

[Abridged Translation for Reference and Convenience Purposes Only]

This document is an abridged translation of the Japanese original of "Notice of Convocation of the 40th Annual Shareholders' Meeting" and "Reference Documents for the Shareholders' Meeting" of SQUARE ENIX HOLDINGS CO., LTD. This translation is intended for reference and convenience purposes only. In the event of any discrepancy between this translation and the Japanese original, the original shall prevail.

Securities Code: 9684

June 3, 2020

To Our Shareholders:

Yosuke Matsuda
President and Representative Director
SQUARE ENIX HOLDINGS CO., LTD.
6-27-30, Shinjuku, Shinjuku-ku, Tokyo

NOTICE OF CONVOCATION OF THE 40TH ANNUAL SHAREHOLDERS' MEETING

Notice is hereby given that the 40th Annual Shareholders' Meeting of SQUARE ENIX HOLDINGS CO., LTD. (the "Company") will be held as described below.

In the event that you are unable to attend the Meeting, please examine the "Reference Documents for the Shareholders' Meeting" provided below, and you may exercise your voting rights either online or in writing (via post) no later than 6:00 p.m., Tuesday, June 23, 2020 (Japan Standard Time).

- 1. Time:** 10:00 a.m., Wednesday, June 24, 2020 (Doors open at 9:00 a.m.)
- 2. Place:** Century Room, B1 floor, Hyatt Regency Tokyo
2-7-2 Nishi Shinjuku, Shinjuku-ku, Tokyo
- 3. Meeting Agenda:**
- Reports**
1. Business Report, Consolidated Financial Statements and Audit Reports on the Consolidated Financial Statements by Accounting Auditors and by the Audit & Supervisory Committee for the 40th Term (April 1, 2019 through March 31, 2020)
 2. Non-Consolidated Financial Statements for the 40th Term (April 1, 2019 through March 31, 2020)
- Items for Resolution**
- First Item:** Election of Six (6) Directors (excluding Directors who are Audit & Supervisory Committee Members)
- Second Item:** Election of Three (3) Directors who are Audit & Supervisory Committee Members
- Third Item:** Election of One (1) Substitute Director who is an Audit & Supervisory Committee Member

- END -

Notes:

Excerpts from the Business Report and Consolidated Financial Statements are to be attached to this NOTICE OF CONVOCATION and are described from page 3 onward.

Should revisions to this document for the Shareholders' Meeting become necessary, such changes will be posted on the Company's website (Japanese: <https://www.hd.square-enix.com/jpn/ir/stock/shareholdersmeeting.html>; summarized translations in English: <https://www.hd.square-enix.com/eng/ir/stock/shareholdersmeeting.html>).

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Information on Exercising Voting Right

The right to vote at the Annual Shareholders' Meeting is an important right of all shareholders. Please exercise your voting rights after having reviewed the Reference Documents for the Shareholders' Meeting described below. There are three ways to exercise your voting rights:

- In person at the Annual Shareholders' Meeting
Please submit your voting form to the receptionist at the venue.
The time and date of the Annual Shareholders' Meeting is 10:00 a.m., Wednesday, June 24, 2020 (Japan Standard Time).
- Online
Please access the voting website (<https://evote.tr.mufg.jp/>) and enter your approval or rejection of the agenda items. You need a log-in ID and a temporary password, which are indicated on the Voting Form.
Alternatively, you can log onto the website without a log-in ID or a temporary password by scanning the QR code on the Voting Form.
The deadline for exercising your voting rights is 6:00 p.m., Tuesday, June 23, 2020 (Japan Standard Time).
- In writing (via post)
Please indicate your approval or rejection of the agenda items on the Voting Form, and return it via post.
Voting forms must arrive no later than 6:00 p.m., Tuesday, June 23, 2020 (Japan Standard Time).

If you exercise your voting rights both online and in writing (via post), only the former will be valid, and if you exercise your voting rights online more than once, only the last vote will be counted.

(Note: Online voting is not available to non-resident shareholders.)

(Note: Nominal shareholders such as trust banks [including custodians] who apply in advance to use the Electronic Voting Platform for Foreign and Institutional Investors operated by ICJ, Inc. may use the platform to exercise their voting rights electronically, as provided for in the Companies Act.)

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Reference Documents for the Shareholders' Meeting

First Item: Election of Six (6) Directors (excluding Directors who are Audit & Supervisory Committee Members)

The term of office of all the incumbent Directors (excluding Directors who are Audit & Supervisory Committee Members; the same applies hereinafter in this item) will expire at the close of this Annual Shareholders' Meeting.

Therefore, in order to further strengthen corporate governance and enhance the transparency, objectivity, and diversity of the Board of Directors, the Company proposes to increase the number of outside directors by one (1) to elect six (6) Directors.

The Audit & Supervisory Committee has expressed the opinion that this proposal has been properly submitted in accordance with the predetermined criteria and procedures for nominating Director candidates.

The proposed candidates are as follows:

No.	Name (Date of Birth)	Brief Personal History, Positions and Assignments in the Company, and Significant Positions Concurrently Held	Number of the Company's Shares Held
1	Yosuke Matsuda (April 27, 1963)	<p>Oct. 2001 <i>Senior Vice President, SQUARE CO., LTD.</i> (currently SQUARE ENIX HOLDINGS CO., LTD.)</p> <p>Apr. 2003 <i>Senior Vice President and General Manager, Accounting and Finance Division, SQUARE ENIX CO., LTD.</i> (currently SQUARE ENIX HOLDINGS CO., LTD.)</p> <p>Jun. 2004 <i>Director, Accounting and Finance, SQUARE ENIX CO., LTD.</i></p> <p>Mar. 2013 <i>Senior Executive Managing Director and Representative Director, SQUARE ENIX HOLDINGS CO., LTD.</i></p> <p>Jun. 2013 <i>President and Representative Director, SQUARE ENIX HOLDINGS CO., LTD.</i> (incumbent)</p> <p>(Significant positions concurrently held) <i>President and Representative Director, SQUARE ENIX CO., LTD.</i> <i>Director, Taito Corporation</i> <i>President and Director, SQUARE ENIX OF AMERICA HOLDINGS, INC.</i> (the Group's intermediate holding company in the Americas) <i>Director, SQUARE ENIX LTD.</i> (the Group's operating and intermediate holding company in Europe and other regions) <i>Chairman of the Board, SQUARE ENIX (China) CO., LTD.</i> (the Group's operating company in China)</p>	200 shares
2	Yukinobu Chida (September 29, 1950)	<p>Apr. 1989 <i>Managing Director and General Manager, Product Planning Division, ENIX CORPORATION</i> (currently SQUARE ENIX HOLDINGS CO., LTD.)</p> <p>Apr. 1993 <i>Executive Director and General Manager, Product Planning Division, ENIX CORPORATION</i></p> <p>Oct. 2000 <i>Vice Chairman and Director, ENIX CORPORATION</i></p> <p>Oct. 2002 <i>Director, ENIX CORPORATION</i></p> <p>Apr. 2003 <i>Director, SQUARE ENIX CO., LTD.</i> (currently SQUARE ENIX HOLDINGS CO., LTD.) (incumbent)</p> <p>Jun. 2014 <i>Director, SQUARE ENIX CO., LTD.</i></p>	126,688 shares

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No.	Name (Date of Birth)	Brief Personal History, Positions and Assignments in the Company, and Significant Positions Concurrently Held	Number of the Company's Shares Held
3	Yukihiro Yamamura (October 30, 1963)	<p>Apr. 1997 <i>Director, Deputy General Manager, Business Planning & Development Division, Transcosmos Inc.</i></p> <p>Oct. 1997 <i>President and Representative Director, DoubleClick Japan Inc. (currently Transcosmos Inc.)</i></p> <p>Jun. 2000 <i>Representative Director, Excite Japan Co., Ltd.</i></p> <p>Aug. 2008 <i>Representative Director and CEO, Glam Media Japan Corp. (currently Mode Media Japan Corporation)</i></p> <p>Jun. 2013 <i>Outside Director, SQUARE ENIX HOLDINGS CO., LTD. (incumbent)</i></p> <p>Sep. 2014 <i>Representative Director, Puzzle Ring Inc. (incumbent)</i></p> <p>May. 2015 <i>Director, Project8 Inc.</i></p> <p>Aug. 2015 <i>Director, Visionary Works Co., Ltd. (incumbent)</i></p> <p>(Significant positions concurrently held) <i>Representative Director, Puzzle Ring Inc.</i> <i>Director, Visionary Works Co., Ltd.</i></p>	None
4	Yuji Nishiura (January 3, 1953)	<p>Apr. 1993 <i>Director, Executive Vice President and Partner, Booz Allen Hamilton Inc. (currently PwC Consulting LLC)</i></p> <p>Feb. 2000 <i>Representative Director, President and Partner, Booz Allen Hamilton Inc.</i></p> <p>Oct. 2002 <i>Representative Director, CEO and Managing Partner, Roland Berger and Partner Japan Ltd. (currently Roland Berger Ltd.)</i></p> <p>Jan. 2006 <i>Japan Representative and Managing Director, AlixPartners Asia, LLC</i></p> <p>Jan. 2011 <i>Vice Chairman and Managing Director, AlixPartners, LLP</i></p> <p>Dec. 2012 <i>Director, AXA Japan Holding Co., Ltd. (currently AXA Life Insurance Co., Ltd.)</i> <i>Chairman and Director, AXA Life Insurance Co., Ltd.</i></p> <p>Mar. 2013 <i>Chairman and Director, AXA General Insurance Co., Ltd.</i></p> <p>Jun. 2014 <i>Outside Director, SQUARE ENIX HOLDINGS CO., LTD. (incumbent)</i></p> <p>Oct. 2014 <i>Chairman and Director, AXA Life Insurance Co., Ltd.</i></p> <p>Dec. 2015 <i>Chairman and Representative Director, Sumitomo Mitsui Trust Club Co., Ltd.</i></p> <p>Jun. 2019 <i>Outside Director, LIXIL Group Corporation (incumbent)</i></p> <p>(Significant position concurrently held) <i>Outside Director, LIXIL Group Corporation</i></p>	None

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No.	Name (Date of Birth)	Brief Personal History, Positions and Assignments in the Company, and Significant Positions Concurrently Held	Number of the Company's Shares Held
5	Masato Ogawa (December 7, 1954)	<p>Apr. 2009 <i>Corporate Executive Officer, Senior Vice President, Marketing & Planning, ALL Nippon Airways Co., LTD. (currently ANA HOLDINGS INC.)</i></p> <p>Jun. 2011 <i>Senior Vice President, General Manager, Nagoya Region, Chubu Sales Headquarters, ALL Nippon Airways Co., LTD.</i></p> <p>Apr. 2013 <i>Senior Vice President, General Manager, Nagoya Region, Chubu Sales Headquarters, ALL Nippon Airways Co., LTD.</i></p> <p>Apr. 2015 <i>Executive Vice President and COO, ANA Strategic Research Institute Co., Ltd.</i></p> <p>Apr. 2017 <i>Chairman of the Board, ANA Strategic Research Institute Co., Ltd.</i></p> <p>Jun. 2018 <i>Outside Director, SQUARE ENIX HOLDINGS CO., LTD. (incumbent)</i></p> <p>Apr. 2019 <i>President (Representative Director), ONSEN & Gastronomy Tourism Association (incumbent)</i></p> <p>(Significant position concurrently held) <i>President (Representative Director), ONSEN & Gastronomy Tourism Association</i></p>	None
※ 6	Mitsuko Okamoto (August 5, 1964)	<p>Apr. 1987 <i>Joined NHK (Japan Broadcasting Corporation)</i></p> <p>Apr. 2008 <i>Professor, Graduate School of Film and New Media, Tokyo University of the Arts (incumbent)</i></p> <p>Mar. 2010 <i>Chief Producer, NHK Educational Television (ETV) "2355" and "0655" (incumbent)</i></p> <p>Apr. 2013 <i>Dean, Film and New Media, Tokyo University of the Arts</i></p> <p>Oct. 2016 <i>Executive Assistant to the President (Campus Diversity), Tokyo University of the Arts</i></p> <p>Apr. 2017 <i>Vice President (International Affairs and Campus Diversity), Director, Global Support Center, Director, Office for Diversity & Inclusion, Tokyo University of the Arts (incumbent)</i></p> <p>(Significant position concurrently held) <i>Chief Producer, NHK Educational Television (ETV) "2355" and "0655"</i> <i>Vice President (International Affairs and Campus Diversity), Director, Global Support Center, Director, Office for Diversity & Inclusion, Tokyo University of the Arts</i></p>	None

- Notes: 1. ※ Indicates that the candidate is to be newly elected as a Director.
2. There are no special interests between any candidate and the Company.
3. The candidates Yukihiro Yamamura, Yuji Nishiura, Masato Ogawa, and Mitsuko Okamoto are nominated as Outside Directors.
4. The reasons for the nomination of each candidate as Director are as listed below:
- (1) Since becoming President and Representative Director of the Company in June 2013, Yosuke Matsuda has established a track record as a full-time Director characterized by producing stable earnings through corporate strategy planning in line with the changes in the Company's business environment and steady implementation of the strategy.
- (2) Since becoming Director of the Company, Yukinobu Chida has established a track record as a non-executive Director of the Company characterized by taking on the functions of supervising and serving as a check on executive Directors' execution of operations, leveraging his abundant experience and broad-ranging insights

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from years of management of the Company.

- (3) Since becoming Outside Directors of the Company, Yukihiro Yamamura, Yuji Nishiura and Masato Ogawa have established track records characterized by taking on the functions of supervising and serving as a check on executive Directors' execution of operations, leveraging their abundant experience and broad-ranging insights as corporate executives.
- (4) Although Mitsuko Okamoto does not possess previous corporate management experience, she has a wealth of experience and a wide range of knowledge and insight in the field of animation and other content. The Company judges that she is capable of properly executing the duties of an Outside Director of the Company by taking on the functions of supervising and serving as a check on executive Directors' execution of operations.
5. The candidates Yukihiro Yamamura, Yuji Nishiura, and Masato Ogawa are currently serving as Outside Directors of the Company, and their tenure will be seven (7) years, six (6) years, and two (2) year, respectively, at the close of this Annual Shareholders' Meeting.
6. The Company has entered into respective liability limitation agreements with Yukihiro Yamamura, Yuji Nishiura, and Masato Ogawa that limit their liability to a maximum of ¥10 million or the amount prescribed by law, whichever is greater. If they are re-elected, the Company will extend the term of the agreements. Furthermore, if Mitsuko Okamoto assumes the position of Director of the Company, the Company will enter into a liability limitation agreement with her that limits her liability to a maximum of ¥10 million or the amount prescribed by law, whichever is greater.
7. The Company has notified the Tokyo Stock Exchange (TSE) of Yukihiro Yamamura, Yuji Nishiura, and Masato Ogawa's status as Independent Executives. If they are re-elected, the Company will continue to recognize them as Independent Executives. Furthermore, Mitsuko Okamoto satisfies the requirements for Independent Executive status as stipulated in the provisions of the TSE, and the Company plans to notify the TSE of her status as an Independent Executive. Please note that she is the Vice President of Tokyo University of the Arts, and the Company Group sends employees to the university as instructors as part of a collaborative initiative with the university, but no compensation is involved.

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Second Item: Election of Three (3) Directors who are Audit & Supervisory Committee Members

The term of office of all the incumbent Directors who are Audit & Supervisory Committee Members will expire at the close of this Annual Shareholders' Meeting.

Therefore, the Company proposes to elect three (3) Directors who are Audit & Supervisory Committee Members. The Audit & Supervisory Committee has given consent to the proposal of this item.

The proposed candidates for the positions of Directors who are Audit & Supervisory Committee Members are as follows:

No.	Name (Date of Birth)	Brief Personal History, Positions and Assignments in the Company, and Significant Positions Concurrently Held	Number of the Company's Shares Held
1	Ryoichi Kobayashi (October 25, 1946)	<p>Jun. 1994 <i>Director, Nomura Research Institute, Ltd.</i> Jul. 1996 <i>Managing Director, NRI Data Services, Ltd.</i> (currently, Nomura Research Institute, Ltd.) Jun. 1999 <i>Executive Director, NRI Data Services, Ltd.</i> Jun. 2002 <i>Auditor, Nomura Research Institute, Ltd.</i> Jun. 2007 <i>Full-Time Outside Corporate Auditor, SQUARE ENIX HOLDINGS CO., LTD.</i> Jun. 2008 <i>Outside Director, Matsumotokiyoshi Holdings Co., Ltd.</i> Oct. 2008 <i>Corporate Auditor, SQUARE ENIX CO., LTD.</i> (incumbent) Jun. 2018 <i>Outside Director (Full-Time Audit & Supervisory Committee Member), SQUARE ENIX HOLDINGS CO., LTD. (incumbent)</i></p> <p>(Significant positions concurrently held) <i>Corporate Auditor, SQUARE ENIX CO., LTD.</i></p>	None
2	Tadao Toyoshima (April 23, 1955)	<p>Mar. 1979 <i>Joined Pricewaterhouse</i> Sep. 1987 <i>Joined Asahi Shinwa & Co. (currently, KPMG AZSA LLC.)</i> Oct. 1987 <i>Registration of Certified Public Accountant</i> Jun. 2004 <i>Representative Partner, AZSA & Co. (currently, KPMG AZSA LLC.)</i> Jul. 2010 <i>Partner, KPMG AZSA LLC.</i> May. 2014 <i>Outside Corporate Auditor, CAREERLINK CO., LTD.</i> May. 2015 <i>Full-Time Outside Corporate Auditor, CAREERLINK CO., LTD.</i> Mar. 2016 <i>Supervisory Director, Mitsui Fudosan Logistics Park Inc. (incumbent)</i> Jun. 2017 <i>Outside Corporate Auditor, SQUARE ENIX HOLDINGS CO., LTD.</i> Jun. 2018 <i>Outside Director (Audit & Supervisory Committee Member), SQUARE ENIX HOLDINGS CO., LTD. (incumbent)</i></p> <p>(Significant positions concurrently held) <i>Supervisory Director, Mitsui Fudosan Logistics Park Inc.</i></p>	None
※ 3	Hajime Shinji (February 16, 1964)	<p>Apr. 1993 <i>Certified as Attorney</i> Joined Itoh & Matsuda Law Office. (currently, City-Yuwa Partners) Apr. 1996 <i>Lecturer, Tokai University</i> Jan. 2001 <i>Partner, Itoh & Matsuda Law Office. (currently, City-Yuwa Partners)</i> Jan. 2004 <i>Joined Shinozaki & Shinji Law Firm</i> Nov. 2007 <i>Examiner for New Bar Examination</i></p>	None

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	Jan. 2008	<i>Partner, Shinozaki & Shinji Law Firm (incumbent)</i>	
	May. 2010	<i>Outside Director, KANAE CAPITAL Inc.</i>	
	Jun. 2012	<i>Outside Director, FX PRIME Corporation (currently, FX PRIME by GMO Corporation)</i>	
	Apr. 2013	<i>Instructor, Legal Training and Research Institute of Japan, Supreme Court of Japan</i>	
	Jul. 2019	<i>Outside Corporate Auditor, VISCAS Co., Ltd. (incumbent)</i>	
		<i>(Significant positions concurrently held)</i>	
		<i>Partner, Shinozaki & Shinji Law Firm</i>	
		<i>Outside Corporate Auditor, VISCAS Co., Ltd.</i>	

Notes: 1. ※ Indicates that the candidate is to be newly elected as a Director who is an Audit & Supervisory Committee Member.

2. There are no special interests between any candidate and the Company.
3. The candidates Ryoichi Kobayashi, Tadao Toyoshima, and Hajime Shinji are nominated as Outside Directors.
4. The reasons for the nomination of each candidate as a Directors who is an Audit & Supervisory Committee Members are as listed below:
 - (1) Since becoming an Outside Director who is an Audit & Supervisory Committee Member of the Company, Ryoichi Kobayashi has established a track record characterized by taking on the functions of monitoring and inspecting executive Directors' execution of operations, leveraging his abundant experience and broad-ranging insights as a corporate executive.
 - (2) Although Tadao Toyoshima does not possess previous corporate management experience other than in Outside Officer roles at multiple companies, he is a Certified Public Accountant (CPA) and possesses extensive expertise in finance- and accounting-related matters. Since becoming an Outside Director who is an Audit & Supervisory Committee Member of the Company, he has established a track record characterized by taking on the functions of monitoring and inspecting executive Directors' execution of operations.
 - (3) Although Hajime Shinji does not possess previous corporate management experience other than in Outside Officer roles at multiple companies, he possesses a wealth of experience and broad insight as exemplified by his status as a qualified attorney and the government positions he has held in the field of law. The Company judges that he is capable of properly executing the duties of an Outside Director who is an Audit & Supervisory Committee Member by taking on the functions of monitoring and inspecting executive Directors' execution of operations.
5. Ryoichi Kobayashi and Tadao Toyoshima are currently serving as Outside Director who are Audit & Supervisory Committee Members of the Company, and their tenures will be two (2) years upon the close of this Annual Shareholders' Meeting. Ryoichi Kobayashi and Tadao Toyoshima served as Outside Audit & Supervisory Board Members of the Company, for eleven (11) years and one (1) year, respectively.
6. The Company has entered into respective liability limitation agreements with Ryoichi Kobayashi and Tadao Toyoshima that limit their liability to a maximum of ¥10 million or the amount prescribed by law, whichever is greater. If they are re-elected, the Company will extend the term of the agreements. Furthermore, if Hajime Shinji assumes the position of Director who is an Audit & Supervisory Committee Member of the Company, the Company will enter into a liability limitation agreement with him that limits his liability to a maximum of ¥10 million or the amount prescribed by law, whichever is greater.
7. The Company has notified the Tokyo Stock Exchange (TSE) of Ryoichi Kobayashi and Tadao Toyoshima's status as Independent Executives. If they are re-elected, the Company will continue to recognize them as Independent Executives. Furthermore, Hajime Shinji satisfies the requirements for Independent Executive status as stipulated in the provisions of the TSE, and the Company plans to notify the TSE of his status as an Independent Executive.

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Third Item: Election of One (1) Substitute Director who is an Audit & Supervisory Committee Member

In preparation for a situation whereby the Company would fail to meet the minimum number of Directors of the Company who are Audit & Supervisory Committee Members under the relevant laws and regulations, the Company proposes to elect one (1) Substitute Director who is an Audit & Supervisory Committee Member.

The election of a Substitute Audit & Supervisory Committee Member may be cancelled by resolution of the Board of Directors' Meeting with the consent of the Audit & Supervisory Committee, provided that the party elected to assume the office has yet to do so.

The Audit & Supervisory Committee has given consent to the proposal of this item.

The proposed candidate for Substitute Director who is an Audit & Supervisory Committee Member is as follows:

Name (Date of Birth)	Brief Personal History, Positions and Assignments in the Company, and Significant Positions Concurrently Held	Number of the Company's Shares Held
Satoshi Fujii (October 11, 1960)	Apr. 1985 <i>Joined</i> The Mitsui Bank, Ltd. (currently Sumitomo Mitsui Banking Corporation) Dec. 2001 <i>Senior Vice President</i> , Asia Pacific Department, Sumitomo Mitsui Banking Corporation Dec. 2002 <i>Group Head</i> , China Business Promotion Department, Sumitomo Mitsui Banking Corporation Apr. 2008 <i>Joint General Manager</i> , Global Advisory Department, Sumitomo Mitsui Banking Corporation Apr. 2011 <i>Senior Auditor</i> , Internal Audit Department, Sumitomo Mitsui Banking Corporation Aug. 2016 <i>General Manager</i> , Internal Audit Office, SQUARE ENIX HOLDINGS CO., LTD. (incumbent) <i>General Manager</i> , Internal Audit Office, SQUARE ENIX CO., LTD. (incumbent)	129 Shares

- Notes: 1. There are no special interests between the candidate and the Company.
2. The Company proposes to elect the candidate as a Substitute Director of the Company who is an Audit & Supervisory Committee Member because of his abundant expertise and experience in the field of internal audits. The Company judges that if he were to assume the position of Outside Director of the Company who is an Audit & Supervisory Committee Member as the result of a vacancy, he would be capable of properly executing the position's duties by taking on the functions of monitoring and inspecting executive Directors' execution of operations.
3. The number of the Company's shares held by Satoshi Fujii includes his shares with the Company's Employee Stock Ownership Association as of March 31, 2020.

- END -

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(Excerpts from Business Report for the 40th Term)

Operating Highlights of the Fiscal Year Ended March 31, 2020

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, 2020 totaled ¥260,527 million (a decrease of 4.0% from the prior fiscal year), operating income amounted to ¥32,759 million (an increase of 33.0% from the prior fiscal year), ordinary income amounted to ¥32,095 million (an increase of 12.9% from the prior fiscal year), and profit attributable to owners of parent amounted to ¥21,346 million (an increase of 10.2% from the prior fiscal year).

A discussion of results by segment for the fiscal year ended March 31, 2020 follows.

Operating Results by Business Segment

1. 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.

The fiscal year ended March 31, 2020 saw the launch of the console title “DRAGON QUEST XI S: Echoes of an Elusive Age – Definitive Edition” and the posting of sales from early shipments of “FINAL FANTASY VII REMAKE,” which was released in April 2020. Net sales nonetheless declined versus the previous fiscal year, which had seen the release of multiple major new titles. In addition, weak additional sales of titles released in the previous fiscal year and the booking of impairment losses related to the content production account resulted in an operating loss of the HD Games sub-segment.

In the smart device and PC browser area, net sales and operating income increased year on year given strong performances from “Romancing SaGa Re;univerSe” and “DRAGON QUEST WALK,” the latter of which was launched in September 2019.

In the area of massively multiplayer online role-playing games, the launch of expansion packs for “FINAL FANTASY XIV” and “DRAGON QUEST X” and the resulting growth in paying monthly subscriber numbers led to greater net sales and operating income than in the previous fiscal year.

Net sales and operating income in the Digital Entertainment segment totaled ¥188,687 million (a decrease of 7.8% from the prior fiscal year), and ¥35,357 million (an increase of 21.9% from the prior fiscal year), respectively.

2. 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.

While arcade operations were solid, a decline in amusement machine sales resulted in a year-on-year decline in annual net sales and operating income.

Net sales and operating income in the Amusement segment totaled ¥45,673 million (a decrease of 1.2% from the prior fiscal year), and ¥1,480 million (a decrease of 24.4% from the prior fiscal year), respectively.

3. Publication

The Publication segment consists of publication and licensing of comic magazines, comic books, and gamerelated books. Sales in digital formats, including via the MANGA UP! comic app and of e-books, rose sharply in the fiscal year ended March 31, 2020. This, combined with brisk sales of printed media, resulted in higher net sales and operating income than in the previous fiscal year.

Net sales and operating income in the Publication segment totaled ¥19,452 million (an increase of 36.0% from the prior fiscal year) and ¥7,250 million (an increase of 75.1% from the prior fiscal year), respectively.

4. Merchandising

The Merchandising segment consists of planning, production, distribution, and licensing of derivative products of IPs

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owned by the Group.

The release of new character goods featuring the Group's own intellectual properties made for a year-on-year increase in both annual net sales and operating income.

Net sales and operating income in the Merchandising segment totaled ¥8,737 million (an increase of 18.1% from the prior fiscal year), and ¥1,021 million (an increase of 9.5% from the prior fiscal year), respectively.

Capital Expenditures

During this Fiscal Year, capital expenditures totaled ¥8,111 million, consisting mainly of investments in arcade game machines in the Amusement segment, as well as game development tools and networking equipment for data centers in the Digital Entertainment segment.

Issues Facing Management

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 earnings base will enable investment in large-scale, innovative content development efforts. The recurring income generated from that content will expand the Group's overall earnings, thereby allowing the Group to achieve sustained earnings growth.

The Group will continue to prepare for the coming popularity of cloud gaming that the spread of 5G is likely to inspire. Cloud gaming has the potential to change distribution as streaming accelerates the shift away from traditional disks to more digital sales and evolves business models, including by giving rise to more subscription-based services. It could additionally spur growth in the gaming market as a whole by making it possible to provide content to emerging regions where game consoles have not been prevalent. Cloud gaming will meanwhile dictate that the industry devise gaming experiences unique to the cloud environment and develop cloud-native games. The Group will endeavor to respond flexibly to these changes so that they may fuel future growth.

Basic Policy for Profit Distribution and Dividends

The Group recognizes the return of profits to shareholders as one of its most important management tasks. It first prioritizes investments that enhance the value of the Group, including those into the expansion of existing businesses, the development of new businesses, and reforms to the business structure. Having secured the internal reserves to fund such investments, the Group focuses on rewarding its shareholders via cash dividends, endeavoring to strike the optimal balance between a performance-based payout and a stable return. The Group determines the amount of dividends based upon comprehensive consideration of the balance between investment and the return of profits to shareholders, using a consolidated payout ratio of approximately 30% as a guide.

[Distribution of Surplus for the Fiscal Year Ended March 31, 2020]

The Company has decided to distribute dividends from surplus at a rate of 44 yen per share of common stock by the resolution of the Board of Directors' Meeting held on May 20, 2020.

The aggregate amount of annual dividends is 54 yen per share (including the interim dividend of 10 yen per share paid in December 2019).

The Company will begin paying dividends on June 4, 2020. Please receive the aforementioned dividends by using the dividends receipt during the payment period (from June 4, 2020 through July 31, 2020).

For shareholders who have designated a payment method, the Company has arranged payment accordingly.

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Consolidated Balance Sheets

As of March 31, 2020

(Millions of Yen)

Items	Amount	Items	Amount
(ASSETS)		(LIABILITIES)	
Current assets	250,896	Current liabilities	69,344
Cash and deposits	123,450	Notes and accounts payable-trade	25,537
Notes and accounts receivable-trade	41,474	Income taxes payable	10,159
Merchandise and finished goods	5,850	Provision for bonuses	4,061
Work in progress	206	Provision for sales returns	4,253
Raw materials and supplies	433	Provision for game arcade closings	43
Content production account	71,479	Asset retirement obligations	3
Other	8,163	Other	25,285
Allowance for doubtful accounts	(161)	Non-current liabilities	11,360
Non-current assets	51,737	Provision for directors' retirement benefits	52
Property, plant and equipment	20,547	Provision for loss on game arcade closings	40
Buildings and structures	6,738	Net defined benefit liability	3,214
Tools, furniture and fixtures	4,830	Deferred tax liabilities	1,062
Amusement equipment	2,108	Asset retirement obligations	3,291
Land	3,782	Other	3,698
Construction in progress	147	Total liabilities	80,705
Other	2,940	(NET ASSETS)	
Intangible assets	5,387	Shareholders' equity	226,750
Investments and other assets	25,802	Capital stock	24,039
Investment securities	2,308	Capital surplus	53,388
Guarantee deposits	10,612	Retained earnings	159,222
Deferred tax assets	8,731	Treasury stock	(9,900)
Other	4,238	Accumulated other comprehensive income	(5,567)
Allowance for doubtful accounts	(88)	Valuation difference on available-for-sale securities	(162)
		Foreign currency translation adjustment	(5,085)
		Remeasurements of defined benefit plans	(318)
		Subscription rights to shares	608
		Non-controlling interests	137
		Total net assets	221,928
Total assets	302,634	Total liabilities and net assets	302,634

(Note: Amounts are rounded down to the nearest million yen.)

[Abridged Translation for Reference and Convenience Purposes Only]

Consolidated Income Statements

From April 1, 2019 to March 31, 2020

(Millions of Yen)

Items	Amount	
Net sales		260,527
Cost of sales		139,012
Gross profit		121,515
Reversal of provision for sales returns		9,016
Provision for sales returns		4,257
Gross profit-net		126,274
Selling, general and administrative expenses		93,515
Operating income		32,759
Non-operating income		
Interest income	363	
Dividend income	0	
Rent income	36	
Gain on forgiveness of payable for group tax	370	
Outsourcing service income	104	
Miscellaneous income	94	969
Non-operating expenses		
Interest expenses	135	
Commission fee	5	
Loss on investments in securities	127	
Office transfer related expenses	155	
Foreign exchange losses	1,173	
Miscellaneous loss	35	1,633
Ordinary income		32,095
Extraordinary income		
Gain on sales of non-current assets	2	
Gain on reversal of subscription rights to shares	7	9
Extraordinary losses		
Loss on retirement of non-current assets	130	
Impairment loss	367	
Loss on event cancellations	544	
Other	268	1,311
Profit before income taxes		30,793
Income taxes-current	10,581	
Income taxes-deferred	(1,136)	9,444
Profit		21,348
Profit attributable to non-controlling interests		1
Profit attributable to owners of parent		21,346

(Note: Amounts are rounded down to the nearest million yen.)

[Abridged Translation for Reference and Convenience Purposes Only]

Consolidated Statements of Changes in Net Assets

From April 1, 2019 to March 31, 2020

(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	53,281	140,235	(10,162)	207,394
Cumulative effects of changes in accounting policies			3,215		3,215
Restated balance	24,039	53,281	143,451	(10,162)	210,610
Changes during the period					
Dividends from retained earnings			(5,602)		(5,602)
Profit attributable to owners of parent			21,346		21,346
Purchase of treasury stock				(9)	(9)
Disposal of treasury stock		107		271	378
Change in scope of consolidation			27		27
Net changes of items other than shareholders' equity					
Total changes during the period	—	107	15,771	261	16,140
Balance at the end of current period	24,039	53,388	159,222	(9,900)	226,750

	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	116	(4,651)	(285)	(4,820)	517	139	203,230
Cumulative effects of changes in accounting policies							3,215
Restated balance	116	(4,651)	(285)	(4,820)	517	139	206,445
Changes during the period							
Dividends from retained earnings							(5,602)
Profit attributable to owners of parent							21,346
Purchase of treasury stock							(9)
Disposal of treasury stock							378
Change in scope of consolidation							27
Net changes of items other than shareholders' equity	(279)	(433)	(33)	(746)	90	(2)	(657)
Total changes during the period	(279)	(433)	(33)	(746)	90	(2)	15,482
Balance at the end of current period	(162)	(5,085)	(318)	(5,567)	608	137	221,928

(Note: Amounts are rounded down to the nearest million yen.)