SQUARE ENIX

2019
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.

CONTENTS

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.

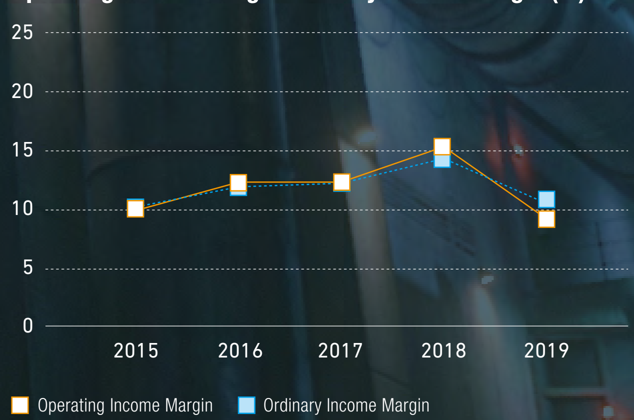
Financial Highlights

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

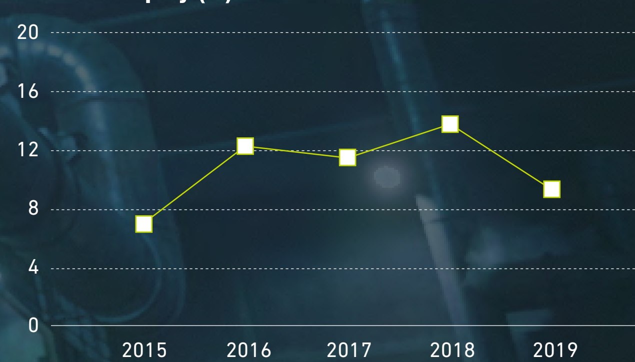
	2015	2016	2017	2018	2019	2019
					Millions of yen	Thousands of U.S. dollars
For the Year						
Net sales	¥ 167,891	¥ 214,101	¥ 256,824	¥ 250,394	¥ 271,048	$2,442,101
Operating income	16,426	26,018	31,295	38,176	24,531	221,028
Ordinary income	16,984	25,322	31,128	36,124	28,312	255,089
Profit attributable to owners of parent	9,831	19,884	20,039	25,821	18,463	166,355
At Year-end						
Total assets	¥ 211,938	¥ 232,731	¥ 243,859	¥ 259,713	¥ 277,856	$2,503,437
Total net assets	155,314	168,783	181,904	193,359	203,230	1,831,069
					Yen	U.S. dollars
Per Share of Common Stock						
Earnings	¥ 84.34	¥ 163.04	¥ 164.20	¥ 215.33	¥ 154.93	$ 1.40
Total net assets	1,267.24	1,376.93	1,485.56	1,617.58	1,699.34	15.31
					%	
Key Ratios						
Operating income margin	9.8%	12.2%	12.2%	15.2%	9.1%	
Ordinary income margin	10.1	11.8	12.1	14.4	10.4	
Return on equity	7.0	12.3	11.5	13.8	9.3	
Equity ratio	72.9	72.2	74.4	74.2	72.9	

Note: For the convenience of readers, amounts in U.S. dollars have been translated using the currency exchange rate at March 31, 2019 of ¥110.99=US$1.

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. In the fiscal year ended March 2019, we booked net sales of ¥271 billion, operating income of ¥24.5 billion, and profit attributable to owners of parent of ¥18.4 billion. Net sales rose 8.2% versus the previous year, but operating income was down 35.7% as costs rose as a result of major title launches. In addition, the revisiting of our business strategy for one of our Group companies led us to post an extraordinary loss, which resulted in a 28.5% decline in profit attributable to owners of parent.

Business Segment Overview

Digital Entertainment

Net sales rose from the previous year to ¥204.5 billion while operating income fell to ¥29 billion at the Digital Entertainment segment in the fiscal year ended March 2019.

The HD (High-Definition) Games sub-segment released “SHADOW OF THE TOMB RAIDER” and “JUST CAUSE 4,” the latest installments in these major franchises from our Western studios. With competition intensifying in the AAA game market, both titles struggled immediately after their launches, resulting in initial sales well below our plans. However, thanks to subsequent sales promotion initiatives, we are in the process of making up for that initial shortfall and intend to continue to add to sales during the course of the fiscal year ending March 2020. Our Japanese studios meanwhile released titles including “KINGDOM HEARTS III,” “LEFT ALIVE,” and “OCTOPATH TRAVELER.” Our customers around the world had especially high expectations for “KINGDOM HEARTS III” as it was the first new installment in that franchise since the release of “KINGDOM HEARTS II” approximately 13 years earlier. The response to the game was excellent, and although we did not release it until our fourth quarter, it contributed significantly to the achievement of the ¥270 billion in sales we had targeted in the fiscal year ended March 2019. “OCTOPATH TRAVELER” is a brand-new RPG (role-playing game), and its artistic style, gameplay, and plot were well received by RPG fans the world over. The game represents the successful creation of a new piece of IP (intellectual property). The creation of new IP and new franchises is the core business of game and content companies. We need to constantly maintain development investment with the goal of establishing new pieces of IP. “OCTOPATH TRAVELER” is the result of our sustained efforts to create new IP, and we have high expectations for its further growth and development.

Net sales at the MMO (Massively Multiplayer Online game) sub-segment fell as no new expansion packs were launched for either “FINAL FANTASY XIV” or “DRAGON QUEST X,” but we worked to maintain and grow our subscriber base via ongoing operational initiatives. In the fiscal year ending March 2020, we will launch expansion packs for both “FINAL FANTASY XIV” and “DRAGON QUEST X” and work to grow our subscriber base further.

As with the HD Game sub-segment, the Games for Smart Devices/PC Browsers sub-segment struggled considerably in the fiscal year ended March 2019. “Romancing SaGA Re;univerSe,” which was launched in December 2018, got off to a good start, contributing significantly to both sales and profits in the fourth quarter. However,

OCTOPATH TRAVELER

SHADOW OF THE TOMB RAIDER

JUST CAUSE 4

KINGDOM HEARTS III

we saw weak performances from all of the other new games we launched between the beginning of the fiscal year and the third quarter, resulting in extremely disappointing sales and profit figures for the sub-segment as a whole. We maintain our strategy of launching new titles to offset waning performances by existing titles and thereby growing our overall portfolio, but we deeply regret that we were unable to satisfy our customers with our new titles. It is true that the maturing of the smart device game market in Japan has made for more intense competition, but new titles that meet with customer approval continue to appear on the scene. We attribute the sluggish performance of this sub-segment in the fiscal year ended March 2019 solely to our inability to provide our customers with new, fun gaming experiences and take this fact to heart. In light of these results, we have undertaken a major overhaul of how our development functions are structured at SQUARE ENIX CO., LTD. We hope that you will look forward to our forthcoming releases.

FINAL FANTASY XIV

DRAGON QUEST X ONLINE

Romancing SaGa Re;univerSe

Starwing Paradox

Amusement

Net sales in the Amusement segment rose from the previous year to ¥46.2 billion while operating income fell to ¥1.9 billion in the fiscal year ended March 2019. Major new titles including “Starwing Paradox” contributed to the rise in sales, but this was not enough to offset the amortization of development costs. Meanwhile, arcade operations generated stable earnings throughout the year, and we also added to our arcade count, so we are steadily expanding the business. In the fiscal year ending March 2020, the number of tourists visiting Japan looks likely to grow as the Tokyo Olympic and Paralympic Games approach in July 2020. Meanwhile, we also anticipate the increase in Japan’s consumption tax. As such, the business environment is difficult to read, but by undertaking constant improvements in our arcade operations, we intend to bolster the segment as a whole.

Publication

The Publication segment saw both net sales and operating income grow in the fiscal year ended March 2019, with net sales reaching ¥14 billion and operating income rising to ¥3.9 billion. The key growth driver is digital sales. Nearly 40% of sales booked in the fiscal year ended March 2019 were digital, and the most recent monthly figure was in excess of 50%. Business is brisk for our MANGA UP! and GANGAN pixiv services, with both enjoying solid growth in their MAU (monthly active users) and DAU (daily active users) numbers. This has contributed significantly to the rise in margins for the segment as a whole. Meanwhile, sales of printed comics are growing in synch with digital sales, so the overall segment is demonstrating well-balanced growth. The drive toward digitization is irreversible, and we look for the digital weighting of our own business to continue to grow. We will create new IP using media well suited to the digital world and continue to grow the segment as a whole.

Merchandising

Both net sales and operating income fell from the previous year in the Merchandising segment in the fiscal year ended March 2019, with net sales dropping to ¥7.3 billion and operating income declining to ¥900 million. These results are owing to considerable upfront spending on the development of new products, but we will strive for growth in the fiscal year ending March 2020 and beyond as we release new products timed to coincide with the launch of major game titles and add to our product lineup. We do not see this segment as one dealing solely in products derived from and intended to complement our original IP. Today’s customers clearly tend to enjoy content in the context of an entire universe. The products and services we offer in this segment meet the needs of such customers while adding to the richness of our IP portfolio. By proactively working to develop this segment into an e-commerce business, we will make purchasing more convenient for our customers and make our products and services more a part of their lives.

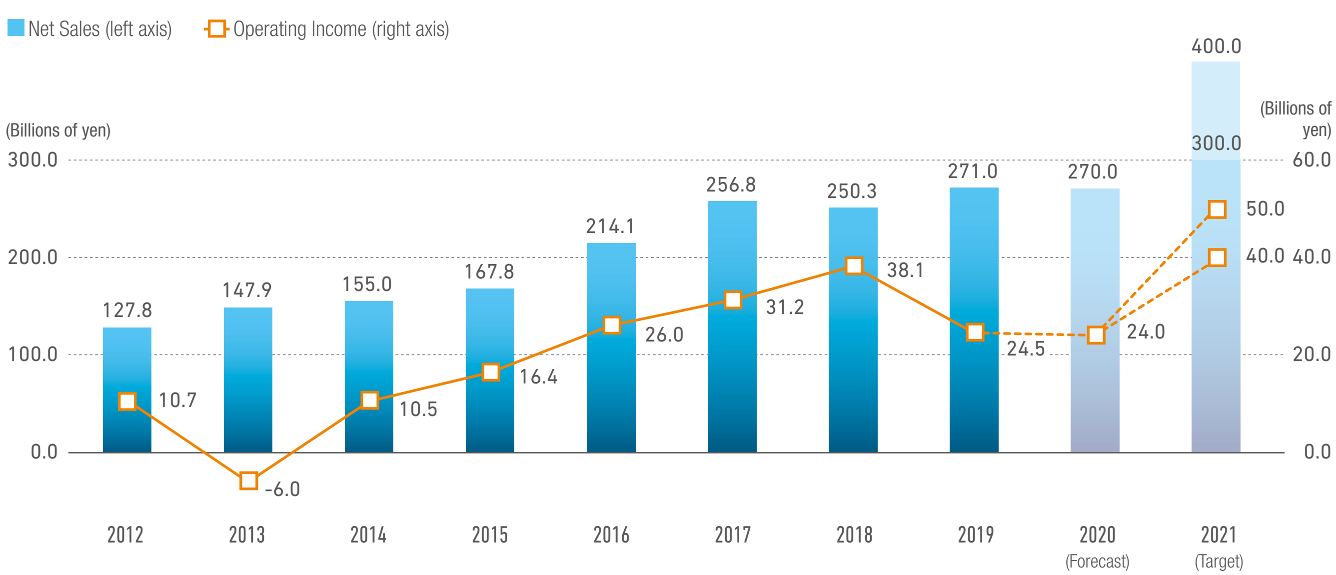
Our Medium-term Earnings Targets

We are striving to create a business structure in or after the fiscal year ending March 2021 that will enable us to consistently generate net sales of ¥300 to 400 billion and operating income of ¥40 to 50 billion. In the fiscal year ending March 2020, when we had originally anticipated achieving our medium-term earnings targets, we now look to book net sales of ¥270 billion and operating income of ¥24 billion, a performance on par with that of the fiscal year ended March 2019. Our reasoning is twofold. Firstly, the titles we released in the Games for Smart Devices/PC Browsers sub-segment in the first through third quarters of the fiscal year ended March 2019 performed poorly, making it difficult to achieve the earnings we had originally anticipated. Secondly, we are taking a conservative outlook on additional sales of the new HD game titles we launched in the fiscal year ended March 2019. In order to achieve our medium-term earnings targets, we have been working on our strategic challenges of: 1) digital sales enhancement, 2) multiplatform utilization, 3) geographic expansion, 4) Games as a Service/Games as Media, and 5) e-commerce.

To achieve our medium-term earnings targets as soon as possible, we have worked to expand stable recurring earnings while also continuing to invest in new IP. Sales of new HD game titles become a major contributor to profits once their development costs have been fully amortized. Provided we see expansion in our stable recurring earnings, I believe we will be able to achieve our medium-term earnings targets with our current pipeline.

Mid-term Target

Targeting net sales of ¥300–400 billion and operating income of ¥40–50 billion.
Looking for Digital Entertainment segment to drive sales and income growth.



Future Developments in Our Businesses

Cloud gaming

Current-generation game consoles are reaching the end of their lifecycles, and the industry is beginning to discuss the next generation. The announcement of cloud gaming services such as Google's Stadia and Microsoft's Project xCloud has also created significant buzz. In addition, the number of new entrants to the gaming industry is growing, with examples including Apple's Apple Arcade and the launch of game development efforts at Netflix. Once the purview of platform companies and publishers, the map of the gaming industry is being redrawn.

Cloud gaming in particular has been cited for some time as a potential driver of sweeping change in the gaming business, but its history has been one of trials and failures. In anticipation of the rollout of 5G (fifth-generation mobile communications networks), IT giants such as Google and Microsoft are entering the space, signaling the potential for cloud gaming finally to get off the ground in a major way. Given the requirements for high volumes of data traffic and large-scale server infrastructure, major telecommunications and cloud server players will definitely see cloud gaming as their next new business opportunity. As such, we expect to see additional new entrants to the market, which makes us even more hopeful that this will finally be the time that cloud gaming takes flight.

Game publishers and developers can view cloud gaming from two perspectives.

The first is to see it as a new distribution channel. Game consoles, PCs, and smart devices have served to put catalog games and new games in the hands of customers, and now cloud streaming will be added to that list. Telecommunications infrastructure and streaming technologies evolve daily, so the time will eventually come when there is little perceivable difference, but given the extent to which gameplay will depend upon the individual user's telecommunications environment, we must take the view that the odds of cloud streaming immediately taking the place of the existing game consoles or PCs are low for now. As such, for the time being, the major expectation that game publishers are likely to have for game streaming services is that they serve as a way to access not only the users who already regularly play games on consoles and PCs, but also more casual game fans or those that live in regions where game consoles are not easy to come by. The streaming of gameplay is popular lately, with many game fans around the world enjoying streamed gameplay even if they do not actually play games themselves. If cloud streaming were to create an environment that allowed for a quick and seamless transition to gameplay, the likelihood of such casual fans actually playing games would grow. In addition, there are many game fans in regions where game consoles are either not commonplace or else not sold at all. We have high hopes that cloud streaming could serve as a major means for such fans to access games. Several independent providers of local rather than global services have appeared on the scene. The expansion of geographic coverage in this way is definitely of benefit to game publishers such as ourselves.

The second perspective views cloud gaming not merely as a means for distributing traditional games but also as one for offering gaming experiences not possible elsewhere. A variety of developers are already working on developing such cloud-centric or cloud-native games. Our Group also has concrete plans for incorporating such cloud-centric elements into some of the new game development efforts we are currently undertaking. Offering new gaming experiences unique to the cloud would be a highly marketable way to reach existing console and PC game players, and thus significantly promote the adoption and reputation of cloud gaming.

There remain many challenges to be resolved beyond the technological, including the issue of the telecom charges users will bear, but as outlined above, cloud gaming has major potential. Our Group has already decided to make existing titles including “FINAL FANTASY XV” and “SHADOW OF THE TOMB RAIDER” as well as our forthcoming “Marvel’s Avengers” title available on Google’s Stadia, highlighting our strong hopes for cloud gaming to take off globally.

Expanding our recurring earnings base

With the next-generation consoles and the launch of cloud gaming services in the offing, the map of the digital content industry is poised to undergo significant change in the next few years. The quality and volume of content that customers demand is also likely to grow even further. In order to keep pace with such trends and consistently provide customers with the ultimate in excitement, we will need to engage in sustained and aggressive investment in content development. The scale of development spending will grow, and investment in the underlying technologies that enable such efforts will gain further importance. Moreover, the earnings and financial foundations that fund such investment will become even more crucial than before. It is our Group’s recurring earnings generated from our rich content portfolio that will create such foundations.

Digitization is extending the lifespan of games, making sales initiatives critical not only at launch but also thereafter. Thanks to digitization, we are also seeing the creation of an environment that enables us to meet the needs of fans of manga content at any time, and that has become a pillar underpinning the growth of our Publication Business Segment. Furthermore, as the ways customers enjoy content diversify, they have come to expect a greater variety of engagement opportunities including film and stage productions that enable them to enjoy their favorite content as an entire universe. We will be launching a dedicated organization within SQUARE ENIX CO., LTD. as of the fiscal year ending March 2020 so that we can best respond to these diverse customer needs. This unwavering commitment to strengthening our customers' engagement and connections with our customers will enable us to generate recurring earnings.

Developing new content requires massive investments and therefore involves risk. Our Group is in the business of providing content and thus must always take on this risk, create entertaining new content, and deliver it to our customers around the world. In order to be able to take on such risk, we need a solid foundation of recurring earnings. New content creates new recurring earnings, which in turn enables new investment. Creating such a cycle will give rise to sustained growth for our Group, thereby making our corporate philosophy a reality. Further digitization, the arrival of next-generation consoles, and the launch of cloud gaming services will serve as good opportunities for us to strengthen our customers' engagement. We also need to examine the pros and cons of the much-discussed topic of subscription models from the perspective of how they might help us to bolster our customers' engagement and our connections with our customers. By strengthening engagement, we will generate recurring earnings and create business foundations that constantly enable us to take on new challenges and thereby keep pace with a changing world.

On Shareholder Return

Our annual dividend per share for the fiscal year ended March 2019 was ¥47. Heretofore, we have used a 30% consolidated dividend payout ratio as a yardstick and intend to maintain that policy in the fiscal year ending March 2020. As discussed above, the digital content industry remains in a period of major change, so in addition to the content development efforts we are currently undertaking, we also need to engage in development initiatives to support the next-generation of consoles and for cloud-centric and cloud-native games. As such, we will keep to our strategy of bolstering recurring earnings by prioritizing the funding of the content development that will underlie our growth while also maintaining a level of cash and deposits that will serve as a financial buffer against investment risk. We intend to continue to reward our shareholders primarily via dividends as we endeavor to strike a balance with our growth investments.

I would like to take this opportunity to ask for your continued support.

Yosuke Matsuda
President and Representative Director

DELIVERING UNFORGETTABLE EXPERIENCES

FINAL FANTASY

Over 147 million units in global package shipments and digital sales

(as of the end of June 2019)

Platform: PlayStation 4
To be launched on March 3, 2020

"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 147 million units worldwide.

SHADOWBRINGERS
FINAL FANTASY XIV ONLINE

FINAL FANTASY VIII Remastered

WAR OF THE VISIONS
FINAL FANTASY BRAVE EXVIUS

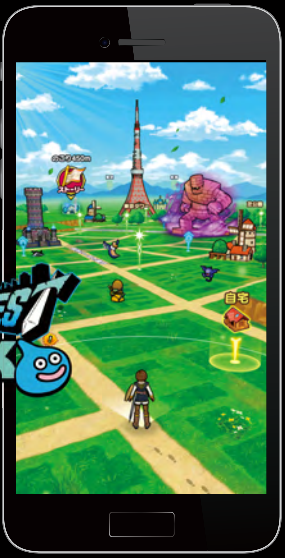
FINAL FANTASY BRAVE EXVIUS

FINAL FANTASY DIGITAL CARD GAME

FINAL FANTASY CRYSTAL CHRONICLES Remastered Edition

Over 78 million units in global package shipments and digital sales

(as of the end of June 2019)



"DRAGON QUEST WALK" uses Google Maps Platform gaming solution.
(Screenshots may not reflect actual game play.)

Developed by Cygames, Inc.

"DRAGON QUEST" Series

In 2016, the "DRAGON QUEST" series celebrated its 30th anniversary. This series of popular role-playing games has sold a total of over 78 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.


ONINAKI
© 2019 SQUARE ENIX CO., LTD. All Rights Reserved.
Developed by Tokyo RPG Factory.


Romancing SaGa 3
© 1995, 2019 SQUARE ENIX CO., LTD. All Rights Reserved.
Planned & Developed by ArtePiazza
ILLUSTRATION: TOMOMI KOBAYASHI


OCTOPATH TRAVELER
大陸の覇者
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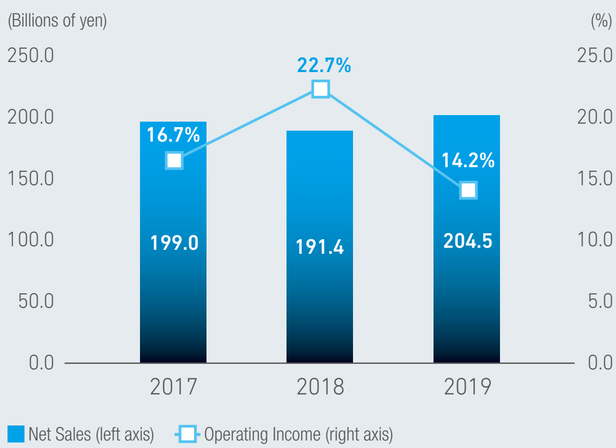
Review of Operations

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.

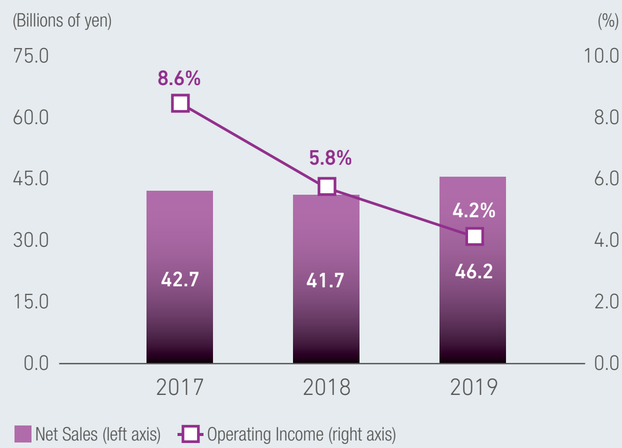
Net sales for the fiscal year ended March 31, 2019 totaled ¥271,048 million (an increase of 8.2% from the prior fiscal year), operating income amounted to ¥24,531 million (a decrease of 35.7% from the prior fiscal year), and ordinary income amounted to ¥28,312 million (a decrease of 21.6% from the prior fiscal year).

These factors resulted in profit attributable to owners of parent of ¥18,463 million (a decrease of 28.5% from the prior fiscal year).

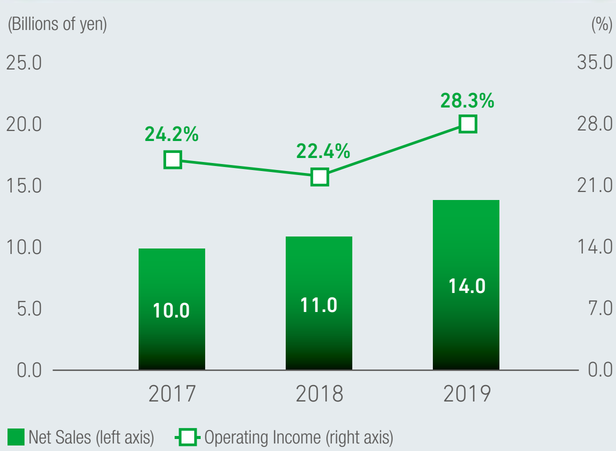
Digital Entertainment



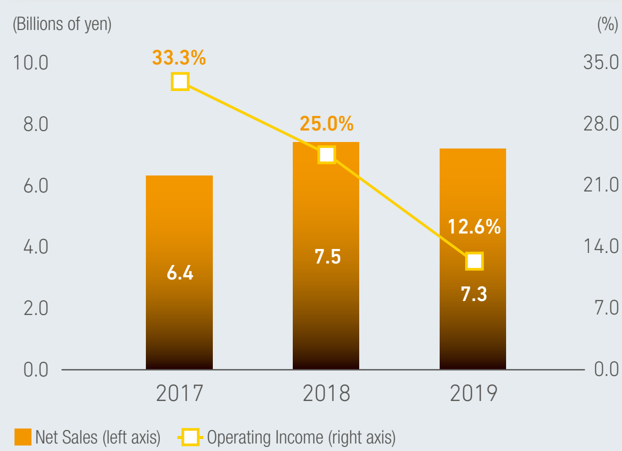
Amusement



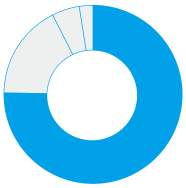
Publication



Merchandising



Digital Entertainment



Share of Net Sales (FY ended March 2019)

75.5%

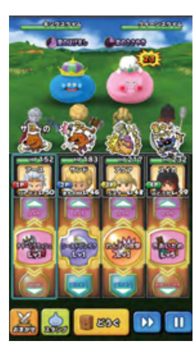
The Digital Entertainment segment consists of planning, development, distribution, and operation of digital entertainment content primarily in the form of games. Digital entertainment content is offered to meet customer lifestyles across a variety of usage environments such as consumer game consoles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

Net sales and operating income in the Digital Entertainment segment totaled ¥204,590 million (an increase of 6.9% from the prior fiscal year), and ¥29,062 million (a decrease of 33.1% from the prior fiscal year), respectively.

The release of such new consumer console titles as “KINGDOM HEARTS III,” “SHADOW OF THE TOMB RAIDER,” and “JUST CAUSE 4” drove a rise in net sales compared to the prior fiscal year. Operating income meanwhile fell versus the prior fiscal year due to higher costs associated with the release of the new titles.

In the smart devices and PC browser area, many of the titles newly launched in the prior fiscal year and first half of this fiscal year performed below expectations and failed to generate additional revenue on top of that from existing games. A decrease in licensing income also resulted in a year-on-year decline in net sales and operating income.

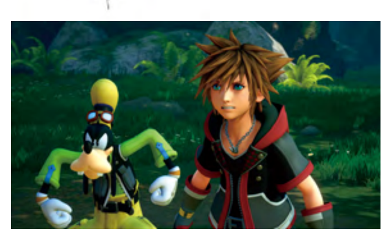
In the area of massively multiplayer online role-playing games, net sales and operating income decreased compared to the prior fiscal year, which had seen the launch of expansion packages for “FINAL FANTASY XIV” and “DRAGON QUEST X,” but recurring subscription revenue remained brisk.



SHADOW OF THE TOMB RAIDER

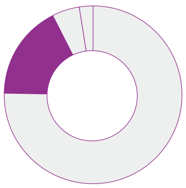
JUST CAUSE 4

KINGDOM HEARTS III



OCTOPATH TRAVELER

Amusement



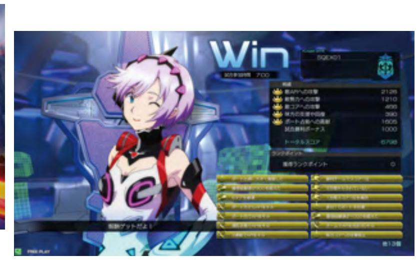
Share of Net Sales (FY ended March 2019)

17.0%

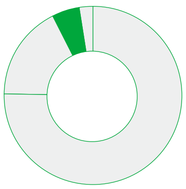
The Amusement segment consists of the operation of amusement facilities and planning, development, and distribution of arcade game machines and related products for amusement facilities.

Net sales and operating income in the Amusement segment totaled ¥46,243 million (an increase of 10.8% from the prior fiscal year), and ¥1,958 million (a decrease of 18.5% from the prior fiscal year), respectively.

Net sales rose compared to the prior fiscal year thanks to the release of new amusement machines and solid amusement facility operations. Operating income meanwhile fell versus the prior fiscal year due to higher depreciation charges associated with the installation of new machines at amusement facilities.



Publication



Share of Net Sales (FY ended March 2019)

5.2%

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

Net sales and operating income in the Publication segment totaled ¥14,031 million (an increase of 27.0% from the prior fiscal year) and ¥3,970 million (an increase of 60.7% from the prior fiscal year), respectively.

Sales in digital formats grew sharply while comics in print format were on par with the prior fiscal year. In addition, the MANGA UP! comic app posted an increase in sales, resulting in this segment's higher net sales and operating income year on year.

Manga UP!

Monthly Shonen GANGAN

As Miss Beelzebub Likes.

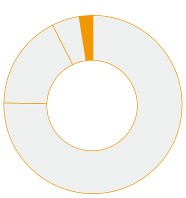
Black Butler

Kakegurui - Compulsive Gambler -

KINGDOM HEARTSIII ULTIMANIA

GANGAN ONLINE

Merchandising



Share of Net Sales (FY ended March 2019)

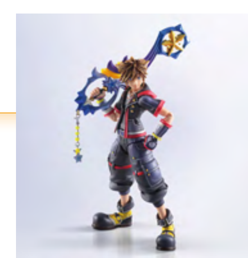
2.3%

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

Net sales and operating income in the Merchandising segment totaled ¥7,397 million (a decrease of 2.3% from the prior fiscal year), and ¥932 million (a decrease of 50.6% from the prior fiscal year), respectively.

Net sales and operating income fell versus the prior fiscal year due to a high hurdle set by the release of new merchandise based on key IP a year earlier and to strategic investments aimed at developing new businesses.

DIRGE of CERBERUS -FINAL FANTASY® VII-
PLAY ARTS改™ KAI ACTION FIGURE <VINCENT VALENTINE>



KINGDOM HEARTS III BRING ARTS <SORA>

NieR:Automata BRING ARTS 2B&Machine Lifeform

SQUARE ENIX CAFE

FINAL FANTASY Trading Cardgame Opus I

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.

Environmental Protection Initiatives

By its nature, our core Digital Entertainment segment has a relatively small environmental footprint. The Group nonetheless strives to run its operations mindful of the need for even greater environmental protection. Game contents can be sold either by recording them on optical disks that are packaged and delivered to our customers via physical distribution channels or by having our customers download them from servers directly to their game consoles, computers, or other devices. Promoting digital downloads is one way we work to protect the environment. It enables us to reduce the emissions that result from transporting physical products and to conserve the resources that are used to make them. We also use recyclable materials in the production of our physical products and otherwise strive to operate with a minimum environmental footprint.

Social Contribution Initiatives

Providing a safer, more comfortable game-play environment

As part of our social responsibility initiatives, we label the consumer games we sell in regions such as Japan, North America, and Europe based on 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 loot boxes (a method of providing random in-game items in direct exchange for money or for virtual currency that can be purchased with money) and the odds of obtaining them.

Training and Educational Support Fostering Sustainable Growth

As part of corporate-academic cooperation initiatives, SQUARE ENIX CO., LTD. ("SECL") joined forces with Tokyo University of the Arts on an exhibition called "Tokyo University of the Arts, Department of Games - Vertical Slice," which envisioned games as an artistic expression. The exhibition featured workshops and displays of works created using game development technology. Five directors were chosen from among the alumni of the university's Graduate School of Film and New Media to serve as "0-Year" graduate students, who dedicated approximately six months to the creation of five games to unveil at the exhibition. Game creators from our wholly owned subsidiary Luminous Productions Co., Ltd., which had produced "FINAL FANTASY XV," mentored the five directors in the game creation.

In addition, Square Enix jointly held the university's four-part class titled "Art and Information." The Group will continue to undertake such initiatives in order to pursue new possibilities in expression while also contributing to the development of Japan's content production industry as well as academic research in the area.

SECL signed a collaborative agreement with Chuo University designed to exchange and leverage human and intellectual resources in order to produce well-educated talent with an international perspective. Under this corporate-academic tie-up, our focus will be to offer programs via the Faculty of Global Informatics, which Chuo University established in April 2019. The programs will educate participants on both the mechanics of informatics (i.e., how to develop content using IT, film production techniques, Artificial Intelligence (AI), etc.) and the laws of informatics (i.e., how to comply with essential legal regulations, cultural customs, and market rules in order to operate a business in the global market). SECL plans to collaborate to initiate a course with the Faculty of Global Informatics in fiscal 2021 with the hope that it will produce future talent for the rapidly globalizing entertainment industry.

Employee Relations

The Code of Conduct that all the Group's employees and corporate officers must follow requires respect for the diversity of our human resources. Irrespective of race, nationality, or religion, our offices in Japan and around the world hire diverse human resources for the varied skills and experiences they possess and provide them with an arena in which they can shine. We also do our utmost to ensure that our employees are able to maintain appropriate working hours and good health.

Through these kinds of social contribution efforts that leverage our strengths, we not only strive to gain broad social acceptance for games and other forms of entertainment, but also focus on actively contributing to the well-being of society as a whole.

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 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 environment, while also establishing programs that support a diversity of working styles. The following programs implemented by SECL are prime examples of the Group's human resource initiatives.

Human Resource Training

Helping all employees grow and maximizing their individual abilities and potential while also ensuring they can bring those attributes to bear in the best way possible serves as a major driver of the Group's continued growth. SECL proactively engages in such efforts through a variety of opportunities.

New employee onboarding: "GameDev Boot Camp"

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 job skills, learn the importance of collaboration, and get ready to tackle new challenges without fear of failure. The program emphasizes the agency of individual employees by encouraging them to think, decide, and act on their own.

Compliance training

SECL provides compliance training primarily to managerial employees to ensure that they have an accurate understanding of the regulatory environment as it relates to SECL'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. SECL 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. SECL helps non-English speaking employees enhance their language skills by offering internal English classes as well as online courses.

Cutting-edge technology training

In order to heighten the technological literacy of SECL's employees regarding such cutting-edge technologies as AI and blockchain and to leverage such technologies in its content development efforts, SECL 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

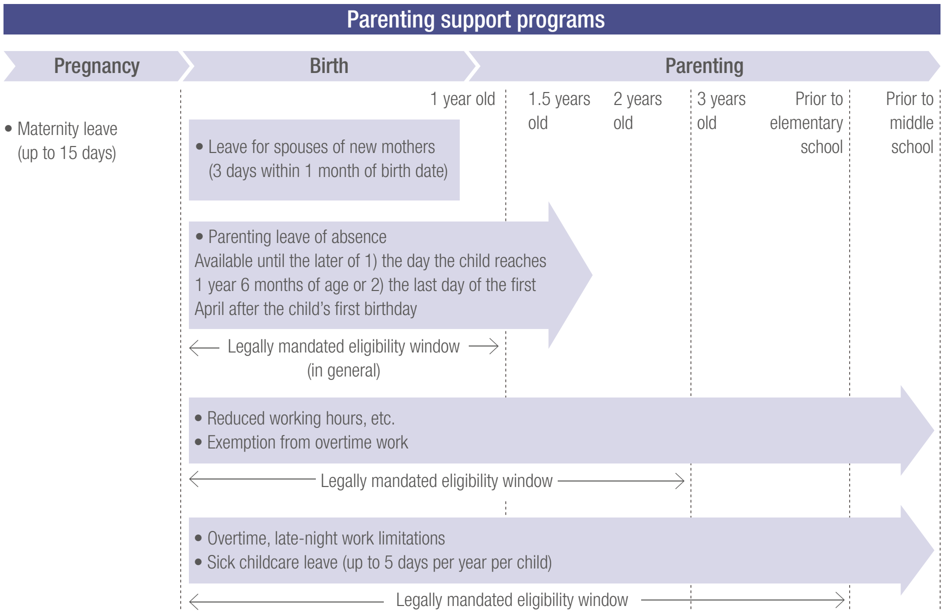
SECL's employees view their work through the lens of an increasingly diverse range of values, and their needs change as they progress through different stages of life. In order to accommodate such diversity and change, SECL has introduced human resource programs and unique initiatives that go above and beyond legal requirements in order to help its employees enjoy fulfilling professional and private lives.

"Daycare concierge service"

SECL makes a third-party "daycare concierge service" available to its employees. 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 working world after the birth of a child.

Telecommuting

SECL has conducted trials to validate the benefits of telecommuting, primarily for employees with childcare or nursing care obligations. SECL provides the optimum system for striking a balance between diversifying needs and work efficiency and productivity.



Nursing care support programs

Nursing care leave of absence

A total of up to 1 year per situation requiring care per relevant family member (may be divided into a maximum of 3 periods)

Nursing care leave

Up to 5 days per year per relevant family member

Reduced working hours and other programs

Multiple working styles from which employees can choose. May be used at least twice per relevant family member in a 3-year period starting with the initial usage

- Reduction in mandatory working hours
- Early or late starting or finishing times
- Flex time

Koji M.C. Fox, Localization Division

When I took a six-month leave of absence to parent, I felt comfortable starting my leave thanks to how understanding everyone at work was. They also helped me make such a smooth transition back to work that I didn't feel like I'd ever left.

My leave of absence to parent served as a growth opportunity for the people that report to me. It meanwhile enabled me personally to have valuable experiences that I could not have gained at the office and let me make the most of my time with my child.

Akiko Igarashi, Legal & Intellectual Property Division

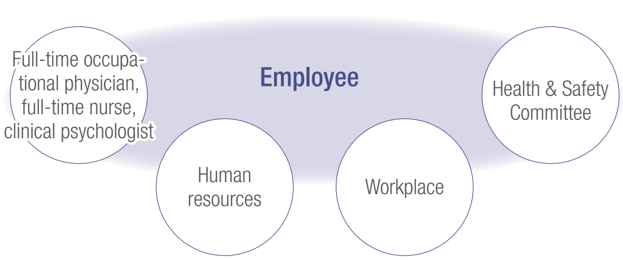
I was nervous about being away from the office because I had never taken extended leave prior to the leave of absence I took before and following the birth of my child. However, the option to telecommute during my leave made things easier both in terms of work and my mindset when I eventually did come back to the office.

I also used the "daycare concierge service" to help find a daycare center during my leave, and since I've been back in the office, I'm using the reduced working hours program, which is provided to us with a longer eligibility period than the law requires. This has all helped me continue working with peace of mind.

Health and Productivity Management

For the Group to provide its customers with the best products and services, its employees have to be healthy. Maintaining and improving upon the mental and physical health of employees is therefore a key priority for the Group. As such, SECL undertakes a variety of initiatives to communicate the importance of daily health management and regular exercise in order to ensure its employees stay aware and make the right decisions.

Enhancing occupational health and safety



Stretching instructor visits

A professional instructor visits each of SECL's workplaces to give lectures on how employees who mainly engage in deskwork can prevent shoulder stiffness and lower-back pain by performing simple exercises at their desks.

Walking event

Every year many employees and their families take part in a walking event where they are instructed on the proper way to walk and get to experience the fun of exercise firsthand by walking a course that incorporates gaming elements. The event is designed to motivate them to engage in daily exercise.

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 of 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 platform 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 an Audit & Supervisory Committee following a resolution passed at its 38th Annual Shareholders' Meeting held on June 22, 2018. The establishment of an 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 5 directors (excluding those who are members of the Audit & Supervisory Committee), 3 of which are outside directors, and 3 directors who are members of the Audit & Supervisory Committee, all of which are outside directors, with 1 being full time. The Company designates all of its outside directors as independent directors as defined by the Tokyo Stock Exchange.

As a general rule, meetings of the Board of Directors are convened once a month, and deliberations and exchanges of opinions between the individual directors brings greater vitality to the management of the Company while also serving to sufficiently enhance the checking and balancing function that directors play for one another. 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 a Remuneration and Nomination Committee comprising outside directors and the President and Representative Director. This committee makes decisions regarding the Basic Policy on the Executive Officer 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 rule, 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. The Company has established these guidelines to ensure auditing and supervisory functions are strictly maintained 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 its Management Guidelines and 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 organizational 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 (Standing Audit & Supervisory Committee Member)	Ryoichi Kobayashi	○	◎	○	○
Outside Director (Audit & Supervisory Committee Member)	Ryuji Matsuda	○	○		
Outside Director (Audit & Supervisory Committee Member)	Tadao Toyoshima	○	○		
Chief Financial Officer	Kazuharu Watanabe				○

(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 exercise 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, 2019
Yosuke Matsuda (President and Representative Director)	100.0% (16 out of 16 meetings)
Yukinobu Chida (Director)	100.0% (16 out of 16 meetings)
Yukihiro Yamamura (Outside Director)	93.7% (15 out of 16 meetings)
Yuji Nishiura (Outside Director)	100.0% (16 out of 16 meetings)
Masato Ogawa (Outside Director)	100.0% (13 out of 13 meetings)
Ryoichi Kobayashi (Outside Director (Standing Audit & Supervisory Committee Member))	100.0% (16 out of 16 meetings)
Ryuji Matsuda (Outside Director (Audit & Supervisory Committee Member))	100.0% (16 out of 16 meetings)
Tadao Toyoshima (Outside Director (Audit & Supervisory Committee Member))	100.0% (16 out of 16 meetings)

Note: As Masato Ogawa was appointed as a director at the 38th Annual Shareholders' Meeting held on June 22, 2018, the number of Board of Directors meetings to be attended by him after his appointment is 13.

(10) Status of outside directors

(i) Personal, financial, business or other relationships constituting conflicts of interest with the Company

The Company has 6 outside directors and no conflict-of-interest relationships exist between the Company and its outside directors.

(ii) Expected 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 our corporate governance system.

The expected functions and roles of Ryoichi Kobayashi, Ryuji Matsuda, and Tadao Toyoshima under the Company's corporate governance structure are described in (1) Status of audits by Audit & Supervisory Committee Members 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 Messrs. Yamamura, Nishiura, Ogawa, Kobayashi, Matsuda, and Toyoshima are designated as independent officers pursuant to the rules established by the stock exchange.

(11) Links between supervision and audits by outside directors and internal audits, audits by Audit & Supervisory Committee Members, and audits by the accounting firm, and relationship with the internal control unit

The outside directors work closely with the Auditing Division, Audit & Supervisory Committee Members, and the Company's accounting firm, and are required to submit reports and offer opinions for discussion at meetings of the Board of Directors, Audit & Supervisory Committee, Internal Control Committee, and other corporate forums.

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

The way in which meetings of the Board of Directors were held between the transition to the Company with Audit & Supervisory Committee structure on June 22, 2018 and March 31, 2019 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 (13 meetings were held between June 22, 2018 and March 31, 2019), 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.
- Each of the directors maintains a high attendance rate (100% for seven out of eight directors and 92.3% for one director). The Board meetings secure sufficient time for active discussions.
- 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 further 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 Members

Audits by the Audit & Supervisory Committee are carried out by 3 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.

Ryoichi Kobayashi possesses a wealth of experience and breadth of insight in corporate management, as well as a wealth of experience and a proven track record as an outside auditor for the Company. Mr. Kobayashi was appointed as an outside director who is an Audit & Supervisory Committee member to supervise and serve as a check on directors' execution of operations.

Ryuji Matsuda does not have experience in corporate management excluding duties as an outside officer at several companies. However, he holds a qualification as an attorney and possesses extensive expertise in finance and accounting matters, as well as a wealth of experience and proven track record as an outside auditor for the Company. Mr. Matsuda was appointed as an outside director who is an Audit & Supervisory Committee member to supervise and serve as a check on directors' execution of operations.

Tadao Toyoshima does not have experience in corporate management excluding duties as an outside officer at several companies. However, he holds a qualification as a certified public accountant (CPA) and therefore has extensive expertise in finance and accounting-related matters, as well as a wealth of experience and proven track record as an outside auditor for the Company. Mr. Toyoshima was appointed as an outside director who is an Audit & Supervisory Committee member to supervise and serve as a check on directors' execution of operations.

Each Audit & Supervisory Committee member, based on his or her wealth of experience and deep insight, offers 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 our corporate governance system. At meetings of the Audit & Supervisory Committee, each such member also expresses opinions on the execution of duties by the directors and audits by the accounting auditor.

(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, 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 statutory audit firm.

The Audit & Supervisory Committee and audit firm meet at the timing of quarterly and full-year earnings (i.e., a total of 4 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.

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

(3) Status of audits by statutory audit firm

(i) Name of the statutory audit firm

Ernst & Young ShinNihon LLC

(ii) Names of responsible certified public accountants

Designated Limited Liability Partners, Business Execution Partners: Kenichi Shibata and Hiroyoshi Konno

(iii) Support team for accounting audit duties

11 certified public accountants and 19 others

(iv) Policies and reasons for selection of statutory audit firm

When selecting a statutory audit firm, 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 a statutory audit firm to perform its duties 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.

(v) Evaluation of the statutory audit firm 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 statutory 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, we have determined that there is no problem in any of the above.

(4) Compensation to statutory audit firm, etc.

(i) Compensation paid to statutory audit firm

(Millions of yen)

Category	Fiscal year ended March 31, 2018		Fiscal year ended March 31, 2019	
	Compensation for statutory audit operations	Compensation for non-audit operations	Compensation for statutory audit operations	Compensation for non-audit operations
The company	47	1	48	1
Consolidated subsidiaries	70	—	70	—
Total	118	1	119	1

The non-audit operations provided by the statutory audit firm for which the Company paid compensation in both the fiscal year ended March 31, 2018 and the fiscal year ended March 31, 2019 were guidance and advice regarding the preparation of English financial statements.

In addition, there was no compensation for non-audit operations at consolidated subsidiaries in either the fiscal year ended March 31, 2018 or the fiscal year ended March 31, 2019.

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

(Millions of yen)

Category	Fiscal year ended March 31, 2018		Fiscal year ended March 31, 2019	
	Compensation for statutory audit operations	Compensation for non-audit operations	Compensation for statutory audit operations	Compensation for non-audit operations
The company	—	—	—	—
Consolidated subsidiaries	112	59	124	17
Total	112	59	124	17

There was no compensation for non-audit operations at the Company in either the fiscal year ended March 31, 2018 or the fiscal year ended March 31, 2019.

The non-audit operations at consolidated subsidiaries were tax advisory services in both the fiscal year ended March 31, 2018 and the fiscal year ended March 31, 2019.

(iii) Policy on determining audit compensation

The Company's policy on determining compensation for audits conducted by the statutory audit firm 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 operations performed.

(iv) 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, 2019 were judged to be appropriate as a result of comparisons with audit hours and compensation in previous years 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 and candidates for director positions, the Company has at its discretion established a Remuneration and Nomination Committee comprising 4 outside directors and 1 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 stock acquisition rights as stock options (shares).
- Remuneration for Non-Executive Directors shall comprise fixed remuneration (monetary) and stock acquisition rights as stock options (shares).
- 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 deviation 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 in March 2017.
- As regards stock acquisition rights as stock options (shares), in light of the use of stock-based remuneration as a replacement for the discontinued special retirement bonus and based on the objective of striving for sustained growth over the long term, the Company offers stock options, and the Remuneration and Nomination Committee determines the base remuneration value 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 monetary remuneration 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 and 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 and 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 human resources, 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	Stock options	
Directors (excluding Audit & Supervisory Committee Members) (Outside Directors)	275 (41)	138 (33)	88 (—)	49 (8)	7 (3)
Directors (Audit & Supervisory Committee Members) (Outside Directors)	33 (33)	33 (33)	— (—)	— (—)	3 (3)
Auditors (Outside Auditors)	7 (7)	7 (7)	— (—)	— (—)	3 (3)
Total (Outside Officers)	316 (82)	178 (73)	88 (—)	49 (8)	10 (6)

Notes: 1. The table above includes two directors and three outside auditors who retired upon expiration of their terms of office at the conclusion of the 38th Annual Shareholders' Meeting held on June 22, 2018.

2. The Company transitioned from a Company with an Audit & Supervisory Board to a Company with an Audit & Supervisory Committee based on a resolution passed at its 38th Annual Shareholders' Meeting held on June 22, 2018. The amounts of payment to auditors pertain to the period before the transition to a Company with an Audit & Supervisory Committee, and the amounts of payment to directors who are Audit & Supervisory Committee Members pertain to the period following such transition.

3. The total column lists the total number of actual recipients.

4. 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).

5. 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.

6. The Company abolished the retirement benefit plan for directors and auditors at the conclusion of the 28th Annual Shareholders' Meeting held on June 21, 2008.

(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	Stock options
Yosuke Matsuda	205	Director	The Company	80	88	37

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 any other purposes as shares held for purposes other than purely investment purposes.

The Group holds publicly traded shares for purposes other than pure investment in some cases where it has determined that so doing will contribute to the enhancement of its corporate value over the medium or long term, through prospective business tie-ups or relationships with the relevant company. Each year the Board of Directors reviews the status of achievement of the intended objective of the shareholdings and determines whether or not to continue holding shares. In addition, the Group exercises the voting rights associated with the shares from the perspective of achieving the objective of the shareholding.

(2) Status of the Company's shareholdings

As of March 31, 2019, the status of shareholdings by the Company, 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

None

b. Investments in shares for purely investment purposes

Category	Fiscal year ended March 31, 2019		Fiscal year ended March 31, 2018	
	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	5	0	5	0
Shares other than those above	2	160	2	117

Category	Fiscal year ended March 31, 2019		
	Total dividends received (Millions of yen)	Total gain on sale of shares (Millions of yen)	Total gain on revaluation of shares (Millions of yen)
Unlisted shares	—	—	(Note) 1
Shares other than those above	0	—	146 (—)

Notes: 1. Unlisted shares are not included in the above table, since it is extremely difficult to determine fair value of unlisted shares having no market price.

2. Figures denoted with an asterisk under "Total gain on revaluation of shares" indicate impairment losses for the fiscal year under review.

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 timely discloses 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 promote understanding of the Company.

Briefing sessions are held quarterly for institutional investors and analysts, with the President and Representative Director and Chief Financial Officer providing the briefings. The Company conducts overseas road shows for foreign investors twice a year where the President and Representative Director and head of the Corporate Planning Division 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, General Shareholders' Meeting convocation notices, and other items on its website.

Executive Members

As of June 21, 2019

Yukihiro Yamamura
Director*

Yuji Nishiura
Director*

Masato Ogawa
Director*

Yukinobu Chida
Director

Yosuke Matsuda
President and Representative Director

Ryoichi Kobayashi
Director (Audit & Supervisory Committee Member) (Standing)*

Tadao Toyoshima
Director (Audit & Supervisory Committee Member) *

Ryuji Matsuda
Director (Audit & Supervisory Committee Member)*

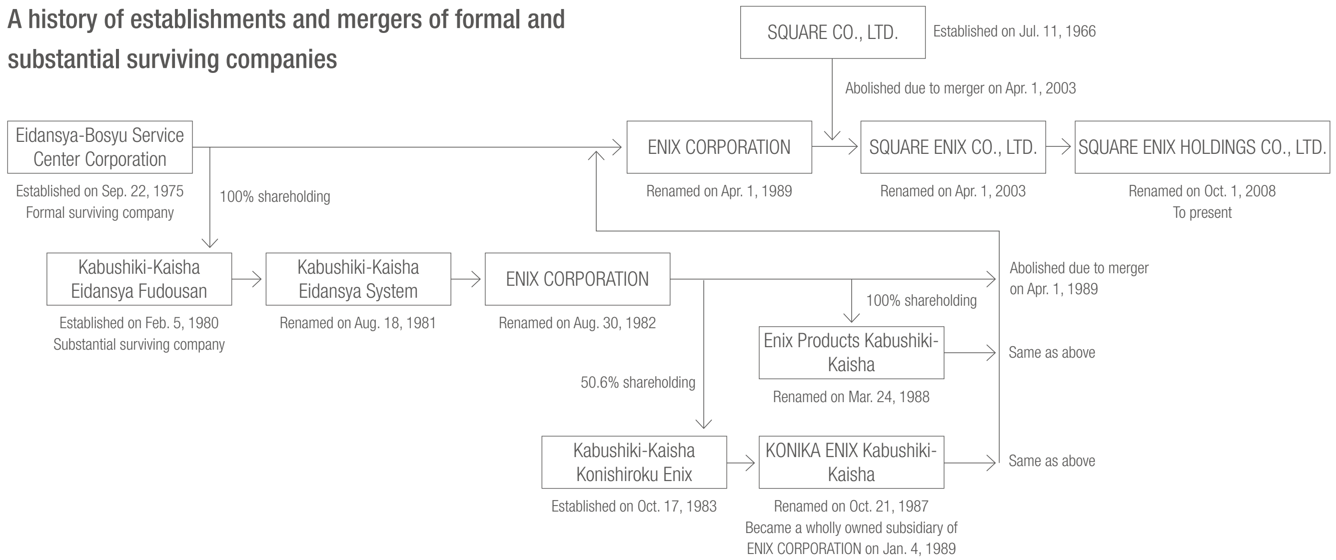
*Outside Director specified in Article 2, Item 15, of the Companies Act

Yasuhiro Fukushima
Honorary Chairman

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 Jasdaq 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



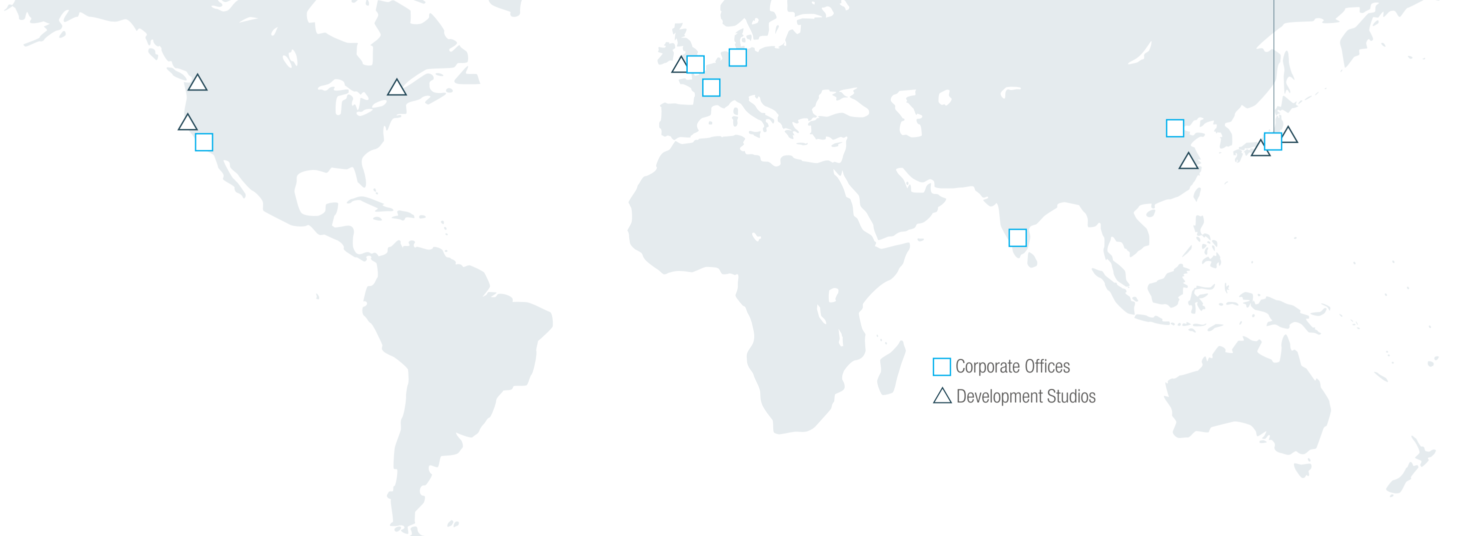
Corporate Data

(As of March 31, 2019)

Company Profile

Headquarters: SHINJUKU EASTSIDE SQUARE
6-27-30 Shinjuku, Shinjuku-ku,
Tokyo 160-8430, Japan
Tel.: +81-3-5292-8000

Established: September 22, 1975
Common stock: ¥24,039 million
Number of employees: 4,601 (Consolidated)
Note: Number of part-time employees is not included in the number of employees.



SQUARE ENIX HOLDINGS Group

Company Name	Established	Fiscal Year-End	Common Stock	Percentage of Voting Rights	Principal Lines of Business
Major Consolidated Subsidiaries					
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
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

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, 2019)

Share Information

Number of shares issued: 122,531,596

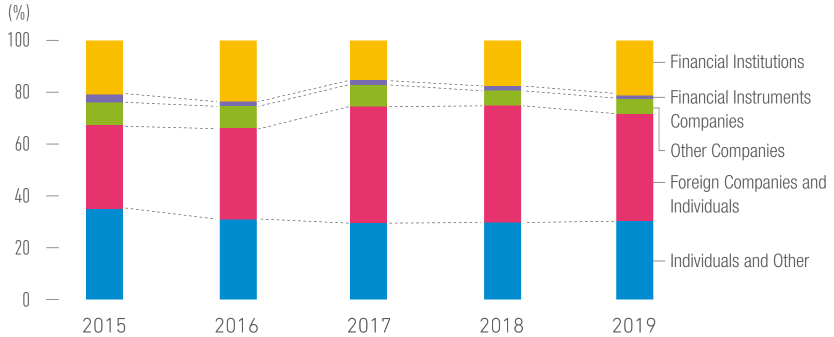
Number of shareholders: 21,100

Principal Shareholders

Rank	Shareholder	Investment in Square Enix (Thousands of shares)	(%)
1	Yasuhiro Fukushima	23,626	19.81
2	The Master Trust Bank of Japan, Ltd. (Trust Account)	7,244	6.07
3	Fukushima Planning Co., Ltd.	6,763	5.67
4	Japan Trustee Services Bank, Ltd. (Trust Account)	6,678	5.60
5	JP MORGAN CHASE BANK 380752	6,448	5.40
6	MSIP CLIENT SECURITIES	3,198	2.68
7	Japan Trustee Services Bank, Ltd. (Trust Account 9)	2,728	2.28
8	DNB BANK ASA-VERDIPAPIRFONDET DNB TEKNOLOGI	2,621	2.19
9	MSCO CUSTOMER SECURITIES	2,050	1.72
10	Masafumi Miyamoto	2,020	1.69

Notes: 1. The Company holds 3,324,632 shares of treasury stock, which are excluded from the above table.
2. The holding ratio is calculated without the treasury shares (3,324,632).

Share Ownership (Thousands of shares)



	2015		2016		2017		2018		2019	
Financial Institutions	25,588	(20.9%)	29,231	(23.9%)	19,042	(15.5%)	21,626	(17.7%)	26,562	(21.7%)
Financial Instruments Companies	3,291	(2.7%)	1,717	(1.4%)	1,902	(1.6%)	2,037	(1.7%)	1,390	(1.1%)
Other Companies	10,630	(8.7%)	10,424	(8.5%)	10,409	(8.5%)	7,409	(6.0%)	7,373	(6.0%)
Foreign Companies and Individuals	40,135	(32.8%)	43,256	(35.4%)	55,067	(45.0%)	54,920	(44.9%)	50,459	(41.2%)
Individuals and Other	42,586	(34.9%)	37,669	(30.8%)	35,951	(29.4%)	36,404	(29.7%)	36,745	(30.0%)
Total	122,232	(100.0%)	122,299	(100.0%)	122,373	(100.0%)	122,398	(100.0%)	122,531	(100.0%)

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.)

SQUARE ENIX HOLDINGS CO., LTD.
www.hd.square-enix.com/

Printed in Japan

ANNUAL REPORT 2019
FINANCIAL SECTION

CONTENTS

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

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

The following statements are based on management’s view on SQUARE ENIX HOLDINGS CO., LTD. (the “Company”) as of June 30, 2019 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 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 preparing the consolidated financial statements, management chooses and applies accounting policies, and makes estimates that affect the disclosure of amounts in assets, liabilities, income and expenses. Management formulated these estimates based on historical performance and certain other factors. However, actual results may differ materially from these estimates due to uncertainties inherent in the estimates. 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. Revenue recognition
Sales revenue of the Group is ordinarily recognized when products are shipped or services are provided, while royalty revenue is recognized based on receipt of a statement from the licensee. In certain cases, the recognition of sales is determined based on contracts entered into with suppliers and product type.

b. 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.

c. 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.

d. 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.

e. 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.

f. 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.

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, 2019, the Group’s balance of interest-bearing debt including borrowings and lease obligations was ¥9,032 million.

Cash and cash equivalents at the end of the year totaled ¥127,181 million, providing sufficient liquidity for the Group to carry on its business operations.

Cash flows in the fiscal year ended March 31, 2019, as well as the principal factors behind these cash flows, are described below.

(1) Net cash provided by operating activities
Net cash provided by operating activities totaled ¥12,135 million, a decrease of 60.4% from the previous fiscal year. This position was primarily due to profit before income taxes of ¥23,028 million, an increase in notes and accounts payable of ¥7,385 million, depreciation and amortization of ¥6,801 million, income taxes paid of ¥12,683 million and an increase in notes and accounts receivable of ¥10,649 million.

(2) Net cash used in investing activities
Net cash used in investing activities totaled ¥12,875 million, an increase of 57.2% from the previous fiscal year. The main factor was purchases of property and equipment of ¥8,450 million.

(3) Net cash used in financing activities
Net cash used in financing activities totaled ¥7,656 million, a decrease of 49.9% from the previous fiscal year. The main factor was cash dividends paid of ¥7,735 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, 2019

■ Assets

Total Assets

Millions of yen

March 31	2019	2018	Change
	¥277,856	¥259,713	¥18,143

Total assets as of March 31, 2019 amounted to ¥277,856 million, an increase of ¥18,143 million from the previous fiscal year. The main factors contributing to the change were as follows:

Cash and Deposits

Millions of yen

March 31	2019	2018	Change
	¥129,468	¥136,785	¥(7,317)

Cash and deposits as of March 31, 2019 decreased ¥7,317 million, to ¥129,468 million, mainly reflecting an increase of notes and accounts receivable–trade of ¥10,649 million, purchases of property and equipment of ¥8,450 million and cash dividends paid of ¥7,735 million, offset by profit before income taxes of ¥23,028 million, among other factors.

Content Production Account

Millions of yen

March 31	2019	2018	Change
	¥50,711	¥44,167	¥6,544

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, 2019, the content production account totaled ¥50,711 million, an increase of ¥6,544 million from the previous fiscal year.

Property and Equipment

Millions of yen

March 31	2019	2018	Change
	¥17,889	¥16,060	¥1,829

Total property and equipment as of March 31, 2019 amounted to ¥17,889 million, an increase of ¥1,829 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	2019	2018	Change
	¥5,105	¥4,559	¥546

Total intangible assets as of March 31, 2019 amounted to ¥5,105 million, an increase of ¥546 million from the previous fiscal year.

Investments and Other Assets

Millions of yen

March 31	2019	2018	Change
	¥24,974	¥22,993	¥1,981

Total investments and other assets increased ¥1,981 million, to ¥24,974 million, as of March 31, 2019.

■ **Liabilities**

Millions of yen

March 31	2019	2018	Change
	¥74,626	¥66,353	¥8,273

As of March 31, 2019, total liabilities amounted to ¥74,626 million, an increase of ¥8,273 million from the previous fiscal year. The main factors contributing to the change were as follows:

Current Liabilities

Millions of yen

March 31	2019	2018	Change
	¥65,906	¥58,842	¥7,064

Total current liabilities increased ¥7,064 million, to ¥65,906 million, as of March 31, 2019. This was mainly due to an increase in notes and accounts payable of ¥7,202 million and an increase in provision for sales returns of ¥5,193 million offset by a decrease in accrued income taxes of ¥7,468 million.

Non-Current Liabilities

Millions of yen

March 31	2019	2018	Change
	¥8,719	¥7,510	¥1,209

Total non-current liabilities increased ¥1,209 million, to ¥8,719 million, as of March 31, 2019.

■ **Shareholders' Equity/Net Assets**

Millions of yen

March 31	2019	2018	Change
Common stock	¥24,039	¥23,868	¥171
Capital surplus	53,281	53,107	174
Retained earnings	140,235	129,513	10,722
Treasury stock	(10,162)	(10,159)	(3)
Total shareholders' equity	207,394	196,330	11,064
Valuation difference on available-for-sale securities	116	89	27
Foreign currency translation adjustments	(4,651)	(3,674)	(977)
Remeasurements of defined benefit plans	(285)	(132)	(153)
Total accumulated other comprehensive income (loss)	(4,820)	(3,718)	(1,102)
Stock acquisition rights	517	603	(86)
Non-controlling interests	139	144	(5)
Total net assets	¥203,230	¥193,359	¥9,871

As of March 31, 2019, total net assets amounted to ¥203,230 million, up ¥9,871 million from the previous fiscal year-end, mainly due to factors such as the recording of profit attributable to owners of parent offset by payments of year-end dividends (¥37 per share) for the previous fiscal year and interim dividends (¥10 per share) for the fiscal year under review.

■ **Consolidated Statement of Income**
Net Sales and Operating Income

Millions of yen

Years ended March 31	2019	Composition	2018	Composition	Amount change	Percent change
Net sales	¥271,048	100.0%	¥250,394	100.0%	¥20,654	8.2%
Gross profit	124,228	45.8%	120,874	48.3%	3,354	2.8%
Reversal of provision for sales returns	4,152	1.5%	6,118	2.4%	(1,966)	(32.1)%
Provision for sales returns	9,185	3.4%	4,139	1.7%	5,046	121.9%
Net gross profit	119,195	44.0%	122,854	49.1%	(3,659)	(3.0)%
Selling, general and administrative expenses	94,663	34.9%	84,677	33.8%	9,986	11.8%
Operating income	¥24,531	9.1%	¥38,176	15.2%	¥(13,645)	(35.7)%

Comparisons by segment with the previous fiscal year are provided on pages 31-33.

Non-Operating Income and Expenses

Millions of yen

Years ended March 31	2019	2018	Change
Non-operating income	¥3,999	¥757	¥3,242
Non-operating expenses	219	2,809	(2,590)

Extraordinary Income and Losses

Millions of yen

Years ended March 31	2019	2018	Change
Extraordinary gain	¥23	¥368	¥(345)
Extraordinary loss	5,307	565	4,742

Total extraordinary gain was ¥23 million. Total extraordinary loss was ¥5,307 million, reflecting the recording of loss on disposal of content and other losses of ¥3,638 million.

■ Capital Expenditures and Depreciation and Amortization

Millions of yen

Years ended March 31	2019	2018	Change
Capital expenditures	¥9,581	¥7,967	¥1,614
Depreciation and amortization	6,801	5,859	942

Capital expenditures for the fiscal year ended March 31, 2019 amounted to ¥ 9,581 million, an increase of ¥1,614 million from the previous fiscal year, mainly due to the investment in arcade game machines in the Amusement segment, along with purchases of development tools and networking equipment for the data centers in the Digital Entertainment segment.

Depreciation and amortization totaled ¥6,801 million, an increase of ¥942 million from the previous fiscal year, primarily due to an increase in depreciation and amortization in the Digital Entertainment segment and Amusement 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, 2020 is as follows (as of June 30, 2019).

Millions of yen

Years ended/ending March 31	2010 actual	2011 actual	2012 actual	2013 actual	2014 actual	2015 actual	2016 actual	2017 actual	2018 actual	2019 actual	2020 forecast
Net sales	¥192,257	¥125,271	¥127,896	¥147,981	¥155,023	¥167,891	¥214,101	¥256,824	¥250,394	¥271,048	¥270,000
Operating income (loss)	28,235	7,325	10,713	(6,081)	10,543	16,426	26,018	31,295	38,176	24,531	24,000
Ordinary income (loss)	27,822	5,390	10,297	(4,378)	12,534	16,984	25,322	31,128	36,124	28,312	24,000
Profit (loss) attributable to owners of parent	9,509	(12,043)	6,060	(13,714)	6,598	9,831	19,884	20,039	25,821	18,463	16,800

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, 2019, the Company paid an interim dividend of ¥10 per share and a year-end dividend of ¥37 per share for an annual dividend of ¥47 per share.

The distribution of surplus for the fiscal year ended March 31, 2019 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, 2019 are as follows:

Date of resolution	Total dividends (Millions of yen)	Dividends per share (Yen)
November 7, 2018 Resolution by the Board of Directors	¥1,192	¥10
May 17, 2019 Resolution by the Board of Directors	¥4,410	¥37

6. Risk Factors

The Group identifies the items listed below as potential risk factors that could affect operating results. Forward-looking statements are in accordance with management's judgment as of June 24, 2019.

(1) Changes in the economic environment
In the event of a harsh downturn in the economy causing consumer demand to decline, consumers' spending for the Group's products and services in the entertainment field may fall. Such circumstances may lead to an adverse impact on the Group's business performance.

(2) The Group's ability to respond to changes in consumer preferences in the entertainment market and the rapid progress of innovative technology
It is possible that the Group's business performance will be affected if the Group is unable to respond promptly and accurately to the major changes outlined in 4. Strategic Outlook, Issues Facing Management and Future Direction.

(3) Changes in game platforms and the Group's response
The Group's digital entertainment business could undergo major changes in the forms by which the Group offers content and in its business model as a result of diversification, the trend toward increasingly advanced functions and the general transition of platforms for home-use video game consoles and smartphones, as well as PC and cloud games. Such circumstances may lead to an adverse impact on the Group's business performance.

(4) 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. Delays in securing human resources who are ideally suited to respond to these changes may adversely affect the Group's business performance.

(5) The Group's international business operations
Regarding the Group's international business operations, a variety of factors 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.

(6) Information and network systems
The Group appropriately develops and manages the information and network systems necessary for its 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 and implemented solid preventive and defensive measures against so-called security incidents, including cyberattack against or unauthorized access to the systems and infection by a computer virus. However, in the event that a security incident of such magnitude occurs that cannot be prevented by the above measures, operations could be disrupted and the Group could incur opportunity losses and additional expenses, as well as 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, and the occurrence of additional expenses.

(7) 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 (6) above, occurs, and personal information is leaked to third parties, the Group's business performance may be affected.

(8) 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 results if they fluctuate beyond management forecasts.

(9) 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 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.

(10) Accidents and disasters
The Group periodically carries out accident prevention checks, facility inspections and emergency drills 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.

(11) Litigation and other claims
The Group thoroughly complies with laws and regulations and maintains full respect for third parties' rights while carrying out its operations. 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 for the Group, the outcome thereof may lead to an adverse impact on the Group's business performance.

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

Millions of yen

	2019	2018
Assets		
Current assets		
Cash and deposits	¥129,468	¥136,785
Notes and accounts receivable	35,382	24,383
Merchandise and finished goods	4,484	3,233
Work in progress	5	3
Raw materials and supplies	330	253
Content production account	50,711	44,167
Other	9,770	7,486
Allowance for doubtful accounts	(265)	(212)
Total current assets	229,888	216,100
Non-current assets		
Property and equipment		
Buildings and structures	17,179	15,657
Accumulated depreciation	(10,663)	(9,993)
Buildings and structures (net)	6,515	5,663
Tools and fixtures	14,759	14,021
Accumulated depreciation	(10,065)	(9,855)
Tools and fixtures (net)	4,693	4,165
Amusement equipment	17,435	16,910
Accumulated depreciation	(14,790)	(14,588)
Amusement equipment (net)	2,645	2,322
Other	184	177
Accumulated depreciation	(115)	(115)
Other (net)	68	62
Land	3,782	3,795
Construction in progress	183	50
Total property and equipment	17,889	16,060
Intangible assets		
Other	5,105	4,559
Total intangible assets	5,105	4,559
Investments and other assets		
Investment securities	1,226	154
Guarantee deposits	10,373	9,879
Net defined benefit assets	93	155
Deferred tax assets	7,922	8,902
Other	*1 5,418	*1 3,965
Allowance for doubtful accounts	(61)	(63)
Total investments and other assets	24,974	22,993
Total non-current assets	47,968	43,612
Total assets	¥277,856	¥259,713

The accompanying notes are an integral part of these statements.

Millions of yen

	2019	2018
Liabilities		
Current liabilities		
Notes and accounts payable	*2 ¥22,050	*2 ¥14,848
Short-term loans	8,685	8,931
Accrued income taxes	1,694	9,162
Provision for bonuses	3,273	3,246
Provision for sales returns	9,178	3,985
Provision for game arcade closings	49	58
Asset retirement obligations	5	—
Other	20,968	18,610
Total current liabilities	65,906	58,842
Non-current liabilities		
Provision for directors' retirement benefits	52	88
Provision for game arcade closings	—	41
Net defined benefit liabilities	2,893	2,676
Deferred tax liabilities	1,383	896
Asset retirement obligations	3,132	2,812
Other	1,257	994
Total non-current liabilities	8,719	7,510
Total liabilities	74,626	66,353
Net Assets		
Shareholders' equity		
Common stock	24,039	23,868
Capital surplus	53,281	53,107
Retained earnings	140,235	129,513
Treasury stock	(10,162)	(10,159)
Total shareholders' equity	207,394	196,330
Accumulated other comprehensive income (loss)		
Valuation difference on available-for-sale securities	116	89
Foreign currency translation adjustments	(4,651)	(3,674)
Remeasurements of defined benefit plans	(285)	(132)
Total accumulated other comprehensive income (loss)	(4,820)	(3,718)
Stock acquisition rights	517	603
Non-controlling interests	139	144
Total net assets	203,230	193,359
Total liabilities and net assets	¥277,856	¥259,713

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

	2019	2018
Net sales	¥271,048	¥250,394
Cost of sales	*1 146,820	*1 129,519
Gross profit	124,228	120,874
Reversal of provision for sales returns	4,152	6,118
Provision for sales returns	9,185	4,139
Net gross profit	119,195	122,854
Selling, general and administrative expenses		
Packaging freight charge	2,062	1,874
Advertising expense	29,460	22,585
Sales promotion expense	120	86
Compensation for directors	470	773
Salaries	17,396	15,242
Provision for bonuses	3,433	3,740
Net periodic pension costs	692	534
Welfare expense	2,642	2,522
Rental expense	2,699	2,306
Commission fee	24,664	23,539
Depreciation and amortization	2,410	2,495
Other	8,610	8,976
Total selling, general and administrative expenses	*2 94,663	*2 84,677
Operating income	24,531	38,176
Non-operating income		
Interest income	167	107
Dividends received	0	14
Foreign exchange gain	3,459	—
Rental income	72	35
Reversal of allowance for doubtful accounts	8	161
Subsidy income	7	126
Gain on forgiveness of payable for group tax	37	31
Miscellaneous income	246	281
Total non-operating income	3,999	757
Non-operating expenses		
Interest expenses	107	84
Commission fee	5	10
Loss on investments in securities	40	—
Office transfer-related expenses	65	152
Foreign exchange losses	—	2,477
Miscellaneous loss	0	83
Total non-operating expenses	219	2,809
Ordinary income	28,312	36,124
Extraordinary income		
Gain on sale of property and equipment	*3 15	*3 9
Gain on sale of investment securities	0	351
Gain on reversal of stock acquisition rights	—	2
Gain on liquidation of subsidiaries	8	5
Total extraordinary income	23	368
Extraordinary losses		
Loss on sale of property and equipment	—	*4 18
Loss on disposal of property and equipment	*5 198	*5 131
Impairment loss	*6 368	*6 40
Loss on valuation of shares of subsidiaries and associates	680	—
Loss on sales of shares of subsidiaries and associates	—	371
Loss on disposal of content and other losses	*7 3,638	—
Other	422	4
Total extraordinary loss	5,307	565
Profit before income taxes	23,028	35,927
Income taxes–current	2,968	9,216
Income taxes–deferred	1,590	878
Total income taxes	4,559	10,094
Profit	18,468	25,832
Profit attributable to non-controlling interests	4	11
Profit attributable to owners of parent	¥18,463	¥25,821

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

	2019	2018
Profit	¥18,468	¥25,832
Other comprehensive income (loss)		
Valuation difference on available-for-sale securities	27	(275)
Foreign currency translation adjustments	(986)	970
Remeasurements of defined benefit plans	(153)	32
Other comprehensive income (loss)	*1 (1,112)	*1 727
Comprehensive income	17,356	26,560
(Breakdown)		
Comprehensive income attributable to owners of parent	17,360	26,544
Comprehensive income (loss) attributable to non-controlling interests	¥(4)	¥16

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

■ 2019

Millions of yen

	Shareholders' equity				
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
Balance at the beginning of the year	¥23,868	¥53,107	¥129,513	¥(10,159)	¥196,330
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			18,463		18,463
Purchase of treasury stock				(8)	(8)
Disposal of treasury stock		1		5	7
Net changes in items other than shareholders' equity					
Total changes during the year	171	173	10,722	(3)	11,064
Balance at the end of the year	¥24,039	¥53,281	¥140,235	¥(10,162)	¥207,394

Millions of yen

	Accumulated other comprehensive income (loss)						
	Valuation difference on available-for-sale securities	Foreign currency translation adjustments	Remeasure-ments of defined benefit plans	Total accumulated other comprehensive income (loss)	Stock acquisition rights	Non-controlling interests	Total net assets
Balance at the beginning of the year	¥89	¥(3,674)	¥(132)	¥(3,718)	¥603	¥144	¥193,359
Changes during the year							
Issuance of new stocks							343
Dividends from retained earnings							(7,741)
Profit attributable to owners of parent							18,463
Purchase of treasury stock							(8)
Disposal of treasury stock							7
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)	9,870
Balance at the end of the year	¥116	¥(4,651)	¥(285)	¥(4,820)	¥517	¥139	¥203,230

The accompanying notes are an integral part of these statements.

■ 2018

Millions of yen

	Shareholders' equity				
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
Balance at the beginning of the year	¥23,828	¥53,067	¥109,764	¥(897)	¥185,763
Changes during the year					
Issuance of new stocks	40	40			80
Dividends from retained earnings			(6,072)		(6,072)
Profit attributable to owners of parent			25,821		25,821
Purchase of treasury stock				(9,262)	(9,262)
Disposal of treasury stock		0		0	0
Net changes in items other than shareholders' equity					
Total changes during the year	40	40	19,748	(9,261)	10,566
Balance at the end of the year	¥23,868	¥53,107	¥129,513	¥ (10,159)	¥196,330

Millions of yen

	Accumulated other comprehensive income (loss)						
	Valuation difference on available-for-sale securities	Foreign currency translation adjustments	Remeasure-ments of defined benefit plans	Total accumulated other comprehensive income (loss)	Stock acquisition rights	Non-controlling interests	Total net assets
Balance at the beginning of the year	¥364	¥(4,640)	¥(165)	¥(4,440)	¥453	¥128	¥181,904
Changes during the year							
Issuance of new stocks							80
Dividends from retained earnings							(6,072)
Profit attributable to owners of parent							25,821
Purchase of treasury stock							(9,262)
Disposal of treasury stock							0
Net changes in items other than shareholders' equity	(275)	965	32	722	150	16	889
Total changes during the year	(275)	965	32	722	150	16	11,455
Balance at the end of the year	¥89	¥(3,674)	¥(132)	¥(3,718)	¥603	¥144	¥193,359

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
	2019	2018
Cash flows from operating activities		
Profit before income taxes	¥23,028	¥35,927
Depreciation and amortization	6,801	5,859
Impairment loss	368	40
Increase (decrease) in allowance for doubtful accounts	44	(251)
Increase (decrease) in provision for bonuses	(36)	1,096
Increase (decrease) in provision for sales returns	5,032	(1,979)
Increase (decrease) in provision for directors' retirement benefits	(35)	—
Increase (decrease) in provision for game arcade closing	(50)	(48)
Decrease (increase) in net defined benefit assets	(44)	(64)
Increase (decrease) in net defined benefit liabilities	96	205
Interest and dividends income	(167)	(121)
Interest expenses paid	107	84
Foreign exchange loss (gain)	(4,072)	2,940
Loss (gain) on sales of investment securities	(0)	(351)
Loss (gain) on sales of shares of subsidiaries and associates	—	371
Loss on disposal of non-current assets	198	131
Gain on sales of non-current assets	(15)	(9)
Loss on sales of non-current assets	—	18
Loss on valuation of shares of subsidiaries and associates	680	—
Decrease (increase) in notes and accounts receivable	(10,649)	1,128
Decrease (increase) in inventories	(6,860)	(11,092)
Increase (decrease) in notes and accounts payable	7,385	523
Decrease (increase) in other current assets	(2,307)	1,994
Decrease (increase) in other non-current assets	(659)	(531)
Increase (decrease) in other current liabilities	2,079	(3,648)
Other, net	1,065	874
Subtotal	21,988	33,098
Interest and dividends income received	167	121
Interest expenses paid	(106)	(84)
Income taxes paid	(12,683)	(5,213)
Income taxes refund	2,768	2,717
Net cash provided by operating activities	¥12,135	¥30,638
Cash flows from investing activities		
Payments into time deposits	¥ (3,993)	¥ (4,539)
Proceeds from withdrawal of time deposits	3,976	4,157
Purchases of property and equipment	(8,450)	(6,378)
Proceeds from sales of property and equipment	15	9
Purchases of intangible assets	(1,190)	(858)
Purchase of investment securities	(1,074)	—
Proceeds from sales of investment securities	0	642
Purchases of shares of subsidiaries	(380)	(210)
Proceeds from liquidation of subsidiaries	8	5
Purchase of shares of subsidiaries and associates	(294)	—
Purchase of bonds of subsidiaries and associates	(697)	—
Payments for guarantee deposits	(760)	(1,204)
Proceeds from collection of guarantee deposits	208	431
Other, net	(244)	(247)
Net cash used in investing activities	(12,875)	(8,191)
Cash flows from financing activities		
Proceeds from issuance of new stocks	106	64
Purchase of treasury stock	(8)	(9,262)
Proceeds from exercise of employee share options	5	—
Cash dividends paid	(7,735)	(6,068)
Other, net	(23)	(23)
Net cash used in financing activities	(7,656)	(15,290)
Effect of exchange rate change on cash and cash equivalents	1,221	(196)
Net increase (decrease) in cash and cash equivalents	(7,173)	6,960
Cash and cash equivalents at the beginning of the year	134,355	127,395
Cash and cash equivalents at end of the year	*1 ¥127,181	*1 ¥134,355

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
SQUARE ENIX, INC.
SQUARE ENIX LTD.
SQUARE ENIX (China) CO., LTD.
CRYSTAL DYNAMICS, INC.
EIDOS INTERACTIVE CORP.
During the fiscal year ended March 31, 2019, CENTREGOLD LTD. and SCI ENTERTAINMENT GROUP LTD. completed their liquidation and were excluded from the Company's scope of consolidation.

(2) Names of principal non-consolidated subsidiaries:
Luminous Productions Co., Ltd.
Tokyo RPG Factory Co., Ltd.
STUDIO ISTOLIA 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 Luminous Productions Co., Ltd., Tokyo RPG Factory Co., Ltd., STUDIO ISTOLIA 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)
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	3–60 years
Tools and fixtures	2–20 years
Amusement equipment	3–5 years

B) Intangible assets (excluding leased 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.

(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 statements of cash flows:
Cash and cash equivalents in the consolidated statements 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.

Change in Accounting Policy
Effective from the beginning of the fiscal year ended March 31, 2019, overseas subsidiaries and affiliates that apply generally accepted accounting principles in the United States (US GAAP), have adopted ASC 606 “Revenue from Contracts with Customers,” while other overseas subsidiaries and affiliates have adopted IFRS 15 “Revenue from Contracts with Customers.”
There is no impact of this change on gains or losses for the fiscal year ended March 31, 2019.

Accounting Standards Issued but Not Yet Applied
“Accounting Standard for Revenue Recognition” (ASBJ Statement No. 29, March 30, 2018) and
“Implementation Guidance on Accounting Standard for Revenue Recognition” (ASBJ Guidance No. 30, March 30, 2018)

(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.

IFRS 16 “Leases” and ASU 2016-02 “Leases”
(1) Outline:
These accounting standards require lessees, in principle, to record all leases as assets and liabilities in the balance sheet. There is no substantial change in accounting for lessors.

(2) Effective date:
ASU 2016-02 “Leases” will become effective at overseas subsidiaries and affiliates that apply US GAAP, and IFRS 16 “Lease” will become effective at other overseas subsidiaries and affiliates, from the beginning of the fiscal year ending March 31, 2020.

(3) Impact of the application of these accounting standards
The impact of the application of these accounting standards on the consolidated financial statements is being assessed.

Change in the Method of Presentation
(Consolidated Statement of Income)
Gain on liquidation of subsidiaries was included in other under extraordinary gain for the fiscal year ended March 31, 2018, but it is presented separately for the fiscal year ended March 31, 2019, because it exceeded 10% of the total amount of extraordinary gain. To reflect this change in the method of presentation, the consolidated financial statements for the fiscal year ended March 31, 2018 have been reclassified.

Consequently, ¥5 million in other under extraordinary gain in the consolidated statement of income for the fiscal year ended March 31, 2018 has been reclassified as gain on liquidation of subsidiaries.

(Changes in association with the Application of Partial Amendments to Accounting Standard for Tax Effect Accounting)
The Company and its consolidated subsidiaries have adopted “Partial Amendments to Accounting Standard for Tax Effect Accounting” (ASBJ Guidance No. 28 of February 16, 2018) (hereinafter, the “Partial Amendments”) from the beginning of the fiscal year ended March 31, 2019. As such, deferred tax assets and deferred tax liabilities are included within investments and other assets and non-current liabilities, respectively, and related income tax disclosures have been expanded.

As a result, ¥6,443 million of deferred tax assets in current assets previously presented in the consolidated balance sheet as of March 31, 2018 have been reclassified and included within ¥8,902 million of deferred tax assets in investments and other assets.

Also, “Tax Effect Accounting” in the Notes to the consolidated financial statements has been expanded in accordance with Note 8 and Note 9 of Interpretive Notes to Accounting for Tax Effect Accounting. However, comparative information for the year ended March 31, 2018 has not been disclosed in the “Tax Effect Accounting” in accordance with the transitional provisions set forth in Article 7 of the Partial Amendments.

Notes to Consolidated Balance Sheet

*1 Investments in non-consolidated subsidiaries and affiliates

Millions of yen

	As of March 31, 2019	As of March 31, 2018
Other (investments and other assets)	¥1,536	¥839

*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, 2019	As of March 31, 2018
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, 2019	Fiscal year ended March 31, 2018
¥2,908	¥6,245

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

Millions of yen

Fiscal year ended March 31, 2019	Fiscal year ended March 31, 2018
¥2,008	¥1,243

*3 Breakdown of gain on sale of property and equipment

Millions of yen

	Fiscal year ended March 31, 2019	Fiscal year ended March 31, 2018
Tools and fixtures	¥15	¥9

*4 Breakdown of loss on sale of property and equipment

Millions of yen

	Fiscal year ended March 31, 2019	Fiscal year ended March 31, 2018
Buildings, structures and land	¥—	¥14
Tools and fixtures	—	3
Other	—	0
Total	¥—	¥18

*5 Breakdown of loss on disposal of property and equipment

Millions of yen

	Fiscal year ended March 31, 2019	Fiscal year ended March 31, 2018
Buildings and structures	¥23	¥11
Tools and fixtures	18	18
Amusement equipment	156	98
Other	0	3
Total	¥198	¥131

*6 Impairment loss
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.

In the fiscal year ended March 31, 2018, 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	¥32
Shinjuku-ku, Tokyo	Idle assets	Other (Intangible assets)	1
Shinjuku-ku, Tokyo	Assets planned for disposal	Amusement equipment	6
Total			¥40

In the Amusement business segment, each division, including captive outlets, rented outlets, franchise outlets and amusement equipment production and sales, is classified as one asset-grouping unit. In other business segments, classification of asset groups is carried out based on the relationships between businesses. Idle assets that are not used for operational purposes and assets planned for disposal are classified individually, separately from those mentioned above.

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.

*7 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.

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, 2019	Fiscal year ended March 31, 2018
Valuation difference on available-for-sale securities:		
Gains (losses) arising during the year	¥39	¥(86)
Reclassification adjustments	—	(248)
Total amount before tax-effect	39	(335)
Tax-effect	(11)	59
Valuation difference on available-for-sale securities	27	(275)
Foreign currency translation adjustments:		
Exchange differences arising during the year	(986)	970
Reclassification adjustments relating to foreign operations	—	—
Total amount before tax-effect	(986)	970
Tax-effect	—	—
Foreign currency translation adjustments	(986)	970
Remeasurements of defined benefit plans:		
Defined benefit obligations arising during the year	(341)	30
Reclassification adjustments relating to defined benefit plans	114	15
Total amount before tax-effect	(227)	45
Tax-effect	73	(12)
Remeasurements of defined benefit plans	(153)	32
Total other comprehensive income (loss)	¥(1,112)	¥727

Notes to Consolidated Statement of Changes in Net Assets

■Year ended March 31, 2019

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

Thousands of shares

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

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

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

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

2. Stock options and the Company's stock options

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

3. Dividends

(1) Dividend payments

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

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

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

■Year ended March 31, 2018

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

Thousands of shares

	Shares as of April 1, 2017	Share increases during the year	Share decreases during the year	Shares as of March 31, 2018
Shares issued and outstanding				
Common stock[1]	122,373	25	—	122,398
Total	122,373	25	—	122,398
Treasury stock				
Common stock[2, 3]	316	3,008	0	3,324
Total	316	3,008	0	3,324

Notes: 1 The increase of 25 thousand shares of common stock was due to the exercise of stock acquisition rights as stock options.

2 The increase of 3,008 thousand shares of treasury stock was due to the purchase of 3,003 thousand shares of treasury stock pursuant to a resolution of the Board of Directors and the acquisition of 4 thousand shares of fractional shares constituting less than one trading unit.

3 The decrease of 0 thousand shares of treasury stock was due to the sale of 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, 2018 (Millions of yen)
			As of April 1, 2017	Increase during the year	Decrease during the year	As of March 31, 2018	
Supplying company (parent company)	Stock acquisition rights as stock options	—	—	—	—	—	¥603
	Total	—	—	—	—	—	¥603

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, 2017 (Board of Directors' Meeting)	Common stock	¥4,882	¥40	March 31, 2017	June 2, 2017
November 8, 2017 (Board of Directors' Meeting)	Common stock	1,190	10	September 30, 2017	December 5, 2017

(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, 2018 (Board of Directors' Meeting)	Common stock	¥6,549	Retained earnings	¥55	March 31, 2018	June 4, 2018

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, 2019	Fiscal year ended March 31, 2018
Cash and deposits	¥129,468	¥136,785
Time deposits with maturity periods over three months	(2,286)	(2,429)
Cash and cash equivalents	¥127,181	¥134,355

Lease Transactions

1. Finance lease transactions

(1) Type of leased assets

Finance lease transactions that do not transfer ownership

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

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, 2019 and 2018, 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, 2019

Millions of yen

Assets:	Book value	Fair value	Difference
(1) Cash and deposits	¥129,468	¥129,468	¥—
(2) Notes and accounts receivable	35,382		
Allowance for doubtful accounts	(265)		
Notes and accounts receivable, net	35,117	35,117	—
(3) Investment securities	179	179	—
(4) Guarantee deposits	10,373	10,271	(102)
Total assets	175,139	175,036	(102)
Liabilities:			
(1) Notes and accounts payable	22,050	22,050	—
(2) Short-term loans	8,685	8,685	—
(3) Accrued income taxes	1,694	1,694	—
Total liabilities	¥32,430	¥32,430	¥—

■As of March 31, 2018

Millions of yen

Assets:	Book value	Fair value	Difference
(1) Cash and deposits	¥136,785	¥136,785	¥—
(2) Notes and accounts receivable	24,383		
Allowance for doubtful accounts	(212)		
Notes and accounts receivable, net	24,171	24,171	—
(3) Investment securities	139	139	—
(4) Guarantee deposits	9,879	9,595	(283)
Total assets	170,975	170,691	(283)
Liabilities:			
(1) Notes and accounts payable	14,848	14,848	—
(2) Short-term loans	8,931	8,931	—
(3) Accrued income taxes	9,162	9,162	—
Total liabilities	¥32,942	¥32,942	¥—

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, 2019	As of March 31, 2018
Unlisted shares	¥14	¥14
Investments in investment limited partnerships	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, 2019				As of March 31, 2018			
	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	¥127,358	¥—	¥—	¥—	¥134,883	¥—	¥—	¥—
Notes and accounts receivable	35,382	—	—	—	24,383	—	—	—
Guarantee deposits	5,510	2,781	2,081	—	5,191	2,716	1,969	2
Total	¥168,251	¥2,781	¥2,081	¥—	¥164,458	¥2,716	¥1,969	¥2

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

Millions of yen

	As of March 31, 2019						As of March 31, 2018					
	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	¥—	¥—	¥—	¥—	¥—	¥8,931	¥—	¥—	¥—	¥—	¥—
Total	¥8,685	¥—	¥—	¥—	¥—	¥—	¥8,931	¥—	¥—	¥—	¥—	¥—

Securities

1. Held-for-sale securities
Not applicable

2. Held-to-maturity securities
Not applicable

3. Available-for-sale securities

Millions of yen

		As of March 31, 2019			As of March 31, 2018		
	Type	Book value	Acquisition cost	Difference	Book value	Acquisition cost	Difference
Securities with book value exceeding acquisition cost	(1) Stocks	¥179	¥31	¥147	¥139	¥31	¥108
	(2) Bonds						
	a. Government bonds and municipal bonds	—	—	—	—	—	—
	b. Corporate bonds	—	—	—	—	—	—
	c. Other	—	—	—	—	—	—
	(3) Other	—	—	—	—	—	—
	Subtotal	179	31	147	139	31	108
Securities with acquisition cost exceeding book value	(1) Stocks	—	—	—	—	—	—
	(2) Bonds						
	a. Government bonds and municipal bonds	—	—	—	—	—	—
	b. Corporate bonds	—	—	—	—	—	—
	c. Other	—	—	—	—	—	—
	(3) Other	—	—	—	—	—	—
	Subtotal	—	—	—	—	—	—
Total		¥179	¥31	¥147	¥139	¥31	¥108

4. Securities sold during the year

Millions of yen

Type	Fiscal year ended March 31, 2019			Fiscal year ended March 31, 2018		
	Proceeds	Aggregate gain on sale	Aggregate loss on sale	Proceeds	Aggregate gain on sale	Aggregate loss on sale
(1) Stock	¥0	¥0	¥—	¥642	¥351	¥—
(2) Bonds						
a. Government bonds and municipal bonds	—	—	—	—	—	—
b. Corporate bonds	—	—	—	—	—	—
c. Other	—	—	—	—	—	—
(3) Other	—	—	—	—	—	—
Total	¥0	¥0	¥—	¥642	¥351	¥—

Derivative Transactions

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

Currency derivatives

■ **Year ended March 31, 2019**

Not applicable

■ **Year ended March 31, 2018**

Not applicable

2. Derivative transactions for which hedge accounting has been applied

■ **Year ended March 31, 2019**

Not applicable

■ **Year ended March 31, 2018**

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, 2019	Fiscal year ended March 31, 2018
Balance of retirement benefit obligations at the beginning of the year	¥12,221	¥12,038
Service cost	567	549
Interest cost	31	41
Actuarial (gains) losses arising during the year	315	16
Retirement benefits paid	(718)	(425)
Balance of retirement benefit obligations at the end of the year	¥12,417	¥12,221

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

Millions of yen

	Fiscal year ended March 31, 2019	Fiscal year ended March 31, 2018
Balance of plan assets at the beginning of the year	¥9,700	¥9,613
Expected return on plan assets	140	139
Actuarial gains (losses) arising during the year	(26)	46
Employer contribution	249	242
Retirement benefits paid	(445)	(341)
Balance of plan assets at the end of the year	¥9,618	¥9,700

(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, 2019	Fiscal year ended March 31, 2018
Retirement benefit obligation for funded plans	¥9,524	¥9,544
Plan assets	(9,618)	(9,700)
	(93)	(155)
Retirement benefit obligation for unfunded plans	2,893	2,676
Net defined benefit liabilities and assets recorded in the consolidated balance sheet	2,799	2,520
Net defined benefit liabilities	2,893	2,676
Net defined benefit assets	93	155
Net defined benefit liabilities and assets recorded in the consolidated balance sheet	¥2,799	¥2,520

(4) Components of net periodic pension costs

Millions of yen

	Fiscal year ended March 31, 2019	Fiscal year ended March 31, 2018
Service cost	¥567	¥549
Interest cost	31	41
Expected return on plan assets	(140)	(139)
Amortization of net actuarial (gains) losses	114	15
Net periodic pension costs relating to defined benefit plan	¥573	¥466

(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, 2019	Fiscal year ended March 31, 2018
Actuarial gains (losses)	¥(227)	¥45
Total	¥(227)	¥45

(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, 2019	As of March 31, 2018
Unrecognized actuarial gains (losses)	¥436	¥209
Total	¥436	¥209

(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, 2019	As of March 31, 2018
Bonds	40	44
Stocks	11	11
General accounts	31	31
Cash and deposits	5	5
Others	12	9
Total	100	100

Note: Total plan assets include 3% of the retirement benefit trust plan, which has been established for the corporate pension plan, for the years ended March 31, 2019 and 2018.

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, 2019	As of March 31, 2018
Discount rate	0.050 to 0.446	0.142 to 0.481
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 ¥483 million and ¥336 million for the years ended March 31, 2019 and 2018, respectively.

Stock Options

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

Millions of yen

	Fiscal year ended March 31, 2019	Fiscal year ended March 31, 2018
Selling, general and administrative expenses	¥152	¥168

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

Millions of yen

	Fiscal year ended March 31, 2019	Fiscal year ended March 31, 2018
Reversal of stock acquisition rights	¥—	¥2

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

(1) Details of stock options

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

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

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, 2018	—	—	—	—	—	—	—	—	—	106,000
Granted	—	—	—	—	—	—	—	—	—	—
Forfeited	—	—	—	—	—	—	—	—	—	—
Vested	—	—	—	—	—	—	—	—	—	106,000
Unvested balance	—	—	—	—	—	—	—	—	—	—
After vesting (shares)										
March 31, 2018	9,900	26,000	31,000	31,000	26,000	16,000	21,000	66,400	21,000	—
Vested	—	—	—	—	—	—	—	—	—	106,000
Exercised	6,200	15,000	15,000	15,000	10,000	8,000	10,000	29,500	10,000	5,700
Forfeited	—	—	—	—	—	—	—	—	—	—
Balance unexercised	3,700	11,000	16,000	16,000	16,000	8,000	11,000	36,900	11,000	100,300

	2017 stock options	2017 stock options	2018 stock options	2018 stock options
Before vesting (shares)				
March 31, 2018	—	179,000	—	—
Granted	—	—	11,700	126,300
Forfeited	—	15,000	—	2,100
Vested	—	—	11,700	—
Unvested balance	—	164,000	—	124,200
After vesting (shares)				
March 31, 2018	21,000	—	—	—
Vested	—	—	11,700	—
Exercised	10,000	—	—	—
Forfeited	—	—	—	—
Balance unexercised	11,000	—	11,700	—

2) Price information

Yen

	2008 stock options	2009 stock options	2010 stock options	2011 stock options	2012 stock options	2014 stock options	2015 stock options	2015 stock options	2016 stock options	2016 stock options
Exercise price	¥1	¥1	¥1	¥1	¥1	¥1	¥1	¥3,150	¥1	¥3,290
Average share price at exercise	5,630	5,630	5,630	5,630	5,630	5,193	5,193	5,158	5,193	4,578
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
Exercise price	¥1	¥3,820	¥1	¥5,205
Average share price at exercise	5,193	—	—	—
Fair market value on grant date	3,187	761	4,206	789

4. Method of estimating the fair value of stock options:
The fair value of the 2018 stock options granted during the fiscal year ended March 31, 2019 was estimated using the following method.
(1) Method of valuation: Black-Scholes option pricing model
(2) Main assumptions:

	2018 stock options	2018 stock options
Expected share price volatility[1]	37.5%	30.1%
Expected life[2]	10 years	3.4 years
Expected dividend yield[3]	1.35%	1.35%
Risk-free interest rate[4]	0.10%	(0.10)%

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 2018 stock options, this was calculated based on the actual dividend applicable to the fiscal year ended March 31, 2018.
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, 2019	As of March 31, 2018
Deferred tax assets		
Tax loss carried forward (Note 1)	¥10,888	¥2,028
Enterprise tax payable	113	565
Business office tax payable	43	40
Provision for bonuses	663	623
Accrued expenses	1,217	384
Provision for sales returns	709	657
Loss on write-offs of content production account	1,622	3,015
Loss on inventory revaluation	634	423
Net defined benefit liabilities	1,031	928
Provision for directors' retirement benefits	26	37
Expense for stock-based compensation	161	183
Non-deductible depreciation expense of property and equipment	668	203
Asset retirement obligations	986	885
Impairment loss	277	299
Loss on evaluation of investments in securities	792	219
Non-deductible portion of allowance for doubtful accounts	52	39
Non-deductible portion of excess expenses on lump-sum depreciable assets	96	102
Provision for game arcade closings	17	34
Tax credits	22	8
Other	93	340
Total gross deferred tax assets	20,118	11,022
Valuation allowance for net operating loss carryforwards (Note 1)	(9,270)	—
Valuation allowance for aggregate deductible temporary differences	(2,064)	—
Total valuation allowance	(11,334)	(1,071)
Total deferred tax assets	8,783	9,950
Deferred tax liabilities		
Accrued expenses and other cost calculation details	(129)	(102)
Non-current assets	(1,550)	(1,278)
Tax effects from intangible non-current assets relating to business combinations	(468)	(544)
Other	(97)	(18)
Total deferred tax liabilities	(2,245)	(1,945)
Balance: Net deferred tax assets	¥6,538	¥8,005

Note: 1. A breakdown of net operating loss carryforwards and valuation allowance by expiry date as of March 31, 2019 is as follows:

Millions of yen

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

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

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

	As of March 31, 2019	As of March 31, 2018
Statutory tax rate	30.62%	30.86%
(Adjustments)		
Permanent differences relating to entertainment expense and others excluded from non-taxable expenses	0.19	0.15
Permanent differences relating to dividends received and others excluded from non-taxable expenses	(0.12)	(0.18)
Valuation allowance	(7.13)	3.89
Taxation on a per capita basis for inhabitants' tax	0.35	0.23
Special deduction for income growth	(1.21)	(0.90)
Tax credit for R&D expenses	(5.85)	(8.85)
Reduction of deferred tax assets and liabilities at fiscal year-end due to changes in corporate tax rate	0.19	3.01
Differences in tax rate from the parent company's statutory tax rate	(0.73)	0.21
Other	3.49	(0.32)
Effective tax rate	19.80	28.10

Business Combinations
■ Year ended March 31, 2019
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 an estimated useful life of 10 years—the average operating period for arcades that have been closed—and a discount rate between (0.171)% and 1.355%.

c) Changes to aggregate asset retirement obligations

Millions of yen

	Fiscal year ended March 31, 2019	Fiscal year ended March 31, 2018
Beginning balance	¥2,812	¥2,468
Increase due to procurement of property and equipment	323	359
Accretion expense	7	7
Decrease due to fulfillment of asset retirement obligations	—	(17)
Other changes	(5)	(5)
Ending balance	¥3,137	¥2,812

Matters Relating to Real Estate Leases, Etc.
■ Year ended March 31, 2019
Not applicable

■ Year ended March 31, 2018
Not applicable

Segment Information
[Segment Information]
■ Year ended March 31, 2019
1. Outline of reporting segments
The Company's reporting segments are business units for which abstracted financial data is available and periodically reviewed by the Board of Directors to determine resource allocation and to evaluate business performance.

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

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

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

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

Millions of yen

	Reporting segments					Adjustment (Note 1)	Consolidated total (Note 2)
	Digital Entertainment	Amusement	Publication	Merchandising	Total		
Net sales							
(1) Sales to outside customers	¥204,572	¥46,066	¥14,000	¥6,409	¥271,048	¥—	¥271,048
(2) Intersegment sales	17	177	30	987	1,213	(1,213)	—
Total	204,590	46,243	14,031	7,397	272,262	(1,213)	271,048
Segment operating income	¥29,062	¥1,958	¥3,970	¥932	¥35,924	¥(11,393)	¥24,531
Segment assets	¥98,113	¥24,931	¥5,361	¥1,777	¥130,184	¥147,672	¥277,856
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 ¥147,896 million are included in the ¥147,672 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.

■ **Year ended March 31, 2018**

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 of comic books, game strategy books and comic magazines; and (4) the "Merchandising" segment, for planning, production, distribution and licensing of derivative products. These are the Company's reporting segments.

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

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

Millions of yen

	Reporting segments					Adjustment (Note 1)	Consolidated total (Note 2)
	Digital Entertainment	Amusement	Publication	Merchandising	Total		
Net sales							
(1) Sales to outside customers	¥191,454	¥41,716	¥11,001	¥6,221	¥250,394	¥—	¥250,394
(2) Intersegment sales	14	33	47	1,346	1,442	(1,442)	—
Total	191,469	41,750	11,049	7,567	251,837	(1,442)	250,394
Segment operating income	¥43,421	¥2,402	¥2,470	¥1,888	¥50,183	¥(12,006)	¥38,176
Segment assets	¥79,178	¥23,011	¥4,389	¥1,610	¥108,190	¥151,523	¥259,713
Other items							
Depreciation and amortization	2,657	2,423	36	31	5,149	709	5,859
Increases in property and equipment and intangible assets	2,890	3,783	11	9	6,694	1,273	7,967

Notes: 1 (1) Segment adjustments (¥12,006 million) include unallocated corporate operating expenses (¥12,048 million).
(2) Unallocated assets amounting to ¥151,759 million are included in the ¥151,523 million adjustment to segment assets. Most of this amount comprises funds for management of surplus funds (cash and deposits).
(3) The ¥709 million adjustment to depreciation and amortization is associated with unallocated assets that do not belong to any reporting segment.
(4) The ¥1,273 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, 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
¥166,786	¥58,201	¥32,400	¥13,660	¥271,048

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.

■ Year ended March 31, 2018

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
¥175,786	¥44,632	¥21,802	¥8,172	¥250,394

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
¥14,116	¥1,414	¥438	¥90	¥16,060

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, 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.

■ Year ended March 31, 2018

Millions of yen

	Digital Entertainment	Amusement	Publication	Merchandising	Eliminations or unallocated (Note)	Total
Impairment losses	¥—	¥38	¥—	¥—	¥1	¥40

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, 2019
Not applicable

■ Year ended March 31, 2018
Not applicable

[Information related to gain on negative goodwill in each reporting segment]
■ Year ended March 31, 2019
Not applicable

■ Year ended March 31, 2018
Not applicable

[Related party transactions]
Transaction between the consolidated financial statement-submitting company and related parties
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, 2019

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

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

Note: 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.

■Year ended March 31, 2018

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	Michihiro Sasaki	—	—	Audit & supervisory board member of subsidiary	(Held) Direct Indirect	0.00 —	—	Exercising of stock options (Note 1)	¥11	—	¥ —
Company, etc., in which principal shareholders (individuals) and close relatives hold a majority of voting rights	Fukushima Planning Co., Ltd.	Shibuya-ku, Tokyo	10	Real estate management services, etc.	(Held) Direct Indirect	5.68 —	Principal shareholder	Purchase of treasury stock (Note 2)	¥9,231	—	¥ —

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

Note: 1 The exercise of stock acquisition rights as stock options during the year ended March 31, 2018 was pursuant to the resolutions of the Board of Directors on July 30, 2012.
"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, 2018.

2 Pursuant to a resolution of the Board of Directors on May 24, 2017, an own-share repurchase was implemented by means of a public tender offer with a repurchase price of ¥3,077 per share of common stock.

Per Share Information

Yen

	Fiscal year ended March 31, 2019	Fiscal year ended March 31, 2018
Net assets per share	¥1,699.34	¥1,617.58
Earnings per share	154.93	215.33
Diluted earnings per share	154.68	214.89

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

Millions of yen

	Fiscal year ended March 31, 2019	Fiscal year ended March 31, 2018
Earnings per share:		
Profit attributable to owners of parent	¥18,463	¥25,821
Profit not available to common shareholders	—	—
Profit attributable to common shareholders of parent	18,463	25,821
Average number of shares of common stock outstanding during the fiscal year (thousands of shares)	119,171	119,912
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	247
[Number of shares reserved for the purpose of new share issuances for exercise of share subscription rights]	[197]	[247]
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: 124,200 shares	Issuance of August 2017 stock acquisition rights, pursuant to a resolution of the Board of Directors on August 4, 2017: 179,000 shares

Significant Subsequent Events

Issuance of stock acquisition rights pursuant to a resolution of the Board of Directors held on June 21, 2019

The Company, at the Board of Directors meeting held on June 21, 2019, resolved 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, 2018 (Millions of yen)	Balance as of March 31, 2019 (Millions of yen)	Average interest rate (%)	Repayment date
Short-term loans	¥ 8,931	¥ 8,685	0.9	—
Long-term borrowings due for repayment within one year	—	—	—	—
Lease obligations due for repayment within one year	99	110	—	—
Long-term borrowings (excluding the amount due for repayment within one year)	—	—	—	—
Lease obligations (excluding the amount due for repayment within one year)	319	237	—	March 2021 to November 2023
Other interest-bearing liabilities	—	—	—	—
Total	¥ 9,350	¥ 9,032	—	—

Notes: 1 The average interest rate shown is the weighted average interest rate on the balance of borrowings as of March 31, 2019.

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

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

4 Scheduled repayment amounts during five years subsequent to March 31, 2019 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	¥114	¥112	¥7	¥2

[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, 2018 to June 30, 2018	2Q April 1, 2018 to September 30, 2018	3Q April 1, 2018 to December 31, 2018	4Q April 1, 2018 to March 31, 2019
Net sales	¥45,470	¥112,234	¥179,070	¥271,048
Profit before income taxes	7,681	11,228	12,135	23,028
Profit attributable to owners of parent	5,869	8,639	8,916	18,463
Earnings per share (yen)	49.29	72.52	74.83	154.93

Quarterly	1Q April 1, 2018 to June 30, 2018	2Q July 1, 2018 to September 30, 2018	3Q October 1, 2018 to December 31, 2018	4Q January 1, 2019 to March 31, 2019
Earnings per share (yen)	¥49.29	¥23.24	¥2.33	¥80.09