax liabilities, in accordance with Section 3 of the Practical Solution on the Treatment of Tax Effect Accounting for the Transition from the Consolidated Taxation System to the Group Tax Sharing System (PITF No. 39, March 31, 2020).

Change in Accounting Policy
(Application of IFRS 16, “Leases” and (ASU) 2016-02, “Leases”)
Effective from the beginning of the fiscal year ended March 31, 2020, at foreign subsidiaries and affiliates that apply US GAAP, (ASU) 2016-02, “Leases” has been adopted, while at other foreign subsidiaries and affiliates, IFRS 16, “Leases” has been adopted. These accounting standards require lessees, in principle, to record all leases as assets and liabilities in the balance sheet.
As a result, there is minimal impact to the consolidated financial statements for the fiscal year ended March 31, 2020.

(Changes in accounting policy regarding sales of digital content)
Effective from the beginning of the fiscal year ended March 31, 2020, one of the Group’s consolidated subsidiaries have changed the timing of revenue recognition for digital content sold via platforms operated by other companies (including but not limited to consumer game consoles and mobile applications) from when sales data reports are received to when the content is provided to the customer. In keeping with this change, the timing of recognition of expenses such as royalties and platform fees calculated based on revenues has been changed as well. This change has been adopted to better reflect actual economic conditions and is the result of the development of system and organizational support that enables the timely collection of customer sales data.
The change in accounting policy has been applied retrospectively to the consolidated financial statements for the fiscal year ended March 31, 2019.
The changes caused an increase of ¥227 million in net sales for the fiscal year ended March 31, 2019, and an increase of ¥103 million in operating income, ordinary income, and profit before income taxes, compared with the previous method. Additionally, on April 1, 2018, the Group recognized an increase of ¥2,305 million to the beginning balance retained earnings as a cumulative-effect adjustment.
The impact on per share information is stated in “Per Share Information.”

Accounting Standards Issued but Not Yet Applied
“Accounting Standard for Revenue Recognition” (ASBJ Statement No. 29, March 31, 2020),
“Implementation Guidance on Accounting Standard for Revenue Recognition” (ASBJ Guidance No. 30, March 31, 2020) and
“Implementation Guidance on Disclosures about Fair Value of Financial Instruments” (ASBJ Guidance No. 19, March 31, 2020)

(1) Outline:
The International Accounting Standards Board (IASB) and the Financial Accounting Standards Board (FASB) jointly developed a comprehensive accounting standard for revenue recognition, and they issued “Revenue from Contracts with Customers” (IFRS 15 by IASB and Topic 606 by the FASB) in May 2014. Considering that the application of IFRS 15 is effective from the fiscal year beginning on or after January 1, 2018 and the application of Topic 606 is effective from fiscal years beginning after December 15, 2017, the comprehensive accounting standard for revenue recognition was developed by the ASBJ and issued together with its implementation guidance.
A basic policy in developing the accounting standard for revenue recognition by the ASBJ was to incorporate the basic principles of IFRS 15 as a starting point, from the viewpoint of comparability between financial statements, one of the benefits of consistency with IFRS 15. In addition, alternative accounting treatments are provided without impairing comparability for common business practices in Japan.

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

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

Change in the Method of Presentation
(Consolidated Statement of Income)
Outsourcing service income was included in miscellaneous income under non-operating income for the fiscal year ended March 31, 2019, but it is presented separately for the fiscal year ended March 31, 2020, because it exceeded 10% of the total amount of non-operating income. To reflect this change in the method of presentation, the consolidated financial statements for the fiscal year ended March 31, 2019 have been reclassified.

Consequently, ¥125 million in miscellaneous income under non-operating income in the consolidated statement of income for the fiscal year ended March 31, 2019 has been reclassified as outsourcing service income.

Reversal of allowance for doubtful accounts and subsidy income under non-operating income were presented separately for the fiscal year ended March 31, 2019, but are included in miscellaneous income for the fiscal year ended March 31, 2020, 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, 2019 have been reclassified.

Consequently, ¥8 million in reversal of allowance for doubtful accounts and ¥7 million in subsidy income in the consolidated statement of income for the fiscal year ended March 31, 2019 have been reclassified as miscellaneous income.

Gain on liquidation of subsidiaries under extraordinary income was presented separately for the fiscal year ended March 31, 2019, but is included in other for the fiscal year ended March 31, 2020, 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, 2019 have been reclassified.

Consequently, ¥8 million in gain on liquidation of subsidiaries in the consolidated statement of income for the fiscal year ended March 31, 2019 has been reclassified as other.

(Consolidated Statement of Cash Flows)
Proceeds from liquidation of subsidiaries under cash flows from investing activities was presented separately for the fiscal year ended March 31, 2019, but is included in other, net for the fiscal year ended March 31, 2020, 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, 2019 have been reclassified.

Consequently, ¥8 million in proceeds from liquidation of subsidiaries in the consolidated statement of cash flows for the fiscal year ended March 31, 2019 has been reclassified as other, net.

Additional Information
(Impact of the outbreak of the novel coronavirus (COVID-19) on accounting estimates)
Amusement facility operations in the Amusement segment were affected by the Japanese government's state of emergency declaration on April 7, 2020, as well as requests from local municipalities to suspend business operations and reduce opening hours, with which the majority of the Company's game arcades have complied. Under such circumstances, the impact of the aforementioned COVID-19 has been reflected in the accounting estimates, specifically with respect to determinations regarding whether to post an impairment loss on non-current assets associated with amusement facilities, and the recoverability of deferred tax assets. The accounting estimates have been calculated based on the assumption that the impact of COVID-19 would extend to the end of July 2020.

Notes to Consolidated Balance Sheet
*1 Investments in non-consolidated subsidiaries and affiliates

Millions of yen

	As of March 31, 2020	As of March 31, 2019
Other (investments and other assets)	¥1,611	¥1,536

*2 Electronically recorded obligations – operating as of the end of the fiscal year
The accounting treatment for electronically recorded obligations – operating as of the end of the fiscal year is settled on the clearance date. Since the last day of the fiscal year ended March 31, 2019 was a bank holiday, the following electronically recorded obligations – operating are included in the balance as of the fiscal year-end.

Millions of yen

	As of March 31, 2020	As of March 31, 2019
Electronically recorded obligations – operating	¥—	¥1,381

Notes to Consolidated Statement of Income
*1 Inventories at fiscal year-end are stated after writing down based on the decrease in profitability. The following amount is included within cost of sales as loss on valuation of inventories.

Millions of yen

Fiscal year ended March 31, 2020	Fiscal year ended March 31, 2019
¥7,940	¥2,908

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

Millions of yen

Fiscal year ended March 31, 2020	Fiscal year ended March 31, 2019
¥2,224	¥2,008

*3 Breakdown of gain on sale of property and equipment

Millions of yen

	Fiscal year ended March 31, 2020	Fiscal year ended March 31, 2019
Tools and fixtures	¥2	¥15

*4 Breakdown of loss on disposal of property and equipment

Millions of yen

	Fiscal year ended March 31, 2020	Fiscal year ended March 31, 2019
Buildings and structures	¥2	¥23
Tools and fixtures	13	18
Amusement equipment	100	156
Other	14	0
Total	¥130	¥198

*5 Impairment loss

In the fiscal year ended March 31, 2020, 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	¥129
		Other	1
Shinjuku-ku, Tokyo	Assets planned for disposal	Buildings and structures	8
		Amusement equipment	2
Toshima-ku, Tokyo, Kawasaki-shi, Asahi-shi	Stores	Buildings and structures	50
		Tools and fixtures	7
		Other	5
Shinjuku-ku, Tokyo	Arcade game machines development and distribution division	Buildings and structures	10
		Tools and fixtures	17
		Other	134
Total			¥367

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, 2019, 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	¥55
		Other	0
Shinjuku-ku, Tokyo	Assets planned for disposal	Amusement equipment	40
		Buildings and structures	2
Miyazaki-shi, Osaka-shi	Stores	Buildings and structures	174
		Tools and fixtures	35
		Other	24
Atsugi-shi	Arcade game machines maintenance services division	Buildings and structures	9
		Tools and fixtures	7
		Land	13
		Other	4
Total			¥368

In addition to the above, an impairment loss of ¥170 million was posted as a loss on disposal of content and other losses.

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, 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.

*6 Loss on disposal of content and other losses
In the fiscal year ended March 31, 2019, a loss on disposal of content and other losses recognized as an extraordinary loss was posted due to an in-depth review of the business strategy for Luminous Productions Co., Ltd., a wholly owned subsidiary of the Company. The loss comprises ¥3,425 million in loss on disposal of content production, ¥170 million in impairment loss on intangible assets and ¥41 million in other expenses.

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

Millions of yen

Location	Usage	Category	Impairment amount
Shinjuku-ku, Tokyo	Other	Other	¥170

For intangible assets, asset values were reassessed, taking into account changes in the market environment, and book values were subsequently written down to the applicable recoverable values. Note that the calculation of the recoverable amounts is measured by value in use. The value in use is estimated at zero as no recoverability is recognized.

*7 Loss on event cancellations
In the fiscal year ended March 31, 2020, the Group posted a loss on event cancellations as an extraordinary loss due to the cancellation and postponement of various events to prevent the spread of COVID-19.

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, 2020	Fiscal year ended March 31, 2019
Valuation difference on available-for-sale securities:		
Gains (losses) arising during the year	¥(403)	¥39
Reclassification adjustments	—	—
Total amount before tax-effect	(403)	39
Tax-effect	123	(11)
Valuation difference on available-for-sale securities	(279)	27
Foreign currency translation adjustments:		
Exchange differences arising during the year	(445)	(986)
Reclassification adjustments relating to foreign operations	7	—
Total amount before tax-effect	(438)	(986)
Tax-effect	—	—
Foreign currency translation adjustments	(438)	(986)
Remeasurements of defined benefit plans:		
Defined benefit obligations arising during the year	(278)	(341)
Reclassification adjustments relating to defined benefit plans	230	114
Total amount before tax-effect	(47)	(227)
Tax-effect	14	73
Remeasurements of defined benefit plans	(33)	(153)
Total other comprehensive income (loss)	¥(750)	¥(1,112)

Notes to Consolidated Statement of Changes in Net Assets

■**Year ended March 31, 2020**

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, 2019	Share increases during the year	Share decreases during the year	Shares as of March 31, 2020
Shares issued and outstanding				
Common stock	122,531	—	—	122,531
Total	122,531	—	—	122,531
Treasury stock				
Common stock[1, 2]	3,324	1	88	3,237
Total	3,324	1	88	3,237

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 88 thousand shares of treasury stock was due to the delivery of 86 thousand shares due to the exercise of stock acquisition rights as stock options, the delivery of 2 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, 2020 (Millions of yen)
			As of April 1, 2019	Increase during the year	Decrease during the year	As of March 31, 2020	
Supplying company (parent company)	Stock acquisition rights as stock options	—	—	—	—	—	¥608
	Total	—	—	—	—	—	¥608

3. Dividends

(1) Dividend payments

Date of approval	Type of shares	Total dividends (Millions of yen)	Dividends per share (Yen)	Record date	Effective date
May 17, 2019 (Board of Directors' Meeting)	Common stock	¥4,410	¥37	March 31, 2019	June 3, 2019
November 7, 2019 (Board of Directors' Meeting)	Common stock	1,192	10	September 30, 2019	December 4, 2019

(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 20, 2020 (Board of Directors' Meeting)	Common stock	¥5,248	Retained earnings	¥44	March 31, 2020	June 4, 2020

■**Year ended March 31, 2019**

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, 2018	Share increases during the year	Share decreases during the year	Shares as of March 31, 2019
Shares issued and outstanding				
Common stock[1]	122,398	132	—	122,531
Total	122,398	132	—	122,531
Treasury stock				
Common stock[2, 3]	3,324	1	1	3,324
Total	3,324	1	1	3,324

Notes: 1 The increase of 132 thousand shares of common stock was due to the exercise of stock acquisition rights as stock options.

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

3 The decrease of 1 thousand shares of treasury stock was due to the delivery of 1 thousand shares due to the exercise of stock acquisition rights as stock options 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, 2019 (Millions of yen)
			As of April 1, 2018	Increase during the year	Decrease during the year	As of March 31, 2019	
Supplying company (parent company)	Stock acquisition rights as stock options	—	—	—	—	—	¥517
	Total	—	—	—	—	—	¥517

3. Dividends
(1) Dividend payments

Date of approval	Type of shares	Total dividends (Millions of yen)	Dividends per share (Yen)	Record date	Effective date
May 17, 2018 (Board of Directors' Meeting)	Common stock	¥6,549	¥55	March 31, 2018	June 4, 2018
November 7, 2018 (Board of Directors' Meeting)	Common stock	1,192	10	September 30, 2018	December 5, 2018

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

Date of approval	Type of shares	Total dividends (Millions of yen)	Source of dividends	Dividends per share (Yen)	Record date	Effective date
May 17, 2019 (Board of Directors' Meeting)	Common stock	¥4,410	Retained earnings	¥37	March 31, 2019	June 3, 2019

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, 2020	Fiscal year ended March 31, 2019
Cash and deposits	¥123,450	¥129,468
Time deposits with maturity periods over three months	(2,138)	(2,286)
Cash and cash equivalents	¥121,311	¥127,181

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

The fair value of financial instruments includes amounts based on market prices as well as those calculated using an appropriate formula when there is no applicable market price. Since variable factors are included in the calculation of such fair values, the adoption of different assumptions may lead to changes in these fair value amounts.

2. Fair value of financial instruments

With regard to financial instruments held by the Company and its consolidated subsidiaries, the values presented on the consolidated balance sheet as of March 31, 2020 and 2019, the estimated fair value and the difference between these amounts are as follows. Items for which fair value is difficult to estimate are not included in the following table (Note 2).

■As of March 31, 2020

Millions of yen

Assets:	Book value	Fair value	Difference
(1) Cash and deposits	¥123,450	¥123,450	¥—
(2) Notes and accounts receivable	41,474		
Allowance for doubtful accounts	(161)		
Notes and accounts receivable, net	41,313	41,313	—
(3) Investment securities	498	498	—
(4) Guarantee deposits	10,612	10,472	(140)
Total assets	175,874	175,734	(140)
Liabilities:			
(1) Notes and accounts payable	25,537	25,537	—
(2) Short-term loans	—	—	—
(3) Accrued income taxes	10,159	10,159	—
Total liabilities	¥35,697	¥35,697	¥—

■**As of March 31, 2019**

Millions of yen

Assets:	Book value	Fair value	Difference
(1) Cash and deposits	¥129,468	¥129,468	¥—
(2) Notes and accounts receivable	40,396		
Allowance for doubtful accounts	(265)		
Notes and accounts receivable, net	40,131	40,131	—
(3) Investment securities	179	179	—
(4) Guarantee deposits	10,373	10,271	(102)
Total assets	180,152	180,050	(102)
Liabilities:			
(1) Notes and accounts payable	23,592	23,592	—
(2) Short-term loans	8,685	8,685	—
(3) Accrued income taxes	1,694	1,694	—
Total liabilities	¥33,972	¥33,972	¥—

Note: As described in “Change in Accounting Policy,” the accounting policy regarding sales of digital content has been changed, effective from the fiscal year ended March 31, 2020. Consequently, (2) notes and accounts receivable, total assets, (1) notes and accounts payable, and total liabilities as of March 31, 2019 are stated at the values after retrospective adjustments.

Notes: 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, (2) Short-term loans and (3) Accrued income taxes

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

Derivative transactions

Please refer to the information on “Derivative Transactions.”

2 Financial instruments for which it is extremely difficult to estimate fair value

Millions of yen

Item	As of March 31, 2020	As of March 31, 2019
Unlisted shares	¥71	¥14
Investments in investment limited partnerships	1,738	1,033

These items are not included in “(3) Investment securities” above, owing to the recognition of their lack of market prices and the extreme difficulty in estimating fair value.

3 Planned redemption amounts subsequent to the consolidated balance sheet date for monetary claims

Millions of yen

	As of March 31, 2020				As of March 31, 2019			
	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	¥121,672	¥—	¥—	¥—	¥127,358	¥—	¥—	¥—
Notes and accounts receivable	41,474	—	—	—	35,382	—	—	—
Guarantee deposits	5,315	3,806	1,490	—	5,510	2,781	2,081	—
Total	¥168,462	¥3,806	¥1,490	¥—	¥168,251	¥2,781	¥2,081	¥—

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

Millions of yen

	As of March 31, 2020						As of March 31, 2019					
	Within 1 year	More than 1 year but within 2 years	More than 2 years but within 3 years	More than 3 years but within 4 years	More than 4 years but within 5 years	More than 5 years	Within 1 year	More than 1 year but within 2 years	More than 2 years but within 3 years	More than 3 years but within 4 years	More than 4 years but within 5 years	More than 5 years
Short-term loans	¥—	¥—	¥—	¥—	¥—	¥—	¥8,685	¥—	¥—	¥—	¥—	¥—
Total	¥—	¥—	¥—	¥—	¥—	¥—	¥8,685	¥—	¥—	¥—	¥—	¥—

Securities

1. Held-for-sale securities
Not applicable

2. Held-to-maturity securities
Not applicable

3. Available-for-sale securities

Millions of yen

		As of March 31, 2020			As of March 31, 2019		
	Type	Book value	Acquisition cost	Difference	Book value	Acquisition cost	Difference
Securities with book value exceeding acquisition cost	(1) Stocks	¥61	¥13	¥48	¥179	¥31	¥147
	(2) Bonds						
	a. Government bonds and municipal bonds	—	—	—	—	—	—
	b. Corporate bonds	—	—	—	—	—	—
	c. Other	—	—	—	—	—	—
	(3) Other	—	—	—	—	—	—
	Subtotal	61	13	48	179	31	147
Securities with acquisition cost exceeding book value	(1) Stocks	437	740	(303)	—	—	—
	(2) Bonds						
	a. Government bonds and municipal bonds	—	—	—	—	—	—
	b. Corporate bonds	—	—	—	—	—	—
	c. Other	—	—	—	—	—	—
	(3) Other	—	—	—	—	—	—
	Subtotal	437	740	(303)	—	—	—
Total		¥498	¥754	¥(255)	¥179	¥31	¥147

4. Securities sold during the year

Millions of yen

	Fiscal year ended March 31, 2020			Fiscal year ended March 31, 2019		
Type	Proceeds	Aggregate gain on sale	Aggregate loss on sale	Proceeds	Aggregate gain on sale	Aggregate loss on sale
(1) Stock	¥—	¥—	¥—	¥0	¥0	¥—
(2) Bonds						
a. Government bonds and municipal bonds	—	—	—	—	—	—
b. Corporate bonds	—	—	—	—	—	—
c. Other	—	—	—	—	—	—
(3) Other	—	—	—	—	—	—
Total	¥—	¥—	¥—	¥0	¥0	¥—

Derivative Transactions
1. Derivative transactions for which hedge accounting has not been applied
Currency derivatives
■ **Year ended March 31, 2020**
Not applicable

■ **Year ended March 31, 2019**
Not applicable

2. Derivative transactions for which hedge accounting has been applied
■ **Year ended March 31, 2020**
Not applicable

■ **Year ended March 31, 2019**
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, 2020	Fiscal year ended March 31, 2019
Balance of retirement benefit obligations at the beginning of the year	¥12,417	¥12,221
Service cost	625	567
Interest cost	17	31
Actuarial (gains) losses arising during the year	92	315
Retirement benefits paid	(595)	(718)
Balance of retirement benefit obligations at the end of the year	¥12,557	¥12,417

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

Millions of yen

	Fiscal year ended March 31, 2020	Fiscal year ended March 31, 2019
Balance of plan assets at the beginning of the year	¥9,618	¥9,700
Expected return on plan assets	139	140
Actuarial gains (losses) arising during the year	(185)	(26)
Employer contribution	248	249
Retirement benefits paid	(477)	(445)
Balance of plan assets at the end of the year	¥9,342	¥9,618

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

Millions of yen

	Fiscal year ended March 31, 2020	Fiscal year ended March 31, 2019
Retirement benefit obligation for funded plans	¥9,345	¥9,524
Plan assets	(9,342)	(9,618)
	3	(93)
Retirement benefit obligation for unfunded plans	3,211	2,893
Net defined benefit liabilities and assets recorded in the consolidated balance sheet	3,214	2,799
Net defined benefit liabilities	3,214	2,893
Net defined benefit assets	—	93
Net defined benefit liabilities and assets recorded in the consolidated balance sheet	¥3,214	¥2,799

(4) Components of net periodic pension costs

Millions of yen

	Fiscal year ended March 31, 2020	Fiscal year ended March 31, 2019
Service cost	¥625	¥567
Interest cost	17	31
Expected return on plan assets	(139)	(140)
Amortization of net actuarial (gains) losses	230	114
Net periodic pension costs relating to defined benefit plan	¥733	¥573

(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, 2020	Fiscal year ended March 31, 2019
Actuarial gains (losses)	¥(47)	¥(227)
Total	¥(47)	¥(227)

(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, 2020	As of March 31, 2019
Unrecognized actuarial gains (losses)	¥483	¥436
Total	¥483	¥436

(7) Plan assets

1) Main components of plan assets

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

Percent

	As of March 31, 2020	As of March 31, 2019
Bonds	40	40
Stocks	10	11
General accounts	34	31
Cash and deposits	5	5
Others	11	12
Total	100	100

Note: Total plan assets include 4% and 3% of the retirement benefit trust plan, which has been established for the corporate pension plan, for the years ended March 31, 2020 and 2019, respectively.

2) Method of determining the long-term expected rate of return

The long-term expected rate of return on plan assets is determined by taking into account the current and expected allocation of plan assets, and the long-term return rates, which are expected currently and in the future based on the various assets that comprise the plan assets.

(8) Assumptions used to determine actuarial gains or losses

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

Percent

	As of March 31, 2020	As of March 31, 2019
Discount rate	0.129 to 0.331	0.050 to 0.446
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 ¥764 million and ¥483 million for the years ended March 31, 2020 and 2019, respectively.

Stock Options

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

Millions of yen

	Fiscal year ended March 31, 2020	Fiscal year ended March 31, 2019
Selling, general and administrative expenses	¥171	¥152

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

Millions of yen

	Fiscal year ended March 31, 2020	Fiscal year ended March 31, 2019
Reversal of stock acquisition rights	¥7	¥—

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

	2015 stock options	2016 stock options	2016 stock options	2017 stock options	2017 stock options	2018 stock options	2018 stock options
Category of grantees	Company employees, and directors and employees of the Company's subsidiaries	Company directors	Company employees, and directors and employees of the Company's subsidiaries	Company directors	Company employees, and directors and employees of the Company's subsidiaries	Company directors (excluding directors who are Audit & Supervisory Committee members)	Directors and employees of the Company's subsidiaries
Number of grantees	18	6	21	6	23	5	24
Number of stock options	122,000 shares of common stock	21,000 shares of common stock	116,000 shares of common stock	21,000 shares of common stock	179,000 shares of common stock	11,700 shares of common stock	126,300 shares of common stock
Date granted	July 16, 2015	July 20, 2016	July 20, 2016	July 19, 2017	August 30, 2017	August 30, 2018	August 30, 2018
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	June 25, 2017 to June 24, 2020	July 21, 2016 to July 20, 2036	June 25, 2018 to June 24, 2021	July 20, 2017 to July 19, 2037	August 5, 2019 to August 4, 2022	August 31, 2018 to August 30, 2038	August 8, 2020 to August 7, 2023

	2019 stock options	2019 stock options
Category of grantees	Company directors (excluding directors who are Audit & Supervisory Committee members)	Directors and employees of the Company's subsidiaries
Number of grantees	5	22
Number of stock options	18,100 shares of common stock	190,100 shares of common stock
Date granted	July 17, 2019	July 17, 2019
Conditions for vesting of interests	No conditions have been set for vesting interests	No conditions have been set for vesting interests
Service period	No service period established	No service period established
Rights exercise period	July 18, 2019 to July 17, 2039	June 22, 2021 to June 21, 2024

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	2015 stock options	2016 stock options	2016 stock options
Before vesting (shares)										
March 31, 2019	—	—	—	—	—	—	—	—	—	—
Granted	—	—	—	—	—	—	—	—	—	—
Forfeited	—	—	—	—	—	—	—	—	—	—
Vested	—	—	—	—	—	—	—	—	—	—
Unvested balance	—	—	—	—	—	—	—	—	—	—
After vesting (shares)										
March 31, 2019	3,700	11,000	16,000	16,000	16,000	8,000	11,000	36,900	11,000	100,300
Vested	—	—	—	—	—	—	—	—	—	—
Exercised	—	—	—	—	—	—	—	32,500	—	24,900
Forfeited	—	—	—	—	—	—	—	2,000	—	6,000
Balance unexercised	3,700	11,000	16,000	16,000	16,000	8,000	11,000	2,400	11,000	69,400

	2017 stock options	2017 stock options	2018 stock options	2018 stock options	2019 stock options	2019 stock options
Before vesting (shares)						
March 31, 2019	—	164,000	—	124,200	—	—
Granted	—	—	—	—	18,100	190,100
Forfeited	—	3,000	—	1,100	—	—
Vested	—	161,000	—	—	18,100	—
Unvested balance	—	—	—	123,100	—	190,100
After vesting (shares)						
March 31, 2019	11,000	—	11,700	—	—	—
Vested	—	161,000	—	—	18,100	—
Exercised	—	28,700	—	—	—	—
Forfeited	—	5,000	—	—	—	—
Balance unexercised	11,000	127,300	11,700	—	18,100	—

2) Price information

Yen

	2008 stock options	2009 stock options	2010 stock options	2011 stock options	2012 stock options	2014 stock options	2015 stock options	2015 stock options	2016 stock options	2016 stock options
Exercise price	¥1	¥1	¥1	¥1	¥1	¥1	¥1	¥3,150	¥1	¥3,290
Average share price at exercise	—	—	—	—	—	—	—	4,692	—	5,172
Fair market value on grant date	3,171	2,107	1,464	1,312	948	2,041	2,864	885	2,843	896

	2017 stock options	2017 stock options	2018 stock options	2018 stock options	2019 stock options	2019 stock options
Exercise price	¥1	¥3,820	¥1	¥5,205	¥1	¥3,720
Average share price at exercise	—	5,177	—	—	—	—
Fair market value on grant date	3,187	761	4,206	789	3,157	714

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

The fair value of the 2019 stock options granted during the fiscal year ended March 31, 2020 was estimated using the following method.

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

(2) Main assumptions:

	2019 stock options	2019 stock options
Expected share price volatility[1]	35.9%	32.9%
Expected life[2]	10.0 years	3.4 years
Expected dividend yield[3]	1.31%	1.31%
Risk-free interest rate[4]	(0.12)%	(0.20)%

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 2019 stock options, this was calculated based on the actual dividend applicable to the fiscal year ended March 31, 2019.

4 This was determined based on the yield of government bonds corresponding to the expected life of the options.

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

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

Tax Effect Accounting

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

Millions of yen

	As of March 31, 2020	As of March 31, 2019
Deferred tax assets		
Tax loss carried forward (Note 1)	¥11,250	¥10,888
Enterprise tax payable	527	113
Business office tax payable	45	43
Provision for bonuses	730	663
Accrued expenses	1,385	1,217
Provision for sales returns	293	709
Loss on write-offs of content production account	2,547	1,622
Loss on inventory revaluation	794	634
Net defined benefit liabilities	1,129	1,031
Provision for directors' retirement benefits	26	26
Expense for stock-based compensation	194	161
Non-deductible depreciation expense of property and equipment	582	668
Asset retirement obligations	1,040	986
Impairment loss	356	277
Loss on evaluation of investments in securities	797	792
Non-deductible portion of allowance for doubtful accounts	38	52
Non-deductible portion of excess expenses on lump-sum depreciable assets	75	96
Provision for game arcade closings	28	17
Tax credits	18	22
Other	272	93
Total gross deferred tax assets	22,137	20,118
Valuation allowance for net operating loss carryforwards (Note 1)	(9,635)	(9,270)
Valuation allowance for aggregate deductible temporary differences	(3,079)	(2,064)
Total valuation allowance	(12,715)	(11,334)
Total deferred tax assets	9,422	8,783
Deferred tax liabilities		
Accrued expenses and other cost calculation details	(120)	(129)
Non-current assets	(1,100)	(1,550)
Tax effects from intangible non-current assets relating to business combinations	(512)	(468)
Other	(18)	(262)
Total deferred tax liabilities	(1,753)	(2,410)
Balance: Net deferred tax assets	¥7,668	¥6,373

Note: 1. As described in "Change in Accounting Policy," the accounting policy regarding sales of digital content has been changed, effective from the fiscal year ended March 31, 2020. Consequently, deferred tax assets as of March 31, 2019 are stated at the value after retrospective adjustments.

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

■ **As of March 31, 2020**

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)	¥92	¥547	¥10,610	¥11,250
Valuation allowance	—	(81)	(9,554)	(9,635)
Deferred tax assets	92	466	1,056	1,615

■ **As of March 31, 2019**

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)	¥—	¥873	¥10,015	¥10,888
Valuation allowance	—	(332)	(8,938)	(9,270)
Deferred tax assets	—	540	1,077	1,617

(*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, 2020	As of March 31, 2019
Statutory tax rate	30.62%	30.62%
(Adjustments)		
Permanent differences relating to entertainment expense and others excluded from non-taxable expenses	0.13	0.19
Permanent differences relating to dividends received and others excluded from non-taxable expenses	(0.39)	(0.12)
Valuation allowance	9.15	(7.13)
Taxation on a per capita basis for inhabitants' tax	0.27	0.35
Special deduction for income growth	(0.83)	(1.21)
Tax credit for R&D expenses	(7.14)	(5.85)
Reduction of deferred tax assets and liabilities at fiscal year-end due to changes in corporate tax rate	(0.10)	0.19
Differences in tax rate from the parent company's statutory tax rate	0.57	(0.73)
Other	(1.61)	(0.14)
Effective tax rate	30.67	16.22

Business Combinations

■ Year ended March 31, 2020

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 (0.275)% and 1.355%.

c) Changes to aggregate asset retirement obligations

Millions of yen

	Fiscal year ended March 31, 2020	Fiscal year ended March 31, 2019
Beginning balance	¥3,137	¥2,812
Increase due to procurement of property and equipment	159	323
Increase due to changes in estimates	18	—
Accretion expense	7	7
Decrease due to fulfillment of asset retirement obligations	(27)	—
Other changes	—	(5)
Ending balance	¥3,295	¥3,137

Matters Relating to Real Estate Leases, Etc.

■ Year ended March 31, 2020

Not applicable

■ Year ended March 31, 2019

Not applicable

Segment Information

[Segment Information]

■ Year ended March 31, 2020

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

Millions of yen

	Reporting segments					Adjustment (Note 1)	Consolidated total (Note 2)
	Digital Entertainment	Amusement	Publication	Merchandising	Total		
Net sales							
(1) Sales to outside customers	¥188,640	¥44,832	¥19,393	¥7,660	¥260,527	¥—	¥260,527
(2) Intersegment sales	47	840	58	1,076	2,023	(2,023)	—
Total	188,687	45,673	19,452	8,737	262,550	(2,023)	260,527
Segment operating income	¥35,357	¥1,480	¥7,250	¥1,021	¥45,110	¥(12,351)	¥32,759
Segment assets	¥126,471	¥25,765	¥7,271	¥2,057	¥161,566	¥141,067	¥302,634
Other items							
Depreciation and amortization	3,386	3,092	43	64	6,587	829	7,417
Increases in property and equipment and intangible assets	4,397	3,818	11	38	8,266	1,391	9,657

Notes: 1 (1) Segment adjustments (¥12,351 million) include unallocated corporate operating expenses (¥12,420 million).
(2) Unallocated assets amounting to ¥141,467 million are included in the ¥141,067 million adjustment to segment assets. Most of this amount comprises funds for management of surplus funds (cash and deposits).
(3) The ¥829 million adjustment to depreciation and amortization is associated with unallocated assets that do not belong to any reporting segment.
(4) The ¥1,391 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 As a result of the changes in accounting policy regarding sales of digital content, effective from the fiscal year ended March 31, 2020, sales for the fiscal year ended March 31, 2019 are stated at the values after retrospective adjustments reflecting the aforementioned changes in accounting policy.

■ Year ended March 31, 2019

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

Millions of yen

	Reporting segments					Adjustment (Note 1)	Consolidated total (Note 2)
	Digital Entertainment	Amusement	Publication	Merchandising	Total		
Net sales							
(1) Sales to outside customers	¥204,531	¥46,065	¥14,268	¥6,409	¥271,276	¥—	¥271,276
(2) Intersegment sales	17	177	30	987	1,213	(1,213)	—
Total	204,549	46,243	14,299	7,397	272,489	(1,213)	271,276
Segment operating income	¥28,997	¥1,958	¥4,139	¥932	¥36,028	¥(11,393)	¥24,635
Segment assets	¥103,036	¥24,931	¥5,361	¥1,777	¥135,107	¥147,507	¥282,614
Other items							
Depreciation and amortization	2,777	3,223	39	36	6,076	725	6,801
Increases in property and equipment and intangible assets	3,342	4,387	18	51	7,800	1,781	9,581

Notes: 1 (1) Segment adjustments (¥11,393 million) include unallocated corporate operating expenses (¥11,447 million).
(2) Unallocated assets amounting to ¥147,731 million are included in the ¥147,507 million adjustment to segment assets. Most of this amount comprises funds for management of surplus funds (cash and deposits).
(3) The ¥725 million adjustment to depreciation and amortization is associated with unallocated assets that do not belong to any reporting segment.
(4) The ¥1,781 million adjustment to increases in property and equipment and intangible assets is associated with unallocated assets that do not belong to any reporting segment.
2 Segment operating income corresponds to operating income on the Consolidated Statement of Income.

[Related Information]

■ Year ended March 31, 2020

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
¥198,479	¥37,209	¥15,262	¥9,576	¥260,527

Notes: 1 Sales are grouped by country or region, based on customer location.
2 As a result of the changes in accounting policy regarding sales of digital content, effective from the fiscal year ended March 31, 2020, sales for the fiscal year ended March 31, 2019 are stated at the values after retrospective adjustments reflecting the aforementioned changes in accounting policy.

(2) Property and equipment

Millions of yen

Japan	North America	Europe	Asia	Total
¥14,892	¥3,756	¥1,837	¥61	¥20,547

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, 2019

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
¥167,372	¥57,974	¥32,346	¥13,582	¥271,276

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

(2) Property and equipment

Millions of yen

Japan	North America	Europe	Asia	Total
¥14,907	¥2,444	¥460	¥76	¥17,889

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, 2020

Millions of yen

	Digital Entertainment	Amusement	Publication	Merchandising	Eliminations or unallocated (Note)	Total
Impairment losses	¥—	¥366	¥—	¥—	¥1	¥367

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

■ Year ended March 31, 2019

Millions of yen

	Digital Entertainment	Amusement	Publication	Merchandising	Eliminations or unallocated (Note)	Total
Impairment losses	¥—	¥368	¥—	¥—	¥0	¥368

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, 2020
Not applicable

■ Year ended March 31, 2019
Not applicable

[Information related to gain on negative goodwill in each reporting segment]
■ Year ended March 31, 2020
Not applicable

■ Year ended March 31, 2019
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, 2020

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)
Non-consolidated subsidiaries	Luminous Productions Co., Ltd. (Note 1)	Shinjuku-ku Tokyo	¥5	Development of games	(Holding) Direct 100 Indirect —	Concurrent appointment of officers, and provision of loans	Forgiveness of payable for group tax (Notes 1, 2)	¥204	Payables	¥ —
	STUDIO ISTOLIA CO., LTD.	Shinjuku-ku Tokyo	¥0	Development of games	(Holding) Direct 100 Indirect —	Concurrent appointment of officers	Forgiveness of payable for group tax (Note 2)	¥165	Payables	¥ —

Terms and conditions of transactions and/or decision-making policy, etc.
Notes: 1 Luminous Productions Co., Ltd. has been included in the scope of consolidation from the fiscal year ended March 31, 2020, due to its increased materiality, changing its status from a non-consolidated subsidiary to a consolidated subsidiary. The above figure represents transactions conducted during the period in which Luminous Productions Co., Ltd. was operating as a non-consolidated subsidiary.
2 The amount of income taxes to be paid under consolidated taxation is determined based on consultations.

■ Year ended March 31, 2019
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, 2020

Type	Name	Location	Capital (Millions of yen)	Business description or occupation	Ratio of voting rights held (%)	Relationship with related parties	Transaction	Amount of transactions (Millions of yen)	Account item	Year-end balance (Millions of yen)
Director and close relatives	Tsuneto Okuno	—	—	Director of subsidiary and audit & supervisory board member of subsidiary	(Held) Direct 0.00 Indirect —	—	Exercising of stock options (Note)	¥11	—	¥ —
	Yoshinori Kitase	—	—	Director of subsidiary	(Held) Direct 0.00 Indirect —	—	Exercising of stock options (Note)	¥11	—	¥ —
	Yosuke Saito	—	—	Director of subsidiary	(Held) Direct 0.00 Indirect —	—	Exercising of stock options (Note)	¥11	—	¥ —
	Michihiro Sasaki	—	—	Director of subsidiary and audit & supervisory board member of subsidiary	(Held) Direct 0.00 Indirect —	—	Exercising of stock options (Note)	¥11	—	¥ —
	Hirokazu Nishikado	—	—	Director of subsidiary	(Held) Direct — Indirect —	—	Exercising of stock options (Note)	¥11	—	¥ —
	Shinji Hashimoto	—	—	Director of subsidiary	(Held) Direct 0.00 Indirect —	—	Exercising of stock options (Note)	¥11	—	¥ —
	Naoki Yoshida	—	—	Director of subsidiary	(Held) Direct — Indirect —	—	Exercising of stock options (Note)	¥11	—	¥ —
	Kazuharu Watanabe	—	—	Director of subsidiary	(Held) Direct — Indirect —	—	Exercising of stock options (Note)	¥24	—	¥ —

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

Note: The exercise of stock acquisition rights as stock options during the year ended March 31, 2020 was pursuant to the resolutions of the Board of Directors on June 24, 2015, on June 24, 2016 and on August 4, 2017.
"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, 2020.

■**Year ended March 31, 2019**

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	Naoki Yoshida	—	—	Director of subsidiary	(Held) Direct — Indirect —	—	Exercising of stock options (Note 1)	¥11	—	¥ —
	Yoshinori Kitase	—	—	Director of subsidiary	(Held) Direct 0.00 Indirect —	—	Exercising of stock options (Note 1)	¥11	—	¥ —
	Michihiro Sasaki	—	—	Director of subsidiary and audit & supervisory board member of subsidiary	(Held) Direct 0.00 Indirect —	—	Exercising of stock options (Note 1)	¥11	—	¥ —
	Yosuke Saito	—	—	Director of subsidiary	(Held) Direct 0.00 Indirect —	—	Exercising of stock options (Note 1)	¥11	—	¥ —
	Michael Sherlock	—	—	Director of subsidiary	(Held) Direct — Indirect —	—	Exercising of stock options (Notes 1, 2)	¥12	—	¥ —

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

Notes: 1 The exercise of stock acquisition rights as stock options during the year ended March 31, 2019 was pursuant to the resolutions of the Board of Directors on June 24, 2015 and on June 24, 2016.
“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, 2019.

2 Mr. Michael Sherlock retired as Director of SQUARE ENIX LTD. in August 2018. The above figure is the amount for the period he was in office in the fiscal year ended March 31, 2019.

Per Share Information

Yen

	Fiscal year ended March 31, 2020	Fiscal year ended March 31, 2019
Net assets per share	¥1,854.10	¥1,726.32
Earnings per share	179.02	162.57
Diluted earnings per share	178.73	162.30

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

Millions of yen

	Fiscal year ended March 31, 2020	Fiscal year ended March 31, 2019
Earnings per share:		
Profit attributable to owners of parent	¥21,346	¥19,373
Profit not available to common shareholders	—	—
Profit attributable to common shareholders of parent	21,346	19,373
Average number of shares of common stock outstanding during the fiscal year (thousands of shares)	119,240	119,171
Diluted earnings per share:		
Adjustments to profit attributable to owners of parent	—	—
Increase in the number of shares of common stock (thousands of shares)	197	197
[Number of shares reserved for the purpose of new share issuances for exercise of share subscription rights]	[197]	[197]
Summary of residual securities that do not dilute the Company’s earnings per share	Issuance of August 2018 stock acquisition rights, pursuant to a resolution of the Board of Directors on August 7, 2018: 123,100 shares	Issuance of August 2018 stock acquisition rights, pursuant to a resolution of the Board of Directors on August 7, 2018: 124,200 shares

Note: As described in “Change in Accounting Policy,” the accounting policy regarding sales of digital content has been changed, effective from the fiscal year ended March 31, 2020. The change in accounting policy has been applied retrospectively to the consolidated financial statements for the fiscal year ended March 31, 2019. Consequently, earnings per share and diluted earnings per share for the fiscal year ended March 31, 2019 increased by ¥7.64 and ¥7.62, respectively, compared with amounts recognized before the retrospective application.

Significant Subsequent Events

Issuance of stock acquisition rights pursuant to a resolution of the Board of Directors held on June 24, 2020

The Company, at the Board of Directors meeting held on June 24, 2020, resolved to issue stock acquisition rights as stock compensation-type stock options to directors (excluding directors who are audit & supervisory committee members) of the Company as part of their remuneration, and to issue stock acquisition rights as stock options to directors and employees of subsidiaries of the Company as part of their remuneration in accordance with Articles 236, 238 and 240 of the Companies Act.

Supplementary Schedule

[Borrowings]

Category	Balance as of April 1, 2019 (Millions of yen)	Balance as of March 31, 2020 (Millions of yen)	Average interest rate (%)	Repayment date
Short-term loans	¥8,685	¥—	—	—
Long-term borrowings due for repayment within one year	—	—	—	—
Lease obligations due for repayment within one year	519	747	—	—
Long-term borrowings (excluding the amount due for repayment within one year)	—	—	—	—
Lease obligations (excluding the amount due for repayment within one year)	2,045	3,049	—	August 2021 to September 2029
Other interest-bearing liabilities	—	—	—	—
Total	¥11,250	¥3,796	—	—

Notes: 1 The average interest rate shown is the weighted average interest rate on the balance of borrowings as of March 31, 2020.

2 Average interest rates for lease obligations are omitted because lease obligations include assumed interest amounts.

3 Effective from the beginning of the fiscal year ended March 31, 2020, at foreign subsidiaries and affiliates that apply US GAAP, (ASU) 2016-02, "Leases" has been adopted, while at other foreign subsidiaries and affiliates, IFRS 16, "Leases" has been adopted. The above balances as of April 1, 2019 are the values after the adoption of (ASU) 2016-02, "Leases" or IFRS 16, "Leases."

4 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.

5 Scheduled repayment amounts during five years subsequent to March 31, 2020 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	¥648	¥443	¥452	¥466

[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, 2019 to June 30, 2019	2Q April 1, 2019 to September 30, 2019	3Q April 1, 2019 to December 31, 2019	4Q April 1, 2019 to March 31, 2020
Net sales	¥53,329	¥120,762	¥189,715	¥260,527
Profit before income taxes	6,242	15,502	27,866	30,793
Profit attributable to owners of parent	4,122	10,969	19,190	21,346
Earnings per share (yen)	34.58	92.02	160.96	179.02

Quarterly	1Q April 1, 2019 to June 30, 2019	2Q July 1, 2019 to September 30, 2019	3Q October 1, 2019 to December 31, 2019	4Q January 1, 2020 to March 31, 2020
Earnings per share (yen)	¥34.58	¥57.44	¥68.94	¥18.08