

Consolidated Financial Results for the Fiscal Year Ended March 31, 2023 (Japan GAAP)

May 12, 2023

Company name: SQUARE ENIX HOLDINGS CO., LTD.
 Shares traded: Tokyo Stock Exchange, Prime Market
 Company code: 9684
 Company URL: <https://www.hd.square-enix.com/eng>
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 Annual general meeting of shareholders: June 23, 2023 (planned)
 Financial report submission: June 26, 2023 (planned)
 Cash dividend payment commencement: June 5, 2023 (planned)
 Supplementary annual materials prepared: Yes
 Annual results presentation held: Yes (for institutional investors and analysts)

(Amounts under one million yen are rounded down)

1. Consolidated Financial Results (April 1, 2022 to March 31, 2023)

(1) Consolidated Financial Results

(Millions of yen and year-on-year changes in percents)

	Net sales		Operating income		Ordinary income		Profit attributable to owners of parent	
Fiscal year ended	%		%		%		%	
March 31, 2023	343,267	(6.0)	44,331	(25.2)	54,709	(22.6)	49,264	(3.4)
March 31, 2022	365,275	9.8	59,261	25.5	70,704	41.5	51,013	89.3

Note. FY ended March 31, 2023 Comprehensive income: 47,594 million yen ((4.3%)
 FY ended March 31, 2022 Comprehensive income: 49,735 million yen (83.6%)

	Earnings per share, basic	Earnings per share, diluted	Return on equity	Ordinary income to total assets	Operating margin
Fiscal year ended	yen		%	%	%
March 31, 2023	411.62	410.93	16.4	14.0	12.9
March 31, 2022	426.82	425.95	19.4	19.7	16.2

Note. FY ended March 31, 2023 Equity in gain (loss) of affiliated companies: — million yen
 FY ended March 31, 2022 Equity in gain (loss) of affiliated companies: — million yen

(2) Consolidated Financial Position

(Millions of yen, ratios in percents and per share data)

	Total assets	Net assets	Equity ratio	Net assets per share
As of			%	yen
March 31, 2023	399,634	317,266	79.1	2,641.74
March 31, 2022	380,902	284,429	74.4	2,370.48

Note. Total equity As of March 31, 2023: 316,290 million yen
 As of March 31, 2022: 283,519 million yen

(3) Consolidated Statements of Cash Flows

(Millions of yen)

	From operating activities	From investing activities	From financing activities	Closing cash and cash equivalents
Fiscal year ended				
March 31, 2023	12,226	27,602	(15,523)	190,903
March 31, 2022	27,570	(8,124)	(9,343)	160,622

2. Dividends

	Dividends per share					Total annual dividend payments	Dividend payout ratio (consolidated)	Dividend on equity (consolidated)
	1Q	2Q	3Q	4Q	Total			
	yen	yen	yen	yen	yen	million yen	%	%
Fiscal year ended March 31, 2022	—	10.00	—	119.00	129.00	15,428	30.2	5.9
Fiscal year ended March 31, 2023	—	10.00	—	114.00	124.00	14,846	30.1	4.9
Fiscal year ending March 31, 2024 (projection)	—	10.00	—	87.00	97.00		30.2	

3. Consolidated Forecasts (April 1, 2023 to March 31, 2024)

(Millions of yen, year-on-year changes in percents and per share data)

	Net sales		Operating income		Ordinary income		Profit attributable to owners of parent		Earnings per share, basic
		%		%		%		%	yen
Fiscal year ending March 31, 2024	360,000	4.9	55,000	24.1	55,000	0.5	38,500	(21.9)	321.68

(Note) For details, please refer to (4) Consolidated forecasts on page 4 of the Supplemental Information attached herewith.

Notes

- (1) Significant changes among major subsidiaries during the period: Yes
Eliminated: CRYSTAL DYNAMICS, INC.
- (2) Changes in accounting policies, procedures, and methods of presentation for consolidated financial statements
1. Changes in accounting policies due to revisions to accounting standards: Yes
 2. Changes other than 1.: No
 3. Changes in accounting estimates: Yes
 4. Retrospective restatement: No
- (3) Outstanding shares (common stock)
1. Number of shares issued and outstanding (including treasury stock):

As of March 31, 2023	122,531,596
As of March 31, 2022	122,531,596
 2. Number of treasury stock:

As of March 31, 2023	2,803,193
As of March 31, 2022	2,927,230
 3. Average number of shares during the period (cumulative):

Fiscal year ended March 31, 2023	119,684,340
Fiscal year ended March 31, 2022	119,520,217

Disclaimer: (1) This document is an abridged translation of the Japanese language "Kessan Tanshin" prepared in accordance with the guidelines of the Tokyo Stock Exchange. The Japanese language document shall prevail in the event that any differences or discrepancies exist between this English translation and the original. (2) At the time of disclosure of this document, audit procedures for financial statements pursuant to the Financial Instruments and Exchange Law have not been completed. (3) The forward-looking statements in this document are based upon the information currently available and necessarily include elements that are not entirely predictable. The achievement is not promised. Actual results may differ from the forward-looking statements in this document. (4) For additional information about forecasts, please refer to "Consolidated Forecasts" section on page 4 of the Supplemental Information.

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1. Consolidated Results and Consolidated Financial Position for the Fiscal Year Ended March 31, 2023

(1) Analysis of consolidated business results

The Square Enix group (the "Group") is continuing determined efforts to strengthen the competitiveness and profitability of its business segments of Digital Entertainment, Amusement, Publication and Merchandising. Net sales for the fiscal year ended March 31, 2023 totaled ¥343,267 million (a decrease of 6.0% from the prior fiscal year), operating income amounted to ¥44,331 million (a decrease of 25.2% from the prior fiscal year). In foreign exchange rates, the weakness of Japanese yen compared to the rate as of the end of last fiscal year has resulted in the booking of a foreign exchange gain amounting to ¥10,365 million. As a result, ordinary income amounted to ¥54,709 million (a decrease of 22.6% from the prior fiscal year). In addition, the execution of a share transfer agreement concerning the divestiture of select Group overseas studios and intellectual property resulted in ¥9,465 million in gains on the sales of affiliate shares. The Company also booked ¥6,303 million in extraordinary losses, partly associated with the disposal of a portion of its content production account undertaken to optimize the business structure of its domestic studios and enhance its internal development capabilities. These and other factors resulted in profit attributable to owners of parent of ¥49,264 million (a decrease of 3.4% from the prior fiscal year).

A discussion of results by segment for the fiscal year ended March 31, 2023 follows.

●Digital Entertainment

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

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

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

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

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

●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.

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

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

●Publication

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

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

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

●Merchandising

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

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

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

(2) Analysis of consolidated financial position

●Assets

As of March 31, 2023, total current assets were ¥342,258 million, an increase of 6.1% from the prior fiscal year. This was mainly due to increases in cash and deposits of ¥30,413 million, while content production account and notes and accounts receivable decreased by ¥9,548 million and ¥5,059 million respectively.

Total non-current assets were ¥57,376 million, a decrease of 1.8% from the prior fiscal year.

As a result, total assets were ¥399,634 million, an increase of 4.9% from the prior fiscal year.

●Liabilities

As of March 31, 2023, total current liabilities were ¥71,704 million, a decrease of 14.4% from the prior fiscal year. This was mainly due to increases in income taxes payable of ¥4,990 million, notes and accounts payable-trade of ¥4,040 million and provision for bonuses of ¥2,006 million respectively.

Total non-current liabilities were ¥10,663 million, a decrease of 15.9% from the prior fiscal year.

As a result, total liabilities were ¥82,368 million, a decrease of 14.6% from the prior fiscal year.

●Net assets

As of March 31, 2023, net assets were ¥317,266 million, an increase of 11.5% from the prior fiscal year. This was mainly due to profit attributable to owners of parent of ¥49,264 million and dividend payments of ¥15,430million.

(3) Consolidated cash flow

As of March 31, 2023, cash and cash equivalents totaled ¥190,903 million, an increase of ¥30,280 million compared to the prior fiscal year. Cash flows during the fiscal year ended March 31, 2023 as well as the principal factors behind these cash flows are described below.

●Cash flows from operating activities

Net cash provided by operating activities during the fiscal year ended March 31, 2023 totaled ¥12,226 million (a decrease of 55.7% from the prior fiscal year).

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 gains of ¥9,635 million, an increase of inventories of ¥13,711 million, and depreciation of ¥6,921 million led to the overall provision of cash from operating activities.

●Cash flows from investing activities

Net cash provided in investing activities totaled ¥27,602 million (compared to net cash used in investing activities of ¥8,124 million).

The main factors are proceeds from sale of shares of subsidiaries resulting in change in scope of consolidation of purchase of ¥36,122 million, property, plant and equipment of ¥5,676 million and purchase of intangible assets of ¥2,873 million.

●Cash flows from financing activities

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

(4) Consolidated forecasts

As detailed in the “Section 3. Management Policy (3) Business landscape” part below, rapid changes are underway globally as customer demands for content and services grow more diverse and sophisticated and the methods and business models by which such content and services are provided also diversify in response.

By developing content in keeping with these environmental changes and diversifying its earnings opportunities, the Group is endeavoring to establish a robust earnings base.

(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. In determining the amount of its dividend, the Group references a consolidated dividend payout ratio of 30%, making its final decision based upon comprehensive considerations of the balance between investment needs and the distribution of profits. Pending a resolution by the Board of Directors at a meeting scheduled for May 18, 2023, the Group intends to pay a year-end dividend of 114 yen per share for the fiscal year ended March 31, 2023, which, combined with the interim dividend of 10 yen per share, would make for a total annual dividend of 124 yen per share. The Company plans to pay a year-end dividend of 87 yen per share for the fiscal year ending March 2024, which, when combined with the interim dividend of 10 yen per share, would make for a full-year dividend of 97 yen per share.

2. The Group's Outline of Operations

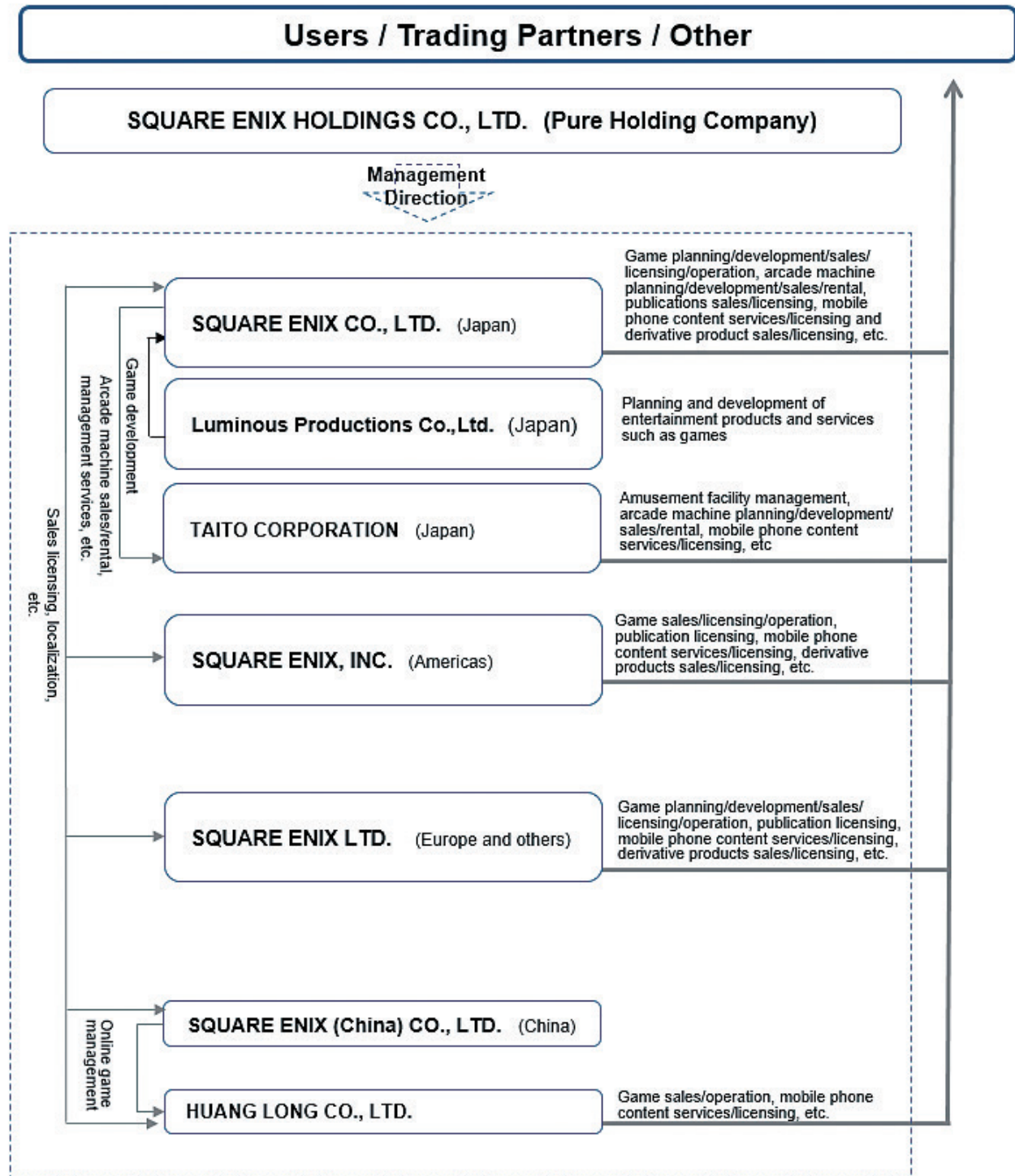
The following outline of operations lists the Group's primary business segments and major subsidiaries.
(Consolidated subsidiaries)

Segment	Primary Business Description	Region	Company Name
Digital Entertainment	Plans, develops, distributes, and operates games digital entertainment primarily in the form of computer games	Japan	SQUARE ENIX CO., LTD. TAITO CORPORATION Luminous Productions Co.,Ltd.
		Americas	SQUARE ENIX, INC.
		Europe and others	SQUARE ENIX LTD.
		Asia	SQUARE ENIX (China) CO., LTD. HUANG LONG CO., LTD.
Amusement	Operation of amusement facilities and planning, development and distribution of arcade game machines for amusement facilities and related products	Japan	TAITO CORPORATION SQUARE ENIX CO., LTD.
Publication	Comic books, game strategy books, comic magazines, etc.	Japan	SQUARE ENIX CO., LTD.
		Americas	SQUARE ENIX, INC.
		Europe and others	SQUARE ENIX LTD.
Merchandising	Planning, production, distribution and licensing of derivative products of titles owned by the Group	Japan	SQUARE ENIX CO., LTD. TAITO CORPORATION
		Americas	SQUARE ENIX, INC.
		Europe and others	SQUARE ENIX LTD.

Note 1. The above table lists major consolidated subsidiaries only.

2. Effective May 1, 2023, the Company enacted a merger through which Luminous Productions Co., Ltd. was absorbed into SQUARE ENIX CO., LTD.

The Group's Business Diagram:



Note 1. Above business diagram only includes key consolidated subsidiaries.

2. Effective May 1, 2023, the Company enacted a merger through which Luminous Productions Co., Ltd. was absorbed into SQUARE ENIX CO., LTD.

3. Management Policy

(1) Management philosophy

“To spread happiness across the globe by providing unforgettable experiences” is the corporate philosophy that guides the Group’s creation and distribution of advanced, high-quality content. The Group endeavors to maximize profits by engaging in efficient management that makes effective use of resources so that it may reward its shareholders and sustain the Group’s own growth and development.

(2) Management strategy

Through the creation of advanced, high-quality content, the Group strives to achieve medium- and long-term growth while maintaining profitability. As IT and telecommunications infrastructure have become more advanced and accessible, customer demand for content and services enabled by multifunctional devices and network connectivity has increased, and the methods and business models for delivering such content have diversified. These trends have ushered in an era of major structural change for the digital entertainment industry. In addition, the geographic scope of the Group’s business is expanding beyond the traditional key markets of Japan, Europe, North America, and East Asia to include Central and South America, the Middle East, and South Asia. The Group will respond to these changes in a timely and flexible manner as it strives to be a pioneer in this new era of digital entertainment.

(3) Business landscape

As a result of digitization and other technological advances, consumer game content is increasingly sold via downloads rather than physical packages. Monetization methods such as free-to-play, microtransactions, and subscriptions have also given rise to a greater diversity of business models outside the confines of traditional one-off sales. As such, the consumer game market continues to grow. New releases tend to be met with either marked success or marked failure as players throng to a handful of major titles.

In the market for games for smart devices, increasingly sophisticated smartphones are making customers demand even richer gaming experiences and enabling greater diversity in game design and business models. Content scale is also mounting as smartphone games traverse the globe and multiple types of devices, resulting in continued growth in the size of the market. Meanwhile, a familiar list of titles continues to dominate the upper end of the smart device game rankings in Japan, and the entrance of Asian players into the Japanese market has intensified competition, reducing the odds of new titles succeeding.

Given the intense competition in both the consumer and smart device game markets, it will be important for the Group not only to leverage existing intellectual properties but also to endeavor to create new intellectual properties and to recruit development resources if it is to continue to produce hits.

The amusement market is returning to pre-pandemic conditions as the spread of COVID-19 subsides and the number of arcade visitors improves substantially versus pandemic levels.

In the publication market, sales of e-books are growing, partly due to comics apps, as sales of print media decline. Reading comics on smartphones is becoming a regular pastime, making it likely that the e-book market will continue to grow globally.

In the business environment surrounding the merchandising business, a wide range of products and services via myriad channels are being delivered to suit the diverse tastes of our customers. The Group will endeavor to establish stable recurring earnings by satisfying its customers’ diverse needs through a multifaceted and multilayered approach to merchandising that includes not only such derivative products as character goods and game soundtrack music, but also animated and stage adaptations of existing intellectual property, as well as music publishing.

As the above illustrates, structural changes are underway on a global scale in multiple parts of the Group’s operating environment, and the Group is being called on to assess those changes in a timely and accurately fashion and to respond to them with speed and flexibility.

(4) Business and financial challenge calling for priority action

The Group recognizes the need to prioritize the expansion of stable recurring income 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 subscription income from massively multiplayer online games (MMOs), 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 base of recurring earnings 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 earnings growth.

On the distribution front, streaming may accelerate the transition from sales of traditional disks to digital sales, and business models may change through the offering of subscription services, for example. In addition, the overall gaming market may grow as it becomes possible to provide content to emerging regions where traditional home game consoles have not been widely adopted. The Group will respond flexibly to these changes and work to translate them into future growth. It has identified AI, the cloud, and blockchain games as focus investment areas under its business strategy and will engage in aggressive research and development efforts and investment in these areas.

(5) Objective metrics for assessing achievement of management objectives

The Group recognizes the achievement of income growth backed by profitability as an important management challenge. Through the fiscal year ending March 31, 2024, its management objectives will be to create a business structure capable of consistently generating net sales of 400-500 billion yen and operating income of 60-75 billion yen, as well as to improve the operating profit margin.

4. Basic policy regarding choice of accounting standard

The Group's policy is to prepare its consolidated financial statements in accordance with Japanese Accounting Standards ("Japanese GAAP") in order to enable the comparison of statements between different periods and different entities.

5. Consolidated Financial Statements

(1) Consolidated Balance Sheets

(Millions of yen)

	As of March 31, 2022	As of March 31, 2023
Assets		
Current assets		
Cash and deposits	163,088	193,501
Notes and accounts receivable-trade	44,968	39,908
Merchandise and finished goods	4,687	4,872
Work in progress	18	—
Raw materials and supplies	485	827
Content production account	96,765	87,217
Other	12,711	16,185
Allowance for doubtful accounts	(268)	(255)
Total current assets	322,455	342,258
Non-current assets		
Property, plant and equipment		
Buildings and structures	18,793	18,275
Accumulated depreciation	(13,489)	(13,971)
Buildings and structures (net)	5,303	4,303
Tools, furniture and fixtures	19,431	17,232
Accumulated depreciation	(14,730)	(13,241)
Tools, furniture and fixtures (net)	4,701	3,990
Amusement equipment	17,008	17,815
Accumulated depreciation	(15,379)	(15,791)
Amusement equipment (net)	1,629	2,023
Other	4,955	3,050
Accumulated depreciation	(1,314)	(1,223)
Other (net)	3,641	1,826
Land	3,782	3,782
Construction in progress	757	1,815
Total property, plant and equipment	19,814	17,743
Intangible assets		
Other	7,375	5,856
Total intangible assets	7,375	5,856
Investments and other assets		
Investment securities	2,727	4,411
Guarantee deposits	11,028	11,074
Net defined benefit asset	649	795
Deferred tax assets	10,526	11,027
Other	6,384	6,497
Allowance for doubtful accounts	(57)	(30)
Total investments and other assets	31,257	33,775
Total non-current assets	58,447	57,376
Total assets	380,902	399,634

(Millions of yen)

As of March 31, 2022 As of March 31, 2023

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

(2) Consolidated Income Statement and Consolidated Statement of Comprehensive Income
Consolidated Income Statement

(Millions of yen)

	Fiscal year ended March 31, 2022	Fiscal year ended March 31, 2023
Net sales	365,275	343,267
Cost of sales	*1 169,960	*1 167,377
Gross profit	195,314	175,889
Selling, general and administrative expenses		
Packing and transportation expenses	2,999	3,459
Advertising expenses	24,739	24,744
Promotion expenses	611	309
Directors' compensations	738	587
Salaries and allowances	24,228	24,540
Provision for bonuses	6,484	3,978
Retirement benefit expenses	1,002	1,221
Welfare expenses	3,396	3,587
Rent expenses	2,991	3,027
Commission fee	55,391	52,875
Depreciation	3,153	2,874
Other	10,314	10,353
Total selling, general and administrative expenses	*2 136,053	*2 131,557
Operating income	59,261	44,331
Non-operating income		
Interest income	101	714
Dividend income	0	0
Foreign exchange gains	10,489	10,365
Rent income	33	38
Gain on sale of crypto assets	2,904	1,358
Revenue from business held for sale	—	*4 4,051
Miscellaneous income	777	411
Total non-operating income	14,307	16,940
Non-operating expenses		
Interest expenses	150	72
Commission fee	475	1,249
Loss on liquidation of content	1,289	—
Loss on retirement of development related assets	862	—
Expenses from business held for sale	—	*4 5,191
Miscellaneous loss	86	48
Total non-operating expenses	2,865	6,562
Ordinary income	70,704	54,709

Consolidated Income Statement

(Millions of yen)

	Fiscal year ended March 31, 2022	Fiscal year ended March 31, 2023
Extraordinary income		
Gain on sales of non-current assets	*3 6	*3 826
Gain on sales of registered trademarks	—	680
Gain on reversal of subscription rights to shares	8	4
Subsidy income related to COVID-19	290	11
Gain on sale of shares of subsidiaries and associates	353	*4 9,465
Other	72	46
Total extraordinary income	730	11,033
Extraordinary losses		
Loss on retirement of non-current assets	*5 212	*5 112
Impairment loss	*6 109	*6 73
Loss on valuation of investment securities	351	162
Loss on temporary closure	*7 296	—
Loss on valuation of shares of subsidiaries and associates	239	498
Loss on disposal of content	—	*4 6,303
Other	1	161
Total extraordinary losses	1,212	7,312
Profit before income taxes	70,223	58,431
Income taxes-current	20,511	11,060
Income taxes-deferred	(1,320)	(1,916)
Total income taxes	19,191	9,143
Profit	51,031	49,287
Profit attributable to non-controlling interests	17	22
Profit attributable to owners of parent	51,013	49,264

Consolidated Statement of Comprehensive Income

(Millions of yen)

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

(3) Consolidated Statements of Changes in Net Assets

Fiscal year ended March 31, 2022

(Millions of yen)

	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
Balance at the beginning of current period	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 period					
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 of items other than shareholders' equity					
Total changes during the period	—	287	41,698	591	42,577
Balance at the end of current period	24,039	53,880	221,316	(8,964)	290,272

	Accumulated other comprehensive income				Subscription rights to shares	Non-controlling interests	Total net assets
	Valuation difference on available-for-sale securities	Foreign currency translation adjustment	Remeasurements of defined benefit plans	Total accumulated other comprehensive income			
Balance at the beginning of current period	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 period							
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 of items other than shareholders' equity	(83)	(1,189)	(43)	(1,317)	(43)	39	(1,321)
Total changes during the period	(83)	(1,189)	(43)	(1,317)	(43)	39	41,255
Balance at the end of current period	(24)	(6,844)	116	(6,752)	718	191	284,429

Fiscal year ended March 31, 2023

(Millions of yen)

	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
Balance at the beginning of current period	24,039	53,880	221,316	(8,964)	290,272
Changes during the period					
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 of items other than shareholders' equity					
Total changes during the period	—	261	33,834	376	34,473
Balance at the end of current period	24,039	54,142	255,151	(8,587)	324,745

	Accumulated other comprehensive income				Subscription rights to shares	Non-controlling interests	Total net assets
	Valuation difference on available-for-sale securities	Foreign currency translation adjustment	Remeasurements of defined benefit plans	Total accumulated other comprehensive income			
Balance at the beginning of current period	(24)	(6,844)	116	(6,752)	718	191	284,429
Changes during the period							
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 of items other than shareholders' equity	27	(1,921)	191	(1,702)	33	31	(1,636)
Total changes during the period	27	(1,921)	191	(1,702)	33	31	32,836
Balance at the end of current period	2	(8,765)	308	(8,454)	752	222	317,266

(4) Consolidated Statements of Cash Flows

(Millions of yen)

	Fiscal year ended March 31, 2022	Fiscal year ended March 31, 2023
Cash flows from operating activities		
Profit before income taxes	70,223	58,431
Depreciation	7,594	6,921
Impairment loss	109	73
Increase (decrease) in allowance for doubtful accounts	60	(59)
Increase (decrease) in provision for bonuses	3,271	(2,408)
Increase (decrease) in refund liabilities	(761)	(909)
Increase (decrease) in provision for directors' retirement benefits	(34)	(10)
Increase (decrease) in provision for loss on store closings	(172)	—
Decrease (increase) in net defined benefit asset	(152)	(91)
Increase (decrease) in net defined benefit liability	268	291
Interest and dividend income	(102)	(715)
Subsidy income related to COVID-19	(290)	(11)
Interest expenses	150	72
Foreign exchange losses (gains)	(10,043)	(9,635)
Loss (gain) on sale of shares of subsidiaries and associates	(353)	(9,465)
Loss (gain) on sale of crypto assets	(2,904)	(1,358)
Loss on retirement of non-current assets	212	112
Gain on sales of non-current assets	(6)	(826)
Gain on sales of registered trademarks	—	(680)
Loss (gain) on valuation of investment securities	351	162
Loss on valuation of shares of subsidiaries and associates	239	498
Loss on disposal of content	—	6,303
Decrease (increase) in trade receivables	1,332	6,463
Decrease (increase) in inventories	(17,207)	(13,711)
Increase (decrease) in trade payables	2,641	(5,455)
Decrease (increase) in other current assets	(575)	(3,372)
Decrease (increase) in other non-current assets	56	(83)
Increase (decrease) in other current liabilities	(508)	24
Other, net	(321)	548
Subtotal	53,077	31,108
Interest and dividend income received	102	715
Interest expenses paid	(150)	(72)
Subsidy income related to COVID-19 received	290	11
Income taxes paid	(26,161)	(19,755)
Income taxes refund	412	219
Net cash provided by (used in) operating activities	27,570	12,226

(Millions of yen)

	Fiscal year ended March 31, 2022	Fiscal year ended March 31, 2023
Cash flows from investing activities		
Payments into time deposits	(3,449)	(3,933)
Proceeds from withdrawal of time deposits	3,449	3,929
Purchase of property, plant and equipment	(5,494)	(5,676)
Proceeds from sales of property, plant and equipment	7	—
Purchase of intangible assets	(2,464)	(2,873)
Proceeds from sale of intangible assets	—	1,506
Purchase of investment securities	(640)	(1,606)
Proceeds from investments in securities	697	—
Payments for investments in capital	(1,306)	(348)
Purchase of shares of subsidiaries	(687)	(682)
Proceeds from sale of shares of subsidiaries and associates	382	—
Proceeds from sale of shares of subsidiaries resulting in change in scope of consolidation	—	36,122
Proceeds from sale of crypto assets	2,904	1,358
Payments for guarantee deposits	(2,059)	(265)
Proceeds from collection of guarantee deposits	527	225
Other, net	7	(151)
Net cash provided by (used in) investing activities	(8,124)	27,602
Cash flows from financing activities		
Repayments of lease obligations	(671)	(454)
Purchase of treasury shares	(8)	(5)
Proceeds from exercise of share options	599	354
Cash dividends paid	(9,308)	(15,418)
Other, net	46	0
Net cash provided by (used in) financing activities	(9,343)	(15,523)
Effect of exchange rate change on cash and cash equivalents	6,458	5,975
Net increase (decrease) in cash and cash equivalents	16,561	30,280
Cash and cash equivalents at beginning of period	144,061	160,622
Cash and cash equivalents at end of period	160,622	190,903

(5) Notes to Consolidated Financial Statements

(Note regarding going concern assumptions)

None

(Changes in accounting policies)

(Application of Application Guidelines for Accounting Standards related to the Calculation of Market Value)

The Company has applied the Application Guidelines for Accounting Standards related to the Calculation of Market Value (Corporate Accounting Standard Application Guideline No. 31 of June 17, 2021; “Application Guidelines for Market Value Standards”) since the start of the fiscal year ended March 31, 2023. In keeping with the transitional treatment described in Paragraph 27-2 of the Application Guidelines for Market Value Standards, the Company will continue to apply new accounting practices set forth under the Application Guidelines for Market Value Standards. As a result, there is no impact to the consolidated financial statements for the fiscal year ended March 31, 2023.

(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 yen 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 each decreased by 99 million yen 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 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). 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 Income Statement)

*1 Inventories at fiscal year-end are stated after writing down based on the decrease in profitability.

The following amount is included within cost of sales as loss on valuation of inventories.

(Millions of yen)

Fiscal year ended March 31, 2022	Fiscal year ended March 31, 2023
3,622	5,377

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

(Millions of yen)

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

*3 Breakdown of gain on sale of property and equipment

(Millions of yen)

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

*4 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 consolidated overseas subsidiaries, namely, SQUARE ENIX NEWCO Ltd, CRYSTAL DYNAMICS, INC., EIDOS INTERACTIVE CORP., and EIDOS CREATIVE SOFTWARE (SHANGHAI) Co., Ltd. The losses on the abandonment of content, etc. are 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 line because ordinary business activities were not carried out during that period.

*5 Breakdown of loss on disposal of property and equipment

(Millions of yen)

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

*6 Impairment loss

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

(Millions of yen)

Location	Usage	Category	Impairment amount
Shinjuku-ku, Tokyo	Idle assets	Amusement equipment	72
		Other	0
Shinjuku-ku, Tokyo	Assets planned for disposal	Amusement equipment	7
Taito-ku, Tokyo Kanazawa, Ishikawa	Game arcade	Buildings and Structures	17
		Tools, furniture and fixtures	2
		Other	3
Shinjuku-ku, Tokyo	Development, and distribution of arcade game machines	Tools, furniture and fixtures	0
		Other	6
Total			109

In the amusement 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 recoverable value. With regard to assets planned for disposal, game arcades, and development, and distribution of 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 on a reasonable assumption of market price.

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
Kitakyushu, Fukuoka, Aomori, Aomori	Game arcade	Buildings and Structures	11
		Tools, furniture and fixtures	0
		Other	2
Shinjuku-ku, Tokyo	Development of consumer game	Tools, furniture and fixtures	0
Atsugi, Kanagawa	Development of arcade game machines	Tools, furniture and fixtures	0
		Other	6
Total			73

In the amusement 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 recoverable value. With regard to assets planned for disposal, game arcades, 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 on a reasonable assumption of market price.

*7 Loss on temporary closure

The Group posted an extraordinary loss due to fixed expenses incurred during the temporary closure of game arcades in the Amusement segment and development studios in the Digital Entertainment segment, to prevent the spread of COVID-19 pandemic.

(Segment Information)

[Segment Information]

■ Year ended March 31, 2022

1. Outline of reporting segments

"The Group's reporting segments are business units for which discrete financial data is available and periodically reviewed by the Board of Directors in the determination of resource allocation as well as the evaluation of business performance.

To this end, the Group offers entertainment content and services in a variety of forms including: (1) interactive digital content for game consoles (including handheld game machines), personal computers and smartphones in the "Digital Entertainment" segment; (2) amusement facility operation as well as the sales and rental of arcade game machines in the "Amusement" segment; (3) publication of comic books, game strategy books and comic magazines in the "Publication" segment; and (4) planning, production, distribution and licensing of derivative products in the "Merchandising" segment. These four classifications serve as the Group'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 and income by reporting segment

(Millions of yen)

	Reporting Segments					Adjustment (Note 1)	Consolidated total (Note 2)
	Digital Entertainment	Amusement	Publication	Merchandising	Total		
Sales and operating income							
Net sales							
Domestic	147,151	43,605	27,690	6,517	224,965	—	224,965
Overseas	132,503	293	1,180	6,331	140,309	—	140,309
Revenue from contracts with customers	279,655	43,899	28,871	12,849	365,275	—	365,275
Other revenue	—	—	—	—	—	—	—
(1) Sales to outside customers	279,655	43,899	28,871	12,849	365,275	—	365,275
(2) Intersegment sales	24	1,983	161	1,152	3,322	(3,322)	—
Total	279,679	45,882	29,032	14,002	368,597	(3,322)	365,275
Segment operating income	58,960	2,003	12,222	3,980	77,166	(17,905)	59,261
Segment assets	156,663	22,334	9,294	1,679	189,973	190,929	380,902
Other items							
Depreciation and amortization	3,075	3,232	191	76	6,575	1,018	7,594
Increases in property, plant 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 general and administrative expenses (¥18,204 million).

(2) Segment assets adjustment of ¥190,929 million includes unallocated assets of ¥191,487 million. These assets mainly consist of surplus funds (including cash and deposits).

(3) Depreciation and amortization adjustment of ¥1,018 million relates to unallocated corporate assets.

(4) The adjustment increase of ¥2,149 million in property, plant and equipment, and intangible assets relates to unallocated corporate assets.

2. Segment operating income is adjusted in operating income on the consolidated income statement.

3. Disaggregated revenue disclosures are distinguished between Domestic and Overseas.

■ Year ended March 31, 2023

1. Outline of reporting segments

"The Group's reporting segments are business units for which discrete financial data is available and periodically reviewed by the Board of Directors in the determination of resource allocation as well as the evaluation of business performance.

To this end, the Group offers entertainment content and services in a variety of forms including: (1) interactive digital content for game consoles (including handheld game machines), personal computers and smartphones in the "Digital Entertainment" segment; (2) amusement facility operation as well as the sales and rental of arcade game machines in the "Amusement" segment; (3) publication and licensing of comic magazines, comic books, and game-related books in the "Publication" segment; and (4) planning, production, distribution and licensing of derivative products in the "Merchandising" segment. These four classifications serve as the Group'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 or 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		
Sales and operating income							
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
(1) Sales to outside customers	245,524	54,308	29,016	14,418	343,267	—	343,267
(2) 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, plant 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 general and administrative expenses (¥17,750 million).

(2) Segment assets adjustment of ¥227,811 million includes unallocated assets of ¥228,297 million. These assets mainly consist of surplus funds (including cash and deposits).

(3) Depreciation and amortization adjustment of ¥1,118 million relates to unallocated corporate assets.

(4) The adjustment increase of ¥2,385 million in property, plant and equipment, and intangible assets relates to unallocated corporate assets.

2. Segment operating income is adjusted in operating income on the consolidated income statement.

3. Disaggregated revenue disclosures are distinguished between Domestic and Overseas.

[Related Information]

■ Year ended March 31, 2022

1. Information by product or service

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

2. Information by geographical area

(1) Sales

	Japan	North America	Europe	Asia and others	Total
Consolidated sales	224,965	81,046	40,112	19,150	365,275

(Millions of yen)

Note: The classification of geographic segments is based on location of customer.

(2) Property and equipment

	Japan	North America	Europe	Asia and others	Total
Property and equipment	12,629	4,385	2,377	422	19,814

(Millions of yen)

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, 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

	Japan	North America	Europe	Asia and others	Total
Consolidated sales	225,663	69,925	27,603	20,074	343,267

(Millions of yen)

Note: The classification of geographic segments is based on location of customer.

(2) Property and equipment

	Japan	North America	Europe	Asia and others	Total
Property and equipment	13,279	1,600	2,566	297	17,743

(Millions of yen)

3. Information by major customer

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

[Information related to impairment losses on property and equipment in each reporting segment]

■ Year ended March 31, 2022

(Millions of yen)

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

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

■ Year ended March 31, 2023

(Millions of yen)

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

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

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

■ Year ended March 31, 2022

None

■ Year ended March 31, 2023

None

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

■ Year ended March 31, 2022

None

■ Year ended March 31, 2023

None

(Per Share Information)

(yen)

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

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

(Millions of yen)

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

(Significant Subsequent Events)

None.