

SQUARE ENIX

2020
ANNUAL REPORT

Corporate Philosophy

To spread happiness across the globe by providing unforgettable experiences

This philosophy represents our company's mission and the beliefs for which we stand.

Each of our customers has his or her own definition of happiness.

The Square Enix Group provides high-quality content, services, and products to help those customers create their own wonderful, unforgettable experiences, thereby allowing them to discover a happiness all their own.

Management Guidelines

In working to make our Corporate Philosophy a reality, we will manage our Group with the following policies as our key guidelines.

1. We will strive to be a company that delivers unparalleled entertainment.

Through our games, amusement offerings, publications, merchandising, and other contents and services, we will be steadfast in our efforts to deliver unparalleled entertainment to our customers.

2. We will value innovation and creativity.

By giving rise to new expressions and ideas and creating experiences like none ever encountered before, we will deliver contents and services that surpass the expectations of our customers. We believe that it is in our unrelenting efforts to this end that our existential value and the value of our brand lie.

3. We will respond with sensitivity and flexibility to environmental changes.

We are surrounded by an environment that is ever changing. We will stay attuned to those changes and be flexible in adapting the nature and format of our contents and services as well as our business models accordingly. In addition, we will stay at the forefront of change so that we can provide our customers with excitement and fun.

4. We will create a corporate culture that is both collaborative and competitive.

Our contents and services are born of teamwork and could never be created without the concerted efforts of a team that is fully united. At the same time, it is important that we engage in collegial competition in order to inspire one another to greater heights. We will foster a corporate culture that promotes such competitive collaboration.

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With respect to this annual report, the financial section will be provided at the link below.
<https://www.hd.square-enix.com/eng/ir/library/ar.html>

Disclaimer Regarding Forward-Looking Statements

Statements in this annual report with respect to the current plans, estimates, strategy, and beliefs of SQUARE ENIX HOLDINGS CO., LTD., and consolidated subsidiaries [collectively "SQUARE ENIX HOLDINGS"] include both historical facts and forward-looking statements concerning the future performance of SQUARE ENIX HOLDINGS.

Such information is based on management's assumptions and beliefs in light of the information currently available and, therefore, involve risks and uncertainties. Actual results may differ materially from those anticipated in these statements due to the influence of a number of important factors.

Such factors include but are not limited to: [1] general economic conditions in Japan and foreign countries, in particular levels of consumer spending; [2] fluctuations in exchange rates, in particular the exchange rate of the Japanese yen in relation to the U.S. dollar, the euro and others, which SQUARE ENIX HOLDINGS uses extensively in its overseas business; [3] the continuous introduction of new products and rapid technical innovation in the digital entertainment industry as well as SQUARE ENIX HOLDINGS's ability to continue developing products and services accepted by consumers in the intensely competitive market, which is heavily influenced by subjective and quickly changing consumer preferences.

Financial Highlights

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

	2016	2017	2018	2019	Millions of yen 2020	Thousands of U.S. dollars 2020
For the Year						
Net sales	¥ 214,101	¥ 256,824	¥ 250,394	¥ 271,276	¥ 260,527	\$2,393,897
Operating income	26,018	31,295	38,176	24,635	32,759	301,014
Ordinary income	25,322	31,128	36,124	28,415	32,095	294,911
Profit attributable to owners of parent	19,884	20,039	25,821	19,373	21,346	196,149
At Year-end						
Total assets	¥ 232,731	¥ 243,859	¥ 259,713	¥ 282,614	¥ 302,634	\$2,780,796
Total net assets	168,783	181,904	193,359	206,445	221,928	2,039,222
					Yen	U.S. dollars
Per Share of Common Stock						
Earnings	¥ 163.04	¥ 164.20	¥ 215.33	¥ 162.57	¥ 179.02	\$ 1.64
Total net assets	1,376.93	1,485.56	1,617.58	1,726.32	1,854.10	17.04
					%	
Key Ratios						
Operating income margin	12.2%	12.2%	15.2%	9.1%	12.6%	
Ordinary income margin	11.8	12.1	14.4	10.5	12.3	
Return on equity	12.3	11.5	13.8	9.7	10.0	
Equity ratio	72.2	74.4	74.2	72.8	73.1	

Note: For the convenience of readers, amounts in U.S. dollars have been translated using the currency exchange rate at March 31, 2020 of ¥108.83=US\$1.

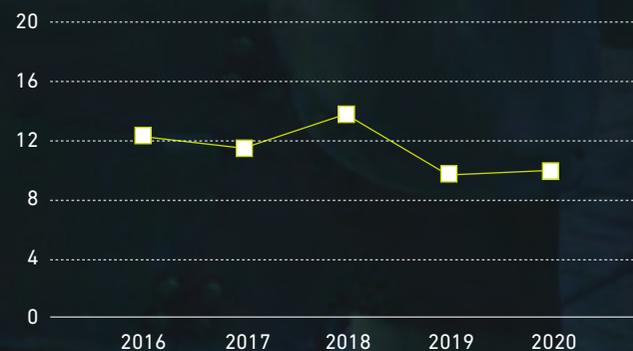
Figures for the fiscal year ended March 31, 2019 have been retroactively adjusted due to the change in accounting policy regarding sales of digital content, effective from the beginning of the fiscal year ended March 31, 2020.

Operating Income Margin/Ordinary Income Margin (%)



■ Operating Income Margin ■ Ordinary Income Margin

Return on Equity (%)



A Message to Our Shareholders



Yosuke Matsuda
President and Representative Director

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

I would first like to express our sincerest condolences to those of you who have lost someone to COVID-19 and to wish the earliest recovery to those of you currently being treated for the virus. In addition, I express our deepest gratitude to the many healthcare professionals on the frontlines of the pandemic and to all the essential workers who are working day and night to maintain our way of life during this crisis.

Sustained growth through more recurring income, content investment

While we saw a slight impact from the sudden spread of COVID-19 infections in the latter half of the fourth quarter, we posted net sales of ¥260.5 billion, operating income of ¥32.7 billion, and profit attributable to owners of parent of ¥21.3 billion in the fiscal year ended March 2020, making for lower sales but higher profits than in the previous fiscal year. Net sales declined versus the previous fiscal year in part because we had initially planned to release “FINAL FANTASY VII REMAKE” in March 2020, but the launch was postponed until April 2020. However, our operating income rose because growth in our MMO (Massively Multiplayer Online game) and Games for Smart Devices/PC Browsers sub-segments expanded our base of recurring income.

I have previously stressed the importance of generating more robust recurring income, and that will remain the case. Developing content is a highly volatile endeavor in that there can be great swings between success and failure. High volatility makes for high risk; but taking risks in order to produce massive hits is what

content development is all about. That holds all the more true when you are developing huge HD (High-Definition) games. We in the content business must always take on risk if we are going to create 1 from 0. What enables us to take that risk is the recurring income that grows 1 to 10 and 10 to 100. Sustaining a cycle of recurring income generation makes our earnings more robust and enables us to create a business structure that can support the investments we make into the inherently risky business of content development.

In the fiscal year ended March 2020, our release of expansion packs for “FINAL FANTASY XIV” and “DRAGON QUEST X ONLINE” grew the user base in our MMO sub-segment. We achieved great success with “FINAL FANTASY XIV: Shadowbringers” in particular, as it was met with an excellent response and led to a record high in paying monthly subscribers six years after the launch of “FINAL FANTASY XIV: A Realm Reborn.”



FINAL FANTASY XIV: Shadowbringers
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DRAGON QUEST X ONLINE
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A Message to Our Shareholders

In the Games for Smart Devices/PC Browsers sub-segment, “Romancing SaGa Re;univerSe,” which we launched in December 2018, contributed to profits for the full fiscal year. “DRAGON QUEST WALK” (September 2019 launch) and “WAR OF THE VISIONS: FINAL FANTASY BRAVE EXVIUS” (November 2019 launch) were also both hits that contributed significantly to the expansion of our earnings. These are examples of how we intend to align innovative undertakings with a stronger base of recurring income that fuel them so that we can achieve sustained growth.

The fiscal year ended March 2020 also saw another key

achievement in our journey to expand our recurring income base, namely the strong growth of our Publication segment. The segment’s earnings are steadily expanding as it rides the wave of digitization. In particular, our comic application MANGA UP! has established a solid position as our publication platform, achieving steady growth in terms of both DAU (daily active users) and MAU (monthly active users). We also succeeded at building up the Publication segment’s content library, adding such new hit titles as “The Apothecary Diaries” and “Toilet-bound Hanako-kun.”



DRAGON QUEST WALK
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Romancing SaGa Re;univerSe
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Powered by Akatsuki Inc.
ILLUSTRATION: TOMOMI KOBAYASHI



The Apothecary Diaries
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SQUARE ENIX



Toilet-bound Hanako-kun
©Aidairo/SQUARE ENIX



**WAR OF THE VISIONS
FINAL FANTASY BRAVE EXVIUS**
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Co-Developed by gumi Inc.



Creating new amusement services

Meanwhile, in our Amusement segment, arcade operations were relatively strong through the third quarter, but sales dropped in the fourth quarter due to the impact from COVID-19 in March 2020. The Amusement segment and its arcade operations in particular are a source of recurring income that we count on, but given its nature as a business that relies on customers coming to physical locations, it was dealt a direct blow by COVID-19 and has continued to face extremely harsh conditions from April 2020 onward. While Japan's local governments are no longer asking businesses to shutter, a return to the previous level of sales is still

not in sight, and in operating our arcades, we will need to be meticulous in ensuring that we prevent the spread of the coronavirus. For the time being, we will cope by cutting fixed costs to lower our breakeven point and also review any unprofitable locations, but over the longer term, we will pursue innovation in our amusement facilities so that they are in step with a world where we co-exist with the coronavirus. We will move this business forward to create new amusement services in the wake of the coronavirus crisis.

A Message to Our Shareholders

Overcoming the impact of COVID-19

The fiscal year ending March 2021 got off to an inauspicious start, with COVID-19 continuing its global rampage, major cities around the world going into lockdown, and the Japanese government declaring a state of emergency. In anticipation of slowdowns and disruptions to our distribution processes due to the crisis, we elected to produce and ship fewer physical copies of “FINAL FANTASY VII REMAKE,” which we launched in April. As a result, initial shipments undershot our original expectations. Meanwhile, digital sales grew sharply, making the game our first title for the PlayStation platform to top two million downloads. The shift to digital sales is a major trend in the game industry as a whole, but it has seen a spike in momentum as a result of the coronavirus crisis. We will endeavor to execute a more effective digital sales strategy for the remainder of this fiscal year’s lineup.

COVID-19 also compelled us to endeavor to transition quickly to a work-from-home model for our content development so that we would be able to sustain those efforts. The Group as a whole is currently operating at roughly 70 to 80 percent of previous levels, and we are striving to further develop our working

environment so that we will be able to bring that to nearly 100%. Even after the coronavirus crisis has subsided, we intend to transition to a hybrid working model that offers work-from-home as the default option but also enables employees to come into the office. In so doing, we will strive to create an organizational structure that is capable of coping flexibly with major disasters and infectious disease outbreaks. Meanwhile, we have yet to see sufficient recovery in some of the operations where we rely on external resources, such as voice recording and motion capture. The impact we expect from this is not minimal, but we will coordinate closely with our external partners and collaborators and share a variety of ideas with one another so that we are able to work through these difficulties.

Furthermore, as discussed above, our Amusement segment finds itself in a challenging situation whereby it is losing sales, and recovery is not yet within sight. As such, we are leaving our earnings outlook for the current fiscal year undecided, but will release it promptly once we are able to make reasonable calculations.



FINAL FANTASY VII REMAKE

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CHARACTER DESIGN: TETSUYA NOMURA/ROBERTO FERRARI

Next-generation consoles and the cloud

Turning to the broader industry, this calendar year 2020 will see the release of the next-generation consoles PlayStation 5 and Xbox Series X. This year's E3 (Electronic Entertainment Expo) was cancelled, but we expect to see a growing stream of news regarding the next-generation consoles between now and the end of the year. We are hoping the excitement reaches fever pitch and will be working hard on corresponding to the next-generation consoles. These will include the development of not only cross-gen (cross-generation) titles that are playable on both current- and next-generation consoles but also of titles that are exclusively for the next-generation consoles. We are currently doing our utmost to ensure that we can bring our customers new gaming experiences that leverage the specs of the next-generation

consoles to the max. We will be releasing information on these titles at the appropriate timing and will endeavor to expand our business on the back of the new platforms.

In addition, we will ramp up our efforts for the cloud as we head into a new era. The game platform companies have already shifted their gaze to what lies beyond the next-generation consoles. The next major trend is the cloud. Cloud-based gaming is likely to bring new entrants to the market in addition to the existing platform companies. These newcomers will offer game publishers and developers new opportunities to expand their businesses. Our hope is that healthy competition between platforms will lead to further growth for the gaming industry as a whole.

Game distribution/sales and development in a cloud environment

We can view the cloud-based gaming business from two perspectives: distribution/sales and game development. In terms of distribution/sales, we hope that game streaming will provide new business opportunities. A rapid shift is underway from selling games as packaged products to selling them via digital downloads, but streaming is likely to give rise to the concept of “using” rather than “buying” games. This is the subscription concept. There are a few subscription services out there already, and while none has taken off in a major way yet, we believe that the presence of game subscription services will grow if game streaming advances. When that happens, how extensive a library of games a subscription service can offer will determine its appeal. We believe that our Group's library of games—especially

single-player games—will be extremely attractive in the subscription service context. We will consider what sort of subscription service we would like to offer our games on, leaving ourselves the option of owning our own channel that we operate as a proprietary subscription service, and execute on whatever decision we make.

We also expect subscription services to serve as an effective means of curating our game sales. This would naturally include providing subscribers other players' recommendations of games that they have never played and getting them to try them out so that we can increase player numbers. We will leverage such opportunities to pursue further earnings expansion.

In terms of game development, it will be critical to develop

A Message to Our Shareholders



games that are cloud centric and cloud native. We predict that cloud gaming will really take off when it offers new gaming experiences that are only possible in the cloud. It is our hope that new gaming experiences that leverage the power of the cloud rather than relying on client devices like consoles and PCs will

The evolution to Games as a Service

As gaming transitions more and more to the cloud, we expect that games will evolve into something more service-like in nature. This is the Games as a Service (GaaS) concept. Moreover, as the GaaS concept advances, games are likely to become platforms unto themselves. Games with massive DAUs and MAUs could themselves become huge social networking platforms. Any given

serve as a major differentiator. There are substantial hurdles to be overcome involving telecommunications infrastructure and server costs, but technology will eventually resolve these issues. We will focus our R&D efforts on that day.

player could broadcast information that is not necessarily relevant to the game, and that would instantly reach the many other players, triggering interaction on a massive scale—matching the definition of a social network to a tee. Movements that arose within a few games have created a buzz during the coronavirus crisis as well. The fact that games are connecting people and

...serving as new forums for communication that has nothing to do with what their creators had intended is a revolutionary development that should be regarded as an epoch-making event for revealing yet another facet of gaming. The transition of gaming to the cloud and the GaaS model are not necessarily interrelated, but we believe such trends will become more prominent in the

Applying AI to entertainment

We recently established a new Group company called SQUARE ENIX AI & ARTS Alchemy Co., Ltd. Our objective is to develop new businesses by taking the AI technology and expertise that we have amassed in the gaming business and leveraging them in the broader world of entertainment, with an eye to potentially applying it to other industries as well. The global battle for AI supremacy is pitting numerous firms, ranging from major corporations to start-ups, against one other. Against that backdrop, gaming AI technology has attracted the attention not only of the adjacent

cloud era. The total DAUs/MAUs of multiple game services will also be important, but we must strive to develop and operate games with massive DAUs/MAUs. We will endeavor to develop games that enhance user engagement and encourage them to play for a long time.

entertainment industry but also of other industries. By creating entertainment AI technology expanding beyond the boundary of games, we will work to develop new businesses that are not bound by the traditional confines of gaming or entertainment while also ensuring that our entire Group benefits from the technologies that these efforts produce. Through these initiatives, we hope to contribute to the development of our Group as a whole, and by extension to the gaming and entertainment industries.

Our shareholder return policy for the fiscal year ending March 2021

Lastly, I would like to discuss our shareholder return policy for the fiscal year ending March 2021. In accordance with our initial policy of achieving a consolidated dividend payout ratio of 30%, we raised our dividends in the fiscal year ended March 2020 versus the previous fiscal year, providing a year-end dividend of ¥44 that made for a full-year dividend of ¥54. While our earnings outlook for the fiscal year ending March 2021 remains undecided, we intend to mainly reward shareholders with dividend payments, maintaining our consolidated dividend payout ratio of 30% as we

pursue our operations in consideration of the balance between investment and shareholder return. With the launch of the next-generation consoles and the advent of the cloud era on the horizon, we will endeavor to strike the optimal balance between aggressive investment and shareholder return. And we will strive to achieve sustainable growth as we adapt to the new lifestyle co-existing with the coronavirus.

I would appreciate your continued support.



Yosuke Matsuda
President and Representative Director

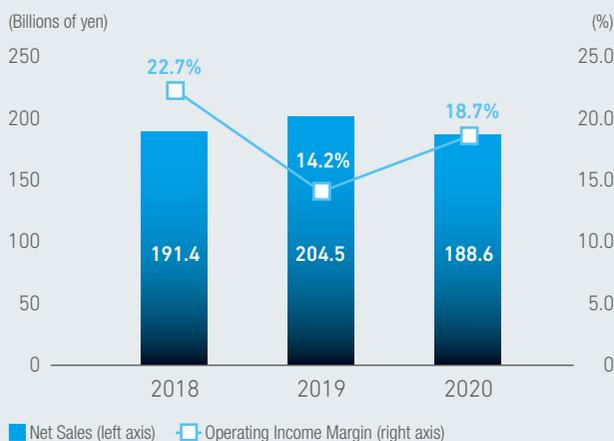
Review of Operations

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

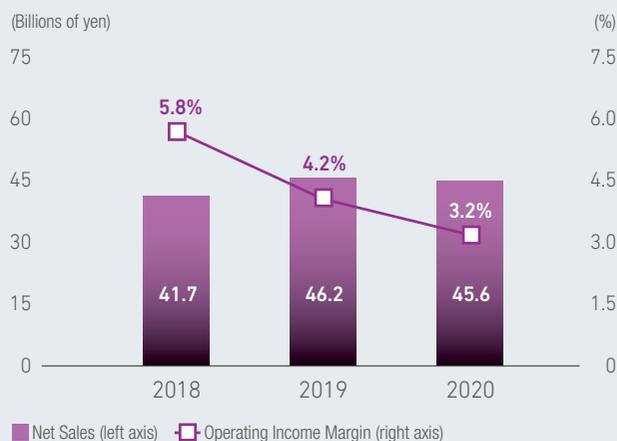
Net sales for the fiscal year ended March 31, 2020 totaled ¥260,527 million (a decrease of 4.0% from the prior fiscal year), operating income amounted to ¥32,759 million (an increase of 33.0% from the prior fiscal year), and ordinary income amounted to ¥32,095 million (an increase of 12.9% from the prior fiscal year).

These factors resulted in profit attributable to owners of parent of ¥21,346 million (an increase of 10.2% from the prior fiscal year).

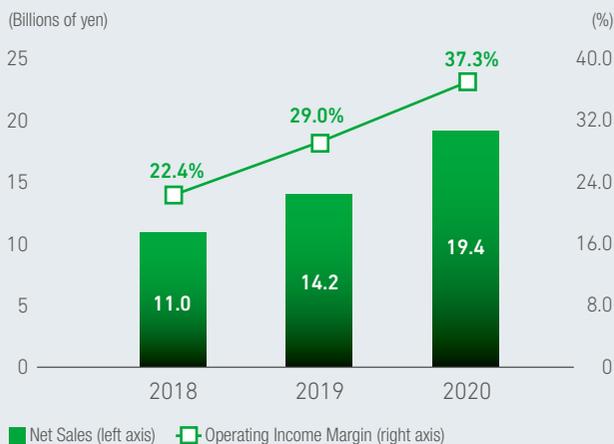
Digital Entertainment



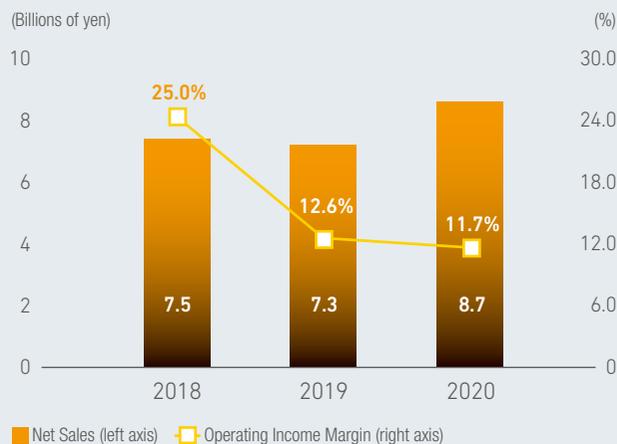
Amusement



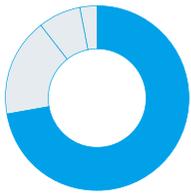
Publication



Merchandising



Digital Entertainment



Share of Net Sales (FY ended March 2020)

72.4%

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

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 in the HD (High-Definition) Games sub-segment. 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 major titles released in the previous fiscal year and the booking of impairment losses related to the content production account resulted in an operating loss in 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 for the fiscal year ended March 31, 2020 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.



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ILLUSTRATION: TOMOMI KOBAYASHI



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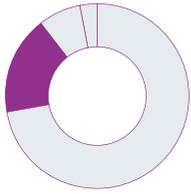


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Amusement



Share of Net Sales (FY ended March 2020)

17.2%

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

In the fiscal year ended March 31, 2020, 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 for the fiscal year ended March 31, 2020 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.



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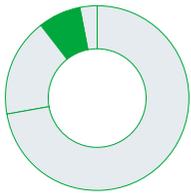


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Publication



Share of Net Sales (FY ended March 2020)

7.5%

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

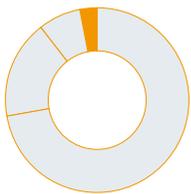
Net sales and operating income for the fiscal year ended March 31, 2020 in the Publication segment totaled ¥19,452 million (an increase of 36.0% from the prior fiscal year) and ¥7,250 million (an increase of 75.1% from the prior fiscal year), respectively.



Monthly Shonen GANGAN
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MANGA UP!
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GANGAN ONLINE
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Cool Doji Danshi
©Kokone Nata/SQUARE ENIX
Talentless Nana
©Looseboy/lori Furuya/SQUARE ENIX
Kakegurui –Compulsive Gambler–
©Homura Kawamoto-Toru Naomura/SQUARE ENIX
Horimiya
©HERO・OOZ ©Daisuke Hagiwara/SQUARE ENIX

Merchandising



Share of Net Sales (FY ended March 2020)

2.9%

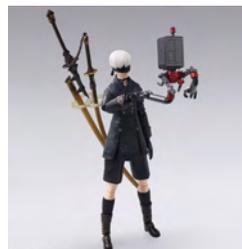
The Merchandising segment consists of planning, production, distribution, and licensing of derivative products of IPs owned by the Group.

In the fiscal year ended March 31, 2020, 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 for the fiscal year ended March 31, 2020 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.



FINAL FANTASY XIV: Shadowbringers Collector's Edition
(Physical Version)
Expertly Crafted Dark Knight Figure
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NieR:Automata® BRING ARTS™
YoRHa No. 9 Type S
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SQUARE ENIX CAFE
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FINAL FANTASY® VII REMAKE PLAY ARTS 改(TM)KAI ACTION FIGURE
CLOUD STRIFE & HARDY-DAYTONA
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CHARACTER DESIGN: TETSUYA NOMURA/ROBERTO FERRARI

DELIVERING UNFORGETTABLE EXPERIENCES

FINAL FANTASY

Over 154 million units in
global package shipments
and digital sales

(as of the end of March 2020)

FINAL FANTASY VII REMAKE

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CHARACTER DESIGN: TETSUYA NOMURA/ROBERTO FERRARI
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“FINAL FANTASY” Series

The “FINAL FANTASY” series celebrated its 30th anniversary in 2017. It has earned high praise from fans all over the world for its cutting-edge graphics, unique world view, and rich, in-depth storylines. Since its launch in 1987, the series has sold a total of over 154 million units worldwide.



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Co-Developed by gumi Inc.
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CHARACTER DESIGN: Toshiyuki Itahana



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**Over 82 million units in
global package shipments
and digital sales**

(as of the end of March 2020)

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“DRAGON QUEST” Series

In 2016, the “DRAGON QUEST” series celebrated its 30th anniversary. This series of popular roleplaying games has sold a total of over 82 million units worldwide since the launch of “DRAGON QUEST” for the Nintendo Entertainment System in 1986. The series keeps creating new gaming experiences by actively utilizing advanced technologies such as 3D maps, StreetPass wireless communication, and cloud gaming.



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Developed by Aiming Inc.



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MARVEL AVENGERS



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“Marvel’s Avengers”

An action-adventure game developed by a Square Enix Group studio Crystal Dynamics and co-produced with Marvel Entertainment. Developed by Crystal Dynamics in collaboration with Eidos-Montréal, Crystal Northwest, and Nixxes Software, “Marvel’s Avengers” accommodates single player and co-operating gameplays. “Marvel’s Avengers” invites players to live their Super Hero dreams. Outstanding storytelling and an ever-expanding universe come together in the definitive Avengers gaming experience. Master extraordinary abilities, customize a growing roster of Heroes, assemble into teams of up to four players, and defend the Earth from escalating threats.

Platforms: PlayStation 4 / PlayStation 5 / Xbox One / Xbox Series X / Windows PC / Stadia

To be launched on September 4, 2020

*TBD for PlayStation 5 / Xbox Series X / Stadia (in Japan)



“Outriders”

Developed by Poland’s People Can Fly, “Outriders” is a TPS (third-person shooter*) RPG that allows co-op play for up to three people. The game is set on the planet Enoch. Forced to flee the earth due to climate change and the destruction wrought by war, humanity departs for Enoch in the year 2076. However, Enoch does not prove to be the paradise of promise. It is a planet of death beset by an electromagnetic storm known as “The Anomaly.” The survivors of an advance troop known as the Outriders embark on a dangerous quest to find the source of a mysterious signal which may well be humanity’s last hope.

*Third-person shooter: A game where the character that the player controls is viewed from behind or above. The game design makes assessing the surrounding environment easier and is less apt to cause 3D motion sickness.

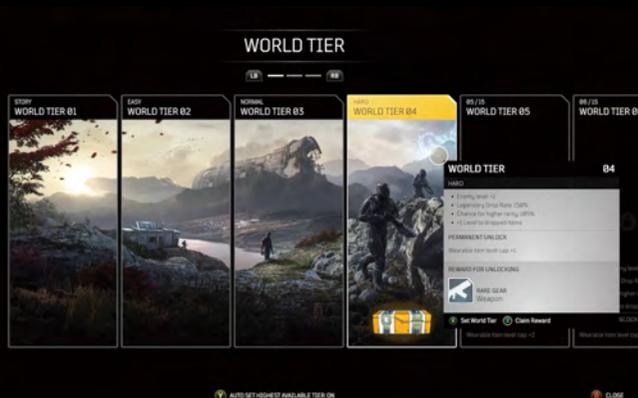
Platforms: PlayStation 4, PlayStation 5, Xbox One, Xbox Series X, and Windows PC

Launch: Holiday 2020 (Japan launch date TBD)



OUTRIDERS

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BRAVELY DEFAULT II



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NieR Reincarnation™

ニーア リンカーネーション



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OCTOPATH TRAVELER™

大陸の覇者



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地縛少年

花子くん

はなこ

©Aidaro/SQUARE ENIX

戦 ヴァル × ラヴ 恋



©Ryosuke Asakura/SQUARE ENIX

Environment, Social and Governance

Environmental and Social Initiatives

Through its environmental and social initiatives, the group works to bolster our corporate value and create sustainable growth.

Providing a safer, more comfortable game-play environment

As part of our social responsibility initiatives, we label the consumer games our Group sells in regions such as Japan, North America, and Europe with age suitability and other information as dictated by the ratings systems of the applicable countries*1. For the mobile games we provide in Japan, we comply with the “Operating Guidelines for Random Item Distribution in Network Games”**2 established by the Computer Entertainment Supplier’s Association (CESA) and indicate the odds associated with all in-game items for which users pay. In this way, we provide our customers with a safer and securer game-play environment.

*1 Under Japan’s rating system, which is controlled by the Computer Entertainment Rating Organization (CERO), we label our games to indicate the age group for which the game contents are suitable.

**2 In order to help our customers make purchase decisions, we list all the in-game items provided via fee-based “Gacha” or loot boxes (a method of providing random in-game items in direct exchange for money or for virtual currency that can be purchased with real money) and the odds of obtaining them.

Training and educational support fostering sustainable growth

In the fiscal year ended March 2018, we asked ourselves, “What would it be like if there were a Department of Games at the Tokyo University of the Arts?” To answer that question, we created just such a department for a limited time with the help of the Graduate School of Film and New Media, which is the university’s Center of Innovation (COI). In the fiscal year ended March 2019, we held an exhibition called “Tokyo University of the Arts, Department of Games - Vertical Slice” that showcased works produced by the A to G Project, an endeavor aided by creators from our Group company Luminous Productions Co., Ltd. These initiatives paved the way for the creation in the fiscal year ended March 2020 of the Game Course at the Graduate School of Film and New Media at the Tokyo University of the Arts. The course enables us to continue to collaborate with the university in its efforts to expand both the potential of games, which it views as a form of art, and the field of filmmaking expression. Square Enix will remain actively engaged by providing instructors for the course and having creators from Luminous Productions serve as game production mentors on the A to G Project.

In addition, Square Enix signed a collaborative agreement with Chuo University in December 2018. The agreement is designed to exchange and leverage human and intellectual resources in order to produce well-educated talent with an international perspective. Under the agreement, Square Enix is to fund the creation of a course in Chuo University’s Faculty

of Global Informatics (iTL). Preparations are underway to launch the course in the fiscal year ending March 2022.

Our Group will continue to undertake such initiatives in cooperation with academia in order not only to explore new forms of expression but also to contribute to the development of Japan’s content industry and raise its profile in the world.

Join forces with the IP Open Access Declaration Against COVID-19

COVID-19 has produced a global pandemic. In order to prevent its further spread, industry-government-academia cooperation is required so they can accelerate development and manufacturing of therapeutic drugs, vaccines, medical devices and infection control products in an unconventional way.

Our Group is a signatory to the IP Open Access Declaration Against COVID-19, which Japan’s top companies and professional organizations are promoting with the goal of preventing the spread of the virus.

Based on this declaration, Square Enix Holdings and SQUARE ENIX CO., LTD. will neither seek compensation nor assert any patent rights against any activities for the sole purpose of stopping the epidemic, until the World Health Organization (WHO) declares the end of the COVID-19 outbreak.

Our Group will continue to work with the relevant organizations in order to help prevent the spread of COVID-19.

Supporting charities fighting COVID-19

As part of our Group’s efforts in support of the fight against COVID-19, we ran a campaign of our own in North America and Europe called “Stay Home & Play.” As part of the campaign, we raised money for charities engaged in social issues ranging from food insecurity to homelessness. To date, we have raised a total of \$2.4 million for such organizations. We have done this in part through the “Stay Home & Play Initiative,” whereby we donate 100% of our earnings on PC downloads of our games to charities. In addition, we have offered select popular catalog titles free of charge, leading to more than 16 million downloads. These efforts have met with great support from game aficionados the world over.

Human Resources Initiatives

“To spread happiness across the globe by providing unforgettable experiences.” That is the Group’s corporate philosophy, and the Group works to provide an environment that consistently embodies it. An internal environment in which all employees can fully demonstrate their potential is one that gives rise to creative and innovative ideas. The Group provides that sort of corporate culture and workplace environment, while also establishing human resource programs that support a diversity of working styles. The following programs implemented by SQUARE ENIX CO., LTD. (“Square Enix”) are prime examples of the Group’s human resource initiatives.

Human Resource Training

Helping all employees grow and maximizing their individual manifest abilities while also ensuring they can bring those attributes to bear in the best way possible serves as a major driver of sustainable growth for the Group. Square Enix proactively engages in human resource training through a variety of opportunities.

New employee onboarding: “GAMEDEV BOOTCAMP”

New employees are divided into teams and experience a mock game development effort that starts with planning and continues all the way through to launch. They acquire basic job skills and experience the importance of working collaboratively with teammates firsthand. In addition, the process inspires participants to tackle new challenges without fear of failure. Once employees are assigned to their respective workplaces, they receive on-the-job training that emphasizes their own agency by encouraging them to think, decide, and act on their own.

Compliance training

Square Enix provides compliance training primarily to managerial employees to ensure that they have an accurate understanding of the regulatory environment as it relates to Square Enix’s businesses and use that understanding to inform their daily business activities. Focuses include Japan’s Labor Standards Act, Copyright Act, Payment Services Act, and Act against Unjustifiable Premiums and Misleading Representations. Square Enix also undertakes informational and awareness initiatives targeting the entire employee body in order to ensure that employees gain a better

understanding of compliance topics and to further raise compliance consciousness companywide.

Global resource training

With employees encountering more and more opportunities for global communication, the demand for English skills is greater than ever. Square Enix helps non-English speaking employees enhance their language skills, including by offering English classes at the office and online.



Cutting-edge technology training

In order to heighten the technological literacy of Square Enix’s employees regarding such cutting-edge technologies as AI (artificial intelligence) and blockchain and to leverage such technologies in its content development efforts, Square Enix regularly holds information-sharing meetings and internal seminars, and also promotes the sharing and self-study of information on cutting-edge technologies using online resources.

Working Style Diversification

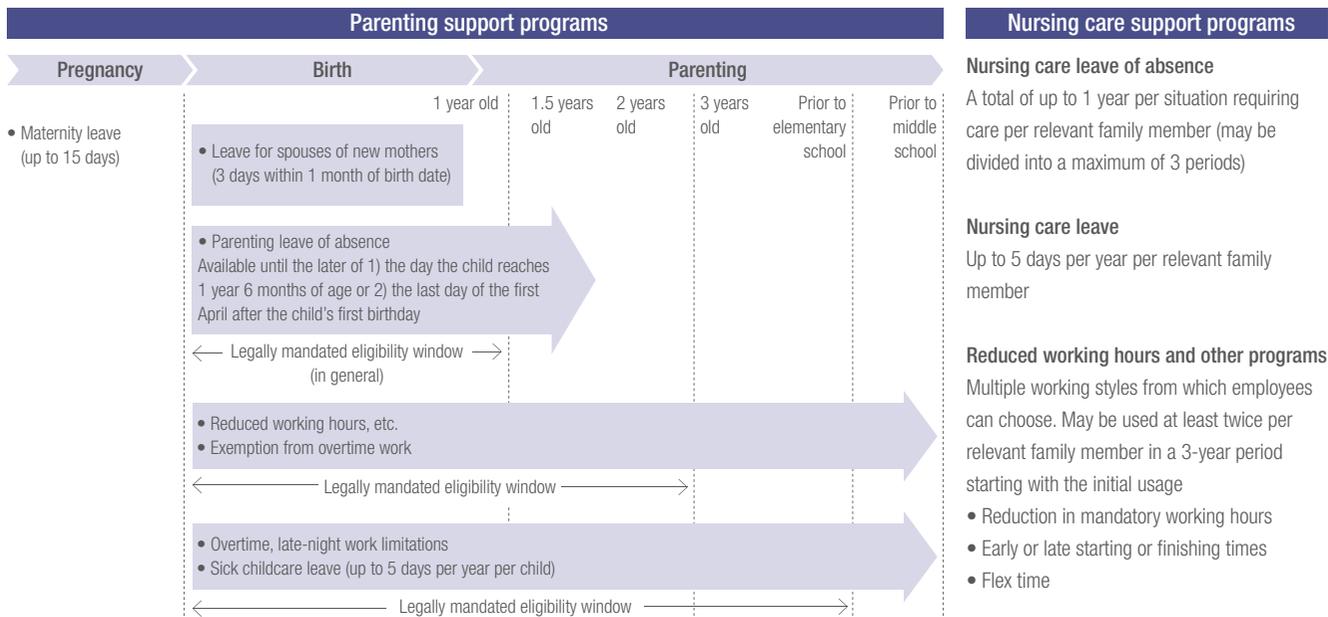
Employees view their work through the lens of an increasingly diverse range of values, and their needs change as they progress through different stages of life. In order to accommodate such diversity and change, Square Enix has introduced working options and unique benefit programs that go above and beyond legal requirements in order to help its employees enjoy an optimal work-life balance.

“Daycare concierge service”

Employees have access to a third-party “daycare concierge” service. Experts share know-how, information, and advice to help new parents efficiently identify the best daycare option for them and make a smooth transition back to the workplace after the birth of a child.

Telecommuting

By making work-from-home the default option in a flexible and diverse portfolio of working styles and reforming our operational processes, we will not only bolster our efficiency and productivity, but also provide the optimal working environment for meeting our employees’ diversifying professional needs and help them achieve work-life balance.



EC Business Unit, EC Business Unit Online Business Development Division



SQUARE ENIX Members Group

Hitomi Matsuki

As a parent of two children, I take advantage of the reduced-hour/flex system for employees who are parents or caregivers.

This system differs from ordinary flex time in that there is no core-time requirement. That means that on days when I need to come in late because of a child's doctor's appointment or leave early for a parent-teacher conference at their elementary school, I can adjust my starting and finishing times accordingly.

You never know what might come up when you are raising children, but this system has made it easier to plan my working days and worry less about what time I start and finish.

Legal & Intellectual Property Division



Ken Kusakari

I took about a year of paternity leave when my first child was born.

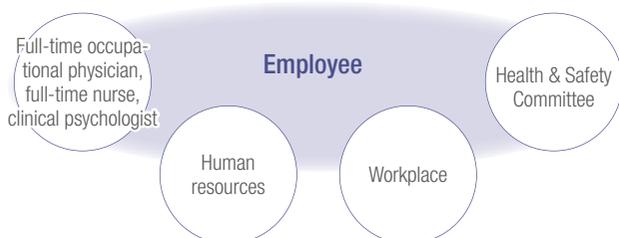
Firstly, I want to say that I am very grateful to be working somewhere so understanding. I had had some concerns since I had never taken off so much time, but thanks to the support of my teammates, I was able to make a smooth transition back to work.

My leave enabled me to spend great quality time at home, sharing chores with my wife and experiencing parenting for the first time.

Health and Productivity Management

In order to provide its customers with the best products and services, employees have to be healthy. Having employees that are mentally and physically healthy and helping them improve upon that health is therefore a key priority for Square Enix. As such, it undertakes a variety of initiatives to communicate the importance of daily health management and regular exercise in order to promote a corporate culture where all employees are mindful of and take good care of their health.

Enhancing occupational health and safety



Visits by stretching instructor, yoga classes

Traditionally, professional instructors have regularly visited each of our workplaces to demonstrate largely desk-bound employees simple stretches that they can do at their desks to prevent shoulder stiffness and lower-back pain. We have also regularly hosted yoga classes led by yoga instructors. Since work-from-home is becoming our default working option, we have started new online health initiatives that employees can participate in from home. We will continue to proactively adopt a variety of initiatives of this nature to promote the health of our employees.



Live online stretching class



Pre-recorded online yoga class

Corporate Governance

1. Overview of Corporate Governance

(1) Basic views on corporate governance

The Company is a pure holding company governing Square Enix Group, which develops a wide range of content and services. The Company believes that it is essential for the achievement of the Group's continuous growth and the maximization of its corporate value in the medium and long term to respect the interests of all the Company's stakeholders such as shareholders, customers, business partners, employees, and society, and to maintain good relationships with them under an agile, transparent, and sound management system. As such, the Company recognizes that the enrichment and enhancement of its corporate governance is a key management challenge, and the entire Group devotes itself to that end on an ongoing basis.

(2) Overview of corporate governance system and objectives

In an effort to enhance its corporate governance, the Company transitioned to a company with the Audit & Supervisory Committee following a resolution passed at its 38th Annual Shareholders' Meeting held on June 22, 2018. The establishment of the Audit & Supervisory Committee comprising only outside directors works to strengthen the Company's auditing and supervisory functions over its management.

Moreover, in order to clarify the separation between management and execution, the Company has strengthened the monitoring functions of the Board of Directors by staffing it primarily with outside directors. Meanwhile, the Company has established an organization to increase the efficiency and speed of operational execution by dictating in its Articles of Incorporation that the Board of Directors can empower directors to make decisions regarding the execution of key operational matters while concentrating operational execution authority in the position of Representative Director.

The Company has six directors (excluding those who are members of the Audit & Supervisory Committee), four of which are outside directors, and three directors who are members of the Audit & Supervisory Committee, all of which are outside directors, with one being full time. The Company designates all of its outside directors as independent officers as defined by the Tokyo Stock Exchange rule.

As a general principle, meetings of the Board of Directors are convened once a month, and deliberations and exchanges of opinions between the individual directors bring greater vitality to the management of the Company while also serving to sufficiently enhance the mutual check and balance between directors. Furthermore, in order to ensure the objectivity and transparency of decisions made regarding executive remuneration and candidates for director positions, the Company has at its discretion established the Remuneration & Nomination Committee

comprising outside directors and the President and Representative Director. This committee makes decisions regarding the basic policy on the executive remuneration system, individual remuneration amounts for directors (excluding directors who are Audit & Supervisory Committee members), and the guidelines on the nomination criteria for directors.

As a general principle, the Audit & Supervisory Committee meets once a month and based on the Audit & Supervisory Committee Standards, and in light of the status of the development and operation of internal control systems, audits the legality and appropriateness of directors' execution of their duties, in coordination with the internal control functions. A member of the Audit & Supervisory Committee possesses extensive expertise in finance and accounting matters.

The Board of Directors has passed a resolution establishing the Company's Guidelines on the Development of an Internal Control System. By maintaining and promoting these guidelines, the Company works to ensure that auditing and supervisory functions are robust, to confirm that all business activities comply with all relevant laws and regulations and the Company's Articles of Incorporation, and to enhance the efficiency of the directors' exercise of duties.

Moreover, the Company clearly specifies the importance of compliance in the Code of Conduct in order to ensure a rigorous compliance system. The Company has established the Internal Control Committee and whistle-blowing systems, through which Company-wide compliance measures are integrated across organizational reporting lines. With regard to the management and operation of the Company's information systems, which form the foundation of IT controls and efficient operational functions, the Company has established the Information System Management Committee to oversee information systems on a Company-wide basis.

In addition, to ensure the maintenance of a robust risk management system, Company-wide risk management measures are integrated across organizational reporting lines. This is achieved through the reinforcement of relevant internal control divisions, and the establishment of the Internal Control Committee and whistle-blowing systems.

To ensure its subsidiaries properly execute business activities, the Company has set forth the Affiliate Company Management Rules and engages in the management and supervision of subsidiaries in a manner befitting the scale of said companies and their importance to the Group. Based on the aforementioned rules, the Company requests reports regarding the running of subsidiaries and other important information, and by employing methods such as holding monthly and ad-hoc briefings, the primary subsidiaries make it possible for the Company to assess the status of the running of subsidiaries in a timely fashion as well as to take necessary measures in a timely and accurate fashion.

The members of the main meeting bodies are as follows:

◎: Chairman or Committee chairperson

Position	Name	Board of Directors	Audit & Supervisory Committee	Remuneration & Nomination Committee	Internal Control Committee
President and Representative Director	Yosuke Matsuda	◎		◎	◎
Director	Yukinobu Chida	○			○
Outside Director	Yukihiro Yamamura	○		○	
Outside Director	Yuji Nishiura	○		○	
Outside Director	Masato Ogawa	○		○	
Outside Director	Mitsuko Okamoto	○			
Outside Director (Standing Audit & Supervisory Committee Member)	Ryoichi Kobayashi	○	◎	○	○
Outside Director (Audit & Supervisory Committee Member)	Tadao Toyoshima	○	○		
Outside Director (Audit & Supervisory Committee Member)	Hajime Shinji	○	○		
General Manager of Finance and Accounting Division	Atsushi Matsuda				○

(3) Overview of liability limitation agreements

The Company has liability limitation agreements in place with its outside directors in accordance with Article 427, Paragraph 1 of the Companies Act to limit liabilities provided under Article 423, Paragraph 1 of the Companies Act. These agreements limit the liability of each outside director to ¥10 million or the legally specified amount, whichever is greater.

(4) Prescribed number of directors

The Company's Articles of Incorporation stipulate that the number of directors (excluding directors who are Audit & Supervisory Committee members) shall not exceed 12 and the number of directors who are Audit & Supervisory Committee members shall not exceed 4.

(5) Resolution requirements for the election of directors

The Company's Articles of Incorporation stipulate that resolutions for the election of directors shall not be made by cumulative voting, but by a majority of affirmative votes of shareholders exercising their voting rights at the General Shareholders' Meeting where shareholders in attendance hold one-third or more of outstanding voting rights.

(6) Bodies able to determine dividends paid from retained earnings

The Company's Articles of Incorporation stipulate that matters provided under Article 459, Paragraph 1 of the Companies Act may be determined by the Board of Directors unless legally stipulated otherwise. The objective of this provision is to expand flexibility in execution of capital policies.

(7) Exemption of directors' liability

Pursuant to Article 426, Paragraph 1 of the Companies Act, the Company's Articles of Incorporation stipulate that directors (including former directors) may be exempted from liability for actions related to Article 423, Paragraph 1 of the Companies Act, up to the limit provided by law, through a resolution passed by the Board of Directors. The objective of this provision is to ensure the maintenance of an environment in which directors may execute their duties to the maximum of their abilities and are able to fulfill the roles expected of them.

(8) Matters requiring special resolutions at the General Shareholders' Meeting

The Company's Articles of Incorporation stipulate that the special resolutions provided under Article 309, Paragraph 2 of the Companies Act may be passed by two-thirds or more of affirmative votes of shareholders exercising their voting rights at the General Shareholders' Meeting where shareholders in attendance hold one-third or more of outstanding voting rights. The objective of this provision is to ensure smooth proceedings of the General Shareholders' Meeting by relaxing the special resolution requirements.

(9) Status of attendance of Board of Directors meetings

Name (Position)	Status of attendance of Board of Directors meetings for the fiscal year ended March 31, 2020
Yosuke Matsuda (President and Representative Director)	100% (15 out of 15 meetings)
Yukinobu Chida (Director)	100% (15 out of 15 meetings)
Yukihiro Yamamura (Outside Director)	100% (15 out of 15 meetings)
Yuji Nishiura (Outside Director)	100% (15 out of 15 meetings)
Masato Ogawa (Outside Director)	100% (15 out of 15 meetings)
Ryoichi Kobayashi (Outside Director (Standing Audit & Supervisory Committee Member))	100% (15 out of 15 meetings)
Ryuji Matsuda (Outside Director (Audit & Supervisory Committee Member))	100% (15 out of 15 meetings)
Tadao Toyoshima (Outside Director (Audit & Supervisory Committee Member))	100% (15 out of 15 meetings)

(10) Status of outside directors

- (i) Personal, financial, business or other relationships constituting conflicts of interest with the Company
- The Company has seven outside directors, and no conflict-of-interest relationships exist between the Company and its outside directors.

- (ii) Functions and roles under the Company's corporate governance structure
- Since their appointments as outside directors of the Company, Yukihiro Yamamura, Yuji Nishiura, and Masato Ogawa have been fulfilling their supervisory and oversight functions over the execution of duties by the directors based on their abundant experience and broad insight as senior corporate executives. Messrs. Yamamura, Nishiura, and Ogawa offer their opinions at meetings of the Board of Directors from an independent standpoint in order to create sustainable growth for the Group, bolster corporate value in the medium and long term, and further enhance the corporate governance system.

Mitsuko Okamoto has not previously been involved in corporate management, but she possesses abundant practical experience and broad scholarly attainment and insight in the field of content, including animation. She has been appointed an outside director based on the Company's expectation that she will fulfill her supervisory and oversight function over the execution of duties by the directors while also providing advice on the Group businesses overall.

The functions and roles of Ryoichi Kobayashi, Tadao Toyoshima, and Hajime Shinji under the Company's corporate governance structure are described in (1) Status of audits by Audit & Supervisory Committee under 2. Status of Audits below.

- (iii) Standards and policy on independence from the Company in the appointment of outside directors
- The Company has not established any particular provisions regarding independence in appointing outside directors but selects individuals who can be expected to execute their duties appropriately and from an objective and independent perspective; to support corporate governance based on specialized expertise in such areas as finance, accounting, and internal controls; and who are unlikely to have any conflicts of interest with general shareholders.

The Company has notified the Tokyo Stock Exchange that Yukihiro Yamamura, Yuji Nishiura, Masato Ogawa, Mitsuko Okamoto, Ryoichi Kobayashi, Tadao Toyoshima, and Hajime Shinji are designated as independent officers pursuant to the rules established by the stock exchange.

(11) Mutual cooperation between supervision and audits by outside directors and internal audits, audits by Audit & Supervisory Committee, and audits by the audit firm, and relationship with the internal control unit

The outside directors promote mutual cooperation with the Auditing

Division, Audit & Supervisory Committee, and the Company's audit firm. The situation of such mutual cooperation is reported to and discussed by the Board of Directors, Audit & Supervisory Committee, Internal Control Committee, and other corporate forums as appropriate.

(12) Analysis and evaluation of the effectiveness of the Board of Directors

The way in which meetings of the Board of Directors were held in the fiscal year ended March 31, 2020 is described below. Moreover, the Company conducted a survey on the effectiveness of Board meetings and received positive feedback on the effectiveness of the meetings from the Board members. Based on these factors, the Company confirms that the Board is functioning in an effective manner.

- In principle, Board meetings are held once a month (15 meetings were held in the fiscal year ended March 31, 2020), whereupon the Board engages in discussions and makes decisions on matters that require the Board's resolution in a timely manner, while also receiving reports on the Group's businesses and providing supervision over operational execution.
- All directors attended every meeting, and sufficient time was secured for active discussions at the Board meetings.
- The Board subjects operational execution to effective discipline, with the Board at times deciding as the result of discussions to revise or revisit proposed items.

The Company will continue to make efforts to improve the effectiveness of the Board meetings by soliciting feedback from Board members in a timely manner.

2. Status of Audits

(1) Status of audits by Audit & Supervisory Committee

Audits by the Audit & Supervisory Committee are carried out by three Audit & Supervisory Committee members, all of whom are outside directors. The Committee also requests regular reports from the Auditing Division on operational audits, while instructing the division to assist the Committee's duties, as necessary.

The Audit & Supervisory Committee convened a total of 20 times during the fiscal year ended March 31, 2020, and all committee members attended on every occasion.

Key matters deliberated upon by the Audit & Supervisory Committee include the drafting of audit policies and plans, the status of the execution of directors' duties, the status of the development and operation of internal control systems, the status of audits at subsidiaries, coordination with the Auditing Division and the development of an auditing environment, the nomination of directors who are Audit & Supervisory Committee members, and the nomination and remuneration of directors (excluding those who are members of the Audit & Supervisory Committee).

In addition, the Audit & Supervisory Committee confirmed the status of the execution of the duties of the Accounting Auditor and assessed the validity of the audit methods and results of the Accounting Auditor. It also

deliberated matters regarding the appointment, dismissal, or non-reappointment of the Accounting Auditor, as well as the remuneration of the Accounting Auditor.

Each member of the Audit & Supervisory Committee, based on his or her wealth of experience and deep insight, offered opinions at the meetings of the Board of Directors from an independent standpoint in order to create sustainable growth for the Group, bolster corporate value in the medium and long term, and further enhance the corporate governance system.

Since assuming the role of an outside director who is an Audit & Supervisory Committee member, Ryoichi Kobayashi has supervised and served as a check on directors' execution of their duties based on his wealth of experience and breadth of insight in corporate management on the whole. In addition, in his role as a standing member of the Audit & Supervisory Committee, he has shared with other Audit & Supervisory Committee members information he has obtained by attending key meetings other than those of the Board of Directors (e.g., the Remuneration & Nomination Committee, the Internal Control Committee, the Information System Management Committee, etc.) and by reviewing the minutes of key meetings, contracts, internal decision-making records, and financial data.

Tadao Toyoshima does not have experience in corporate management excluding previous instances of serving as an outside officer. However, he holds a qualification as a certified public accountant (CPA) and since assuming the role of outside director who is an Audit & Supervisory Committee member, he has supervised and served as a check on directors' execution of their duties based on his insight into financial and accounting matters.

Hajime Shinji's only involvement in corporate management to date has been in previous instances where he has served as an outside officer. However, he is a qualified attorney in Japan and possesses a wealth of practical experience and broad insight acquired through serving in numerous public offices in the field of law. As such, he has been selected as an outside director who is an Audit & Supervisory Committee member with the expectation that he will supervise and serve as a check on directors' execution of their duties.

(2) Status of internal audit

Internal audits are carried out by the Auditing Division, which reports directly to the President. The Auditing Division performs regular monitoring, reviews and evaluations (internal evaluations) of internal control systems and operational processes, including those of Group companies, taking into account the relative importance of and risk inherent in each part of the organization, and provides reports and recommendations to the President. The Auditing Division's functions are carried out while sharing information with the Audit & Supervisory Committee and the Accounting Auditor.

The Audit & Supervisory Committee and the audit firm meet at the timing of quarterly and full-year earnings (i.e., a total of four times per annum) to report and exchange views. In addition, they arrange forums for exchanging views as appropriate, and incorporate the results of such discussions into the performance of their auditing duties.

Furthermore, the Board of Directors and Internal Control Committee are provided with reports on such audits as appropriate.

(3) Status of audits by Accounting Auditor

- (i) Name of the Accounting Auditor
Ernst & Young ShinNihon LLC
- (ii) Consecutive duration of audit service
14 years
- (iii) Names of responsible certified public accountants
Kenichi Shibata, Designated Limited Liability Partners, Business Execution Partners
(Consecutive years of audit service: 6)
Miyuki Nakamura, Designated Limited Liability Partners, Business Execution Partners
(Consecutive years of audit service: 1)
- (iv) Support team for accounting audit duties
14 certified public accountants and 27 others
- (v) Policies and reasons for selection of Accounting Auditor
When selecting an audit firm as its Accounting Auditor, the Company comprehensively considers whether it has a system for centralized auditing of the Company's international business activities, in addition to whether it has the expertise, independence, suitability and quality control/screening systems necessary for an Accounting Auditor. Accordingly, Ernst & Young ShinNihon has been determined to be qualified.
Furthermore, in the case of dismissal of the Accounting Auditor by the Audit & Supervisory Committee as provided for under Article 340 of the Companies Act or other cases where it is found to be difficult for an audit firm to perform its duties as Accounting Auditor appropriately, the Company shall, in principle, submit a proposal to the General Shareholders' Meeting regarding the dismissal or non-reappointment of the Accounting Auditor, after the passage of a resolution by the Audit & Supervisory Committee.
- (vi) Evaluation of the Accounting Auditor by the Audit & Supervisory Committee
After having evaluated, in accordance with the Accounting Auditor Selection and Evaluation Standards determined by the Audit & Supervisory Committee, the quality control status of the audit firm, the expertise, independence and system for the execution of duties of the audit team, and the Group audits conducted in cooperation with overseas network firms, the Company has determined that there is no problem in any of the above.

(4) Compensation to audit firm

(i) Compensation paid to the audit firm

(Millions of yen)

Category	Fiscal year ended March 31, 2019		Fiscal year ended March 31, 2020	
	Compensation for statutory audit operations	Compensation for non-audit operations	Compensation for statutory audit operations	Compensation for non-audit operations
The company	48	1	74	1
Consolidated subsidiaries	70	—	40	—
Total	119	1	114	1

The non-audit operations provided by the audit firm for which the Company paid compensation in both the fiscal year ended March 31, 2019 and the fiscal year ended March 31, 2020 were guidance and advice regarding the preparation of English financial statements.

There was no compensation for non-audit operations at consolidated subsidiaries in both the fiscal year ended March 31, 2019 and the fiscal year ended March 31, 2020.

(ii) Compensation paid to organizations belonging to the international auditing network of the Ernst & Young Group, with which the audit firm is affiliated (excluding (i))

(Millions of yen)

Category	Fiscal year ended March 31, 2019		Fiscal year ended March 31, 2020	
	Compensation for statutory audit operations	Compensation for non-audit operations	Compensation for statutory audit operations	Compensation for non-audit operations
The company	—	—	—	3
Consolidated subsidiaries	124	17	110	18
Total	124	17	110	21

There was no compensation for non-audit operations at the Company in the fiscal year ended March 31, 2019. Advisory services on internal controls were provided in the fiscal year ended March 31, 2020.

The non-audit operations at consolidated subsidiaries were tax advisory services in both the fiscal year ended March 31, 2019 and the fiscal year ended March 31, 2020.

(iii) Compensation for other key audit certification work (Fiscal year ended March 31, 2019)

None.

(Fiscal year ended March 31, 2020)

None.

(iv) Policy on determining audit compensation

The Company's policy on determining compensation for audits conducted by the audit firm as Accounting Auditor takes into account such factors as the scale of the Company's business operations, number of days required to conduct audits, and the characteristics of

the services provided.

(v) Reason for the Audit & Supervisory Committee's consent to Accounting Auditor compensation

The reason why the Company's Audit & Supervisory Committee gave consent provided under Article 399, Paragraph 1 of the Companies Act to compensation paid to the Accounting Auditor is that audit hours and compensation in the fiscal year ended March 31, 2020 were judged to be appropriate as a result of comparisons with audit hours and compensation in the previous fiscal year and comparisons with the audit compensation of companies of the same scale and companies in the same industry.

3. Executive Remuneration

(1) Matters regarding policies on determination of the amount or calculation method of executive remuneration

The Company's basic policy and determination process regarding the executive remuneration system is as described below. Moreover, in order to ensure the objectivity and transparency of decisions made regarding executive remuneration, the Company has at its discretion established a Remuneration & Nomination Committee comprising four outside directors and the Representative Director. This committee makes decisions regarding the guidelines on the executive remuneration system and individual remuneration amounts for directors (excluding directors who are Audit & Supervisory Committee members) based on the authority granted to it by the Board of Directors.

Basic Policy on the executive remuneration system

(i) Directors (excluding directors who are Audit & Supervisory Committee members):

- Remuneration for executive directors shall comprise fixed remuneration (monetary), performance-linked remuneration (monetary), and compensation-type stock options (stock acquisition rights).
- Remuneration for nonexecutive directors and outside directors shall comprise fixed remuneration (monetary) and compensation-type stock options (stock acquisition rights).
- In order to strive for growth that strikes a balance between scale and profitability, the amount of performance-linked remuneration (monetary) is calculated using consolidated net sales and consolidated operating income as metrics. Specifically, the amount of performance-linked remuneration is obtained by multiplying the basic remuneration amount (¥90 million) by a multiple (no greater than 400% and no less than 0%) that is pre-determined according to the degree of increase-decrease from the consolidated net sales figure of ¥256,824 million and the consolidated operating income figure of ¥31,295 million posted in the fiscal year ended March 31, 2017.
- The Company offers compensation-type stock options (stock acquisition rights) in order to provide a long-term incentive for directors (excluding directors who are Audit & Supervisory

Committee members) to work to achieve sustained growth and to enhance corporate value, as well as to serve as a replacement for the discontinued retirement allowance for directors. The Remuneration & Nomination Committee determines the remuneration value of the compensation-type stock options (stock acquisition rights) in each instance.

- (ii) Directors who are Audit & Supervisory Committee members:
In consideration of independence of directors who are Audit & Supervisory Committee members from management, only fixed remuneration (monetary) shall be made.

Director remuneration determination process

- (i) Individual remuneration amounts for directors (excluding directors who are Audit & Supervisory Committee members) shall be

determined by the Remuneration & Nomination Committee.

- (ii) Individual remuneration amounts for directors who are Audit & Supervisory Committee members shall be determined via discussions by the directors who are Audit & Supervisory Committee members, with reference made to the basic policy determined by the Remuneration & Nomination Committee.
- (iii) Individual remuneration amounts shall be set within the confines of the remuneration allocation approved at the General Shareholders' Meeting and shall be determined based upon a comprehensive consideration of annual earnings and each director's performance in his/her role and contribution to corporate earnings, remuneration in past years, the need to retain talented executives, remuneration trends at other comparable companies, and economic conditions.

(2) Total remuneration paid to directors, total remuneration for each category of directors, and the total number of directors

Executive category	Total remuneration (Millions of yen)	Remuneration breakdown (Millions of yen)			Number of individuals
		Fixed remuneration	Performance-linked remuneration	Compensation-type stock options	
Directors (excluding Audit & Supervisory Committee Members) (Outside Directors)	291 (46)	128 (36)	106 (—)	57 (10)	5 (3)
Directors (Audit & Supervisory Committee Members) (Outside Directors)	44 (44)	44 (44)	— (—)	— (—)	3 (3)
Total (Outside Directors)	335 (90)	172 (80)	106 (—)	57 (10)	8 (6)

Notes: 1. It was approved at the 38th Annual Shareholders' Meeting held on June 22, 2018 that the monetary remuneration limit for directors (excluding directors who are Audit & Supervisory Committee members) shall be no more than ¥600 million per year (of which ¥48 million is earmarked for outside directors) and the limit for remuneration as stock options shall be no more than ¥400 million per year (of which ¥32 million is earmarked for outside directors). There were five directors (excluding directors who are Audit & Supervisory Committee members) at the conclusion of the 38th Annual Shareholders' Meeting (of whom three were outside directors).

2. It was approved at the 38th Annual Shareholders' Meeting held on June 22, 2018 that the remuneration limit for directors who are Audit & Supervisory Committee members shall be no more than ¥80 million per year. As of the conclusion of the 38th Annual Shareholders' Meeting, the number of directors who are Audit & Supervisory Committee members was three.
3. The Company has discontinued the retirement allowance plan for executives.

(3) Total amount, etc., of total consolidated remuneration of executives who received ¥100 million or more

Name	Total consolidated remuneration (Millions of yen)	Executive category	Company category	Consolidated total remuneration breakdown (Millions of yen)		
				Fixed remuneration	Performance-linked remuneration	Compensation-type stock options
Yosuke Matsuda	229	Director	The Company	80	106	43

4. Matters Relating to the Company's Holdings of Shares

(1) Standards and concepts for categorizing investments in shares

The Group's policy is to categorize shares acquired for the purpose of profiting from value fluctuations or associated dividends as shares held for purely investment purposes and those acquired for the purposes of business alliances or trade relationships as shares held for purposes other than purely investment purposes.

(2) Status of the Company's shareholdings

As of March 31, 2020, the status of shareholdings by SQUARE ENIX CO.,

LTD., which has the largest amount of investment securities on its balance sheet within the Group, is as follows:

- a. Investments in shares for purposes other than purely investment purposes
- (i) Shareholding policy, method of assessing rationale of shareholdings, and nature of Board of Directors' assessment of appropriateness of holding individual issues

The Group's basic policy is to hold publicly traded shares for the purpose of strengthening business alliances or trade relationships in instances where doing so will contribute to the enhancement of its corporate value over the medium or long term. Each year the Board of

Directors validates the rationale for holding such shares by reviewing the status of achievement of the intended objective of the holdings and determining whether or not to continue holding the shares. The board takes a wholistic approach to assessing the appropriateness of holding individual issues by performing quantitative reviews of current and future earnings conditions and qualitative reviews on the status of achieving the intended purpose.

(ii) Number of issues & balance sheet value

Category	Companies in which shares are held	Total amount presented on balance sheets (Millions of yen)
Listed shares	1	419

(Issues for which the number of shares held increased in the fiscal year ended March 31, 2020)

Category	Companies in which shares are held	Total acquisition cost related to increase in shareholdings (Millions of yen)	Reason for increase in shareholdings
Listed shares	1	722	To maintain and enhance the business partnership involving the "MANGA UP!" manga app

(Issues for which the number of shares held declined in the fiscal year ended March 31, 2020)

None.

(iii) Number of shares, balance sheet value, and other information on "specified investment equity securities held" or "deemed holdings of equity securities" by issue

"Specified investment equity securities held"

Companies in which shares are held	Fiscal year ended March 31, 2020	Fiscal year ended March 31, 2019	Purpose of holdings, quantitative benefits of holdings & reason for increase in shareholdings	Square Enix Holdings shareholders
	Number of shares	Number of shares		
	Amount presented on balance sheets (Millions of yen)	Amount presented on balance sheets (Millions of yen)		
and factory, inc.	379,784	—	To maintain and enhance the business partnership involving the "MANGA UP!" manga app	None
	419	—		

Note: Describing the benefits of shareholdings in quantitative terms is difficult. The Board of Directors validates the rationale for the holdings annually by reviewing the status of achieving the intended purpose and determining whether or not to maintain the holdings.

"Deemed holdings of equity securities"

None.

b. Investments in shares for purely investment purposes

None.

(3) Status of shareholdings at filing company

(i) Investments in shares for purposes other than purely investment purposes

None.

(ii) Investments in shares for purely investment purposes

Category	Fiscal year ended March 31, 2020		Fiscal year ended March 31, 2019	
	Companies in which shares are held	Total amount presented on balance sheets (Millions of yen)	Companies in which shares are held	Total amount presented on balance sheets (Millions of yen)
Unlisted shares	4	0	5	0
Shares other than those above	2	61	2	160

(Millions of yen)

Category	Fiscal year ended March 31, 2020		
	Total dividends received	Total gain on sale of shares	Total gain on revaluation of shares
Unlisted shares	—	—	(Note) 1
Shares other than those above	0	—	48 (—)

Notes: 1. No total valuation gain/loss figure is provided for non-listed shares as their lack of a market price makes it extremely difficult to determine their present value.
2. Figures denoted with an asterisk under "Total valuation gain/loss" indicate impairment losses for the fiscal year in question.

5. IR Activities

The Company's basic policy is to disclose information in a timely and appropriate manner in order to deliver useful information to its investors. In particular, the Company discloses in a timely fashion information with significant impact on investment decisions in accordance with the Timely Disclosure Rules set forth under the Financial Instruments and Exchange Act and by the Tokyo Stock Exchange, and proactively discloses other information determined to be useful to promoting understanding of the Company. The Company's general principles of IR activities follow.

Briefing sessions are held quarterly for institutional investors and analysts, with the President and Representative Director and the head of corporate planning or the head of accounting and finance providing the briefings. The Company conducts overseas road shows for foreign investors three times a year where the President and Representative Director and the head of corporate planning provide briefings. Moreover, the Company strives to engage in constructive dialogues with capital markets via individual meetings and small group meetings.

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

The Company posts earnings summaries, financial results briefing materials (including the briefing by the President and Representative Director), security fillings, annual reports, Annual Shareholders' Meeting convocation notices, and other items on its website.

Executive Members

As of July 31, 2020



Yosuke Matsuda

President and Representative Director

Shares owned: 200 shares

Potentially dilutive shares*2: 129,400 shares



Yukinobu Chida

Director

Shares owned: 126,688 shares

Potentially dilutive shares*2: 11,000 shares



Yukihiro Yamamura

Director*1

Shares owned: 0 shares

Potentially dilutive shares*2: 6,400 shares



Yuji Nishiura

Director*1

Shares owned: 0 shares

Potentially dilutive shares*2: 6,400 shares



Masato Ogawa

Director*1

Shares owned: 0 shares

Potentially dilutive shares*2: 2,400 shares



Mitsuko Okamoto

Director*1

Shares owned: 0 shares

Potentially dilutive shares*2: 600 shares



Ryoichi Kobayashi

Director

(Audit & Supervisory Committee Member) (Standing)*1



Tadao Toyoshima

Director

(Audit & Supervisory Committee Member)*1



Hajime Shinji

Director

(Audit & Supervisory Committee Member)*1

Yasuhiro Fukushima

Honorary Chairman

*1 Directors Yukihiro Yamamura, Yuji Nishiura, Masato Ogawa, and Mitsuko Okamoto, Director/ Standing Audit & Supervisory Committee Member Ryoichi Kobayashi, and Director/Audit & Supervisory Committee Members Tadao Toyoshima and Hajime Shinji are "outside directors" as defined in Article 2-15 of Japan's Companies Act.

*2 "Potentially dilutive shares" refers to the number of shares covered by the stock options owned as stock-based compensation.

A Word from Our New Directors

I believe that the strength of the Square Enix Group lies in its high-quality content and the power of the people that produce it. The dedication of the Group's creators to their craft, and their collaboration with management teams that respect that dedication and maximize its value are key. In order to maintain those content development capabilities, having the right human resources will naturally be vital, but it will also be important to create environments with the right spaces, right enterprise systems, and even such intangibles as the right corporate culture.

I have primarily been involved in content production in the television industry and currently train young artists and creators in my position at a university. My hope is to leverage those experiences to contribute to the development of the creative environment within the Square Enix Group.

People in the arts often use the word “cliché” to refer to things that lack originality or are overused. I believe we need the commitment and fortitude to continue to take on new challenges and never create anything clichéd.

The Square Enix Group is a leader in the global content industry. I undertake my role with pride in that fact and an appreciation of the responsibility that it entails.



Mitsuko Okamoto
Director



Hajime Shinji
Director

For the Square Enix Group to continue to develop as a family of entertainment companies that is truly loved and trusted by its global fans, it is critical for it to continue to provide the world with imaginative content on a variety of devices.

At the same time, to ensure that that development is culturally relevant, healthy, and sustainable, we need not only to perform checks to establish that key corporate decision-making processes are functioning properly, but also to perform audits to assess the legality and appropriateness of how those entrusted with executive power execute their duties, the development of the internal audit organization, transactions for potential conflicts of interest, accounting practices, controls on documents and data, and processes for information disclosure. I see all of this as the mission with which all Audit & Supervisory Committee members have been tasked.

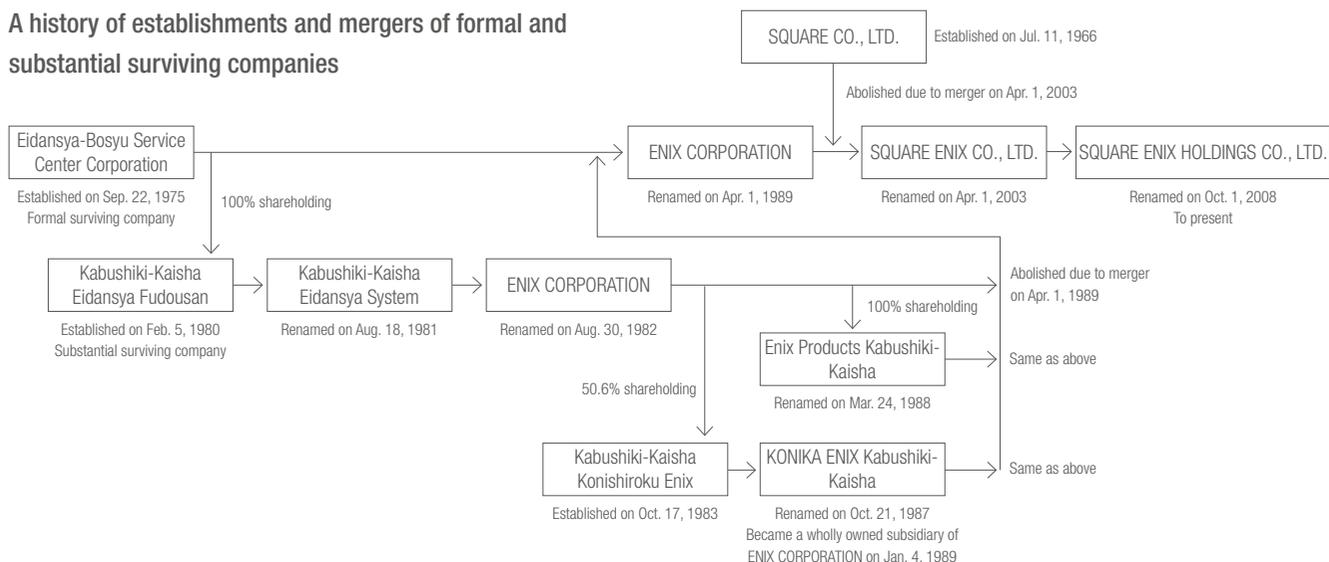
As an outside director or external auditor at other companies and organizations, I have been involved in general corporate management, as well as in the screening processes for M&A due diligence and listing examinations. As a court-appointed receiver, oversight committee member, director by proxy, and general shareholders meeting inspector, I have been responsible for representing companies, executing their operations, and providing them with oversight. I intend to leverage these experiences along with my expertise and ethics as an attorney to faithfully carry out my duties.

In addition, I have long been involved in the training of legal practitioners, so while gaming does represent a completely different field, I am greatly interested in identifying and developing creative human capital in this industry.

History

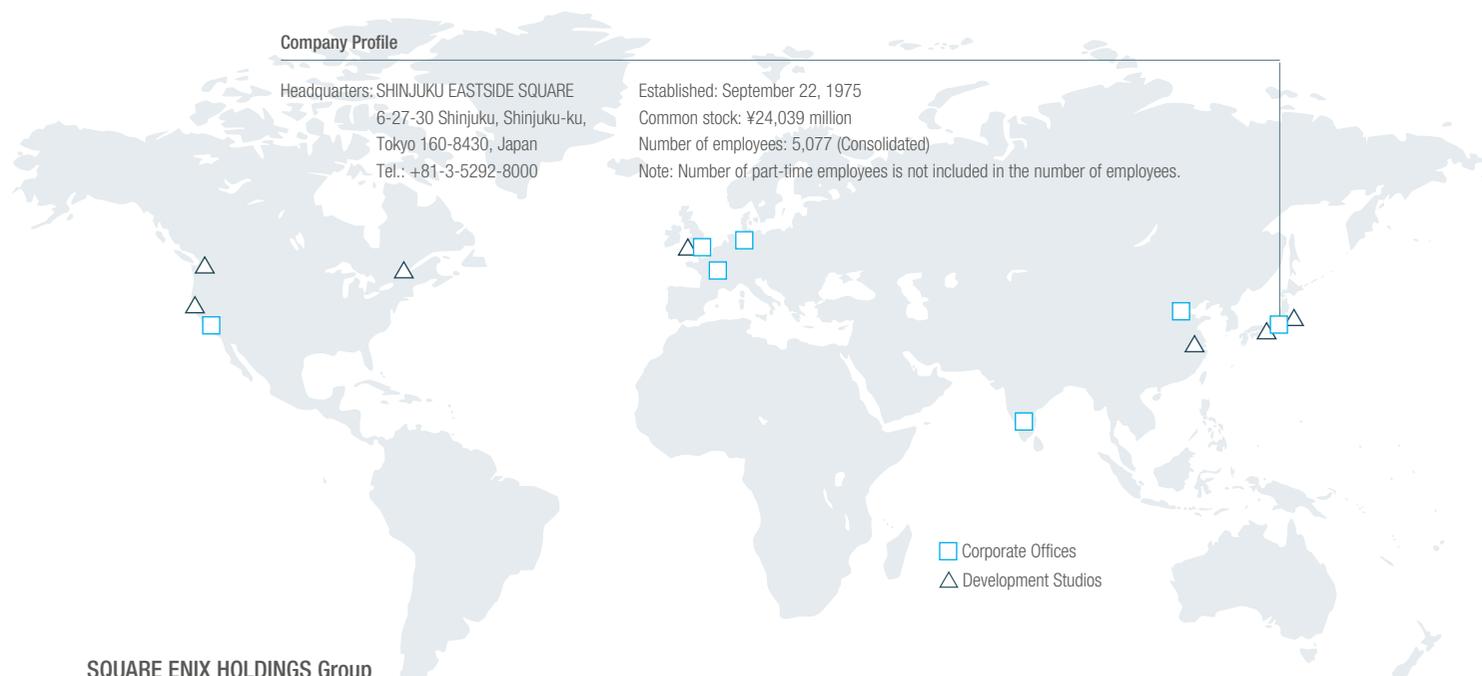
Feb. 1980	Established a real estate sales and brokerage company Kabushiki-Kaisha Eidansya Fudousan (common stock: ¥5 million; 3-18-12, Toranomon, Minato-ku, Tokyo, Japan) as a wholly owned subsidiary of Eidansya-Bosyu Service Center Corporation.
Aug. 1981	Changed company name to Kabushiki-Kaisha Eidansya System. Moved the headquarters to 7-15-10, Nishi-shinjuku, Shinjuku-ku, Tokyo, Japan.
Aug. 1982	Changed company name to ENIX CORPORATION.
Oct. 1983	Established Kabushiki-Kaisha Konishiroku Enix jointly with Konishiroku Photo Industry Co., Ltd. and other companies. (common stock: ¥60 million; Kita-ku, Tokyo, Japan; shareholding of ENIX CORPORATION was 50.6% at the time of the establishment and decreased to 49% from June 1984. Kabushiki-Kaisha Konishiroku Enix was renamed KONIKA ENIX Kabushiki-Kaisha in October 1987.)
Jan. 1984	Moved the headquarters to 7-1-8, Nishi-shinjuku, Shinjuku-ku, Tokyo, Japan.
Apr. 1986	Moved the headquarters to 8-20-2, Nishi-shinjuku, Shinjuku-ku, Tokyo, Japan.
Mar. 1988	Established Enix Products Kabushiki-Kaisha, a company developing and selling publications and character goods. (common stock: ¥30 million; a wholly owned subsidiary of ENIX CORPORATION; Shinjuku-ku, Tokyo, Japan)
Apr. 1989	ENIX CORPORATION, Eidansya-Bosyu Service Center Corporation, KONIKA ENIX Kabushiki-Kaisha, Enix Products Kabushiki-Kaisha merged and renamed as ENIX CORPORATION. Moved the headquarters to 7-5-25, Nishi-shinjuku, Shinjuku-ku, Tokyo, Japan.
Feb. 1991	ENIX CORPORATION stock was registered with the Japan Securities Dealers Association (presently Jasdqa Securities Exchange, Inc.) for over-the-counter trading.
Aug. 1996	Moved the headquarters to 4-31-8, Yoyogi, Shibuya-ku, Tokyo, Japan.
Aug. 1999	ENIX CORPORATION was listed on the First Section of the Tokyo Stock Exchange.
Apr. 2003	ENIX CORPORATION and SQUARE CO., LTD. merged and the new company was subsequently renamed SQUARE ENIX CO., LTD.
Aug. 2003	Moved the headquarters to 3-22-7, Yoyogi, Shibuya-ku, Tokyo, Japan.
Jul. 2004	Applied new management systems to subsidiaries in North America and Europe and renamed them SQUARE ENIX, INC. and SQUARE ENIX LTD. to unify corporate brand names in the global market.
Jan. 2005	Established SQUARE ENIX (China) CO., LTD. (Beijing, China) as a wholly owned subsidiary.
Sep. 2005	Acquired TAITO CORPORATION as a consolidated subsidiary (TAITO became a wholly owned subsidiary in March 2006).
Nov. 2006	Established SQUARE ENIX OF AMERICA HOLDINGS, INC. (Los Angeles, California, U.S.A.) as a holding company to control management and operations of the Company's subsidiaries in North America.
Oct. 2008	Applied a pure holding company system and subsequently renamed the Company SQUARE ENIX HOLDINGS CO., LTD.
Apr. 2009	Acquired EIDOS PLC. as a wholly owned subsidiary.
Oct. 2012	Moved the headquarters to 6-27-30, Shinjuku, Shinjuku-ku, Tokyo, Japan.
Jun. 2018	Transitioned to a Company with an Audit & Supervisory Committee.

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



Corporate Data

(As of March 31, 2020)



SQUARE ENIX HOLDINGS Group

Company Name	Established	Fiscal Year-End	Common Stock	Percentage of Voting Rights	Principal Lines of Business
Major Group Companies					
Japan					
SQUARE ENIX CO., LTD.	October 2008	March	¥1,500 million	100.0%	Digital entertainment, amusement, publication, merchandising
TAITO CORPORATION	June 2009	March	¥50 million	100.0%	Digital entertainment, amusement, merchandising
Luminous Productions Co., Ltd.	July 2018	March	¥5 million	100.0%	Planning and development of entertainment products and services such as games
SQUARE ENIX AI & ARTS Alchemy Co., Ltd.*	March 2020	March	¥10 million	100.0%	R&D/business involving products that combine AI, computer graphics, and art
North America					
SQUARE ENIX OF AMERICA HOLDINGS, INC.	November 2006	March	US\$1	100.0%	Holding of shares in and business management of Square Enix Group companies located in the Americas
SQUARE ENIX, INC.	March 1989	March	US\$10 million	100.0% (100.0%)	Digital entertainment, publication, merchandising in the North American market
CRYSTAL DYNAMICS, INC.	July 1992	March	US\$40 million	100.0% (100.0%)	Development of games
EIDOS INTERACTIVE CORP.	March 2007	March	C\$6 million	100.0% (100.0%)	Development of games
Europe					
SQUARE ENIX LTD.	December 1998	March	GB£145 million	100.0%	Holding of shares in and business management of Square Enix Group companies located in Europe and digital entertainment, publication and merchandising in Europe
Asia					
SQUARE ENIX (China) CO., LTD.	January 2005	December	US\$12 million	100.0%	Digital entertainment in China
HUANG LONG CO., LTD.	August 2005	December	10 million yuan RMB	— [100.0%]	Sale and management of online games in Asia

*Renamed on April 10, 2020

Note: In the Percentage of Voting Rights column, numbers in parentheses () represent the percentage of indirect holdings and are included in the total percentage of voting rights held by the Company. Numbers in brackets [] represent the percentage of holdings of closely related parties and parties of the same interest and are excluded from the total percentage of voting rights held by the Company.

Investor Information

(As of March 31, 2020)

Share Information

Number of shares issued: 122,531,596

Number of shareholders: 21,521

Principal Shareholders

Rank	Shareholder	Investment in Square Enix	
		(Thousands of shares)	(%)
1	Yasuhiro Fukushima	23,626	19.80
2	The Master Trust Bank of Japan, Ltd. (Trust Account)	8,572	7.18
3	Fukushima Planning Co., Ltd.	6,763	5.66
4	Japan Trustee Services Bank, Ltd. (Trust Account)	6,730	5.64
5	JP MORGAN CHASE BANK 380752	6,448	5.40
6	Japan Trustee Services Bank, Ltd. (Trust Account 9)	3,118	2.61
7	MSIP CLIENT SECURITIES	2,664	2.23
8	THE BANK OF NEW YORK MELLON (INTERNATIONAL) LIMITED 131800	2,658	2.22
9	DNB BANK ASA-VERDIPAPIRFONDET DNB TEKNOLOGI	2,273	1.90
10	Masafumi Miyamoto	1,790	1.50

Notes: 1. The Company holds 3,237,814 shares of treasury stock, which are excluded from the above table.

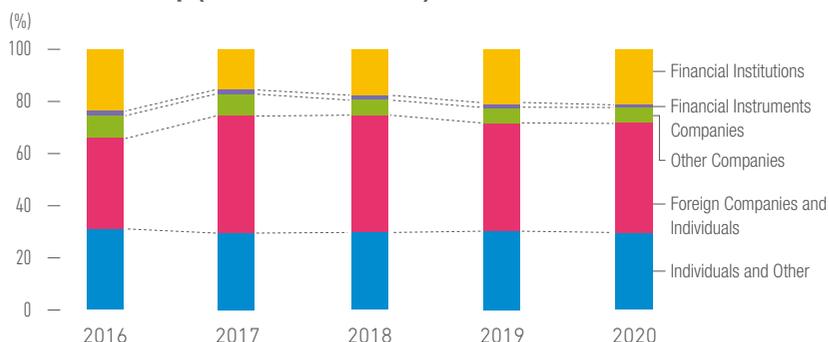
2. The holding ratio is calculated without the treasury shares (3,237,814).

Shareholders' Memo

- Fiscal year:
April 1 to March 31
- Record dates for dividends from retained earnings:
September 30 (Record date for interim dividend)
March 31 (Record date for year-end dividend)
- Annual General Meeting of Shareholders:
June
- Administrator of the register of shareholders:
Mitsubishi UFJ Trust and Banking Corporation
- Shareholder registration agent:
Securities Agency Division
Mitsubishi UFJ Trust and Banking Corporation
1-1, Nikko-cho, Fuchu-shi, Tokyo
TEL.: 0120-232-711 (Toll-free number within Japan)
- Mailing address:
Securities Agency Division
Mitsubishi UFJ Trust and Banking Corporation
Shin-Tokyo Post Office Post-office Box No. 29,
137-8081
- Listed on:
The First Section of the Tokyo Stock Exchange
- Securities code:
9684
- Trading unit:
100 shares
- Public notices:
URL:
<http://www.pronexus.co.jp/koukoku/9684/9684.html>
(Japanese)

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

Share Ownership (Thousands of shares)



	2016	2017	2018	2019	2020
Financial Institutions	29,231 (23.9%)	19,042 (15.5%)	21,626 (17.7%)	26,562 (21.7%)	26,065 (21.3%)
Financial Instruments Companies	1,717 (1.4%)	1,902 (1.6%)	2,037 (1.7%)	1,390 (1.1%)	1,076 (0.9%)
Other Companies	10,424 (8.5%)	10,409 (8.5%)	7,409 (6.0%)	7,373 (6.0%)	7,352 (6.0%)
Foreign Companies and Individuals	43,256 (35.4%)	55,067 (45.0%)	54,920 (44.9%)	50,459 (41.2%)	52,087 (42.5%)
Individuals and Other	37,669 (30.8%)	35,951 (29.4%)	36,404 (29.7%)	36,745 (30.0%)	35,948 (29.3%)
Total	122,299 (100.0%)	122,373 (100.0%)	122,398 (100.0%)	122,531 (100.0%)	122,531 (100.0%)

SQUARE ENIX HOLDINGS CO., LTD.

www.hd.square-enix.com/

ANNUAL REPORT 2020

FINANCIAL SECTION

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15	Consolidated Statement of Cash Flows (JPNGAAP)
16	Notes to Consolidated Financial Statements (JPNGAAP)

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

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

The following statements are based on management's view on SQUARE ENIX HOLDINGS CO., LTD. (the "Company") as of June 30, 2020 and have not been audited. The following management discussion and analysis also contains forward-looking statements concerning the future performance of the Company. Please read the disclaimer regarding forward-looking statements at the beginning of this Annual Report.

1. Significant Accounting Policies and Assumptions Used in the Estimates

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

a. Content production account

When the Group determines that the estimated market value of the content production account—based on expected future demand and market conditions—has fallen below book value, the Group recognizes a write-down, while recording loss on valuation of inventories. If future demand and market conditions are worse than management's forecasts, there is the possibility that an additional recording of loss on valuation of inventories will become necessary.

b. Other intangible assets (brand)

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

c. Provision for sales returns

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

d. Allowance for doubtful accounts

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

e. Unrealized losses on investments

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

f. Loss on investments in investment limited partnerships

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

g. Deferred tax assets

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

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

The Group made best estimation under COVID-19 circumstances as of June 25, 2020. However if the circumstances become more serious, the Group may record additional losses.

2. Analysis of Financial Policy, Capital Resources and Liquidity

The Group meets its working capital and capital investment requirements principally through internal funding resources and borrowings, of which funds raised by borrowings are used to meet short-term working capital requirements. As of March 31, 2020, the Group's balance of interest-bearing debt including borrowings and lease obligations was ¥8,504 million.

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

Cash flows in the fiscal year ended March 31, 2020, as well as the principal factors behind these cash flows, are described below.

(1) Net cash provided by operating activities

Net cash provided by operating activities totaled ¥18,005 million, an increase of 48.4% from the previous fiscal year. The main factors were profit before income taxes of ¥30,793 million and depreciation and amortization of ¥7,417 million offset by an increase in inventories of ¥22,632 million.

(2) Net cash used in investing activities

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

(3) Net cash used in financing activities

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

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

3. Analysis of Business Performance in the Fiscal Year Ended March 31, 2020

■ Assets

Total Assets

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

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

Cash and Deposits

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

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

Content Production Account

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

As a rule, content development costs incurred during the period from a title's formal development authorization to its release are capitalized in the content production account. When the title is released, this amount is then recorded as an expense.

The content production account is appropriately revalued in accordance with changes in the business environment.

As of March 31, 2020, the content production account totaled ¥71,479 million, an increase of ¥20,859 million from the previous fiscal year.

Property and Equipment

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

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

Intangible Assets

			Millions of yen
March 31	2020	2019	Change
	¥5,387	¥5,105	¥282

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

Investments and Other Assets

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

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

■ Liabilities

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

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

Current Liabilities

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

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

Non-Current Liabilities

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

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

■ Shareholders' Equity/Net Assets

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

As of March 31, 2020, total net assets amounted to ¥221,928 million, up ¥15,483 million from the previous fiscal year-end, mainly due to factors such as the recording of profit attributable to owners of parent offset by payments of year-end dividends (¥37 per share) for the previous fiscal year and interim dividends (¥10 per share) for the fiscal year under review.

■ Consolidated Statement of Income
Net Sales and Operating Income

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

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

■ Non-Operating Income and Expenses

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

■ Extraordinary Income and Loss

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

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

■ Capital Expenditures and Depreciation and Amortization

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

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

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

4. Strategic Outlook, Issues Facing Management and Future Direction

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

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

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

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

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

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

5. Basic Policy for Profit Distribution and Dividends

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

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

The distribution of surplus for the fiscal year ended March 31, 2020 is determined at the shareholders' meeting or by the Company's Board of Directors for year-end dividends, and by the Board of Directors for interim dividends.

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

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

The dividends from surplus for the fiscal year ended March 31, 2020 are as follows:

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

6. Risk Factors

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

Forward-looking statements in the Annual Report are in accordance with the management's judgment as of June 25, 2020.

(1) Risks related to business activities

1) Higher game development costs

Advances in performance and functionality are enabling more diverse and sophisticated content experiences on consumer game consoles, PCs, smartphones, and other platforms for which the Company provides games. This trend is gaining momentum with each passing year, and since the Company needs to provide content that keeps pace, its game development costs are on the rise. With next-generation consumer game consoles slated for release in the latter half of 2020, game development costs are likely to remain high, going

forward. By engaging in more stringent management of development efforts and earnings at the level of individual titles, and by undertaking aggressive marketing and promotional initiatives, the Group is endeavoring to keep its development costs at an appropriate level, while also expanding sales. However, the Group's business performance may be impacted if the Group were to sell fewer units than initially anticipated, and therefore be unable to sufficiently recoup development costs.

The Group enriches its game portfolio and hedges its risk by creating an optimum mix of AAA and smaller titles. In addition, it is striving to improve the profitability of its HD games by expanding post-launch sales (especially via digital downloads), seizing the additional earnings opportunities presented by the GaaS (Games as a Service) model, and otherwise creating a diverse base of recurring income. Moreover, the Group is working to stabilize earnings across its businesses by creating a diverse monetization base of recurring income from its massively multiplayer online (MMO) games, and smart device and PC browser games, as well as the Amusement and Publication segments.

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

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

In order to respond to the diverse needs of customers, the Group not only offers its existing intellectual property (IP) via all of its business segments (i.e., Digital Entertainment, Amusement, Publication, and Merchandising), but also leverages it in new business domains such as live entertainment and e-commerce. By doing so, the Group expands its customer base and enhances customer engagement, thereby maximizing earnings.

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

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

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

4) The Group's international business operations

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

(2) Risks related to the economic environment

1) Changes in the economic environment

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

2) Exchange rate fluctuations

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

(3) Risks related to laws and regulations and litigation

1) Information and network systems

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

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

2) Management of personal information

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

3) Entertainment industry laws

The operation of amusement facilities is subject to government control under the Law for Proper Control of Entertainment and Amusement Businesses and other related laws and regulations. These laws and regulations include an approval and licensing system for the opening and operation of amusement facilities, restrictions on business hours, age restrictions, area regulations on outlet openings, and regulations concerning facility structures, interiors, lighting and noise. The Group operates its facilities legally and appropriately in

strict compliance with these laws and regulations. However, if these laws and regulations were to be reinforced, the Group's business performance may be affected.

4) Litigation and other claims

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

(4) Risks related to disasters, etc.

1) Accidents and disasters

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

2) Impact from the outbreak of the novel coronavirus

In response to the global outbreak of the novel coronavirus (COVID-19), the Group has placed the utmost priority on the safety of its customers, business partners, and employees, deciding to cancel or postpone its own live events, and instituting telework and other measures aimed at preventing the spread of the virus. At the same time, the Group has revised its operational processes and enhanced its IT systems to ensure the continuity of its business. In this manner, the Group is continuing to work to create a business operation system built around the work-from-home concept.

However, the potential for the worldwide coronavirus pandemic to slow the global economy by disrupting production, distribution, and consumption is a concern. Risks to the Group's business domains include a pullback in content demand, impacts to the manufacturing and distribution processes for packaged products, and diminished sales from amusement facility operations. Such developments may affect the Group's business performance.

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

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

The accompanying notes are an integral part of these statements.

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

The accompanying notes are an integral part of these statements.

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

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

The accompanying notes are an integral part of these statements.

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

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

The accompanying notes are an integral part of these statements.

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

■ 2020

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

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

The accompanying notes are an integral part of these statements.

■ 2019

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

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

The accompanying notes are an integral part of these statements.

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

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

The accompanying notes are an integral part of these statements.

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

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

1. Scope of Consolidation

(1) Number of consolidated subsidiaries: 20 companies

Names of principal consolidated subsidiaries

SQUARE ENIX OF AMERICA HOLDINGS, INC.

SQUARE ENIX CO., LTD.

TAITO CORPORATION

Luminous Productions Co., Ltd.

SQUARE ENIX, INC.

SQUARE ENIX LTD.

SQUARE ENIX (China) CO., LTD.

CRYSTAL DYNAMICS, INC.

EIDOS INTERACTIVE CORP.

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

(2) Names of principal non-consolidated subsidiaries:

Tokyo RPG Factory Co., Ltd.

SQUARE ENIX Business Support, CO., LTD.

SQUARE ENIX PRIVATE LIMITED

(Rationale for the exclusion of subsidiaries from the scope of consolidation)

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

2. Application of the Equity Method of Accounting

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

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

3. Fiscal Year-End of Consolidated Subsidiaries

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

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

4. Summary of Significant Accounting Policies

(1) Standards and valuation methods for major assets:

A) Investment securities

Other investment securities

Securities for which fair values are available:

Market value, determined by the quoted market price as of the balance sheet date, with unrealized gains and losses reported as a separate component of net assets at a net-of-tax amount, and cost of sales determined by the moving-average method

Securities for which fair values are unavailable:

Stated at cost determined by the moving-average method

As for investments in investment limited partnerships and similar partnerships, which are deemed to be investment securities under Article 2, Paragraph 2 of the Financial Instruments and Exchange Act, the net amount equivalent to equity is recorded based on the financial results available as of the financial reporting date stipulated in the partnership agreement.

B) Derivatives

Stated at fair value

C) Inventories

Manufactured goods, merchandise:

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

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

Content production account:

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

Raw materials, unfinished goods:

Stated at cost, determined by the moving-average method (book-entry devaluation method based on the decrease in profitability is used with respect to balance sheet values).

Supplies:

Stated at the last purchase price.

(2) Method of depreciation and amortization for major assets:

A) Property and equipment (excluding leased assets and right-of-use assets)

Property and equipment of the Company and its domestic consolidated subsidiaries are depreciated using the declining-balance method.

However, regarding buildings (excluding building fixtures) acquired on or after April 1, 1998, and facilities attached to buildings and other non-building structures acquired on or after April 1, 2016, the straight-line method is applied. Overseas consolidated subsidiaries also use the straight-line method. The estimated useful lives of major assets are as follows:

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

B) Intangible assets (excluding leased assets and right-of-use assets)

Amortized using the straight-line method. Software used in-house is amortized using the straight-line method based on an internal estimate of its useful life (three to five years).

C) Leased assets

Leased assets under finance lease transactions that do not transfer ownership:

Depreciation for leased assets is computed under the straight-line method over the lease term with no residual value.

D) Right-of-use assets

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

(3) Accounting for allowances and provisions:

A) Allowance for doubtful accounts

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

B) Provision for bonuses

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

C) Provision for sales returns

At certain consolidated subsidiaries, provisions are provided for losses on the return of published materials, at an amount calculated based on historical experience prior to this fiscal year and provisions are provided for losses on the return of game software and other, comprising an estimated amount of future losses assessed based on the probability of the return by each game title, etc.

D) Provision for game arcade closings

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

E) Provision for directors' retirement benefits

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

(4) Accounting treatment methods for retirement benefits:

A) Periodic attribution method for projected retirement benefits

In the calculation of retirement benefit obligations, the Company and certain consolidated subsidiaries apply the benefit formula basis in attributing projected benefits to the service period until the end of this fiscal year.

B) Amortization method of actuarial gains and losses and prior service costs

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

Unrecognized prior service costs are amortized over a certain period (one year or five years) within the average remaining service period of eligible employees.

(5) Translation of foreign currency transactions and accounts:

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

(6) Scope of cash and cash equivalents in the consolidated statement of cash flows:

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

(7) Additional accounting policies used to prepare consolidated financial statements:

A) Accounting treatment of consumption taxes and local consumption taxes

Statements of income items are presented exclusive of consumption taxes and local consumption taxes. Non-deductible consumption taxes charged on assets and local consumption taxes are recognized as expenses for the year when the related transactions have occurred.

B) Application of consolidated taxation system

The Company has applied the consolidated taxation system.

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

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

Change in Accounting Policy

(Application of IFRS 16, "Leases" and (ASU) 2016-02, "Leases")

Effective from the beginning of the fiscal year ended March 31, 2020, at foreign subsidiaries and affiliates that apply US GAAP, (ASU) 2016-02, "Leases" has been adopted, while at other foreign subsidiaries and affiliates, IFRS 16, "Leases" has been adopted. These accounting standards require lessees, in principle, to record all leases as assets and liabilities in the balance sheet.

As a result, there is minimal impact to the consolidated financial statements for the fiscal year ended March 31, 2020.

(Changes in accounting policy regarding sales of digital content)

Effective from the beginning of the fiscal year ended March 31, 2020, one of the Group's consolidated subsidiaries have changed the timing of revenue recognition for digital content sold via platforms operated by other companies (including but not limited to consumer game consoles and mobile applications) from when sales data reports are received to when the content is provided to the customer. In keeping with this change, the timing of recognition of expenses such as royalties and platform fees calculated based on revenues has been changed as well. This change has been adopted to better reflect actual economic conditions and is the result of the development of system and organizational support that enables the timely collection of customer sales data.

The change in accounting policy has been applied retrospectively to the consolidated financial statements for the fiscal year ended March 31, 2019.

The changes caused an increase of ¥227 million in net sales for the fiscal year ended March 31, 2019, and an increase of ¥103 million in operating income, ordinary income, and profit before income taxes, compared with the previous method. Additionally, on April 1, 2018, the Group recognized an increase of ¥2,305 million to the beginning balance retained earnings as a cumulative-effect adjustment.

The impact on per share information is stated in "Per Share Information."

Accounting Standards Issued but Not Yet Applied

"Accounting Standard for Revenue Recognition" (ASBJ Statement No. 29, March 31, 2020),

"Implementation Guidance on Accounting Standard for Revenue Recognition" (ASBJ Guidance No. 30, March 31, 2020) and

"Implementation Guidance on Disclosures about Fair Value of Financial Instruments" (ASBJ Guidance No. 19, March 31, 2020)

(1) Outline:

The International Accounting Standards Board (IASB) and the Financial Accounting Standards Board (FASB) jointly developed a comprehensive accounting standard for revenue recognition, and they issued "Revenue from Contracts with Customers" (IFRS 15 by IASB and Topic 606 by the FASB) in May 2014. Considering that the application of IFRS 15 is effective from the fiscal year beginning on or after January 1, 2018 and the application of Topic 606 is effective from fiscal years beginning after December 15, 2017, the comprehensive accounting standard for revenue recognition was developed by the ASBJ and issued together with its implementation guidance.

A basic policy in developing the accounting standard for revenue recognition by the ASBJ was to incorporate the basic principles of IFRS 15 as a starting point, from the viewpoint of comparability between financial statements, one of the benefits of consistency with IFRS 15. In addition, alternative accounting treatments are provided without impairing comparability for common business practices in Japan.

(2) Effective date:

Effective from the beginning of the fiscal year ending March 31, 2022

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

The impact of the application of accounting standard and implementation guidance on the consolidated financial statements is being assessed.

Change in the Method of Presentation

(Consolidated Statement of Income)

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

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

Reversal of allowance for doubtful accounts and subsidy income under non-operating income were presented separately for the fiscal year ended March 31, 2019, but are included in miscellaneous income for the fiscal year ended March 31, 2020, due to a decrease in its monetary significance. To reflect this change in the method of presentation, the consolidated financial statements for the fiscal year ended March 31, 2019 have been reclassified.

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

Gain on liquidation of subsidiaries under extraordinary income was presented separately for the fiscal year ended March 31, 2019, but is included in other for the fiscal year ended March 31, 2020, due to a decrease in its monetary significance. To reflect this change in the method of presentation, the consolidated financial statements for the fiscal year ended March 31, 2019 have been reclassified.

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

(Consolidated Statement of Cash Flows)

Proceeds from liquidation of subsidiaries under cash flows from investing activities was presented separately for the fiscal year ended March 31, 2019, but is included in other, net for the fiscal year ended March 31, 2020, due to a decrease in its monetary significance. To reflect this change in the method of presentation, the consolidated financial statements for the fiscal year ended March 31, 2019 have been reclassified.

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

Additional Information

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

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

Notes to Consolidated Balance Sheet

*1 Investments in non-consolidated subsidiaries and affiliates

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

*2 Electronically recorded obligations – operating as of the end of the fiscal year

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

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

Notes to Consolidated Statement of Income

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

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

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

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

*3 Breakdown of gain on sale of property and equipment

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

*4 Breakdown of loss on disposal of property and equipment

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

*5 Impairment loss

In the fiscal year ended March 31, 2020, the Group posted an impairment loss on the following groups of assets.

			Millions of yen
Location	Usage	Category	Impairment amount
Shinjuku-ku, Tokyo	Idle assets	Amusement equipment	¥129
		Other	1
Shinjuku-ku, Tokyo	Assets planned for disposal	Buildings and structures	8
		Amusement equipment	2
Toshima-ku, Tokyo, Kawasaki-shi, Asahi-shi	Stores	Buildings and structures	50
		Tools and fixtures	7
		Other	5
Shinjuku-ku, Tokyo	Arcade game machines development and distribution division	Buildings and structures	10
		Tools and fixtures	17
		Other	134
Total			¥367

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

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

In the fiscal year ended March 31, 2019, the Group posted an impairment loss on the following groups of assets.

			Millions of yen
Location	Usage	Category	Impairment amount
Shinjuku-ku, Tokyo	Idle assets	Amusement equipment	¥55
		Other	0
Shinjuku-ku, Tokyo	Assets planned for disposal	Amusement equipment	40
		Buildings and structures	2
Miyazaki-shi, Osaka-shi	Stores	Buildings and structures	174
		Tools and fixtures	35
		Other	24
Atsugi-shi	Arcade game machines maintenance services division	Buildings and structures	9
		Tools and fixtures	7
		Land	13
		Other	4
Total			¥368

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

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

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

*6 Loss on disposal of content and other losses

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

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

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

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

*7 Loss on event cancellations

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

Notes to Consolidated Statement of Comprehensive Income

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

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

Notes to Consolidated Statement of Changes in Net Assets

■ Year ended March 31, 2020

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

	Shares as of April 1, 2019	Share increases during the year	Share decreases during the year	Thousands of shares Shares as of March 31, 2020
Shares issued and outstanding				
Common stock	122,531	—	—	122,531
Total	122,531	—	—	122,531
Treasury stock				
Common stock ^{1,2}	3,324	1	88	3,237
Total	3,324	1	88	3,237

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

2 The decrease of 88 thousand shares of treasury stock was due to the delivery of 86 thousand shares due to the exercise of stock acquisition rights as stock options, the delivery of 2 thousand shares as a post-delivery type stock remuneration plan, and the sale of 0 thousand fractional shares constituting less than one trading unit.

2. Stock options and the Company's stock options

Category	Details of stock options	Type of shares issuable for the exercise of stock options	Number of shares allocated for the purpose of stock options				Balance as of March 31, 2020 (Millions of yen)
			As of April 1, 2019	Increase during the year	Decrease during the year	As of March 31, 2020	
Supplying company (parent company)	Stock acquisition rights as stock options	—	—	—	—	—	¥608
	Total	—	—	—	—	—	¥608

3. Dividends

(1) Dividend payments

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

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

Date of approval	Type of shares	Total dividends (Millions of yen)	Source of dividends	Dividends per share (Yen)	Record date	Effective date
May 20, 2020 (Board of Directors' Meeting)	Common stock	¥5,248	Retained earnings	¥44	March 31, 2020	June 4, 2020

■ Year ended March 31, 2019

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

	Shares as of April 1, 2018	Share increases during the year	Share decreases during the year	Thousands of shares Shares as of March 31, 2019
Shares issued and outstanding				
Common stock ¹	122,398	132	—	122,531
Total	122,398	132	—	122,531
Treasury stock				
Common stock ^{2,3}	3,324	1	1	3,324
Total	3,324	1	1	3,324

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

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

3 The decrease of 1 thousand shares of treasury stock was due to the delivery of 1 thousand shares due to the exercise of stock acquisition rights as stock options and the sale of 0 thousand fractional shares constituting less than one trading unit.

2. Stock options and the Company's stock options

Category	Details of stock options	Type of shares issuable for the exercise of stock options	Number of shares allocated for the purpose of stock options				Balance as of March 31, 2019 (Millions of yen)
			As of April 1, 2018	Increase during the year	Decrease during the year	As of March 31, 2019	
Supplying company (parent company)	Stock acquisition rights as stock options	—	—	—	—	—	¥517
	Total	—	—	—	—	—	¥517

3. Dividends

(1) Dividend payments

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

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

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

Notes to Consolidated Statement of Cash Flows

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

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

Lease Transactions

1. Finance lease transactions

Finance lease transactions that do not transfer ownership

(1) Type of leased assets

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

(2) Depreciation method for leased assets

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

2. Operating lease transactions

Not applicable

3. Right-of-use assets

(1) Type of right-of-use assets

Mainly offices for rental purposes

(2) Depreciation method for leased assets

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

Notes Regarding Financial Instruments

1. Matters concerning financial instruments

(1) Policies regarding financial instruments

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

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

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

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

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

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

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

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

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

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

2. Fair value of financial instruments

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

■ As of March 31, 2020

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

■ As of March 31, 2019

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

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

Notes: 1 Matters concerning the methods for estimating fair value of financial instruments, and securities and derivative transactions

Assets

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

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

(3) Investment securities

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

(4) Guarantee deposits

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

Liabilities

(1) Notes and accounts payable, (2) Short-term loans and (3) Accrued income taxes

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

Derivative transactions

Please refer to the information on “Derivative Transactions.”

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

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

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

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

									Millions of yen
	As of March 31, 2020				As of March 31, 2019				
	Within 1 year	More than 1 year but within 5 years	More than 5 years but within 10 years	More than 10 years	Within 1 year	More than 1 year but within 5 years	More than 5 years but within 10 years	More than 10 years	
Deposits	¥121,672	¥—	¥—	¥—	¥127,358	¥—	¥—	¥—	
Notes and accounts receivable	41,474	—	—	—	35,382	—	—	—	
Guarantee deposits	5,315	3,806	1,490	—	5,510	2,781	2,081	—	
Total	¥168,462	¥3,806	¥1,490	¥—	¥168,251	¥2,781	¥2,081	¥—	

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

Millions of yen

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

Securities

1. Held-for-sale securities

Not applicable

2. Held-to-maturity securities

Not applicable

3. Available-for-sale securities

Millions of yen

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

4. Securities sold during the year

Millions of yen

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

Derivative Transactions

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

Currency derivatives

■ **Year ended March 31, 2020**

Not applicable

■ **Year ended March 31, 2019**

Not applicable

2. Derivative transactions for which hedge accounting has been applied

■ **Year ended March 31, 2020**

Not applicable

■ **Year ended March 31, 2019**

Not applicable

Employees' Retirement Benefits

1. Overview of employees' retirement benefit plans:

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

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

2. Defined benefit plan:

(1) Reconciliation between the beginning and ending balances of retirement benefit obligations

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

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

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

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

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

(4) Components of net periodic pension costs

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

(5) Remeasurements of defined benefit plans in other comprehensive income

The following items (prior to adjustments for tax effect) have been recorded as components of remeasurements of defined benefit plans.

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

(6) Remeasurements of defined benefit plans in accumulated other comprehensive income

The following items (prior to adjustments for tax effect) have been recorded as components of remeasurements of defined benefit plans.

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

(7) Plan assets

1) Main components of plan assets

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

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

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

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

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

(8) Assumptions used to determine actuarial gains or losses

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

	Percent	
	As of March 31, 2020	As of March 31, 2019
Discount rate	0.129 to 0.331	0.050 to 0.446
Long-term expected rate of return on plan assets	1.500	1.500

3. Defined contribution plan:

The required contributions for the defined contribution plan by the Company and its consolidated subsidiaries were ¥764 million and ¥483 million for the years ended March 31, 2020 and 2019, respectively.

Stock Options

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

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

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

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

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

(1) Details of stock options

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

	2015 stock options	2016 stock options	2016 stock options	2017 stock options	2017 stock options	2018 stock options	2018 stock options
Category of grantees	Company employees, and directors and employees of the Company's subsidiaries	Company directors	Company employees, and directors and employees of the Company's subsidiaries	Company directors	Company employees, and directors and employees of the Company's subsidiaries	Company directors (excluding directors who are Audit & Supervisory Committee members)	Directors and employees of the Company's subsidiaries
Number of grantees	18	6	21	6	23	5	24
Number of stock options	122,000 shares of common stock	21,000 shares of common stock	116,000 shares of common stock	21,000 shares of common stock	179,000 shares of common stock	11,700 shares of common stock	126,300 shares of common stock
Date granted	July 16, 2015	July 20, 2016	July 20, 2016	July 19, 2017	August 30, 2017	August 30, 2018	August 30, 2018
Conditions for vesting of interests	No conditions have been set for vesting interests	No conditions have been set for vesting interests	No conditions have been set for vesting interests	No conditions have been set for vesting interests	No conditions have been set for vesting interests	No conditions have been set for vesting interests	No conditions have been set for vesting interests
Service period	No service period established	No service period established	No service period established	No service period established	No service period established	No service period established	No service period established
Rights exercise period	June 25, 2017 to June 24, 2020	July 21, 2016 to July 20, 2036	June 25, 2018 to June 24, 2021	July 20, 2017 to July 19, 2037	August 5, 2019 to August 4, 2022	August 31, 2018 to August 30, 2038	August 8, 2020 to August 7, 2023

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

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

(2) Scale of and changes in stock options

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

1) Number of stock options

	2008 stock options	2009 stock options	2010 stock options	2011 stock options	2012 stock options	2014 stock options	2015 stock options	2015 stock options	2016 stock options	2016 stock options
Before vesting (shares)										
March 31, 2019	—	—	—	—	—	—	—	—	—	—
Granted	—	—	—	—	—	—	—	—	—	—
Forfeited	—	—	—	—	—	—	—	—	—	—
Vested	—	—	—	—	—	—	—	—	—	—
Unvested balance	—	—	—	—	—	—	—	—	—	—
After vesting (shares)										
March 31, 2019	3,700	11,000	16,000	16,000	16,000	8,000	11,000	36,900	11,000	100,300
Vested	—	—	—	—	—	—	—	—	—	—
Exercised	—	—	—	—	—	—	—	32,500	—	24,900
Forfeited	—	—	—	—	—	—	—	2,000	—	6,000
Balance unexercised	3,700	11,000	16,000	16,000	16,000	8,000	11,000	2,400	11,000	69,400

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

2) Price information

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

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

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

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

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

(2) Main assumptions:

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

Notes: 1 This was calculated based on historical share price data prior to the grant date over a period equivalent to the expected life.

2 Owing to insufficient accumulated data, it is difficult to determine an appropriate estimate. Consequently, the midpoint of the available exercise period has been used as the estimated life.

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

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

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

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

Tax Effect Accounting

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

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

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

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

■ As of March 31, 2020

	Millions of yen			
	Due after 1 year through 5 years	Due after 5 years through 10 years	Due after 10 years	Total
Net operating loss carryforwards ^(*)	¥92	¥547	¥10,610	¥11,250
Valuation allowance	—	(81)	(9,554)	(9,635)
Deferred tax assets	92	466	1,056	1,615

■ As of March 31, 2019

	Millions of yen			
	Due after 1 year through 5 years	Due after 5 years through 10 years	Due after 10 years	Total
Net operating loss carryforwards ^(*)	¥—	¥873	¥10,015	¥10,888
Valuation allowance	—	(332)	(8,938)	(9,270)
Deferred tax assets	—	540	1,077	1,617

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

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

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

Business Combinations

■ Year ended March 31, 2020

Not applicable

Asset Retirement Obligations

Balance Sheet Amount for Asset Retirement Obligations

a) Summary of applicable asset retirement obligations

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

b) Assumptions used in calculating applicable asset retirement obligations

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

For amusement facility arcades, asset retirement obligations are based on estimated useful life, generally ranging between 2 and 15 years, as estimated based on the average operating period for arcades that have been closed (10 years) and the lease term, and a discount rate between (0.275)% and 1.355%.

c) Changes to aggregate asset retirement obligations

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

Matters Relating to Real Estate Leases, Etc.

■ Year ended March 31, 2020

Not applicable

■ Year ended March 31, 2019

Not applicable

Segment Information

[Segment Information]

■ Year ended March 31, 2020

1. Outline of reporting segments

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

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

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

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

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

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

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

Notes: 1 (1) Segment adjustments (¥12,351 million) include unallocated corporate operating expenses (¥12,420 million).

(2) Unallocated assets amounting to ¥141,467 million are included in the ¥141,067 million adjustment to segment assets. Most of this amount comprises funds for management of surplus funds (cash and deposits).

(3) The ¥829 million adjustment to depreciation and amortization is associated with unallocated assets that do not belong to any reporting segment.

(4) The ¥1,391 million adjustment to increases in property and equipment and intangible assets is associated with unallocated assets that do not belong to any reporting segment.

2 Segment operating income corresponds to operating income on the Consolidated Statement of Income.

3 As a result of the changes in accounting policy regarding sales of digital content, effective from the fiscal year ended March 31, 2020, sales for the fiscal year ended March 31, 2019 are stated at the values after retrospective adjustments reflecting the aforementioned changes in accounting policy.

■ Year ended March 31, 2019

1. Outline of reporting segments

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

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

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

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

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

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

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

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

[Related Information]

■ Year ended March 31, 2020

1. Information by product or service

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

2. Information by geographical area

(1) Sales

					Millions of yen
Japan	North America	Europe	Asia	Total	
¥198,479	¥37,209	¥15,262	¥9,576	¥260,527	

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

(2) Property and equipment

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

3. Information by major customer

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

■ Year ended March 31, 2019

1. Information by product or service

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

2. Information by geographical area

(1) Sales

					Millions of yen
Japan	North America	Europe	Asia	Total	
¥167,372	¥57,974	¥32,346	¥13,582	¥271,276	

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

(2) Property and equipment

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

3. Information by major customer

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

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

■ Year ended March 31, 2020

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

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

■ Year ended March 31, 2019

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

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

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

■ Year ended March 31, 2020

Not applicable

■ Year ended March 31, 2019

Not applicable

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

■ Year ended March 31, 2020

Not applicable

■ Year ended March 31, 2019

Not applicable

[Related party transactions]

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

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

■ Year ended March 31, 2020

Type	Name	Location	Capital (Millions of yen)	Business description or occupation	Ratio of voting rights held (%)		Relationship with related parties	Transaction	Amount of transactions (Millions of yen)	Account item	Year-end balance (Millions of yen)
Non-consolidated subsidiaries	Luminous Productions Co., Ltd. (Note 1)	Shinjuku-ku Tokyo	¥5	Development of games	(Holding)	100	Concurrent appointment of officers, and provision of loans	Forgiveness of payable for group tax (Notes 1, 2)	¥204	Payables	¥—
					Direct	—					
	STUDIO ISTOLIA CO., LTD.	Shinjuku-ku Tokyo	¥0	Development of games	(Holding)	100	Concurrent appointment of officers	Forgiveness of payable for group tax (Note 2)	¥165	Payables	¥—
					Direct	—					

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

Notes: 1 Luminous Productions Co., Ltd. has been included in the scope of consolidation from the fiscal year ended March 31, 2020, due to its increased materiality, changing its status from a non-consolidated subsidiary to a consolidated subsidiary. The above figure represents transactions conducted during the period in which Luminous Productions Co., Ltd. was operating as a non-consolidated subsidiary.

2 The amount of income taxes to be paid under consolidated taxation is determined based on consultations.

■ Year ended March 31, 2019

Not applicable

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

■ Year ended March 31, 2020

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

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

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

“Amount of transactions” represents amounts calculated by multiplying cash payments by the number of shares granted due to the exercise of stock acquisition rights as stock options during the fiscal year ended March 31, 2020.

■Year ended March 31, 2019

Type	Name	Location	Capital (Millions of yen)	Business description or occupation	Ratio of voting rights held (%)	Relationship with related parties	Transaction	Amount of transactions (Millions of yen)	Account item	Year-end balance (Millions of yen)	
Director and close relatives	Naoki Yoshida	—	—	Director of subsidiary	(Held)	—	Exercising of stock options (Note 1)	¥11	—	¥—	
					Direct						—
	Yoshinori Kitase	—	—	Director of subsidiary	(Held)	0.00	—	Exercising of stock options (Note 1)	¥11	—	¥—
					Direct						
	Michihiro Sasaki	—	—	Director of subsidiary and audit & supervisory board member of subsidiary	(Held)	0.00	—	Exercising of stock options (Note 1)	¥11	—	¥—
					Direct						
	Yosuke Saito	—	—	Director of subsidiary	(Held)	0.00	—	Exercising of stock options (Note 1)	¥11	—	¥—
					Direct						
	Michael Sherlock	—	—	Director of subsidiary	(Held)	—	—	Exercising of stock options (Notes 1, 2)	¥12	—	¥—
					Direct						

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

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

“Amount of transactions” represents amounts calculated by multiplying cash payments by the number of shares granted due to the exercise of stock acquisition rights as stock options during the fiscal year ended March 31, 2019.

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

Per Share Information

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

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

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

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

Significant Subsequent Events

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

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

Supplementary Schedule [Borrowings]

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

- Notes: 1 The average interest rate shown is the weighted average interest rate on the balance of borrowings as of March 31, 2020.
2 Average interest rates for lease obligations are omitted because lease obligations include assumed interest amounts.
3 Effective from the beginning of the fiscal year ended March 31, 2020, at foreign subsidiaries and affiliates that apply US GAAP, (ASU) 2016-02, "Leases" has been adopted, while at other foreign subsidiaries and affiliates, IFRS 16, "Leases" has been adopted. The above balances as of April 1, 2019 are the values after the adoption of (ASU) 2016-02, "Leases" or IFRS 16, "Leases."
4 Lease obligations (due for repayment within one year) are included in other of current liabilities, and lease obligations (excluding due for repayment within one year) are included in other of non-current liabilities.
5 Scheduled repayment amounts during five years subsequent to March 31, 2020 for lease obligations (excluding the amount due for repayment within one year) are as follows:

	Millions of yen			
	More than one year but within two years	More than two years but within three years	More than three years but within four years	More than four years but within five years
Lease obligations	¥648	¥443	¥452	¥466

[Asset retirement obligations]

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

[Other]

Quarterly Financial Information

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

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