ANNUAL REPORT 2023
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, 2023 and have not been audited. The following management discussion and analysis also contains forward-looking statements concerning the future performance of the Company. Please read the disclaimer regarding forward-looking statements at the beginning of this Annual Report.

1. Significant Accounting Policies and Assumptions Used in the Estimates

The consolidated financial statements of the Square Enix Group (the "Group") are prepared in accordance with generally accepted accounting principles in Japan (JPNGAAP). In the preparation of these consolidated financial statements, estimates and assumptions that affect the reported amounts of assets, liabilities, income, and expenses have been used. However, amounts obtained based on these estimates and assumptions may differ from actual results. Important accounting policies used in the preparation of the Group's consolidated financial statements are contained in the section titled "Summary of Significant Accounting Policies Used in the Preparation of Consolidated Financial Statements," of this report. In particular, judgments used in making estimates in the preparation of the consolidated financial statements are affected by the following accounting policies.

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

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

2. Analysis of Financial Policy, Capital Resources and Liquidity

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

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

Cash flows in the fiscal year ended March 31, 2023, as well as the principal factors behind these cash flows, are described below.

(1) Net cash provided by operating activities
Net cash provided by operating activities totaled ¥12,226 million, a decrease of 55.7% from the previous fiscal year. The main factors were profit before income taxes of ¥58,431 million, income taxes paid of ¥19,755 million, gain on sale of shares of subsidiaries and associates of ¥9,465 million, foreign exchange gain of ¥9,635 million, an increase of inventories of ¥13,711 million, and depreciation and amortization of ¥6,921 million.

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

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

The Group believes that it will be possible to procure the funds required for working capital and capital investments in the future to maintain growth based on its sound financial standing and ability to generate cash through operating activities.

3. Analysis of Business Performance in the Fiscal Year Ended March 31, 2023

■ Assets

Total Assets

Millions of yen

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

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

Cash and Deposits

Millions of yen

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

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

Content Production Account

Millions of yen

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

As a rule, content development costs incurred during the period from a title's formal development authorization to its release are capitalized in the content production account. When the title is released, this amount is then recorded as an expense.
The content production account is appropriately revalued in accordance with changes in the business environment.
As of March 31, 2023, the content production account totaled ¥87,217 million, a decrease of ¥9,548 million from the previous fiscal year.

Property and Equipment

Millions of yen

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

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

Intangible Assets

Millions of yen

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

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

Investments and Other Assets

Millions of yen

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

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

■ Liabilities

Millions of yen

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

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

Current Liabilities

Millions of yen

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

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

Non-Current Liabilities

Millions of yen

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

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

■ Shareholders' Equity/Net Assets

Millions of yen

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

As of March 31, 2023, total net assets amounted to ¥317,266 million, up ¥32,837 million from the previous fiscal year-end, mainly due to factors such as the recording of profit attributable to owners of parent offset by payments of year-end dividends (¥119 per share) for the previous fiscal year and interim dividends (¥10 per share) for the fiscal year under review.

■ Consolidated Statement of Income

Net Sales and Operating Income

Millions of yen

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

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

Non-Operating Income and Expenses

Millions of yen

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

Extraordinary Income and Loss

Millions of yen

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

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

■ **Capital Expenditures and Depreciation and Amortization**

Millions of yen

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

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

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

4. Strategic Outlook, Issues Facing Management and Future Direction

The Group aims to create advanced, high-quality content that allows for medium- and long-term growth while maintaining profitability. Nowadays, advancements in the development and popularization of information technology (IT) and network environments have led to increasing consumer demands for contents and services through multi-functional devices and networks. At the same time, the industrial structure of digital entertainment is changing significantly, with the diversification of delivery methods for content as well as changes in the accompanying business models. Our business area is also expanding to new markets such as Central and South America, the Middle East, and South Asia, in addition to existing major markets including Japan, Europe, the United States and East Asia. The Group strives to respond to these changes in a timely and flexible manner to become a pioneer in a new era in digital entertainment.

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

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

Millions of yen

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

5. Basic Policy for Profit Distribution and Dividends

The Group strives to enhance its corporate value through sustained growth achieved by undertaking investments in game development and other efforts funded by securing an appropriate level of retained earnings. At the same time, one of management's key policies is to return profits to shareholders. By rewarding shareholders, primarily with dividends, the Group works to return profits in a way that strikes the optimal balance between recognizing the level of earnings achieved and providing stable rewards. The amount of dividends is determined by setting a consolidated payout ratio target of approximately 30%, comprehensively considering the balance between investments and shareholder returns.

It is the Company's basic policy for profit distribution to pay dividends from retained earnings twice a year (interim dividends and year-end dividends), and for the fiscal year ended March 31, 2023, the Company paid an interim dividend of ¥10 per share and a year-end dividend of ¥114 per share for an annual dividend of ¥124 per share.

The distribution of surplus for the fiscal year ended March 31, 2023 is determined at the shareholders' meeting or by the Company's Board of Directors for year-end dividends, and by the Board of Directors for interim dividends.

The Company has set forth in its Articles of Incorporation that it may, pursuant to Article 454 of the Companies Act, pay interim dividends, with the record date of September 30 of each year, upon resolution of the Board of Directors.

In addition, the Company has set forth in its Articles of Incorporation that it may, pursuant to Article 459 of the Companies Act, pay dividends from surplus upon resolution of the Board of Directors.

The dividends from surplus for the fiscal year ended March 31, 2023 are as follows:

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

6. Risk Factors

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

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

(1) Risks related to business activities

1) Higher game development costs

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

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

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

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

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

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

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

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

4) The Group's international business operations

Regarding the Group's international business operations, a variety of factors that are present in the countries and regions in which the Group operates may affect its business performance. Such factors include market trends, the political situation, economic climate, laws and regulations, and social conditions.

(2) Risks related to the economic environment

1) Changes in the economic environment

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

2) Exchange rate fluctuations

The Group includes consolidated subsidiaries located in North America, Europe and Asia. The risk of foreign exchange loss has been reduced as foreign currency gained by those subsidiaries is expended for settlement or reinvestment in the applicable countries. However, sales, expenses, assets, liabilities, and net assets of foreign subsidiaries are converted into Japanese yen amounts in the consolidated financial statements. Consequently, exchange rates may affect the Group's business performance if they fluctuate beyond management forecasts.

(3) Risks related to laws and regulations and litigation

1) Information and network systems

The Group appropriately develops and manages the information and network systems that are required to execute its businesses and operations. However, operations could be disrupted as a result of system failures and operational errors, which, in turn, could result in the Group incurring opportunity losses and additional expenses.

In addition, the Group has developed, operated, and managed solid preventive and defensive measures against so-called security incidents, including cyberattacks against, or unauthorized access to the systems, as well as infections by computer viruses. However, in the event that a security incident occurs that cannot be prevented by the above measures, the execution of its businesses or operations could be disrupted, and the Group could incur opportunity losses and additional expenses. The Group could also suffer a loss in the Group's social credibility as a result of leakage of trade secrets, including the personal information of the Group's customers and employees, to third parties, as well as the occurrence of additional expenses.

2) Management of personal information

In conjunction with the enactment of the Personal Information Protection Act, along with the General Data Protection Regulation in the EU, the Group has established a rigorous internal system for the management of personal information, in addition to conducting training on the protection of personal information, as necessary, for its directors, audit & supervisory board members and employees. However, in the event that a security incident, as described in "1) Information and network systems" above, occurs, and personal information is leaked to third parties, the Group's business performance may be affected.

3) Entertainment industry laws

The operation of amusement facilities is subject to government control under the Law for Proper Control of Entertainment and Amusement Businesses and other related laws and regulations. These laws and regulations include an approval and licensing system for the opening and operation of amusement facilities, restrictions on business hours, age restrictions, area regulations on outlet openings, and regulations concerning facility structures, interiors, lighting and noise. The Group operates its facilities legally and appropriately in strict compliance with these laws and regulations. However, if these laws and regulations were to be reinforced, the Group's business performance may be affected.

4) Litigation and other claims

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

(4) Risks related to disasters, etc.

1) Accidents and disasters

The Group periodically carries out accident prevention checks, facility inspections, development of its evacuation guidance capabilities, and appropriate regular disaster-readiness and evacuation drills in order to minimize the impact of earthquakes and other major natural disasters, fires, blackouts, system and network failures, terrorist attacks, outbreaks of infectious diseases, and other accidents and disasters. However, should devastating accidents or disasters occur, the Group's business performance may be affected.

2) Impact from the spread of infectious diseases

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

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

Consolidated Balance Sheet (JPNGAAP)
SQUARE ENIX HOLDINGS CO., LTD. and Consolidated Subsidiaries
As of March 31

Millions of yen

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

The accompanying notes are an integral part of these statements.

Millions of yen

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

The accompanying notes are an integral part of these statements.

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

Millions of yen

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

The accompanying notes are an integral part of these statements.

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

Millions of yen

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

The accompanying notes are an integral part of these statements.

Consolidated Statement of Changes in Net Assets (JPNGAAP)
SQUARE ENIX HOLDINGS CO., LTD. and Consolidated Subsidiaries
Years ended March 31

■ 2023

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

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	¥(24)	¥(6,844)	¥116	¥(6,752)	¥718	¥191	¥284,429
Changes during the year							
Dividends from retained earnings							(15,430)
Profit attributable to owners of parent							49,264
Purchase of treasury stock							(5)
Disposal of treasury stock							644
Net changes in items other than shareholders' equity	27	(1,921)	191	(1,702)	33	31	(1,636)
Total changes during the year	27	(1,921)	191	(1,702)	33	31	32,836
Balance at the end of the year	¥2	¥(8,765)	¥308	¥(8,454)	¥752	¥222	¥317,266

The accompanying notes are an integral part of these statements.

■ 2022

Millions of yen

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

Millions of yen

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

The accompanying notes are an integral part of these statements.

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

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

The accompanying notes are an integral part of these statements.

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

(Millions of yen)

The accompanying notes are an integral part of these statements.

Notes to Consolidated Financial Statements (JPNGAAP)
SQUARE ENIX HOLDINGS CO., LTD. and Consolidated Subsidiaries

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

1. Scope of Consolidation

(1) Number of consolidated subsidiaries: 17 companies
Names of principal consolidated subsidiaries
SQUARE ENIX OF AMERICA HOLDINGS, INC.
SQUARE ENIX CO., LTD.
TAITO CORPORATION
Luminous Productions Co., Ltd.
SQUARE ENIX, INC.
SQUARE ENIX LTD.
SQUARE ENIX (China) CO., LTD.
SQUARE ENIX NEWCO LIMITED was established in April 2022 and became a consolidated subsidiary.
SQUARE ENIX NEWCO LIMITED, CRYSTAL DYNAMICS, INC., EIDOS INTERACTIVE CORP. and EIDOS CREATIVE SOFTWARE (SHANGHAI) CO., LTD were excluded from the scope of consolidation because they were sold during the fiscal year ended March 31, 2023.

(2) Names of principal non-consolidated subsidiaries:
Tokyo RPG Factory Co., Ltd.
SQUARE ENIX Business Support, CO., LTD.
SQUARE ENIX AI & ARTS Alchemy Co., Ltd.
SQUARE ENIX PRIVATE LIMITED

(Rationale for the exclusion of subsidiaries from the scope of consolidation)
Non-consolidated subsidiaries conduct operations that are relatively small in scale. The total amounts of the non-consolidated subsidiaries' assets, sales, profit (corresponding to the share), and retained earnings (corresponding to the share) are deemed to have an immaterial effect on the Company's financial performance and consolidated financial statements.

2. Application of the Equity Method of Accounting

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

(2) Non-consolidated subsidiaries that were not accounted for under the equity method, including Tokyo RPG Factory Co., Ltd., SQUARE ENIX Business Support, CO., LTD., SQUARE ENIX AI & ARTS Alchemy Co., Ltd. and SQUARE ENIX PRIVATE LIMITED, as well as affiliated companies, were excluded from the scope of application of the equity method because the impact on profit (corresponding to the share) and retained earnings (corresponding to the share) was insignificant to the consolidated financial statements overall.

3. Fiscal Year-End of Consolidated Subsidiaries

Among the Company's consolidated subsidiaries, the fiscal years of SQUARE ENIX (China) CO., LTD. and HUANG LONG CO., LTD. end on December 31.

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

4. Summary of Significant Accounting Policies

(1) Standards and valuation methods for major assets:
A) Investment securities
Other investment securities
Securities other than securities without market prices:
Market value, with unrealized gains and losses reported as a separate component of net assets at a net-of-tax amount, and cost of sales determined by the moving-average method
Securities without market prices:
Stated at cost determined by the moving-average method
As for investments in investment limited partnerships and similar partnerships, which are deemed to be investment securities under Article 2, Paragraph 2 of the Financial Instruments and Exchange Act, the net amount equivalent to equity is recorded based on the financial results available as of the financial reporting date stipulated in the partnership agreement.

B) Derivatives
Stated at fair value

C) Inventories
Manufactured goods, merchandise:
Mainly stated at cost, determined by the monthly average method (book-entry devaluation method based on the decrease in profitability is used with respect to balance sheet values) and the moving-average method (book-entry devaluation method based on the decrease in profitability is used with respect to balance sheet values).

However, amusement equipment is stated at cost, determined by the identified cost method (book-entry devaluation method based on the decrease in profitability is used with respect to balance sheet values).

Content production account:
Stated at cost, determined by the identified cost method (book-entry devaluation method based on the decrease in profitability is used with respect to balance sheet values).
Raw materials, unfinished goods:
Stated at cost, determined by the moving-average method (book-entry devaluation method based on the decrease in profitability is used with respect to balance sheet values).
Supplies:
Stated at the last purchase price.

(2) Method of depreciation and amortization for major assets:
A) Property and equipment (excluding leased assets and right-of-use assets)
Property and equipment of the Company and its domestic consolidated subsidiaries are depreciated using the declining-balance method.
However, regarding buildings (excluding building fixtures) acquired on or after April 1, 1998, and facilities attached to buildings and other non-building structures acquired on or after April 1, 2016, the straight-line method is applied. Overseas consolidated subsidiaries also use the straight-line method. The estimated useful lives of major assets are as follows:

Buildings and structures	2–60 years
Tools and fixtures	2–20 years
Amusement equipment	3–5 years

B) Intangible assets (excluding leased assets and right-of-use assets)
Amortized using the straight-line method. Software used in-house is amortized using the straight-line method based on an internal estimate of its useful life (three to five years).

C) Leased assets
Leased assets under finance lease transactions that do not transfer ownership:
Depreciation for leased assets is computed under the straight-line method over the lease term with no residual value.

D) Right-of-use assets
Depreciation for right-of-use assets is computed under the straight-line method over the lease term with no residual value.

(3) Accounting for allowances and provisions:
A) Allowance for doubtful accounts
An allowance for doubtful accounts provides for possible losses on defaults of receivables. The allowance is made up of two components: the estimated credit loss on doubtful receivables based on an individual assessment of each account, and a general reserve calculated based on historical default rates.

B) Provision for bonuses
A provision for bonuses is provided for payments to employees of the Company and certain consolidated subsidiaries at the amount expected to be paid in respect of the calculation period ended on the balance sheet date.

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

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

(4) Accounting treatment methods for retirement benefits:
A) Periodic attribution method for projected retirement benefits
In the calculation of retirement benefit obligations, the Company and certain consolidated subsidiaries apply the benefit formula basis in attributing projected benefits to the service period until the end of this fiscal year.

B) Amortization method of actuarial gains and losses and prior service costs
Unrecognized actuarial differences are fully amortized in the year following the year in which they occur. At certain consolidated subsidiaries, amortization for each fiscal year is made using the straight-line method over a certain period (five years) within the average remaining service period of eligible employees when the differences are recognized, commencing from the year following the year in which they occur.
Unrecognized prior service costs are amortized over a certain period (one year or five years) within the average remaining service period of eligible employees.

(5) Accounting for significant revenue and expenses:
The Group applies the following five-step approach to recognize revenue.
Step 1: Identify contracts with customers.
Step 2: Identify performance obligations in contracts.
Step 3: Calculate transaction prices.
Step 4: Allocate transaction prices to performance obligations in contracts.
Step 5: Recognize revenue when or as performance obligations are satisfied.
In cases where the Group does not assume the major responsibility for providing the services or does not have discretion in setting prices, revenue is recognized on a net basis.
The Group is engaged in business activities globally in its reporting segments of Digital Entertainment, Amusement, Publication,

and Merchandising.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

(6) Translation of foreign currency transactions and accounts:
All monetary assets and liabilities of the Company and its overseas consolidated subsidiaries denominated in foreign currencies are translated at the balance sheet date at the year-end rates. The resulting translation gains or losses are credited or charged to income. All assets and liabilities of overseas consolidated subsidiaries are translated as of the balance sheet date at the year-end rates, and all income and expense accounts are translated at the average rates for their respective periods. The resulting translation adjustments are recorded in net assets as foreign currency translation adjustments and are included in non-controlling interests.

(7) Scope of cash and cash equivalents in the consolidated statement of cash flows:
Cash and cash equivalents in the consolidated statement of cash flows comprises cash on hand, bank deposits that may be withdrawn on demand and short-term investments with an original maturity of three months or less and with minimal risk of fluctuations in value.

(8) Additional accounting policies used to prepare consolidated financial statements:
A) Application of group tax sharing system
The Company has applied the group tax sharing system.

B) Treatment of significant expenses
The content production account is recorded in cost of sales based on expected sales revenue.

Significant Accounting Estimates
(Valuation of the content production account)
(1) Amount recorded in the consolidated financial statements for the fiscal year ended March 31, 2023

Millions of yen

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

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

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

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

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

Millions of yen

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

(2) Other information that would contribute to the users' understanding of the consolidated financial statements
1) Calculation method
At certain overseas consolidated subsidiaries of the Group, refund liabilities are recorded to prepare for losses due to the return of game software, etc., at an amount calculated based on the estimated amount of future losses for each game title. The estimated amount of future losses is calculated based on the rate of future refund to wholesalers and retailers of each game title at the fiscal year-end.

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

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

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

Accounting Standards Issued but Not Yet Applied
(Application of Accounting Standard for Current Income Taxes, etc.)
・"Accounting Standard for Current Income Taxes" (ASBJ Statement No. 27, October 28, 2022)
・"Accounting Standard for Presentation of Comprehensive Income" (ASBJ Statement No. 25, October 28, 2022)
・"Guidance on Accounting Standard for Tax Effect Accounting" (ASBJ Guidance No. 28, October 28, 2022)

(1) Outline:
In February 2018, ASBJ issued ASBJ Statement No. 28, "Partial Amendments to Accounting Standard for Tax Effect Accounting," etc. (hereinafter, "ASBJ Statement No. 28, etc."), and the transfer of the practical guidance on tax effect accounting from the Japanese Institute of Certified Public Accountants (JICPA) to ASBJ was completed. However, in the course of the deliberation process, it was determined that the following two issues would be reviewed after the release of ASBJ Statement No. 28, etc., and they were discussed and released:
・Classification of tax expense (taxation on other comprehensive income)
・Tax effect on sale of shares of subsidiaries (shares of subsidiaries or associates) in the case where the group tax sharing system is applied.

(2) Effective date:
Effective from the beginning of the fiscal year ending March 31, 2025

(3) Impact of the application of accounting standards and implementation guidance:
The impact of the application of the Accounting Standard for Current Income Taxes, etc., on the consolidated financial statements is being assessed.

Change in the Method of Presentation
Not applicable

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

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

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

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

Notes to Consolidated Balance Sheet
*1 The amount of receivables from contracts with customers among notes and accounts receivable

Millions of yen

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

*2 Investments in non-consolidated subsidiaries and affiliates

Millions of yen

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

*3 The amount of contract liabilities among other

Millions of yen

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

Notes to Consolidated Statement of Income

*1 Revenues from contracts with customers

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

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

Millions of yen

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

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

Millions of yen

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

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

Millions of yen

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

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

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

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

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

Millions of yen

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

*7 Impairment loss

In the fiscal year ended March 31, 2023, the Group posted an impairment loss on the following groups of assets.

Millions of yen

Location	Usage	Category	Impairment amount
Shinjuku-ku, Tokyo	Idle assets	Amusement equipment	¥51
Shinjuku-ku, Tokyo	Assets planned for disposal	Amusement equipment	0
Kita-kyushu, Fukuoka, Aomori, Aomori	Stores	Buildings and structures	11
		Tools and fixtures	0
		Other	2
Shinjuku-ku, Tokyo	Development of consumer game	Tools and fixtures	0
Atsugi, Kanagawa	Development of arcade game machines	Tools and fixtures	0
		Other	6
Total			¥73

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

With regard to idle assets presented in the table above, market value had fallen substantially below book value and the future use of these assets was deemed uncertain. For these reasons, the book value of these idle assets has been written down to the applicable market value. With regard to assets planned for disposal, assets at stores, and assets of the development of consumer game and arcade game machines, future recovery of the investment amount has been deemed uncertain and their book value has been written down to the applicable recoverable value. Note that calculation of recoverable amounts is measured by net realizable value. Net realizable value is based primarily on a reasonable assumption of market price.

In the fiscal year ended March 31, 2022, the Group posted an impairment loss on the following groups of assets.

Millions of yen

Location	Usage	Category	Impairment amount
Shinjuku-ku, Tokyo	Idle assets	Amusement equipment	¥72
		Other	0
Shinjuku-ku, Tokyo	Assets planned for disposal	Amusement equipment	7
Taito-ku, Tokyo, Kanazawa-shi, Ishikawa	Stores	Buildings and structures	17
		Tools and fixtures	2
		Other	3
Shinjuku-ku, Tokyo	Arcade game machines development and distribution division	Tools and fixtures	0
		Other	6
Total			¥109

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

With regard to idle assets presented in the table above, market value had fallen substantially below book value and the future use of these assets was deemed uncertain. For these reasons, the book value of these idle assets has been written down to the applicable market value. With regard to assets planned for disposal, assets at stores, and assets of the arcade game machines development and distribution division, future recovery of the investment amount has been deemed uncertain and their book value has been written down to the applicable recoverable value. Note that calculation of recoverable amounts is measured by net realizable value. Net realizable value is based primarily on a reasonable assumption of market price.

*8 Loss on temporary closure

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

Notes to Consolidated Statement of Comprehensive Income

*1 Reclassification adjustments and tax effects allocated to each component of other comprehensive income (loss)

Millions of yen

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

Notes to Consolidated Statement of Changes in Net Assets

■Year ended March 31, 2023

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

Thousands of shares

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

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

2 The decrease of 124 thousand shares of treasury stock was due to the delivery of 87 thousand shares due to the exercise of stock acquisition rights as stock options, the delivery of 23 thousand shares as a restricted stock remuneration plan, the delivery of 13 thousand shares as a post-delivery type stock remuneration plan, and the sale of 0 thousand fractional shares constituting less than one trading unit.

2. Stock options and the Company's stock options

Category	Details of stock options	Type of shares issuable for the exercise of stock options	Number of shares allocated for the purpose of stock options				Balance as of March 31, 2023 (Millions of yen)
			As of April 1, 2022	Increase during the year	Decrease during the year	As of March 31, 2023	
Supplying company (parent company)	Stock acquisition rights as stock options	—	—	—	—	—	¥752
	Total	—	—	—	—	—	¥752

3. Dividends

(1) Dividend payments

Date of approval	Type of shares	Total dividends (Millions of yen)	Dividends per share (Yen)	Record date	Effective date
May 19, 2022 (Board of Directors' Meeting)	Common stock	¥14,232	¥119	March 31, 2022	June 3, 2022
November 7, 2022 (Board of Directors' Meeting)	Common stock	1,197	10	September 30, 2022	December 6, 2022

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

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

■**Year ended March 31, 2022**

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

Thousands of shares

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

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

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

2. Stock options and the Company's stock options

Category	Details of stock options	Type of shares issuable for the exercise of stock options	Number of shares allocated for the purpose of stock options				Balance as of March 31, 2022 (Millions of yen)
			As of April 1, 2021	Increase during the year	Decrease during the year	As of March 31, 2022	
Supplying company (parent company)	Stock acquisition rights as stock options	—	—	—	—	—	¥718
	Total	—	—	—	—	—	¥718

3. Dividends

(1) Dividend payments

Date of approval	Type of shares	Total dividends (Millions of yen)	Dividends per share (Yen)	Record date	Effective date
May 21, 2021 (Board of Directors' Meeting)	Common stock	¥8,119	¥68	March 31, 2021	June 7, 2021
November 5, 2021 (Board of Directors' Meeting)	Common stock	1,195	10	September 30, 2021	December 6, 2021

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

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

Date of approval	Type of shares	Total dividends (Millions of yen)	Source of dividends	Dividends per share (Yen)	Record date	Effective date
May 19, 2022 (Board of Directors' Meeting)	Common stock	¥14,232	Retained earnings	¥119	March 31, 2022	June 3, 2022

Notes to Consolidated Statement of Cash Flows

*1 A reconciliation of cash and cash equivalents in the consolidated statement of cash flows to the corresponding amount disclosed in the consolidated balance sheet is as follows:

Millions of yen

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

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

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

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

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

Lease Transactions

1. Finance lease transactions

Finance lease transactions that do not transfer ownership

(1) Type of leased assets

Server facilities (tools and fixtures) in the Digital Entertainment business and amusement facilities in the Amusement business (buildings and structures, tools and fixtures and amusement equipment)

(2) Depreciation method for leased assets

Please see the following sections: "Summary of Significant Accounting Policies Used in the Preparation of Consolidated Financial Statements; 4. Summary of Significant Accounting Policies; (2) Method of depreciation and amortization for major assets."

2. Operating lease transactions

Not applicable

3. Right-of-use assets

(1) Type of right-of-use assets

Mainly offices for rental purposes

(2) Depreciation method for leased assets

Please see the following sections: "Summary of Significant Accounting Policies Used in the Preparation of Consolidated Financial Statements; 4. Summary of Significant Accounting Policies; (2) Method of depreciation and amortization for major assets."

Notes Regarding Financial Instruments

1. Matters concerning financial instruments

(1) Policies regarding financial instruments

With regard to the management of funds, the Group only utilizes financial instruments with low market risk, such as deposits. With regard to fund procurement, the Group utilizes borrowings from financial institutions. Forward-exchange transactions are carried out within the amount of foreign currency-denominated transactions conducted by the Group. It is the Group's policy not to engage in derivative transactions for speculative purposes.

(2) Types of financial instruments held, risks associated with these financial instruments and the risk management system

The Group is exposed to customer credit risk through notes and accounts receivable, which are trade receivables. The Group endeavors to reduce this risk by managing the outstanding balance and due date for each transaction in accordance with internal rules at each Group company for sales management. Owing to the Group's global business operations, a portion of its notes and accounts receivable are denominated in foreign currencies, which are exposed to exchange rate fluctuation risk. Although the Group, in principle, does not engage in derivative transactions, for the purpose of hedging against the risk of future fluctuations in foreign exchange rates, it enters into forward foreign exchange contracts from time to time. Although forward foreign exchange contracts involve exposure to exchange rate fluctuation risk, each counterparty to these transactions is, without exception, a highly creditworthy bank. Hence, the Group judges that credit risk through counterparty breach of contract (counterparty risk) is negligible. With regard to forward foreign exchange transactions, all risk is centrally managed by the accounting division under the approval of a representative director and the director assigned to oversee accounting and finance matters.

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

With regard to investments in investment limited partners, financial results are obtained and monitored as well as regularly reported to the Board of Directors.

Guarantee deposits consist of deposits required to be furnished by the Group when it enters into real estate leases relating to the Group's headquarters, other offices and amusement arcade facilities. Although these deposits involve exposure to counterparty credit risk, for the headquarters and other offices, and for amusement arcades, the general affairs division and the sales division, respectively, confirm the creditworthiness of the lessors through regular contact. In addition, the accounting division checks with each of these divisions on the situation at the end of each fiscal year.

Notes and accounts payable are defined as those trade payables due within one year. The Group avoids the settlement liquidity risk associated with notes and accounts payable, and accrued income taxes through the monthly review of its funding plan and other methods. Although foreign currency-denominated trade payables involve exposure to exchange rate fluctuations, the Group reduces this risk through similar methods to those used to manage the risk associated with foreign currency-denominated trade receivables.

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

(3) Supplementary information regarding the fair value, and others, of financial instruments
Since variable factors are included in the calculation of the fair value of financial instruments, the adoption of different assumptions may lead to changes in these fair value amounts.

2. Fair value of financial instruments
With regard to financial instruments held by the Company and its consolidated subsidiaries, the values presented on the consolidated balance sheet as of March 31, 2023 and 2022, the estimated fair value and the difference between these amounts are as follows.

■ As of March 31, 2023

Millions of yen

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

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

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

Millions of yen

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

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

Millions of yen

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

■ As of March 31, 2022

Millions of yen

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

Note: 1. Planned redemption amounts subsequent to the consolidated balance sheet date for monetary claims
■ As of March 31, 2023

Millions of yen

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

■ As of March 31, 2022

Millions of yen

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

3. Breakdown and other matters relating to the fair value of financial instruments by level
The Company classifies the fair value of financial instruments into the following three levels, according to the observability and materiality of the inputs used to measure fair value.
Level 1 fair value: Fair value measured using the (unadjusted) quoted market prices of same assets or liabilities in active markets
Level 2 fair value: Fair value measured using directly or indirectly observable inputs other than the inputs of level 1
Level 3 fair value: Fair value measured using material unobservable inputs
When multiple inputs that have a significant impact on the measurement of fair value are used, fair value is classified into the level

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

(1) Financial instruments presented at fair value on the consolidated balance sheet
■ **As of March 31, 2023**

Millions of yen

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

■ **As of March 31, 2022**

Millions of yen

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

(2) Financial instruments other than those presented at fair value on the consolidated balance sheet
■ **As of March 31, 2023**

Millions of yen

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

■ **As of March 31, 2022**

Millions of yen

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

Note: Description of valuation method used for and inputs related to the measurement of fair value
Investment securities
Listed stocks are measured using the quoted market price. Since listed stocks are traded in active markets, their fair value is classified into level 1 fair value.
Guarantee deposits
The fair value of guarantee deposits is measured using the present value discounted by the interest rate corresponding to the period until the deposit is returned and counterparty credit risk, and accordingly is classified into level 2 fair value.

Securities
1. Held-for-sale securities
Not applicable

2. Held-to-maturity securities
Not applicable

3. Available-for-sale securities
■ **As of March 31, 2023**

Millions of yen

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

■ **As of March 31, 2022**

Millions of yen

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

4. Securities sold during the year
Not applicable

5. Impairment losses on securities
■ **Year ended March 31, 2023**
Impairment loss of ¥162 million was posted on securities (¥162 million for shares under available-for-sale securities).

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

■ **Year ended March 31, 2022**
Impairment loss of ¥351 million was posted on securities (¥351 million for shares under available-for-sale securities).

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

Derivative Transactions
1. Derivative transactions for which hedge accounting has not been applied
Currency derivatives
■ **Year ended March 31, 2023**
Not applicable

■ **Year ended March 31, 2022**
Not applicable

2. Derivative transactions for which hedge accounting has been applied
■ **Year ended March 31, 2023**
Not applicable

■ **Year ended March 31, 2022**
Not applicable

Employees' Retirement Benefits
1. Overview of employees' retirement benefit plans:
The Company and certain of its domestic consolidated subsidiaries have a lump-sum retirement payment plan and defined contribution retirement pension plans, in accordance with their internal bylaws. Certain of the Company's domestic consolidated subsidiaries adopted defined benefit corporate pension plans in addition to the above plans.

Certain of the Company's overseas subsidiaries adopted defined contribution retirement pension plans.

2. Defined benefit plan:
(1) Reconciliation between the beginning and ending balances of retirement benefit obligations

Millions of yen

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

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

Millions of yen

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

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

Millions of yen

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

(4) Components of net periodic pension costs

Millions of yen

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

(5) Remeasurements of defined benefit plans in other comprehensive income
The following items (prior to adjustments for tax effect) have been recorded as components of remeasurements of defined benefit plans.

Millions of yen

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

(6) Remeasurements of defined benefit plans in accumulated other comprehensive income
The following items (prior to adjustments for tax effect) have been recorded as components of remeasurements of defined benefit plans.

Millions of yen

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

(7) Plan assets
1) Main components of plan assets
The percentages of plan assets by major asset class to total plan assets are as follows:

Percent

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

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

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

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

Percent

	As of March 31, 2023	As of March 31, 2022
Discount rate	0.488 to 1.191	0.298 to 0.569
Long-term expected rate of return on plan assets	1.500	1.500

3. Defined contribution plan:
The required contributions for the defined contribution plan by the Company and its consolidated subsidiaries were ¥1,168 million and ¥1,107 million for the years ended March 31, 2023 and 2022, respectively.

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

Millions of yen

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

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

Millions of yen

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

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

	2008 stock options	2009 stock options	2010 stock options	2011 stock options	2012 stock options	2014 stock options	2015 stock options
Category of grantees	Company directors	Company directors	Company directors	Company directors	Company directors	Company directors	Company directors
Number of grantees	5	5	5	5	5	6	6
Number of stock options	19,800 shares of common stock	57,000 shares of common stock	77,000 shares of common stock	87,000 shares of common stock	67,000 shares of common stock	16,000 shares of common stock	21,000 shares of common stock
Date granted	August 21, 2008	October 21, 2009	August 23, 2010	July 21, 2011	July 26, 2012	September 25, 2014	July 16, 2015
Conditions for vesting of interests	No conditions have been set for vesting interests	No conditions have been set for vesting interests	No conditions have been set for vesting interests	No conditions have been set for vesting interests	No conditions have been set for vesting interest	No conditions have been set for vesting interests	No conditions have been set for vesting interests
Service period	No service period established	No service period established	No service period established	No service period established	No service period established	No service period established	No service period established
Rights exercise period	August 22, 2008 to August 21, 2028	October 22, 2009 to October 21, 2029	August 24, 2010 to August 23, 2030	July 22, 2011 to July 21, 2031	July 27, 2012 to July 26, 2032	September 26, 2014 to September 25, 2034	July 17, 2015 to July 16, 2035

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

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

Note: The number of stock options described is the number of shares after conversion.

(2) Scale of and changes in stock options
With respect to stock options outstanding at this fiscal year-end, the number of stock options and the status of their exercise to shares of common stock are indicated below:

1) Number of stock options

	2008 stock options	2009 stock options	2010 stock options	2011 stock options	2012 stock options	2014 stock options	2015 stock options	2016 stock options	2017 stock options	2017 stock options
Before vesting (shares)										
March 31, 2022	—	—	—	—	—	—	—	—	—	—
Granted	—	—	—	—	—	—	—	—	—	—
Forfeited	—	—	—	—	—	—	—	—	—	—
Vested	—	—	—	—	—	—	—	—	—	—
Unvested balance	—	—	—	—	—	—	—	—	—	—
After vesting (shares)										
March 31, 2022	3,100	10,000	15,000	15,000	15,000	7,000	10,000	10,000	10,000	39,900
Vested	—	—	—	—	—	—	—	—	—	—
Exercised	—	—	—	–	—	–	—	—	—	39,900
Forfeited	—	—	—	—	—	—	—	—	—	—
Balance unexercised	3,100	10,000	15,000	15,000	15,000	7,000	10,000	10,000	10,000	—

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

2) Price information

Yen

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

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

4. Method of estimating the fair value of stock options:
The fair value of the 2022 stock options granted during the fiscal year ended March 31, 2023 was estimated using the following method.
(1) Method of valuation: Black-Scholes option pricing model
(2) Main assumptions:

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

Notes: 1 This was calculated based on historical share price data prior to the grant date over a period equivalent to the expected life.
2 Owing to insufficient accumulated data, it is difficult to determine an appropriate estimate. Consequently, the midpoint of the available exercise period has been used as the estimated life.
3 For the 2022 stock options, this was calculated based on the actual dividend applicable to the fiscal year ended March 31, 2022.
4 This was determined based on the yield of government bonds corresponding to the expected life of the options.

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

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

Millions of yen

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

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

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

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

1) Number of shares

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

2) Price information

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

(3) Method of estimating fair valuation

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

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

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

Tax Effect Accounting

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

Millions of yen

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

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

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

■ **As of March 31, 2023**

Millions of yen

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

■ **As of March 31, 2022**

Millions of yen

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

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

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

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

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

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

1. Outline of the business divestiture
(1) Name of the newly established company through company split and name of the share transferee
1) Name of the newly established company through company split
SQUARE ENIX NEWCO Ltd
2) Name of the share transferee
Embracer Group AB
(2) Name of the reporting segment divested
Digital Entertainment segment
(3) Reasons for the business divestiture
The objective of the transaction is to enable the Company to allocate its management resources more efficiently and to accelerate the growth of its core businesses and the launch of new businesses as it addresses the major changes underway in the global business environment. The move is in keeping with the policy of business structure optimization that the Company set forth under the Medium-term Business Strategy unveiled on May 13, 2021.

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

(4) Date of the business divestiture
August 26, 2022
(5) Other matters regarding outline of the transaction including legal form
1) Company split
Incorporation-type company split in which SQUARE ENIX LTD is a split company and SQUARE ENIX NEWCO LTD is a newly established company
2) Share transfer
Share transfer for which the consideration to be received is cash or other properties only

2. Outline of the accounting treatment performed
(1) Amount of transfer profit or loss

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

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

Current assets	¥33,141 million
Non-current assets	¥6,828 million
Total assets	¥39,969 million
Current liabilities	¥1,972 million
Non-current liabilities	¥1,623 million
Total liabilities	¥3,596 million

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

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

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

Business revenues	¥4,603 million
Business expenses	¥1,896 million

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

Asset Retirement Obligations
Balance Sheet Amount for Asset Retirement Obligations
a) Summary of applicable asset retirement obligations
Asset retirement obligations include the duty of restoration arising from contractual requirements set forth in real estate leases for buildings, including offices at the headquarters, as well as amusement facility arcades.

b) Assumptions used in calculating applicable asset retirement obligations
Asset retirement obligations on buildings, including offices at the headquarters, are based on estimated useful life, generally ranging between 1 and 15 years, and a discount rate generally set between 0.000% and 2.147%.

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

c) Changes to aggregate asset retirement obligations

Millions of yen

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

Matters Relating to Real Estate Leases, Etc.
■ Year ended March 31, 2023
Not applicable

■ Year ended March 31, 2022
Not applicable

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

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

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

(1) Balance of receivables from contracts with customers and contract liabilities
The breakdown of receivables from contracts with customers and contract liabilities is as follows.

Millions of yen

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

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

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

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

(2) Transaction price allocated to the remaining performance obligations
The Group is not engaged in any significant transactions whose individual contract period exceeds one year. Additionally, there are no significant amounts in the consideration from contracts with customers that are not included in the transaction price.

Segment Information
[Segment Information]
■ Year ended March 31, 2023
1. Outline of reporting segments
The Company’s reporting segments are business units for which abstracted financial data is available and periodically reviewed by the Board of Directors to determine resource allocation and to evaluate business performance.

In a rapidly evolving business environment, the Company seeks to provide high-quality entertainment content and services through a variety of environments to match customer lifestyles.

Accordingly, the Company maintains four business segments, each dedicated to a particular entertainment content and service format: (1) the “Digital Entertainment” segment, for interactive digital content for game consoles (including handheld game machines), personal computers and smartphones; (2) the “Amusement” segment, for amusement facility operation as well as the sale and rental of arcade game machines; (3) the “Publication” segment, for publication and licensing of comic magazines, comic books and game-related books; and (4) the “Merchandising” segment, for planning, production, distribution and licensing of derivative products. These are the Company’s reporting segments.

2. Calculating reporting segment sales, income (loss), assets and other items
Accounting treatment methods applied to financial results of reporting segments are the same as those used in the preparation of the Company’s consolidated financial statements. Reporting segment income corresponds to operating income. Intersegment sales are based on prevailing prices in the market for the content and/or services provided.

3. Information on sales, income (loss), assets and other items disaggregated revenue disclosures by reporting segment

Millions of yen

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

Notes: 1 (1) Segment adjustments (¥17,572 million) include unallocated corporate operating expenses (¥17,750 million).
(2) Unallocated assets amounting to ¥228,297 million are included in the ¥227,811 million adjustment to segment assets. Most of this amount comprises funds for management of surplus funds (cash and deposits).
(3) The ¥1,118 million adjustment to depreciation and amortization is associated with unallocated assets that do not belong to any reporting segment.
(4) The ¥2,385 million adjustment to increases in property and equipment and intangible assets is associated with unallocated assets that do not belong to any reporting segment.
2 Segment operating income corresponds to operating income on the Consolidated Statement of Income.
3 Disaggregated revenue disclosures are distinguished between Domestic and Overseas.

■ Year ended March 31, 2022

1. Outline of reporting segments

The Company's reporting segments are business units for which abstracted financial data is available and periodically reviewed by the Board of Directors to determine resource allocation and to evaluate business performance.

In a rapidly evolving business environment, the Company seeks to provide high-quality entertainment content and services through a variety of environments to match customer lifestyles.

Accordingly, the Company maintains four business segments, each dedicated to a particular entertainment content and service format: (1) the "Digital Entertainment" segment, for interactive digital content for game consoles (including handheld game machines), personal computers and smartphones; (2) the "Amusement" segment, for amusement facility operation as well as the sale and rental of arcade game machines; (3) the "Publication" segment, for publication and licensing of comic magazines, comic books and game-related books; and (4) the "Merchandising" segment, for planning, production, distribution and licensing of derivative products. These are the Company's reporting segments.

2. Calculating reporting segment sales, income (loss), assets and other items

Accounting treatment methods applied to financial results of reporting segments are the same as those used in the preparation of the Company's consolidated financial statements. Reporting segment income corresponds to operating income. Intersegment sales are based on prevailing prices in the market for the content and/or services provided.

3. Information on sales, income (loss), assets and other items disaggregated revenue disclosures by reporting segment

Millions of yen

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

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

[Related Information]

■ Year ended March 31, 2023

1. Information by product or service

This information is identical to that of segment information and has therefore been omitted.

2. Information by geographical area

(1) Sales

Millions of yen

Japan	North America	Europe	Asia	Total
¥225,663	¥69,925	¥27,603	¥20,074	¥343,267

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

(2) Property and equipment

Millions of yen

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

3. Information by major customer

This information has been omitted because all sales to major customers account for less than 10% of the net sales amount shown on the Consolidated Statement of Income.

■ Year ended March 31, 2022

1. Information by product or service

This information is identical to that of segment information and has therefore been omitted.

2. Information by geographical area

(1) Sales

Millions of yen

Japan	North America	Europe	Asia	Total
¥224,965	¥81,046	¥40,112	¥19,150	¥365,275

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

(2) Property and equipment

Millions of yen

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

3. Information by major customer

This information has been omitted because all sales to major customers account for less than 10% of the net sales amount shown on the Consolidated Statement of Income.

[Information related to impairment losses on non-current assets in each reporting segment]

■ Year ended March 31, 2023

Millions of yen

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

■ Year ended March 31, 2022

Millions of yen

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

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

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

■ Year ended March 31, 2023

Not applicable

■ Year ended March 31, 2022

Not applicable

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

■ Year ended March 31, 2023

Not applicable

■ Year ended March 31, 2022

Not applicable

[Related party transactions]

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

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

■ Year ended March 31, 2023

Not applicable

■ Year ended March 31, 2022

Not applicable

2. The consolidated financial statement-submitting company and directors and audit & supervisory board members and the principal shareholders (individuals only) of related parties, etc.

■ Year ended March 31, 2023

Type	Name	Location	Capital (Millions of yen)	Business description or occupation	Ratio of voting rights held (%)	Relationship with related parties	Transaction	Amount of transactions (Millions of yen)	Account item	Year-end balance (Millions of yen)
Director and close relatives	Tsuneto Okuno	—	—	Director of subsidiary and audit & supervisory board member of subsidiary	(Held) Direct 0.00 Indirect —	—	Exercising of stock options (Note 1)	¥11	—	¥ —
	Yoshinori Kitase	—	—	Director of the Company and Director of subsidiary	(Held) Direct 0.00 Indirect —	—	Exercising of stock options (Note 1)	¥60	—	¥ —
	Yosuke Saito	—	—	Director of subsidiary	(Held) Direct — Indirect —	—	Exercising of stock options (Note 1)	¥57	—	¥ —
	Katsuyoshi Matsuura	—	—	Director of subsidiary	(Held) Direct — Indirect —	—	Exercising of stock options (Note 1)	¥11	—	¥ —
	Yuu Miyake	—	—	Director of the Company and Director of subsidiary	(Held) Direct 0.00 Indirect —	—	Exercising of stock options (Note 1)	¥11	—	¥ —
	Naoki Yoshida	—	—	Director of subsidiary	(Held) Direct — Indirect —	—	Exercising of stock options (Note 1)	¥35	—	¥ —
	Philip Timo Rogers	—	—	Director of subsidiary	(Held) Direct — Indirect —	—	Contribution in-kind of the monetary compensation claim (Note 2)	¥40	—	¥ —

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

Notes: 1 The exercise of stock acquisition rights as stock options during the fiscal year ended March 31, 2023 was pursuant to the resolutions of the Board of Directors on August 4, 2017, on August 7, 2018 and June 21, 2019.
"Amount of transactions" represents amounts calculated by multiplying cash payments by the number of shares granted due to the exercise of stock acquisition rights as stock options during the fiscal year ended March 31, 2023.

2 The contribution in-kind of the monetary compensation claim of the post-delivery type stock remuneration plan (service-based) during the fiscal year ended March 31, 2023 was pursuant to the resolutions of the Board of the Directors on July 30, 2019, on July 30, 2020 and on July 29, 2021.
"Amount of transactions" represents the amount obtained by multiplication of the number of shares granted in the fiscal year ended March 31, 2023 due to the contribution in-kind of the monetary compensation claim of post-delivery type stock remuneration plan (service-based), by the fair value of said shares.

■ **Year ended March 31, 2022**

Type	Name	Location	Capital (Millions of yen)	Business description or occupation	Ratio of voting rights held (%)	Relationship with related parties	Transaction	Amount of transactions (Millions of yen)	Account item	Year-end balance (Millions of yen)
Director and close relatives	Tsuneto Okuno	—	—	Director of subsidiary and audit & supervisory board member of subsidiary	(Held) Direct 0.00 Indirect —	—	Exercising of stock options (Note 1)	¥11	—	¥ —
	Yoshinori Kitase	—	—	Director of subsidiary	(Held) Direct 0.00 Indirect —	—	Exercising of stock options (Note 1)	¥33	—	¥ —
	Hirokazu Nishikado	—	—	Director of subsidiary	(Held) Direct 0.00 Indirect —	—	Exercising of stock options (Note 1)	¥23	—	¥ —
	Yuu Miyake	—	—	Director of subsidiary	(Held) Direct 0.00 Indirect —	—	Exercising of stock options (Note 1)	¥11	—	¥ —
	Tetsu Yamada	—	—	Director of subsidiary	(Held) Direct 0.00 Indirect —	—	Exercising of stock options (Note 1)	¥17	—	¥ —
	Philip Timo Rogers	—	—	Director of subsidiary	(Held) Direct — Indirect —	—	Contribution in-kind of the monetary compensation claim (Note 2)	¥41	—	¥ —

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

Notes: 1 The exercise of stock acquisition rights as stock options during the fiscal year ended March 31, 2022 was pursuant to the resolutions of the Board of Directors on June 24, 2016, on August 4, 2017, on August 7, 2018 and on June 21, 2019. "Amount of transactions" represents amounts calculated by multiplying cash payments by the number of shares granted due to the exercise of stock acquisition rights as stock options during the fiscal year ended March 31, 2022.

2 The contribution in-kind of the monetary compensation claim of the post-delivery type stock remuneration plan (service-based) during the fiscal year ended March 31, 2022 was pursuant to the resolutions of the Board of the Directors on August 7, 2018, on July 30, 2019 and on July 30, 2020.
"Amount of transactions" represents the amount obtained by multiplication of the number of shares granted in the fiscal year ended March 31, 2022 due to the contribution in-kind of the monetary compensation claim of post-delivery type stock remuneration plan (service-based), by the fair value of said shares.

Per Share Information

Yen

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

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

Millions of yen

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

Significant Subsequent Events

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

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

Supplementary Schedule

[Borrowings]

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

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

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

3 Lease obligations (due for repayment within one year) are included in other of current liabilities, and lease obligations (excluding due for repayment within one year) are included in other of non-current liabilities.

4 Scheduled repayment amounts during five years subsequent to March 31, 2023 for lease obligations (excluding the amount due for repayment within one year) are as follows:

Millions of yen

	More than one year but within two years	More than two years but within three years	More than three years but within four years	More than four years but within five years
Lease obligations	¥503	¥372	¥275	¥252

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

[Other]
Quarterly Financial Information

Millions of yen

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

Yen

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