
***Avex Inc. and
Consolidated Subsidiaries***

*Consolidated Financial Statements for
the Year Ended March 31, 2023, and
Independent Auditor's Report*

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of Avex Inc.:

Opinion

We have audited the consolidated financial statements of Avex Inc. and its consolidated subsidiaries (the "Group"), which comprise the consolidated balance sheet as of March 31, 2023, and the consolidated statement of income, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies, all expressed in Japanese yen.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as of March 31, 2023, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with accounting principles generally accepted in Japan.

Convenience Translation

Our audit also comprehended the translation of Japanese yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made in accordance with the basis stated in Note 1 to the consolidated financial statements. Such U.S. dollar amounts are presented solely for the convenience of readers outside Japan.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in Japan. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the provisions of the Code of Professional Ethics in Japan, and we have fulfilled our other ethical responsibilities as auditors. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matter

A key audit matter is a matter that, in our professional judgment, was of most significance in our audit of the consolidated financial statements of the current period. The matter was addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on the matter.

Judgment regarding the recoverability of deferred tax assets	
The key audit matter and the basis of our determination	How the key audit matter was addressed in the audit
<p>In the Group's consolidated balance sheet as of March 31, 2023, deferred tax assets were recorded for ¥3,979 million.</p> <p>As described in Note 13, "Income Taxes," to the consolidated financial statements, the amount of deferred tax assets that were determined to be recoverable before being offset against deferred tax liabilities was ¥4,946 million, which consisted of total deferred tax assets of ¥8,407 million, valuation allowance of ¥3,461 million.</p> <p>Additionally, in Note 3, "Significant Accounting Estimates," to the consolidated financial statements, the details of accounting estimates are described as follows.</p> <p>The amount of deferred tax assets is the amount expected to be recovered in light of future taxable income based on profitability and tax planning, and in light of the scheduling of the fiscal period in which deductible temporary differences are expected to be reversed. In calculating the amount expected to be recovered, future taxable income based on profitability is estimated on the basis of the Group's business plan, which includes key assumptions relating to future sales projections and market trends.</p> <p>The assumptions used in these estimates may be affected by changes in uncertain economic conditions in the future, and management's judgment on the assumptions may have a material impact on the amount of deferred tax assets recorded.</p> <p>For the above reasons, we have determined the appropriateness of management's judgment on the recoverability of deferred tax assets based on future sales plans and market trends as a key audit matter.</p>	<p>In examining the appropriateness of management's judgment related to the recoverability of deferred tax assets based on future sales plans, market trends, we performed the following audit procedures, among others:</p> <ul style="list-style-type: none"> • We tested the design and operating effectiveness of controls over the accounting division's evaluation process of deferred tax assets specifically regarding the recoverability of deferred tax assets based on profit plans approved by the Board of Directors and other decision-making bodies, and the approval of the evaluation, which is performed by a supervising personnel. • In order to assess the appropriateness of future estimates of taxable income, we performed the following procedures: <ul style="list-style-type: none"> —We compared the estimates of taxable income for previous years with the actual results, and evaluated whether there was any bias in the Group's estimates and the accuracy of the Group's business plan development. —We evaluated whether appropriate approvals were obtained for the future business plan on which future estimates of taxable income will be based. —Regarding sales plans for live performances and events in future business plans and market trends in the live entertainment market, we inquired of management. —We evaluated whether management's assumptions were evaluated based on past results. • Regarding the appropriateness of the corporate classification, the appropriateness of the valuation allowance, and the scheduling of the fiscal year in which the future utilization of the deductible temporary difference and others is expected, we evaluated the reasonableness by inspecting the relevant materials and making relevant inquires and others.

Other Information

Other information comprises the information included in the Group's disclosure documents accompanying the audited consolidated financial statements, but does not include the consolidated financial statements and our auditor's report thereon.

We determined that no such information existed and therefore, we did not perform any work thereon.

Responsibilities of Management and the Audit and Supervisory Committee for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in Japan, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern in accordance with accounting principles generally accepted in Japan and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

The Audit and Supervisory Committee is responsible for overseeing the Directors' execution of duties relating to the design and operating effectiveness of the controls over the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with auditing standards generally accepted in Japan will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with auditing standards generally accepted in Japan, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks. The procedures selected depend on the auditor's judgment. In addition, we obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain, when performing risk assessment procedures, an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate whether the overall presentation and disclosures of the consolidated financial statements are in accordance with accounting principles generally accepted in Japan, as well as the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit and Supervisory Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit and Supervisory Committee with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with it all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Audit and Supervisory Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Interest Required to Be Disclosed by the Certified Public Accountants Act of Japan

Our firm and its designated engagement partners do not have any interest in the Group which is required to be disclosed pursuant to the provisions of the Certified Public Accountants Act of Japan.

Deloitte Touche Tohmatsu LLC

August 10, 2023

Avex Inc. and Consolidated Subsidiaries

Consolidated Balance Sheet March 31, 2023

<u>ASSETS</u>	<u>Millions of Yen</u>		<u>Thousands of</u> <u>U.S. Dollars</u> <u>(Note 1)</u>
	<u>2023</u>	<u>2022</u>	<u>2023</u>
CURRENT ASSETS:			
Cash and cash in banks (Notes 17 and 20)	¥ 48,143	¥44,671	\$ 360,540
Notes and accounts receivable—trade (Notes 4 and 17)	22,206	13,855	166,299
Inventories:			
Merchandise and finished products	1,172	1,058	8,777
Programs and work in process	2,801	5,175	20,976
Raw materials and supplies	221	301	1,655
Advance payments—trade	1,110	1,433	8,312
Prepaid expenses	1,516	1,264	11,353
Prepaid royalties	2,020	1,298	15,127
Accounts receivable—other (Note 17)	5,463	4,329	40,912
Other	1,909	2,110	14,296
Allowance for doubtful accounts	(350)	(172)	(2,621)
Total current assets	<u>86,217</u>	<u>75,326</u>	<u>645,675</u>
PROPERTY, PLANT AND EQUIPMENT (Note 6):			
Land	1,548	1,548	11,592
Buildings and structures—net	2,110	1,945	15,801
Other property—net	892	860	6,680
Total property, plant and equipment	<u>4,551</u>	<u>4,354</u>	<u>34,082</u>
INVESTMENTS AND OTHER ASSETS:			
Investment securities (Notes 5 and 17)	9,228	8,564	69,108
Intangible assets	3,505	4,156	26,248
Deferred tax assets (Notes 3 and 13)	3,979	3,777	29,798
Other assets	1,486	1,813	11,128
Allowance for doubtful accounts	(54)	(191)	(404)
Total investments and other assets	<u>18,146</u>	<u>18,120</u>	<u>135,894</u>
TOTAL	<u>¥ 108,915</u>	<u>¥97,801</u>	<u>\$ 815,659</u>

Avex Inc. and Consolidated Subsidiaries

Consolidated Balance Sheet March 31, 2023

<u>LIABILITIES AND EQUITY</u>	<u>Millions of Yen</u>		<u>Thousands of</u>
	<u>2023</u>	<u>2022</u>	<u>U.S. Dollars</u> <u>(Note 1)</u>
			<u>2023</u>
CURRENT LIABILITIES:			
Notes and accounts payable—trade (Note 17)	¥ 3,434	¥ 2,556	\$ 25,717
Current portion of long-term loans (Notes 7 and 17)	3	7	22
Accounts payable—other (Note 17)	25,679	16,052	192,308
Accrued royalties (Note 17)	6,660	7,016	49,876
Income taxes payable (Note 17)	1,482	264	11,098
Refund liabilities	2,168	2,446	16,236
Advances received (Note 12)	3,032	3,543	22,706
Provision for bonuses	884	575	6,620
Provision for contingent loss		95	
Other	4,757	2,893	35,624
Total current liabilities	48,104	35,451	360,248
LONG-TERM LIABILITIES:			
Long-term loans (Notes 7 and 17)	6	9	44
Liability for retirement benefits (Note 8)	529	350	3,961
Other	1,436	1,295	10,754
Total long-term liabilities	1,972	1,655	14,768
COMMITMENTS AND CONTINGENT LIABILITIES (Notes 16 and 18)			
EQUITY (Notes 9, 10 and 11):			
Shareholders' equity:			
Common stock—authorized, 184,631,000 shares; issued, 45,558,800 shares in 2023 and 45,440,100 shares in 2022	4,599	4,521	34,441
Capital surplus	5,526	5,422	41,383
Retained earnings	46,343	45,924	347,060
Treasury stock—at cost, 410,302 shares in 2023 and 410,124 shares in 2022	(590)	(590)	(4,418)
Total	55,878	55,278	418,467
Accumulated other comprehensive income:			
Unrealized gain on available-for-sale securities	2,538	2,750	19,006
Foreign currency translation adjustments	(182)	(160)	(1,362)
Defined retirement benefit plans	(160)	4	(1,198)
Total	2,195	2,593	16,438
Noncontrolling interests	764	2,822	5,721
Total equity	58,838	60,694	440,635
TOTAL	¥ 108,915	¥ 97,801	\$ 815,659

See notes to consolidated financial statements.

Avex Inc. and Consolidated Subsidiaries

Consolidated Statement of Income Year Ended March 31, 2023

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	<u>2023</u>	<u>2022</u>	<u>2023</u>
NET SALES (Note 12)	¥ 121,561	¥ 98,437	\$ 910,364
COST OF SALES	<u>82,574</u>	<u>63,209</u>	<u>618,392</u>
Gross profit	38,987	35,228	291,971
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES (Note 14)	<u>35,602</u>	<u>32,645</u>	<u>266,621</u>
Operating income	<u>3,385</u>	<u>2,582</u>	<u>25,350</u>
OTHER INCOME (EXPENSES):			
Interest income	18	19	134
Dividend income	8	16	59
Interest expense	(9)	(11)	(67)
Commission fee	(16)	(18)	(119)
Gain on valuation of investment securities	822		6,155
Equity in losses of associated companies	(20)	(218)	(149)
Foreign exchange losses	(146)	(8)	(1,093)
Loss on valuation of cryptocurrencies	(70)		(524)
Loss on investments in partnership		(13)	
Gain on sales of investment securities	1,390	88	10,409
Reversal of provision for contingent loss	50	62	374
Gain on reversal of subscription rights to shares		114	
Subsidies for employment adjustment		41	
Loss on impairment of long-lived assets (Note 6)	(851)	(174)	(6,373)
Loss on disaster (Note 15)		(233)	
Loss on valuation of investment securities	(87)	(10)	(651)
Other—net	<u>178</u>	<u>(5)</u>	<u>1,333</u>
Other income (expenses)—net	<u>1,266</u>	<u>(351)</u>	<u>9,481</u>
INCOME BEFORE INCOME TAXES	<u>4,651</u>	<u>2,231</u>	<u>34,831</u>
INCOME TAXES (Note 13):			
Current	1,813	512	13,577
Deferred	<u>(186)</u>	<u>636</u>	<u>(1,392)</u>
Total income taxes	<u>1,626</u>	<u>1,148</u>	<u>12,177</u>
NET INCOME—(Forward)	¥ 3,024	¥ 1,082	\$ 22,646

Avex Inc. and Consolidated Subsidiaries

Consolidated Statement of Income Year Ended March 31, 2023

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2023	2022	2023
NET INCOME—(Forward)	¥3,024	¥1,082	\$22,646
NET INCOME ATTRIBUTABLE TO NONCONTROLLING INTERESTS	281	162	2,104
NET INCOME ATTRIBUTABLE TO OWNERS OF THE PARENT	¥2,742	¥ 919	\$20,534
	Yen		U.S. Dollars
PER SHARE OF COMMON STOCK (Notes 2.v and 22):			
Basic net income	¥60.80	¥20.77	\$0.46
Diluted net income		20.76	
Cash dividends applicable to the year	50.00	50.00	0.37

See notes to consolidated financial statements.

Avex Inc. and Consolidated Subsidiaries

Consolidated Statement of Comprehensive Income Year Ended March 31, 2023

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	<u>2023</u>	<u>2022</u>	<u>2023</u>
NET INCOME	<u>¥3,024</u>	<u>¥1,082</u>	<u>\$22,646</u>
OTHER COMPREHENSIVE (LOSS) INCOME (Note 19):			
Unrealized (loss) gain on available-for-sale securities	(213)	1,612	(1,595)
Foreign currency translation adjustments	(21)	(41)	(157)
Defined retirement benefit plans	(152)	(123)	(1,138)
Share of other comprehensive (loss) income in associates	<u>(10)</u>	<u>8</u>	<u>(74)</u>
Total other comprehensive (loss) income	<u>(398)</u>	<u>1,456</u>	<u>(2,980)</u>
COMPREHENSIVE INCOME	<u>¥2,626</u>	<u>¥2,538</u>	<u>\$19,665</u>
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO:			
Owners of the parent	¥2,344	¥2,375	\$17,554
Noncontrolling interests	281	162	2,104

See notes to consolidated financial statements.

Avex Inc. and Consolidated Subsidiaries

Consolidated Statement of Changes in Equity Year Ended March 31, 2023

	Millions of Yen											
	Shareholders' Equity				Accumulated Other Comprehensive Income				Stock Acquisition Rights	Noncontrolling Interests	Total Equity	
	Common Stock	Capital Surplus	Retained Earnings	Treasury Stock	Total	Unrealized Gain on Available-for-Sale Securities	Foreign Currency Translation Adjustments	Defined Retirement Benefit Plans				Total
BALANCE, MARCH 31, 2021 (April 1, 2021, as previously reported)	¥4,443	¥5,171	¥50,209	¥(5,655)	¥54,168	¥1,120	¥(119)	¥ 135	¥1,137	¥119	¥2,914	¥58,339
Cumulative effect of accounting change			(21)		(21)							(21)
BALANCE, APRIL 1, 2021 (as restated)	4,443	5,171	50,188	(5,655)	54,147	1,120	(119)	135	1,137	119	2,914	58,318
Issuance of new stock	78	78			156							156
Net income attributable to owners of the parent			919		919							919
Cash dividends, ¥121 per share			(5,101)		(5,101)							(5,101)
Disposal of treasury stock		172		5,065	5,238							5,238
Change in scope of consolidation			(64)		(64)							(64)
Change in scope of equity method			(17)		(17)							(17)
Net change in the year						1,629	(41)	(131)	1,456	(119)	(91)	1,244
BALANCE, MARCH 31, 2022	4,521	5,422	45,924	(590)	55,278	2,750	(160)	4	2,593		2,822	60,694
Issuance of new stock	77	77			155							155
Net income attributable to owners of the parent			2,742		2,742							2,742
Cash dividends, ¥50 per share			(2,254)		(2,254)							(2,254)
Change in scope of consolidation			(37)		(37)							(37)
Change in scope of equity method			(32)		(32)							(32)
Change in ownership interest of parent due to transactions with noncontrolling interests		26			26							26
Net change in the year						(211)	(21)	(164)	(398)		(2,057)	(2,455)
BALANCE, MARCH 31, 2023	<u>¥4,599</u>	<u>¥5,526</u>	<u>¥46,343</u>	<u>¥ (590)</u>	<u>¥55,878</u>	<u>¥2,538</u>	<u>¥(182)</u>	<u>¥(160)</u>	<u>¥2,195</u>	<u>¥</u>	<u>¥ 764</u>	<u>¥58,838</u>

	Thousands of U.S. Dollars (Note 1)											
	Shareholders' Equity				Accumulated Other Comprehensive Income				Stock Acquisition Rights	Noncontrolling Interests	Total Equity	
	Common Stock	Capital Surplus	Retained Earnings	Treasury Stock	Total	Unrealized Gain on Available-for-Sale Securities	Foreign Currency Translation Adjustments	Defined Retirement Benefit Plans				Total
BALANCE, MARCH 31, 2022	\$33,857	\$40,605	\$343,922	\$(4,418)	\$413,974	\$20,594	\$(1,198)	\$ 29	\$19,418		\$21,133	\$454,534
Issuance of new stock	576	576			1,160							1,160
Net income attributable to owners of the parent			20,534		20,534							20,534
Cash dividends, \$0.37 per share			(16,880)		(16,880)							(16,880)
Change in scope of consolidation			(277)		(277)							(277)
Change in scope of equity method			(239)		(239)							(239)
Change in ownership interest of parent due to transactions with noncontrolling interests		194			194							194
Net change in the year						(1,580)	(157)	(1,228)	(2,980)		(15,404)	(18,385)
BALANCE, MARCH 31, 2023	<u>\$34,441</u>	<u>\$41,383</u>	<u>\$347,060</u>	<u>\$(4,418)</u>	<u>\$418,467</u>	<u>\$19,006</u>	<u>\$(1,362)</u>	<u>\$(1,198)</u>	<u>\$16,438</u>	<u>¥</u>	<u>\$ 5,721</u>	<u>\$440,635</u>

See notes to consolidated financial statements.

Avex Inc. and Consolidated Subsidiaries

Consolidated Statement of Cash Flows Year Ended March 31, 2023

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	<u>2023</u>	<u>2022</u>	<u>2023</u>
OPERATING ACTIVITIES:			
Income before income taxes	¥ 4,651	¥ 2,231	\$34,831
Adjustments for:			
Depreciation	2,346	2,170	17,569
Loss on impairment of long-lived assets	851	174	6,373
Loss on disaster		233	
Interest and dividend income	(27)	(36)	(202)
Interest expense	9	11	67
Gain on sales of investment securities	(1,390)	(88)	(10,409)
Equity in losses of associated companies	20	218	149
Gain on reversal of subscription rights to shares		(114)	
(Gain) loss on valuation of investment securities	(734)	10	(5,496)
Share-based compensation expenses	156	142	1,168
Changes in assets and liabilities:			
(Increase) decrease in trade accounts receivable	(10,300)	295	(77,136)
Decrease (increase) in inventories	1,181	(215)	8,844
Decrease (increase) in advance payments—trade	248	(211)	1,857
(Increase) decrease in prepaid royalties	(637)	658	(4,770)
Increase in trade accounts payable	868	1,057	6,500
(Increase) decrease in accounts receivable—other	(832)	1,923	(6,230)
Increase (decrease) in other accounts payable	11,955	(2,885)	89,530
Decrease in accrued royalties	(211)	(685)	(1,580)
(Decrease) increase in advances received	(513)	870	(3,841)
Decrease in refund liabilities	(277)	(446)	(2,074)
Increase in provision for bonuses	316	72	2,366
Decrease in provision for contingent loss	(95)	(130)	(711)
Decrease in liability for retirement benefits	(36)	(214)	(269)
Other—net	1,694	(3,168)	12,686
Subtotal	9,243	1,876	69,220
Interest and dividends received	45	53	337
Interest paid	(10)	(10)	(74)
Income taxes—refunded	514	46	3,849
Income taxes—paid	(600)	(6,430)	(4,493)
 Net cash provided by (used in) operating activities—(Forward)	 <u>¥ 9,192</u>	 <u>¥ (4,464)</u>	 <u>\$68,838</u>

Avex Inc. and Consolidated Subsidiaries

Consolidated Statement of Cash Flows Year Ended March 31, 2023

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	<u>2023</u>	<u>2022</u>	<u>2023</u>
Net cash provided by (used in) operating activities—(Forward)	¥ 9,192	¥ (4,464)	\$ 68,838
INVESTING ACTIVITIES:			
Purchases of property, plant and equipment	(1,131)	(659)	(8,470)
Purchases of intangible assets	(2,452)	(2,297)	(18,362)
Purchases of investment securities	(391)	(424)	(2,928)
Proceed from sales of investment securities	1,498	99	11,218
Payments for lease and guarantee deposits	(48)	(729)	(359)
Proceeds from collection of lease and guarantee deposits	29	41	217
Payments for sale of shares of subsidiaries resulting in change in scope of consolidation	(646)		(4,837)
Other—net	<u>10</u>	<u>582</u>	<u>74</u>
Net cash used in investing activities	<u>(3,131)</u>	<u>(3,387)</u>	<u>(23,447)</u>
FINANCING ACTIVITIES:			
Repayments of long-term loans	(7)	(54)	(52)
Repayments of lease obligations	(58)	(41)	(434)
Disposal of treasury stock		5,208	
Purchase of shares not resulting in change in scope of consolidation	(65)		(486)
Dividends paid	(2,254)	(5,094)	(16,880)
Dividends paid to noncontrolling shareholders	<u>(106)</u>	<u>(331)</u>	<u>(793)</u>
Net cash used in financing activities	<u>(2,493)</u>	<u>(314)</u>	<u>(18,669)</u>
FOREIGN CURRENCY TRANSLATION ADJUSTMENTS ON CASH AND CASH EQUIVALENTS			
	<u>(95)</u>	<u>183</u>	<u>(711)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	3,472	(7,983)	26,001
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>44,671</u>	<u>52,654</u>	<u>334,539</u>
CASH AND CASH EQUIVALENTS, END OF YEAR (Note 20)	<u>¥48,143</u>	<u>¥44,671</u>	<u>\$ 360,540</u>

See notes to consolidated financial statements.

Avex Inc. and Consolidated Subsidiaries

Notes to Consolidated Financial Statements Year Ended March 31, 2023

1. BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS

The accompanying consolidated financial statements have been prepared in accordance with the provisions set forth in the Japanese Financial Instruments and Exchange Act and its related accounting regulations and in accordance with accounting principles generally accepted in Japan ("Japanese GAAP"), which are different in certain respects as to the application and disclosure requirements of International Financial Reporting Standards.

In preparing these consolidated financial statements, certain reclassifications and rearrangements have been made to the consolidated financial statements issued domestically in order to present them in a form which is more familiar to readers outside Japan. In addition, certain reclassifications have been made in the 2022 consolidated financial statements to conform to the classifications used in 2023.

The consolidated financial statements are stated in Japanese yen, the currency of the country in which Avex Inc. (the "Company") is incorporated and operates. The translations of Japanese yen amounts into U.S. dollar amounts are included solely for the convenience of readers outside Japan and have been made at the rate of ¥133.53 to \$1, the approximate rate of exchange at March 31, 2023. Such translations should not be construed as representations that the Japanese yen amounts could be converted into U.S. dollars at that or any other rate.

Japanese yen figures less than a million yen are rounded down to the nearest million, except for per share data.

U.S. dollar figures less than a thousand dollars are rounded down to the nearest thousand, except for per share data.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

- a. Consolidation**—The consolidated financial statements as of March 31, 2023, include the accounts of the Company and its 25 significant (27 in 2022) subsidiaries (together, the "Avex Group").

Consolidation of the remaining subsidiaries would not have a material effect on the accompanying consolidated financial statements.

Under the control and influence concepts, those companies in which the Company, directly or indirectly, is able to exercise control over operations are fully consolidated, and those companies over which the Avex Group has the ability to exercise significant influence are accounted for by the equity method.

(Consolidated Subsidiaries)

Avex Entertainment Inc.
Avex Pictures Inc.
Avex Digital Inc.
Avex Management Inc.
Avex Music Publishing Inc.
Avex Technologies Inc.
Avex Creator Agency Inc.*1
Avex Creative Factory Inc.
Coestation Inc.
AVEX AY FACTORY LLC.
The Anime Times Company

LIVESTAR Inc.
fuzz, Inc.
RiBLA Inc.*4
Avex Classics International Inc.
FLAGSHIP LINE, Inc.
Avex ASUNARO Company Inc.
aNCHOR Inc.
THINKR Inc.
Virtual Avex Inc.
Avex Asia Pte. Ltd.
Avex China Inc.
Avex Hong Kong Ltd.
Avex USA Inc.
Avex Taiwan Inc.

- *1 The company name of Avex Business Development Inc. was changed to Avex Creator Agency Inc. in the year ended March 31, 2023.
- *2 MAKEY Inc. and TWH, Inc. were excluded from the scope of consolidation from the year ended March 31, 2023, since they were merged into Avex Creator Agency Inc. in absorption-type merger.
- *3 Avex Broadcasting & Communications Inc. was excluded from the scope of consolidation in the year ended March 31, 2023, due to the sale of its shares.
- *4 RiBLA Inc. was included in the scope of consolidation from the year ended March 31, 2023, as its materiality has increased.

Investments in six (five in 2022) associated companies are accounted for by the equity method.

(Associated Companies Accounted for by Equity Method)

Memory-Tech Holdings Inc.
RecoChoku Co., Ltd.
AWA Co. Ltd.
HI&max Inc.
SANRIO SOUTH EAST ASIA Pte. Ltd.*3
Fashion Freak Show International Ltd.*1

- *1 Fashion Freak Show International Ltd. was included in the scope of equity method from the year ended March 31, 2023, as its establishment.
- *2 LINE MUSIC Corporation was excluded from the scope of equity method in the year ended March 31, 2023, due to the sale of its shares.
- *3 SANRIO SOUTH EAST ASIA Pte. Ltd. was included in the scope of equity method from the year ended March 31, 2023, as its balance became material.

Investments in the remaining associated companies are stated at cost. If the equity method of accounting had been applied to the investments in these companies, the impact on the accompanying consolidated financial statements would be immaterial.

The excess of the cost of acquisition over the fair value of the net assets of an acquired subsidiary at the date of acquisition is amortized over 5 years.

All significant intercompany balances and transactions have been eliminated in consolidation. All material unrealized profit included in assets resulting from transactions within the Avex Group is also eliminated.

Accounts of subsidiaries whose year-ends differ from March 31 have been consolidated using pro forma financial information prepared as of March 31.

- b. Unification of Accounting Policies Applied to Foreign Subsidiaries for the Consolidated Financial Statements**—Under Accounting Standards Board of Japan ("ASBJ") Practical Issues Task Force ("PITF") No. 18, "Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for the Consolidated Financial Statements," the accounting policies and procedures applied to a parent company and its subsidiaries for similar transactions and events under similar circumstances should in principle be unified for the preparation of the consolidated financial statements. However, financial statements prepared by foreign subsidiaries in accordance with either International Financial Reporting Standards or generally accepted accounting principles in the United States of America (Financial Accounting Standards Board Accounting Standards Codification) tentatively may be used for the consolidation process, except for the following items that should be adjusted in the consolidation process so that net income is accounted for in accordance with Japanese GAAP, unless they are not material: (a) amortization of goodwill; (b) scheduled amortization of actuarial gain or loss of pensions that has been recorded in equity through other comprehensive income; (c) expensing capitalized development costs of R&D; and (d) cancellation of the fair value model of accounting for property, plant and equipment and investment properties and incorporation of the cost model of accounting.
- c. Unification of Accounting Policies Applied to Foreign Associated Companies for the Equity Method**—ASBJ Statement No. 16, "Accounting Standard for Equity Method of Accounting for Investments," requires adjustments to be made to conform the associate's accounting policies for similar transactions and events under similar circumstances to those of the parent company when the associate's financial statements are used in applying the equity method, unless it is impracticable to determine such adjustments. In addition, financial statements prepared by foreign associated companies in accordance with either International Financial Reporting Standards or generally accepted accounting principles in the United States of America tentatively may be used in applying the equity method if the following items are adjusted so that net income is accounted for in accordance with Japanese GAAP, unless they are not material: (a) amortization of goodwill; (b) scheduled amortization of actuarial gain or loss of pensions that has been recorded in equity through other comprehensive income; (c) expensing capitalized development costs of R&D; and (d) cancellation of the fair value model of accounting for property, plant and equipment and investment properties and incorporation of the cost model of accounting.
- d. Business Combinations**—Business combinations are accounted for using the purchase method. Acquisition-related costs, such as advisory fees or professional fees, are accounted for as expenses in the periods in which the costs are incurred. If the initial accounting for a business combination is incomplete by the end of the reporting period in which the business combination occurs, an acquirer shall report in its financial statements provisional amounts for the items for which the accounting is incomplete. During the measurement period, which shall not exceed one year from the acquisition, the acquirer shall retrospectively adjust the provisional amounts recognized at the acquisition date to reflect new information obtained about facts and circumstances that existed as of the acquisition date and that would have affected the measurement of the amounts recognized as of that date. Such adjustments shall be recognized as if the accounting for the business combination had been completed at the acquisition date. The acquirer recognizes any bargain purchase gain in profit or loss immediately on the acquisition date after reassessing and confirming that all of the assets acquired and all of the liabilities assumed have been identified after a review of the procedures used in the purchase price allocation. A parent's ownership interest in a subsidiary might change if the parent purchases or sells ownership interests in its subsidiary. The carrying amount of noncontrolling interest is adjusted to reflect the change in the parent's ownership interest in its subsidiary while the parent retains its controlling interest in its subsidiary. Any difference between the fair value of the consideration received or paid and the amount by which the noncontrolling interest is adjusted is accounted for as capital surplus as long as the parent retains control over its subsidiary.
- e. Cash Equivalents**—Cash equivalents are short-term investments that are readily convertible into cash and exposed to insignificant risk of changes in value.

Cash equivalents include time deposits, certificates of deposit, commercial paper and bond funds, all of which mature or become due within three months of the date of acquisition.

- f. Inventories**—Merchandise, finished products and supplies are stated at the lower of cost, determined by the moving average cost method, or net selling value.

Raw materials are stated at the lower of most recent purchase price, which approximates cost determined by the first-in, first-out method, or net selling value.

Programs and work in process (including the right to use audiovisual) are stated at the lower of cost, determined by the specific identification method, or net selling value.

Valuation losses due to declines in profitability included in cost of sales for the years ended March 31, 2023 and 2022, were ¥1,124 million (\$8,417 thousand) and ¥801 million, respectively.

- g. Marketable and Investment Securities**—Marketable and investment securities classified as available for sale securities are reported at fair value, with unrealized gains and losses, net of applicable taxes, reported in a separate component of equity.

Nonmarketable available-for-sale equity securities are stated at cost determined by the moving-average method. For other-than-temporary declines in fair value, investment securities are reduced to net realizable value by a charge to income.

Investments in limited partnerships are accounted for by the equity method.

- h. Property, Plant and Equipment**—Property, plant and equipment are stated at cost. Depreciation of property, plant and equipment of the Company and its consolidated domestic subsidiaries is computed by the declining-balance method based on the estimated useful lives of the assets, while the straight-line method is applied to buildings (excluding accompanying facilities) acquired after April 1, 1998, and building improvements and structures acquired after April 1, 2016.

Depreciation of property, plant and equipment of consolidated foreign subsidiaries is computed by the straight-line method.

The range of useful lives is principally from 3 to 43 years for buildings and structures and from 2 to 20 years for other.

Accumulated depreciation of property, plant and equipment as of March 31, 2023 and 2022, was ¥6,175 million (\$46,244 thousand) and ¥6,453 million, respectively.

- i. Long-Lived Assets**—The Avex Group reviews its long-lived assets for impairment whenever events or changes in circumstance indicate the carrying amount of an asset or asset group may not be recoverable. An impairment loss is recognized if the carrying amount of an asset or asset group exceeds the sum of the undiscounted future cash flows expected to result from the continued use and eventual disposition of the asset or asset group. The impairment loss would be measured as the amount by which the carrying amount of the asset exceeds its recoverable amount, which is the higher of the discounted cash flows from the continued use and eventual disposition of the asset or the net selling price at disposition.

- j. Intangible Assets**—Intangible assets are amortized by the straight-line method over the estimated useful life (2–5 years).

- k. Leases**—The Avex Group leases certain tools, furniture and fixtures and vehicles as finance leases that do not transfer ownership of the leased property to the lessee. Finance leases that do not transfer ownership of the leased property to the lessee are depreciated by the straight-line method over the terms of the respective leases with no residual value.

- l. Allowance for Doubtful Accounts**—The allowance for doubtful accounts is stated in amounts considered to be appropriate based on the Company's past credit loss experience and a valuation of potential losses in the receivables outstanding.

- m. Provision for Bonuses**—Provision for bonuses is provided for the bonus payments to employees in estimated bonus amounts attributable to the current fiscal year.
- n. Provision for Contingent Loss**—The Avex Group has recorded projected losses as a contingency for possible future losses related to contracted talent at the consolidated subsidiaries.
- o. Retirement and Pension Plans**—The Avex Group (excluding certain consolidated subsidiaries) has defined benefit pension plans.

Additional retirement benefits are paid in certain circumstances.

The Company accounts for the liability for retirement benefits based on the projected benefit obligations and plan assets at the balance sheet date. The projected benefit obligations are attributed to periods on a benefit formula basis. Actuarial gains and losses and past service costs that are yet to be recognized in profit or loss are recognized within equity (accumulated other comprehensive income), after adjusting for tax effects and are recognized in profit or loss over 1 year and 11 years, respectively, no longer than the expected average remaining service period of the employees. The discount rate is determined using a single weighted-average discount rate reflecting the estimated timing and amount of benefit payment.

- p. Stock Options**—Compensation expense for employee stock options which were granted on and after May 1, 2006, is recognized based on the fair value at the date of grant and over the vesting period as consideration for receiving goods or services in accordance with ASBJ Statement No. 8, "Accounting Standard for Share-based Payment." Stock options granted to nonemployees are accounted for based on the fair value of either the stock option or the goods or services received. In the balance sheet, the stock option is presented as a stock acquisition right as a separate component of equity until exercised.
- q. Net Sales**—The Avex Group recognizes revenue in accordance with that core principle by applying the following steps:

- Step 1: Identify the contracts with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognize revenue when (or as) the entity satisfies a performance obligation

The Avex Group provides a wide variety of goods and services, including through its music business, anime & visual content business, digital business and overseas business.

In the sale of products and merchandise, the Avex Group determines that control of products transfers to the customer at the time of shipment, and recognizes revenue at the time of shipment. However, for products and merchandise shipped before the release date, the Avex Group recognizes revenue at the time of sale according to accepted business practices since the time from shipment to delivery is very short.

For products and merchandise sold where the Avex Group determines its role is that of an agent, it recognizes revenue as the net amount obtained by deducting the amount of payment to a third party from the total amount of the consideration.

Regarding the holding of live events, the Avex Group determines that services promised transfer to customers and performance obligations are satisfied at the time the event is held. Thus the Avex Group recognizes revenue at the time of the event.

Various types of music, video, and other distribution are classified as transactions that grant licenses to customers. With respect to sales or usage-based royalties received from customers, the Avex Group recognizes revenue from such distribution at the time the customer records revenue in connection with the license or the licensee uses the license.

- r. Income Taxes**—The provision for income taxes is computed based on the pretax income included in the consolidated statement of income. The asset and liability approach is used to recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts and the tax bases of assets and liabilities. Deferred taxes are measured by applying currently enacted income tax rates to the temporary differences.

The Avex Group files a tax return under the group tax sharing system.

- s. Foreign Currency Transactions**—All short-term and long-term monetary receivables and payables denominated in foreign currencies are translated into Japanese yen at the exchange rates at the balance sheet date. The foreign exchange gains and losses from translation are recognized in the consolidated statement of income to the extent that they are not hedged by forward exchange contracts.
- t. Foreign Currency Financial Statements**—The balance sheet accounts of the consolidated foreign subsidiaries are translated into Japanese yen at the current exchange rate as of the balance sheet date except for equity, which is translated at the historical rate. Differences arising from such translation are shown as "Foreign currency translation adjustments" under accumulated other comprehensive income in a separate component of equity. Revenue and expense accounts of consolidated foreign subsidiaries are translated into yen at the average exchange rate.
- u. Derivatives and Hedging Activities**—The Avex Group uses derivative financial instruments to manage its exposures to fluctuations in foreign exchange. Foreign exchange forward contracts are utilized by the Avex Group to reduce foreign currency exchange risks. The Avex Group does not enter into derivatives for trading or speculative purposes.

Derivative financial instruments are classified and accounted for as follows: (1) all derivatives are recognized as either assets or liabilities and measured at fair value, and gains or losses on derivative transactions are recognized in the consolidated statement of income; and (2) for derivatives used for hedging purposes, if such derivatives qualify for hedge accounting because of high correlation and effectiveness between the hedging instruments and the hedged items, gains or losses on derivatives are deferred until maturity of the hedged transactions.

Foreign currency forward contracts applied for forecasted transactions are measured at fair value, but the unrealized gains/losses are deferred until the underlying transactions are completed.

- v. Per Share Information**—Basic net income per share is computed by dividing net income attributable to common shareholders by the weighted-average number of common shares outstanding for the period, retroactively adjusted for stock splits.

Diluted net income per share reflects the potential dilution that could occur if securities were exercised or converted into common stock. Diluted net income per share of common stock assumes full conversion of the outstanding convertible notes and bonds at the beginning of the year (or at the time of issuance) with an applicable adjustment for related interest expense, net of tax, and full exercise of outstanding warrants.

Cash dividends per share presented in the accompanying consolidated statement of income are dividends applicable to the respective fiscal years, including dividends to be paid after the end of the year.

w. Accounting Change

Guidance on Accounting Standards For Fair Value Measurement—The Company has applied the revised ASBJ Guidance No. 31, June 17, 2021, "Implementation Guidance on Accounting Standard for Fair Value Measurement" from the beginning of the year ended March 31, 2023, and will prospectively apply the guidance in accordance with the transitional treatment provided for in the paragraph 27-2 of the ASBJ Guidance No. 31. There is no impact on the consolidated financial statements.

x. Change in Presentation

Consolidated Balance Sheet—"Long-term prepaid expenses" of ¥2 million for the year ended March 31, 2022, which was presented separately in prior periods, has been reclassified into "Other assets" in investments and other assets to conform to the current year's presentation.

"Contract liabilities" of ¥46 million for the year ended March 31, 2022, which was presented separately in prior periods, has been reclassified into "Other" in current liabilities to conform to the current year's presentation.

Consolidated Statement of Income—"Subsidy income" of ¥48 million for the year ended March 31, 2022, which was presented separately in prior periods, has been reclassified into "Other—net" in other income (expenses) to conform to the current year's presentation.

"Foreign exchange losses" of ¥8 million for the year ended March 31, 2022, which was included in "Other—net" in other income (expenses), has been presented separately to conform to the current year's presentation.

"Gain on sales of noncurrent properties" of ¥2 million for the year ended March 31, 2022, which was presented separately in prior periods, has been reclassified into "Other—net" in other income (expenses) to conform to the current year's presentation.

"Loss on disposal of noncurrent properties" of ¥27 million for the year ended March 31, 2022, which was presented separately in prior periods, has been reclassified into "Other—net" in other income (expenses) to conform to the current year's presentation.

Consolidated Statement of Cash Flows—"Loss on investments in partnership" of ¥13 million, "Gain on sales of noncurrent properties" of ¥(2) million and "Increase in contract liabilities" of ¥8 million for the year ended March 31, 2022, which were presented separately in prior periods, have been reclassified into "Other—net" in operating activities to conform to the current year's presentation.

"Proceed from sales of property, plant and equipment" of ¥2 million for the year ended March 31, 2022, which was presented separately in prior periods, has been reclassified into "Other—net" in investing activities to conform to the current year's presentation.

3. SIGNIFICANT ACCOUNTING ESTIMATES

Deferred Tax Assets

(1) *Carrying amounts*

	Millions of Yen		Thousands of U.S. Dollars
	2023	2022	2023
Deferred tax assets	¥3,979	¥3,777	\$ 29,798

(2) *Information on the significant estimate*

As stated in Note 13, "Income Taxes," the Avex Group recorded deferred tax assets determined to be recoverable before being offset against deferred tax liabilities of ¥4,946 million (\$37,040 thousand) (total deferred tax assets of ¥8,407 million (\$62,959 thousand), valuation allowance of ¥(3,461) million (\$25,919 thousand)). The amount of deferred tax assets is the amount expected to be recovered in light of future taxable income based on profitability and tax planning, and in light of the scheduling of the fiscal period in which deductible temporary differences are expected to be reversed. In calculating the amount expected to be recovered, future taxable income based on profitability is estimated on the basis of the Group's business plan, which includes key assumptions relating to future sales projections and market trends.

The assumptions used in these estimates may be affected by changes in uncertain economic conditions, and should it become necessary to revise the amount of future taxable income, this could have a significant impact on the amount of deferred tax assets recognized in the consolidated financial statements for the following fiscal year.

4. NOTES AND ACCOUNTS RECEIVABLE

Receivables from contracts with customers, included in notes and receivables—trade, at March 31, 2023 and 2022, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	<u>2023</u>	<u>2022</u>	<u>2023</u>
Notes receivables—trade	¥ 5		\$ 37
Accounts receivables—trade	22,201	¥ 13,855	166,262

5. MARKETABLE AND INVESTMENT SECURITIES

The costs and aggregate fair values of marketable and investment securities at March 31, 2023 and 2022, were as follows:

<u>March 31, 2023</u>	Millions of Yen			Fair Value
	<u>Cost</u>	<u>Unrealized Gains</u>	<u>Unrealized Losses</u>	
Securities classified as available-for-sale— equity securities	¥ 609	¥ 3,964		¥ 4,574
<u>March 31, 2022</u>				
Securities classified as available-for-sale— equity securities	¥ 188	¥ 3,434		¥ 3,623
<u>March 31, 2023</u>	Thousands of U.S. Dollars			Fair Value
<u>Cost</u>	<u>Unrealized Gains</u>	<u>Unrealized Losses</u>		
Securities classified as available-for-sale— equity securities	\$ 4,560	\$ 29,686		\$ 34,254

Note: "Cost" for the years ended March 31, 2023 and 2022, represents the carrying amount after impairment.

The information for available-for-sale securities which were sold during the years ended March 31, 2023 and 2022, was as follows:

	Millions of Yen		
	<u>Proceeds</u>	<u>Realized Gains</u>	<u>Realized Losses</u>
<u>March 31, 2023</u>			
Available-for-sale equity securities	¥ 1		
Others	98		
<u>March 31, 2022</u>			
Available-for-sale equity securities	¥99	¥88	
	Thousands of U.S. Dollars		
	<u>Proceeds</u>	<u>Realized Gains</u>	<u>Realized Losses</u>
<u>March 31, 2023</u>			
Available-for-sale equity securities	\$ 7		
Others	733		

The impairment losses on available-for-sale securities for the year ended March 31, 2023, were ¥87 million (\$651 thousand) (¥60 million (\$449 thousand) for listed stocks and ¥26 million (\$194 thousand) for unlisted stocks).

The impairment losses on available-for-sale unlisted equity securities for the year ended March 31, 2022, were ¥10 million.

Investments in associated companies included in investment securities for the years ended March 31, 2023 and 2022, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	<u>2023</u>	<u>2022</u>	<u>2023</u>
Equity securities	¥1,966	¥1,843	\$ 14,723

6. LONG-LIVED ASSETS

The Avex Group performs asset groupings in units that facilitate the ongoing assessment of earnings based on reportable segment classifications for business assets, as a minimum unit that generates independent cash flow.

For the year ended March 31, 2023, revising down the book value of asset groups to their recoverable value, the Company recorded an impairment loss of ¥851 million (\$6,373 thousand) as other expense for the amount of this downward revision for business assets in the music business, the anime & visual content business, the digital business and other business since recovery could not be expected in line with the originally anticipated schedule.

The Company measures recoverable amounts based on value in use, which has been assessed to be nil due to the likelihood of negative future cash flow.

Details of the impairment losses for the year ended March 31, 2023, are as follows:

<u>Purpose of Use</u>	<u>Location</u>	<u>Type of Assets</u>	<u>Millions of Yen</u>	<u>Thousands of U.S. Dollars</u>
Business use (music business)	Tokyo	Software	¥340	\$2,546
		Goodwill	18	134
Business use (anime & visual content business)	Tokyo	Software	284	2,126
Business use (digital business)	Tokyo	Tools, furniture and fixtures	10	74
		Software	103	771
		Software in progress	8	59
		Patent right	18	134
		Other	16	119
Business use (other business)	Tokyo	Other	50	374

For the year ended March 31, 2022, revising down the book value of asset groups to their recoverable value, the Company recorded an impairment loss of ¥174 million as other expense for the amount of this downward revision for business assets in the anime & visual content business and the digital business since recovery could not be expected in line with the originally anticipated schedule.

The Company measures recoverable amounts based on value in use, which has been assessed to be nil due to the likelihood of negative future cash flow.

Details of the impairment losses for the year ended March 31, 2022, are as follows:

<u>Purpose of Use</u>	<u>Location</u>	<u>Type of Assets</u>	<u>Millions of Yen</u>
Business use (anime & visual content business)	Tokyo	Software in progress	¥79
Business use (digital business)	Tokyo	Software	95

7. LONG-TERM DEBT

Long-term debt at March 31, 2023 and 2022, consisted of the following:

	<u>Millions of Yen</u>		<u>Thousands of U.S. Dollars</u>
	<u>2023</u>	<u>2022</u>	<u>2023</u>
Long-term loans:			
Current portion of long-term loans, with weighted-average rate of 2.26% (2023)	¥ 3	¥ 7	\$ 22
Long-term loans excluding current portion, due serially to 2026 with weighted-average rate of 2.26% (2023)	6	9	44
Lease obligation:			
Current portion of lease obligations	53	51	396
Lease obligations excluding current portion	<u>197</u>	<u>91</u>	<u>1,475</u>
Total	<u>¥260</u>	<u>¥160</u>	<u>\$1,947</u>

Annual maturities of long-term debt at March 31, 2023, were as follows:

<u>Year Ending March 31</u>	<u>Millions of Yen</u>	
	<u>Long-Term Loans</u>	<u>Lease Obligation</u>
2024	¥3	¥53
2025	3	52
2026	3	46
2027		24
2028 and thereafter		75

<u>Year Ending March 31</u>	<u>Thousands of U.S. Dollars</u>	
	<u>Long-Term Loans</u>	<u>Lease Obligation</u>
2024	\$22	\$396
2025	22	389
2026	22	344
2027		179
2028 and thereafter		561

For the purpose of obtaining working funds effectively, for the years ended March 31, 2023 and 2022, the Avex Group has entered into commitment lines with four financial institutions.

Information on loan commitment agreements was as follows:

	<u>Millions of Yen</u>		<u>Thousands of U.S. Dollars</u>
	<u>2023</u>	<u>2022</u>	<u>2023</u>
Contract amounts	¥11,000	¥11,000	\$82,378
Borrowings outstanding	<u> </u>	<u> </u>	<u> </u>
Unused balance	<u>¥11,000</u>	<u>¥11,000</u>	<u>\$82,378</u>

8. RETIREMENT AND PENSION PLANS

The Avex Group (excluding certain consolidated subsidiaries) has defined benefit pension plans.

Additional retirement benefits are paid in certain circumstances.

- (1) The changes in defined benefit obligation for the years ended March 31, 2023 and 2022, were as follows:

	Millions of Yen		Thousands of
	<u>2023</u>	<u>2022</u>	<u>U.S. Dollars</u> <u>2023</u>
Balance at beginning of year	¥5,110	¥4,989	\$ 38,268
Current service cost	408	424	3,055
Interest cost	30	29	224
Actuarial losses (gains)	21	(111)	157
Benefits paid	<u>(217)</u>	<u>(220)</u>	<u>(1,625)</u>
Balance at end of year	<u>¥5,354</u>	<u>¥5,110</u>	<u>\$ 40,095</u>

- (2) The changes in plan assets for the years ended March 31, 2023 and 2022, were as follows:

	Millions of Yen		Thousands of
	<u>2023</u>	<u>2022</u>	<u>U.S. Dollars</u> <u>2023</u>
Balance at beginning of year	¥4,760	¥4,598	\$ 35,647
Expected return on plan assets	95	91	711
Actuarial losses	(135)	(22)	(1,011)
Contributions from the employer	322	314	2,411
Benefits paid	<u>(217)</u>	<u>(220)</u>	<u>(1,625)</u>
Balance at end of year	<u>¥4,825</u>	<u>¥4,760</u>	<u>\$ 36,134</u>

- (3) Reconciliation between the liability recorded in the consolidated balance sheet and the balances of defined benefit obligation and plan assets was as follows:

	Millions of Yen		Thousands of
	<u>2023</u>	<u>2022</u>	<u>U.S. Dollars</u> <u>2023</u>
Funded defined benefit obligation	¥5,354	¥5,110	\$ 40,095
Plan assets	<u>(4,825)</u>	<u>(4,760)</u>	<u>(36,134)</u>
Net liability arising from defined benefit obligation	<u>¥ 529</u>	<u>¥ 350</u>	<u>\$ 3,961</u>

	Millions of Yen		Thousands of
	<u>2023</u>	<u>2022</u>	<u>U.S. Dollars</u> <u>2023</u>
Liability for retirement benefits	<u>¥529</u>	<u>¥350</u>	<u>\$ 3,961</u>
Net liability arising from defined benefit obligation	<u>¥529</u>	<u>¥350</u>	<u>\$ 3,961</u>

- (4) The components of net periodic benefit costs for the years ended March 31, 2023 and 2022, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	<u>2023</u>	<u>2022</u>	<u>2023</u>
Service cost	¥408	¥424	\$3,055
Interest cost	30	29	224
Expected return on plan assets	(95)	(91)	(711)
Recognized actuarial gains	(89)	(346)	(666)
Amortization of prior service cost	<u>31</u>	<u>82</u>	<u>232</u>
Net periodic benefit costs	<u>¥286</u>	<u>¥ 99</u>	<u>\$2,141</u>

- (5) Amounts recognized in other comprehensive income (before income tax effect) in respect of defined retirement benefit plans for the years ended March 31, 2023 and 2022, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	<u>2023</u>	<u>2022</u>	<u>2023</u>
Prior service cost	¥ 31	¥ 82	\$ 232
Actuarial gains	<u>(246)</u>	<u>(256)</u>	<u>(1,842)</u>
Total	<u>¥(215)</u>	<u>¥(173)</u>	<u>\$(1,610)</u>

- (6) Amounts recognized in accumulated other comprehensive income (before income tax effect) in respect of defined retirement benefit plans as of March 31, 2023 and 2022, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	<u>2023</u>	<u>2022</u>	<u>2023</u>
Unrecognized prior service cost	¥ 91	¥122	\$ 681
Unrecognized actuarial losses (gains)	<u>157</u>	<u>(89)</u>	<u>1,175</u>
Total	<u>¥248</u>	<u>¥ 33</u>	<u>\$1,857</u>

- (7) Plan assets

a. *Components of plan assets*

Plan assets consisted of the following:

	<u>2023</u>	<u>2022</u>
General insurance account	34%	34%
Debt investments	23	24
Alternative investments	20	20
Equity investments	20	20
Others	<u>3</u>	<u>2</u>
Total	<u>100%</u>	<u>100%</u>

Alternative investments are mainly investment funds.

b. Method of determining the expected rate of return on plan assets

The expected rate of return on plan assets is determined considering the long-term rates of return which are expected currently and in the future from the various components of the plan assets.

(8) Assumptions used for the years ended March 31, 2023 and 2022, were set forth as follows:

	<u>2023</u>	<u>2022</u>
Discount rate	0.6%	0.6%
Expected rate of return on plan assets	2.0	2.0

9. EQUITY

Japanese companies are subject to the Companies Act of Japan (the "Companies Act"). The significant provisions in the Companies Act that affect financial and accounting matters are summarized below:

a. Dividends

Under the Companies Act, companies can pay dividends at any time during the fiscal year in addition to the year-end dividend upon resolution at the shareholders' meeting. Additionally, for companies that meet certain criteria including (1) having a Board of Directors, (2) having independent auditors, (3) having an Audit & Supervisory Board, and (4) the term of service of the directors being prescribed as one year rather than the normal two-year term by its articles of incorporation, the Board of Directors may declare dividends (except for dividends-in-kind) at any time during the fiscal year if the company has prescribed so in its articles of incorporation. However, the Company does not meet all the above criteria.

Semiannual interim dividends may also be paid once a year upon resolution by the Board of Directors if the articles of incorporation of the company so stipulate. The Companies Act provides certain limitations on the amounts available for dividends or the purchase of treasury stock. The limitation is defined as the amount available for distribution to the shareholders, but the amount of net assets after dividends must be maintained at no less than ¥3 million.

b. Increases/Decreases and Transfer of Common Stock, Reserve and Surplus

The Companies Act requires that an amount equal to 10% of dividends must be appropriated as a legal reserve (a component of retained earnings) or as additional paid-in capital (a component of capital surplus), depending on the equity account charged upon the payment of such dividends, until the aggregate amount of legal reserve and additional paid-in capital equals 25% of the common stock. Under the Companies Act, the total amount of additional paid-in capital and legal reserve may be reversed without limitation. The Companies Act also provides that common stock, legal reserve, additional paid-in capital, other capital surplus and retained earnings can be transferred among the accounts within equity under certain conditions upon resolution of the shareholders.

c. Treasury Stock and Treasury Stock Acquisition Rights

The Companies Act also provides for companies to purchase treasury stock and dispose of such treasury stock by resolution of the Board of Directors. The amount of treasury stock purchased cannot exceed the amount available for distribution to the shareholders which is determined by a specific formula. Under the Companies Act, stock acquisition rights are presented as a separate component of equity. The Companies Act also provides that companies can purchase both treasury stock acquisition rights and treasury stock. Such treasury stock acquisition rights are presented as a separate component of equity or deducted directly from stock acquisition rights.

10. INFORMATION RELATED TO CONSOLIDATED CHANGES IN EQUITY

Changes in the outstanding number of shares of common stock and treasury stock for the years ended March 31, 2023 and 2022, were as follows:

	Shares	
	<u>2023</u>	<u>2022</u>
Issued—Common stock:		
Balance at beginning of year	45,440,100	45,343,500
Increase	<u>118,700</u>	<u>96,600</u>
Balance at end of year	<u>45,558,800</u>	<u>45,440,100</u>
Treasury stock—Common stock:		
Balance at beginning of year	410,124	3,927,388
Increase	178	236
Decrease	<u> </u>	<u>3,517,500</u>
Balance at end of year	<u>410,302</u>	<u>410,124</u>

- Notes:
1. For the year ended March 31, 2023, the increase in common stock of 118,700 shares resulted from issuance of new stock as restricted stock.
 2. For the year ended March 31, 2023, the increase in treasury stock of 178 shares resulted from purchase of shares comprising less than one unit.
 3. For the year ended March 31, 2022, the increase in common stock of 96,600 shares resulted from issuance of new stock as restricted stock.
 4. For the year ended March 31, 2022, the major breakdown of changes in treasury stock was as follows:

<u>March 31, 2022</u>	<u>Shares</u>
Increase:	
Purchase of shares comprising less than one unit	236
Decrease:	
Disposal of shares based on the resolution approved by the Board of Director's meeting held on May 27, 2021	3,500,000
Exercise of stock options	17,500

Dividends paid to shareholders for the years ended March 31, 2023 and 2022, were as follows:

<u>March 31, 2023</u>	<u>Type of Shares</u>	<u>Amount Millions of Yen</u>	<u>Amount per Share Yen</u>	<u>Record Date</u>	<u>Effective Date</u>
Resolution approved by: The Board of Directors' meeting held on May 12, 2022	Common stock	¥1,125	¥25.00	March 31, 2022	June 9, 2022
The Board of Directors' meeting held on November 10, 2022	Common stock	1,128	25.00	September 30, 2022	December 1, 2022
<u>March 31, 2022</u>					
Resolution approved by: Annual general meeting of shareholders held on June 25, 2021	Common stock	¥3,975	¥96.00	March 31, 2021	June 28, 2021
The Board of Directors' meeting held on November 4, 2021	Common stock	1,125	25.00	September 30, 2021	December 2, 2021

<u>March 31, 2023</u>	<u>Type of Shares</u>	<u>Amount Thousands of U.S. Dollars</u>	<u>Amount per Share U.S. Dollars</u>	<u>Record Date</u>	<u>Effective Date</u>
Resolution approved by: The Board of Directors' meeting held on May 12, 2022	Common stock	\$8,425	\$0.19	March 31, 2022	June 9, 2022
The Board of Directors' meeting held on November 10, 2022	Common stock	8,447	0.19	September 30, 2022	December 1, 2022

Dividends declared after the fiscal year ended March 31, 2023, were as follows:

<u>March 31, 2023</u>	<u>Type of Shares</u>	<u>Amount Millions of Yen</u>	<u>Amount per Share Yen</u>	<u>Record Date</u>	<u>Effective Date</u>
Resolution approved by—The Board of Directors' meeting held on May 11, 2023	Common stock	¥1,128	¥25.00	March 31, 2023	June 8, 2023
<u>March 31, 2023</u>					
<u>March 31, 2023</u>	<u>Type of Shares</u>	<u>Amount Thousands of U.S. Dollars</u>	<u>Amount per Share U.S. Dollars</u>	<u>Record Date</u>	<u>Effective Date</u>
Resolution approved by—The Board of Directors' meeting held on May 11, 2023	Common stock	\$8,447	\$0.19	March 31, 2023	June 8, 2023

11. STOCK OPTIONS

Expenses related to stock options for the years ended March 31, 2023 and 2022, are as follows:

	Millions of Yen		Thousands of
	2023	2022	U.S. Dollars
Selling, general and administrative expenses	¥156	¥142	\$1,168

Gains on cancellation of vested stock options for the years ended March 31, 2023 and 2022, are as follows:

	Millions of Yen		Thousands of
	2023	2022	U.S. Dollars
Gains on reversal of subscription rights to shares		¥114	

12. NET SALES

(1) Disaggregation of Revenue

	Millions of Yen					Total
	2023					
	Reportable Segment					
	Music Business	Anime & Visual Content Business	Digital Business	Overseas Business	Other	
Live	¥31,746					¥ 31,746
Merchandising	5,051					5,051
Management	9,218					9,218
Music package	23,313					23,313
Digital music distribution	12,790					12,790
Music publication	2,802					2,802
E-commerce	12,841					12,841
Anime package		¥ 3,821				3,821
Anime non-package		11,431				11,431
Digital video distribution			¥ 8,626			8,626
Fan clubs			1,601			1,601
Overseas				¥5,199		5,199
Other	5,857		2,150		¥821	8,829
Intercompany transaction adjustments	(13,554)	(1,188)	(395)		(575)	(15,713)
Revenue from contracts with customers	90,067	14,065	11,983	5,199	246	121,561
Sales to external customers	¥90,067	¥14,065	¥11,983	¥5,199	¥246	¥121,561

Millions of Yen						
2022						
Reportable Segment						
	Music Business	Anime & Visual Content Business	Digital Business	Overseas Business	Other	Total
Live	¥14,048					¥14,048
Merchandising	3,023					3,023
Management	9,587					9,587
Music package	26,051					26,051
Digital music distribution	11,736					11,736
Music publication	3,260					3,260
E-commerce	12,680					12,680
Anime package		¥ 3,141				3,141
Anime non-package		7,897				7,897
Digital video distribution			¥11,213			11,213
Fan clubs			1,993			1,993
Overseas				¥3,029		3,029
Other	5,950		475		¥1,387	7,814
Intercompany transaction adjustments	(14,389)	(967)	(378)	(53)	(1,250)	(17,039)
Revenue from contracts with customers	<u>71,949</u>	<u>10,071</u>	<u>13,303</u>	<u>2,976</u>	<u>136</u>	<u>98,437</u>
Sales to external customers	<u>¥71,949</u>	<u>¥10,071</u>	<u>¥13,303</u>	<u>¥2,976</u>	<u>¥ 136</u>	<u>¥98,437</u>

Thousands of Dollars						
2023						
Reportable Segment						
	Music Business	Anime & Visual Content Business	Digital Business	Overseas Business	Other	Total
Live	\$ 237,744					\$ 237,744
Merchandising	37,826					37,826
Management	69,033					69,033
Music package	174,589					174,589
Digital music distribution	95,783					95,783
Music publication	20,984					20,984
E-commerce	96,165					96,165
Anime package		\$ 28,615				28,615
Anime non-package		85,606				85,606
Digital video distribution			\$ 64,599			64,599
Fan clubs			11,989			11,989
Overseas				\$ 38,935		38,935
Other	43,862		16,101		\$ 6,148	66,119
Intercompany transaction adjustments	(101,505)	(8,896)	(2,958)		(4,306)	(117,673)
Revenue from contracts with customers	<u>674,507</u>	<u>105,332</u>	<u>89,740</u>	<u>38,935</u>	<u>1,842</u>	<u>910,364</u>
Sales to external customers	<u>\$ 674,507</u>	<u>\$ 105,332</u>	<u>\$ 89,740</u>	<u>\$ 38,935</u>	<u>\$ 1,842</u>	<u>\$ 910,364</u>

(2) Basic Information to Understand Revenues from Contracts with Customers

Basic information to understand revenues from contracts with customers is described in Note 2, "Summary of Significant Accounting Policies," "q. Net Sales."

(3) Contract Balances

Contract liabilities and advances received at the beginning and end of the year are as follows:

	Millions of Yen		Thousands of
	<u>2023</u>	<u>2022</u>	<u>U.S. Dollars</u>
Contract liabilities:			
Balance at beginning of year	¥ 46	¥ 37	\$ 344
Balance at end of year	56	46	419
Advances received:			
Balance at beginning of year	3,543	2,659	26,533
Balance at end of year	3,032	3,543	22,706

- Notes:
1. Contract liabilities are mainly the balance of point card certificates granted by the Avex Group for which the performance obligation was not satisfied as of the end of the year. They are included in "Other" on current liabilities in the consolidated balance sheet.
 2. Advances received are mainly the balance of ticket prices for live events received by the Avex Group prior to the event as of the end of the year. Advances received are drawn down in line with revenue recognition, and the entire balance of advances received as of the beginning of the current year is recognized as revenue for that year.

(4) Transaction Prices Allocated to Remaining Performance Obligations

Since the Avex Group has no significant transactions with an initial expected contract term exceeding one year, the Company does not include notes on remaining performance obligations for practical convenience. Also, there is no significant amount of consideration from contracts with customers that is not included in the transaction price.

13. INCOME TAXES

The Company and its domestic subsidiaries are subject to Japanese national and local income taxes which, in the aggregate, resulted in a normal effective statutory tax rate of approximately 30.6% for the years ended March 31, 2023 and 2022.

The tax effects of significant temporary differences and tax loss carryforwards which resulted in deferred tax assets and liabilities at March 31, 2023 and 2022, are as follows:

	Millions of Yen		Thousands of
	<u>2023</u>	<u>2022</u>	<u>U.S. Dollars</u> <u>2023</u>
Deferred tax assets:			
Tax loss carryforwards	¥2,170	¥2,102	\$ 16,251
Depreciation	1,002	895	7,503
Programs and work in process	850	738	6,365
Refund liabilities	660	742	4,942
Merchandise and finished products	602	571	4,508
Impairment loss	423	348	3,167
Raw materials and supplies	306	321	2,291
Advance payments—trade	292	296	2,186
Provision for bonuses	247	169	1,849
Loss on valuation of investment securities	219	236	1,640
Other	<u>1,630</u>	<u>1,749</u>	<u>12,206</u>
Total of tax loss carryforwards and temporary differences	<u>8,407</u>	<u>8,173</u>	<u>62,959</u>
Less valuation allowance for tax loss carryforwards	<u>(2,072)</u>	<u>(1,938)</u>	<u>(15,517)</u>
Less valuation allowance for temporary differences	<u>(1,388)</u>	<u>(1,570)</u>	<u>(10,394)</u>
Total valuation allowance	<u>(3,461)</u>	<u>(3,508)</u>	<u>(25,919)</u>
Deferred tax assets	<u>4,946</u>	<u>4,664</u>	<u>37,040</u>
Deferred tax liabilities:			
Unrealized gain on available-for-sale securities	(895)	(999)	(6,702)
Gain on valuation of investment securities	(160)		(1,198)
Asset retirement obligations	<u>(90)</u>	<u>(92)</u>	<u>(674)</u>
Deferred tax liabilities	<u>(1,146)</u>	<u>(1,091)</u>	<u>(8,582)</u>
Net deferred tax assets	<u>¥3,799</u>	<u>¥3,573</u>	<u>\$ 28,450</u>

Valuation allowance decreased by ¥47 million (\$351 thousand). The main component of the decrease was in accordance with a decline of ¥181 million (\$1,355 thousand) in valuation allowance for tax loss carryforwards in the Company and its consolidated subsidiaries.

The expiration of tax loss carryforwards, the related valuation allowances and the resulting net deferred tax assets as of March 31, 2023, was as follows:

	Millions of Yen						Total
	1 Year or Less	After 1 Year through 2 Years	After 2 Years through 3 Years	After 3 Years through 4 Years	After 4 Years through 5 Years	After 5 Years	
<u>March 31, 2023</u>							
Deferred tax assets relating to tax loss carryforwards	¥74	¥41	¥155	¥196	¥319	¥1,383	¥2,170
Less valuation allowances for tax loss carryforwards	(74)	(41)	(155)	(196)	(319)	(1,285)	(2,072)
Net deferred tax assets relating to tax loss carryforwards						98	98

	Thousands of U.S. Dollars						Total
	1 Year or Less	After 1 Year through 2 Years	After 2 Years through 3 Years	After 3 Years through 4 Years	After 4 Years through 5 Years	After 5 Years	
<u>March 31, 2023</u>							
Deferred tax assets relating to tax loss carryforwards	\$554	\$307	\$1,160	\$1,467	\$2,388	\$10,357	\$16,251
Less valuation allowances for tax loss carryforwards	(554)	(307)	(1,160)	(1,467)	(2,388)	(9,623)	(15,517)
Net deferred tax assets relating to tax loss carryforwards						733	733

A reconciliation between the normal effective statutory tax rates and the actual effective tax rates reflected in the accompanying consolidated statement of income for the year ended March 31, 2023, with the corresponding figures for 2022, is as follows:

	<u>2023</u>	<u>2022</u>
Normal effective statutory tax rate	30.6%	30.6%
Expenses not deductible for income tax purposes	6.5	5.8
Local corporate tax per capita	0.5	1.2
Equity in earnings or losses of associated companies	0.1	3.0
Valuation allowance	(2.7)	13.3
Other—net		(2.4)
Actual effective tax rate	<u>35.0%</u>	<u>51.5%</u>

The Company and certain domestic subsidiaries applied the group tax sharing system in the year ended March 31, 2023. In addition, the Avex Group applied the "Practical Solution on the Accounting and Disclosure Under the Group Tax Sharing System" (PITF No. 42, August 12, 2021) for the accounting and disclosure of corporate tax, local corporate tax, and tax effect accounting.

14. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Selling, general and administrative expenses for the years ended March 31, 2023 and 2022, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	<u>2023</u>	<u>2022</u>	<u>2023</u>
Advertising expenses	¥ 6,599	¥ 6,719	\$ 49,419
Promotion expenses	1,754	1,273	13,135
Provision of allowance for doubtful accounts	27	(38)	202
Salaries and bonuses for employees	7,620	7,135	57,065
Provision for bonuses	900	575	6,740
Net periodic retirement benefit costs	253	93	1,894
Depreciation	926	910	6,934
Commission fee	6,637	5,853	49,704
Other	<u>10,880</u>	<u>10,123</u>	<u>81,479</u>
Total	<u>¥35,602</u>	<u>¥32,645</u>	<u>\$ 266,621</u>

15. OTHER INCOME (EXPENSES)

For the year ended March 31, 2022, the Avex Group recorded "loss on disaster," including allowance for doubtful accounts, losses related to the voluntary suspension of live events and leave compensation paid to employees, due to the spread of infection from COVID-19.

16. LEASES

Obligations and future minimum payments under non-cancelable operating leases for the years ended March 31, 2023 and 2022, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	<u>2023</u>	<u>2022</u>	<u>2023</u>
Due within one year	¥353	¥ 705	\$2,643
Due after one year	<u>5</u>	<u>349</u>	<u>37</u>
Total	<u>¥358</u>	<u>¥1,055</u>	<u>\$2,681</u>

17. FINANCIAL INSTRUMENTS AND RELATED DISCLOSURES

(1) *Avex Group Policy for Financial Instruments*

The Avex Group uses financial instruments, mainly long-term debt including bank loans for working capital and equipment capital. Cash surpluses, if any, are invested in short-term time deposits, etc. Derivatives are not used for speculative purposes but to manage exposure to financial risks as described in (2) below.

(2) *Nature and Extent of Risks Arising from Financial Instruments and Risk Management for Financial Instruments*

Receivables, such as notes and accounts receivable—trade, and accounts receivable—other, are exposed to customer credit risk.

The Avex Group manages its credit risk from receivables on the basis of internal guidelines, which include monitoring of payment terms and balances of customers.

Investment securities mainly consist of investment in partnerships and others and equity instruments of customers and suppliers of the Avex Group.

Investment in partnerships and others whose fair value is not readily determinable is managed by monitoring its financial condition on a regular basis.

Equity instruments are exposed to the risk of market price fluctuations.

The Avex Group monitors the value of equity instruments and the financial position of the issuer (business partners, etc.) on a regular basis.

Payment terms of payables, such as notes and accounts payable—trade, accounts payable—other, accrued royalties and income taxes payable are less than one year.

The Avex Group uses bank loans mainly for working capital.

Derivative transactions are approved by the Executive Director in charge or the Board of Directors based on the internal guidelines which prescribe the authority and the limits for each transaction. Because the counterparties to these derivatives are limited to major financial institutions, the Avex Group does not anticipate any losses arising from credit risk.

Payables and loans are subject to liquidity risk (the risk of not being able to make payments on the date that they are due). The Avex Group, however, finances the borrowing needs of its domestic subsidiaries (excluding some subsidiaries) through a cash pooling system (CPS) in order to efficiently manage liquidity based on the cash management plans drawn up by each subsidiary every month.

(3) *Supplemental Explanation of Fair Values of Financial Instruments*

Since the calculation of fair values of financial instruments incorporates factors that are subject to change, the Company adopts differing assumptions, which may alter fair value. Moreover, the contract amounts, etc. of derivative transactions in Note 18, "Derivatives" do not indicate the market risk of derivative transactions.

(4) *Fair Values of Financial Instruments*

Fair values of financial instruments are as follows: Investments in equity instruments that do not have a quoted market price in an active market are not included in the following table.

For the year ended March 31, 2023, information on investments in partnerships and other similar entities in which the Group's equity interest is recorded as a net amount in the consolidated balance sheet is omitted. For the year ended March 31, 2022, investments in limited partnerships are also not included in the following table in accordance with the paragraph 27 of the ASBJ Guidance No. 31, "Guidance on Accounting Standard for Fair Value Measurement." The fair values of cash and cash equivalents, notes and accounts receivable—trade, accounts receivable—other, notes and accounts payable—trade, accounts payable—other, accrued royalties and income taxes payable are not disclosed because their maturities are short and the carrying values approximate fair value. Also, please see Note 18 for details of the fair values of derivatives.

(a) *Fair value of financial instruments*

	Millions of Yen		
	Carrying Amount	Fair Value	Unrealized Gain/Loss
<u>March 31, 2023</u>			
Assets—Investment securities—available-for-sale	¥4,574	¥4,574	_____
Total	¥4,574	¥4,574	=====
Liabilities—Long-term loans	¥ 9	¥ 9	_____
Total	¥ 9	¥ 9	=====
Derivatives	¥ (12)	¥ (12)	=====
<u>March 31, 2022</u>			
Assets—Investment securities—available-for-sale	¥3,623	¥3,623	_____
Total	¥3,623	¥3,623	=====
Liabilities—Long-term loans	¥ 17	¥ 17	_____
Total	¥ 17	¥ 17	=====
Derivatives	¥ 4	¥ 4	=====
	Thousands of U.S. Dollars		
	Carrying Amount	Fair Value	Unrealized Gain/Loss
<u>March 31, 2023</u>			
Assets—Investment securities—available-for-sale	\$34,254	\$34,254	_____
Total	\$34,254	\$34,254	=====
Liabilities—Long-term loans	\$ 67	\$ 67	_____
Total	\$ 67	\$ 67	=====
Derivatives	\$ (89)	\$ (89)	=====

(b) *Carrying amount of investments in equity instruments that do not have a quoted market price in an active market*

	Millions of Yen		Thousands of U.S. Dollars
	2023	2022	2023
Unlisted equity instruments	¥4,172	¥4,533	\$31,243
Investments in limited partnerships		407	

As of the year ended March 31, 2023, information on investments in partnerships and other similar entities whose equity equivalent is recorded as a net amount on the consolidated balance sheet is omitted. The amount recorded on the consolidated balance sheet for such investments is ¥481 million (\$3,602 thousand).

(5) Maturity Analysis for Financial Assets and Securities with Contractual Maturities

	Millions of Yen			
	Due in 1 Year or Less	Due after 1 Year through 5 Years	Due after 5 Years through 10 Years	Due after 10 Years
<u>March 31, 2023</u>				
Cash and cash in banks	¥48,143			
Notes and accounts receivable—trade	22,206			
Accounts receivable—other	5,463			
Total	<u>¥75,814</u>			
	Thousands of U.S. Dollars			
	Due in 1 Year or Less	Due after 1 Year through 5 Years	Due after 5 Years through 10 Years	Due after 10 Years
<u>March 31, 2023</u>				
Cash and cash in banks	\$ 360,540			
Notes and accounts receivable—trade	166,299			
Accounts receivable—other	40,912			
Total	<u>\$ 567,767</u>			

Please see Note 7 for annual maturities of long-term debt.

(6) Financial Instruments Categorized by Fair Value Hierarchy

The fair value of financial instruments is categorized into the following three levels, depending on the observability and significance of the inputs used in making fair value measurements:

Level 1: Fair values measured by using quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: Fair values measured by using inputs other than quoted prices included within Level 1 that are observable for the assets or liabilities, either directly or indirectly.

Level 3: Fair values measured by using unobservable inputs for the assets or liabilities.

If multiple inputs are used that have a significant impact on the measurement of fair value, fair value is classified at the lowest level in the fair value measurement among the levels to which each of these inputs belongs.

(a) The financial assets and liabilities measured at the fair values in the consolidated balance sheet

	Millions of Yen			
	Level 1	Level 2	Level 3	Total
<u>March 31, 2023</u>				
Investment securities:				
Available-for-sale securities	¥3,224		¥1,349	¥4,574
Total assets	<u>¥3,224</u>		<u>¥1,349</u>	<u>¥4,574</u>
Derivative transactions:				
Foreign currency forward contracts		¥12		¥ 12
Total liabilities		<u>¥12</u>		<u>¥ 12</u>

<u>March 31, 2022</u>	Millions of Yen			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Investment securities:				
Available-for-sale securities	¥3,623			¥3,623
Derivative transactions:				
Foreign currency forward contracts		¥6		6
Total assets	<u>¥3,623</u>	<u>¥6</u>	<u> </u>	<u>¥3,629</u>
Derivative transactions:				
Foreign currency forward contracts		¥1		¥ 1
Total liabilities	<u> </u>	<u>¥1</u>	<u> </u>	<u>¥ 1</u>

<u>March 31, 2023</u>	Thousands of U.S. Dollars			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Investment securities:				
Available-for-sale securities	\$24,144		\$10,102	\$34,254
Total assets	<u>\$24,144</u>	<u> </u>	<u>\$10,102</u>	<u>\$34,254</u>
Derivative transactions:				
Foreign currency forward contracts		\$89		\$ 89
Total liabilities	<u> </u>	<u>\$89</u>	<u> </u>	<u>\$ 89</u>

(b) *The financial assets and liabilities not measured at the fair values in the consolidated balance sheet*

<u>March 31, 2023</u>	Millions of Yen			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Long-term loans		¥ 9		¥ 9
Total liabilities	<u> </u>	<u>¥ 9</u>	<u> </u>	<u>¥ 9</u>

<u>March 31, 2022</u>	Millions of Yen			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Long-term loans		¥17		¥17
Total liabilities	<u> </u>	<u>¥17</u>	<u> </u>	<u>¥17</u>

<u>March 31, 2023</u>	Thousands of U.S. Dollars			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Long-term loans		\$67		\$67
Total liabilities	<u> </u>	<u>\$67</u>	<u> </u>	<u>\$67</u>

The following is a description of valuation methodologies and inputs used for measurement of the fair value of assets and liabilities:

Investment Securities

Among investment securities, the fair values of listed equity securities are measured at the quoted market prices. Since listed equity securities are traded in active markets, the fair values of listed equity securities are categorized as Level 1.

Meanwhile, although unlisted equity securities held by overseas consolidated subsidiaries that apply US GAAP are measured using a fair value method, since the accuracy of these measurements has improved due to the use of fair values obtained from third parties, these companies changed the method of calculating such fair values in the year ended March 31, 2023. The fair values of such unlisted securities are measured by using significant unobservable inputs and are classified as Level 3 fair values.

Derivatives

The fair values of derivative transactions are measured by using the quoted price obtained from the financial institution, and are classified as Level 2.

Long-Term Loans

The fair values of long-term loans are measured by using discounted present value techniques considering assumptions including expected future cash flows and discount rates taking into account maturity and credit risk, and are classified as Level 2.

The following is information on Level 3 fair value of the financial assets and liabilities measured at the fair values in the consolidated balance sheet.

Reconciliation of the beginning balance to the end balance, and gain (loss) on valuation recognized in gain (loss) for the year ended March 31, 2023, were as follows:

<u>March 31, 2023</u>	<u>Millions of Yen</u> <u>Investment Securities:</u> <u>Available-for-Sale</u> <u>Securities</u>
Balance at beginning of the year	
Gain (loss) and other comprehensive income for the year:	
Recognized in gain* ¹	¥ 822
Recognized in other comprehensive income* ²	(6)
Purchase, sale, issuance and settlement:	
Purchase	
Transfer to Level 3 fair value* ³	534
Transfer from Level 3 fair value* ³	
	<hr/>
Balance at end of year	<u>¥1,349</u>
Of the amount recognized in gain for the year, unrealized gain on valuation on financial instruments held at the balance sheet date	<u>¥ 822</u>

<u>March 31, 2023</u>	Thousands of U.S. Dollars
	Investment Securities: Available-for-Sale Securities
Balance at beginning of the year	
Gain (loss) and other comprehensive income for the year:	
Recognized in gain* ¹	\$ 6,155
Recognized in other comprehensive income* ²	(44)
Purchase, sale, issuance and settlement:	
Purchase	
Transfer to Level 3 fair value* ³	3,999
Transfer from Level 3 fair value* ³	<u> </u>
Balance at end of year	<u>\$ 10,102</u>
Of the amount recognized in gain for the year, unrealized gain on valuation on financial instruments held at the balance sheet date	<u>\$ 6,155</u>

*¹ The gain is included in "Gain on valuation of investment securities" on the consolidated statement of income.

*² The other comprehensive income is included in "Unrealized gain on available-for-sale securities" and "Foreign currency translation adjustments" in "Other comprehensive income" on the consolidated statement of comprehensive income.

*³ Transfers to and from Level 3 fair value relate to changes in the observability of inputs. Such transfers are made at the end of the accounting period.

The Group uses prices obtained from third parties for all Level 3 financial instruments recorded in the consolidated balance sheets at fair value. When using prices obtained from third parties, the Group verifies the compromise of the prices by confirming the valuation techniques and inputs used and by other appropriate methods.

18. DERIVATIVES

The Avex Group enters into foreign currency forward contracts to hedge foreign exchange risk associated with certain payables denominated in foreign currencies.

All derivative transactions are entered into to hedge foreign currency exposures incorporated within the Avex Group's business. Accordingly, market risk in these derivatives is basically offset by opposite movements in the value of hedged assets or liabilities.

Fair value information for derivatives at March 31, 2023 and 2022, was as follows:

Derivative Transactions to Which Hedge Accounting Is Not Applied

<u>March 31, 2023</u>	Millions of Yen			
	Contract Amount	Contract Amount Due after One Year	Fair Value	Unrealized Gain/Loss
Foreign currency forward contracts— Selling U.S.\$	¥3,280		¥(12)	¥(12)

	Millions of Yen			
	Contract Amount	Contract Amount Due after One Year	Fair Value	Unrealized Gain/Loss
<u>March 31, 2022</u>				
Foreign currency forward contracts— Selling U.S.\$	¥2,688		¥4	¥4
	Thousands of U.S. Dollars			
	Contract Amount	Contract Amount Due after One Year	Fair Value	Unrealized Gain/Loss
<u>March 31, 2023</u>				
Foreign currency forward contracts— Selling U.S.\$	\$24,563		\$(89)	\$(89)

19. OTHER COMPREHENSIVE INCOME

The components of other comprehensive income for the years ended March 31, 2023 and 2022, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2023	2022	2023
Unrealized (loss) gain on available-for-sale securities:			
(Losses) gains arising during the year	¥ (404)	¥2,202	\$ (3,025)
Reclassification adjustments to profit or loss	<u>87</u>	<u>(88)</u>	<u>651</u>
Amount before income tax effect	(316)	2,113	(2,366)
Income tax effect	<u>103</u>	<u>(500)</u>	<u>771</u>
Total	<u>¥ (213)</u>	<u>¥1,612</u>	<u>\$ (1,595)</u>
Foreign currency translation adjustments:			
Adjustments arising during the year	¥ (21)	¥ (33)	\$ (157)
Reclassification adjustments to profit or loss	<u>—</u>	<u>(7)</u>	<u>—</u>
Total	<u>¥ (21)</u>	<u>¥ (41)</u>	<u>\$ (157)</u>
Defined retirement benefit plans:			
Adjustments arising during the year	¥ (157)	¥ 89	\$ (1,175)
Reclassification adjustments to profit or loss	<u>(58)</u>	<u>(263)</u>	<u>(434)</u>
Amount before income tax effect	(215)	(173)	(1,610)
Income tax effect	<u>62</u>	<u>50</u>	<u>464</u>
Total	<u>¥ (152)</u>	<u>¥ (123)</u>	<u>\$ (1,138)</u>
Share of other comprehensive (loss) income in associates:			
Gains arising during the year	¥ 1	¥ 16	\$ 7
Reclassification adjustments to profit or loss	<u>(12)</u>	<u>(7)</u>	<u>(89)</u>
Total	<u>¥ (10)</u>	<u>¥ 8</u>	<u>\$ (74)</u>
Total other comprehensive (loss) income	<u>¥ (398)</u>	<u>¥1,456</u>	<u>\$ (2,980)</u>

20. SUPPLEMENTAL CASH FLOW INFORMATION

Reconciliation between cash and cash in banks in the consolidated balance sheets as of March 31, 2023 and 2022, and cash and cash equivalents in the consolidated statements of cash flows for the years ended March 31, 2023 and 2022, was as follows:

	Millions of Yen		Thousands of U.S. Dollars
	<u>2023</u>	<u>2022</u>	<u>2023</u>
Cash and cash in banks	<u>¥48,143</u>	<u>¥44,671</u>	<u>\$ 360,540</u>
Cash and cash equivalents	<u>¥48,143</u>	<u>¥44,671</u>	<u>\$ 360,540</u>

Following the sale of its shares, Avex Broadcasting & Communications Inc. was excluded from consolidation for the year ended March 31, 2023. The breakdown of its assets and liabilities at the time of sale, the amount of the sale its shares, and the payments for the sale are as follows:

	Millions of Yen	Thousands of U.S. Dollars
	<u>2023</u>	<u>2023</u>
Current assets	¥9,158	\$ 68,583
Non-current assets	436	3,265
Current liabilities	(2,204)	(16,505)
Long-term liabilities		
Noncontrolling interests	(2,216)	(16,595)
Loss on sales of shares	<u>(56)</u>	<u>(419)</u>
Amount of the sale of shares	5,116	38,313
Cash and cash equivalents	<u>(5,763)</u>	<u>(43,158)</u>
Less: payments for the sale	<u>¥ (646)</u>	<u>\$ (4,837)</u>

21. RELATED PARTY TRANSACTIONS

The following summarize related party transactions between the Company and related parties for the years ended March 31, 2023 and 2022.

Officers and Individual Major Shareholders

Year Ended March 31, 2023

Name	Description of Business or Occupation	Ownership Ratio of Voting Rights	Description of Transaction	Transaction		Balance		
				Millions of Yen	Thousands of U.S. Dollars	Account	Millions of Yen	Thousands of U.S. Dollars
Masato Matsuura	Representative Director and Chairman	Direct 1.83% Indirect 5.09%	Monetary reward/credit in-kind contributions (Note 1)	¥62	\$464			
Katsumi Kuroiwa	Representative Director and President, CEO	Direct 0.24%	Monetary reward/credit in-kind contributions (Note 1)	28	209			
Shinji Hayashi	Representative Director, CFO	Direct 1.62%	Monetary reward/credit in-kind contributions (Note 1)	25	187			
Touchdown, Co., Ltd. (Note 3)	Publishing company	—	Consulting fee (Notes 2 and 4)	25	187			

Notes: 1. Monetary reward/credit in-kind contributions accompanying compensation through shares with transfer restrictions.

2. The terms and conditions, such as fees, are decided based on market price.

3. Mr. Toru Kenjo, Director (part-time) of the Company, owns all shares of Touchdown, Co., Ltd.

4. The Company consults Touchdown, Co., Ltd. on business strategy, such as secondary use of media contents.

Year Ended March 31, 2022

Name	Description of Business or Occupation	Ownership Ratio of Voting Rights	Description of Transaction	Transaction	Balance	
				Millions of Yen	Account	Millions of Yen
Masato Matsuura	Representative Director and Chairman	Direct 1.73% Indirect 5.11%	Monetary reward/credit in-kind contributions (Note 1)	¥62		
Katsumi Kuroiwa	Representative Director and President, CEO	Direct 0.19%	Monetary reward/credit in-kind contributions (Note 1)	28		
Shinji Hayashi	Representative Director, CFO	Direct 1.58%	Monetary reward/credit in-kind contributions (Note 1)	25		
Touchdown, Co., Ltd. (Note 3)	Publishing company	—	Consulting fee (Notes 2 and 4)	25		

Notes: 1. Monetary reward/credit in-kind contributions accompanying compensation through shares with transfer restrictions.

2. The terms and conditions, such as fees, are decided based on market price.

3. Mr. Toru Kenjo, Director (part-time) of the Company, owns all shares of Touchdown, Co., Ltd.

4. The Company consults Touchdown, Co., Ltd. on business strategy, such as secondary use of media contents.

The following summarize related party transactions between the consolidated subsidiaries and related parties for the years ended March 31, 2023 and 2022.

Unconsolidated Subsidiaries and Associated Companies

Year Ended March 31, 2023

Name	Description of Business or Occupation	Ownership Ratio of Voting Rights	Description of Transaction	Transaction		Balance		
				Millions of Yen	Thousands of U.S. Dollars	Account	Millions of Yen	Thousands of U.S. Dollars
Associated company AWA Co. Ltd.	Digital business	Indirect 48.50%	Lending of funds (Note 1)			Long-term loans (Note 2)		

Notes: 1. The Company has concluded credit line agreements, deciding on interest and other transaction conditions while taking into consideration factors such as market interest rates.

2. In the consolidated financial statements, ¥3,000 million (\$22,466 thousand) has been eliminated as an offset amount due to application of the equity method.

Year Ended March 31, 2022

Name	Description of Business or Occupation	Ownership Ratio of Voting Rights	Description of Transaction	Transaction	Balance	
				Millions of Yen	Account	Millions of Yen
Associated company AWA Co. Ltd.	Digital business	Indirect 48.50%	Lending of funds (Note 1)		Long-term loans (Note 2)	

Notes: 1. The Company has concluded credit line agreements, deciding on interest and other transaction conditions while taking into consideration factors such as market interest rates.

2. In the consolidated financial statements, ¥3,000 million has been eliminated as an offset amount due to application of the equity method.

Officers and Individual Major Shareholders

Year Ended March 31, 2023

Name	Description of Business or Occupation	Ownership Ratio of Voting Rights	Description of Transaction	Transaction		Balance	
				Millions of Yen	Thousands of U.S. Dollars	Account	Millions of Yen
Touchdown, Co., Ltd. (Note 2)	Publishing company	—	Consulting fee (Notes 1 and 3)	¥12	\$89		

Notes: 1. The terms and conditions, such as fees, are decided based on market price.

2. Mr. Toru Kenjo, Director (part-time) of the Company, owns all shares of Touchdown, Co., Ltd.

3. The Company consults Touchdown, Co., Ltd. on secondary use of media contents.

Year Ended March 31, 2022

Name	Description of Business or Occupation	Ownership Ratio of Voting Rights	Description of Transaction	Transaction	Balance	
				Millions of Yen	Account	Millions of Yen
Touchdown, Co., Ltd. (Note 2)	Publishing company	—	Consulting fee (Notes 1 and 3)	¥12		

Notes: 1. The terms and conditions, such as fees, are decided based on market price.

2. Mr. Toru Kenjo, Director (part-time) of the Company, owns all shares of Touchdown, Co., Ltd.

3. The Company consults Touchdown, Co., Ltd. on secondary use of media contents.

22. NET INCOME PER SHARE

Reconciliation of the differences between basic net income per share ("EPS") for the years ended March 31, 2023 and 2022, is as follows:

	<u>Millions of Yen</u>	<u>Thousands of Shares</u>	<u>Yen</u>	<u>U.S. Dollars</u>
	Net Income Attributable to Owners of the Parent	Weighted- Average Shares	<u>EPS</u>	
<u>Year Ended March 31, 2023</u>				
Basic EPS—Net income available to common shareholders	<u>¥2,742</u>	<u>45,110</u>	<u>¥60.80</u>	<u>\$0.46</u>
<u>Year Ended March 31, 2022</u>				
Basic EPS—Net income available to common shareholders	¥ 919	44,281	<u>¥20.77</u>	
Effect of dilutive securities— Stock acquisition right	—	<u>7</u>		
Diluted EPS—Net income for computation	<u>¥ 919</u>	<u>44,288</u>	<u>¥20.76</u>	

For the year ended March 31, 2023, diluted net income per share has not been shown because there are no potential shares.

Net assets per share as of March 31, 2023 and 2022, were as follows:

	<u>Yen</u>		<u>U.S. Dollars</u>
	<u>2023</u>	<u>2022</u>	<u>2023</u>
Net assets per share	¥1,286.29	¥1,285.20	\$9.63

The bases for calculation of net assets per share for the years ended March 31, 2023 and 2022, were as follows:

	<u>Millions of Yen</u>	<u>Thousands of Shares</u>	<u>Yen</u>	<u>U.S. Dollars</u>
	Net Assets	Number of Shares of Common Stock	<u>Net Assets per Share</u>	
<u>Year Ended March 31, 2023</u>				
Total net assets	¥58,838			
Amounts deducted from total net assets: Noncontrolling interests	<u>(764)</u>			
Net assets as of the year-end attributable to common shareholders	<u>¥58,074</u>	<u>45,148</u>	<u>¥1,286.29</u>	<u>\$9.63</u>
<u>Year Ended March 31, 2022</u>				
Total net assets	¥60,694			
Amounts deducted from total net assets: Noncontrolling interests	<u>(2,822)</u>			
Net assets as of the year-end attributable to common shareholders	<u>¥57,872</u>	<u>45,029</u>	<u>¥1,285.20</u>	

23. SEGMENT INFORMATION

(1) *Description of Reportable Segments*

The Avex Group's reportable segments are those for which separate financial information is available and regular evaluation by the Company's management is being performed in order to decide how resources are allocated among the Avex Group.

The Avex Group comprises the holding company, the Company, and associated operating companies.

Each operating company engages in business activities by formulating strategic proposals to provide users with entertainment content centered on music, visual entertainment and performing artists through a diverse array of platforms. Major business activities entail the planning, production, and sales of music content; music distribution; music publication; the management of artistic talent and creators; merchandising; the planning, production and management of concerts and events; sales of tickets; the planning, development and management of e-commerce sites; the planning, production, and sales of animation and visual content; film distribution; the management of fan clubs; and the planning, production, sales, and distribution of digital content.

Accordingly, the Avex Group reports its operations in four business segments comprising the music business, anime & visual content business, digital business and overseas business, which are based on streamlining operations toward growing entertainment markets.

The music business engages in the planning, production, and sales of music content; music distribution; music publication; the management of artistic talent and creators; merchandising; and the planning, production and management of concerts and events; and sales of tickets; the planning, development and management of e-commerce sites.

The anime & visual content business engages in the planning, production, and sales of animation and visual content, and film distribution.

The digital business engages in the management of fan clubs and the planning, production, sales, and distribution of digital content.

The overseas business plans, produces and distributes entertainment content in North America and Asia.

(2) *Change in the Reportable Segments*

The Avex Group is undergoing a reorganization as part of the key strategies set out in the Medium-term Management Plan announced in May 2022. In line with this reorganization, the Company changed its reportable segments, formerly the music business, anime & visual content business, digital platform business, overseas business and technology business to the music business, anime & visual content business, digital business and overseas business on and after April 1, 2022.

The segment information for the year ended March 31, 2022, has been reclassified to the new reportable segments.

(3) *Methods of Measurement for the Amounts of Sales, Profit, Assets, Liabilities and Other Items for Each Reportable Segment*

The accounting policies of each reportable segment are consistent with those disclosed in Note 2, "Summary of Significant Accounting Policies."

(4) Information about Sales, Profit and Other Items

	Millions of Yen								
	2023								
	Reportable Segment								
	Music Business	Anime & Visual Content Business	Digital Business	Overseas Business	Total	Other	Total	Reconciliations	Consolidated
Sales:									
Revenues from contracts with customers	¥90,067	¥14,065	¥11,983	¥5,199	¥121,315	¥246	¥121,561		¥121,561
Sales to external customers	90,067	14,065	11,983	5,199	121,315	246	121,561		121,561
Intersegment sales or transfers	4,072	1,188	396		5,656	575	6,231	¥(6,231)	
Total	¥94,139	¥15,253	¥12,379	¥5,199	¥126,972	¥821	¥127,793	¥(6,231)	¥121,561
Segment profit (loss)	¥ 2,800	¥ 609	¥ (546)	¥ 470	¥ 3,333	¥ 40	¥ 3,374	¥ 10	¥ 3,385
Other—Depreciation	1,371	250	609	93	2,325	21	2,346		2,346
	Millions of Yen								
	2022								
	Reportable Segment								
	Music Business	Anime & Visual Content Business	Digital Business	Overseas Business	Total	Other	Total	Reconciliations	Consolidated
Sales:									
Revenues from contracts with customers	¥71,949	¥10,071	¥13,303	¥2,976	¥ 98,300	¥ 136	¥ 98,437		¥98,437
Sales to external customers	71,949	10,071	13,303	2,976	98,300	136	98,437		98,437
Intersegment sales or transfers	4,579	967	378	53	5,978	1,250	7,229	¥(7,229)	
Total	¥76,529	¥11,038	¥13,682	¥3,029	¥104,279	¥1,387	¥105,667	¥(7,229)	¥98,437
Segment profit (loss)	¥ 3,949	¥ 691	¥ (1,640)	¥ (403)	¥ 2,596	¥ (19)	¥ 2,577	¥ 5	¥ 2,582
Other—Depreciation	1,061	74	967	56	2,159	10	2,170		2,170
	Thousands of U.S. Dollars								
	2023								
	Reportable Segment								
	Music Business	Anime & Visual Content Business	Digital Business	Overseas Business	Total	Other	Total	Reconciliations	Consolidated
Sales:									
Revenues from contracts with customers	\$ 674,507	\$ 105,332	\$ 89,740	\$ 38,935	\$ 908,522	\$ 1,842	\$ 910,364		\$ 910,364
Sales to external customers	674,507	105,332	89,740	38,935	908,522	1,842	910,364		910,364
Intersegment sales or transfers	30,495	8,896	2,965		42,357	4,306	46,663	\$ (46,663)	
Total	\$ 705,002	\$ 114,229	\$ 92,705	\$ 38,935	\$ 950,887	\$ 6,148	\$ 957,035	\$ (46,663)	\$ 910,364
Segment profit (loss)	\$ 20,969	\$ 4,560	\$ (4,088)	\$ 3,519	\$ 24,960	\$ 299	\$ 25,267	\$ 74	\$ 25,350
Other—Depreciation	10,267	1,872	4,560	696	17,411	157	17,569		17,569

- Notes: 1. "Other" for the years ended March 31, 2023 and 2022, represents businesses such as the real estate leasing business, etc., which are not included in reportable segments.
2. "Reconciliations" of segment profit (loss) of ¥10 million (\$74 thousand) for the year ended March 31, 2023, were eliminations of intersegment transactions.
- "Reconciliations" of segment profit (loss) of ¥5 million for the year ended March 31, 2022, were eliminations of intersegment transactions.
3. Segment profit (loss) for the year ended March 31, 2023 and 2022, are reconciled to operating income in the consolidated statement of income.
4. Segment assets are not disclosed since assets are not allocated to each reportable segment.

(Related Information)

Information by product and service for the years ended March 31, 2023 and 2022, is not disclosed since similar information is disclosed as information by reportable segment.

Information by geographical area for the years ended March 31, 2023 and 2022, is not disclosed since sales to domestic customers exceeded 90% of the sales amount in the consolidated statement of income and property, plant and equipment in Japan exceeded 90% of that in the consolidated balance sheet.

Information about major customers for the year ended March 31, 2023 is not disclosed since there is no single customer accounting for 10% or more of the sales amount in the consolidated statement of income.

Information about major customers for the year ended March 31, 2022, is as follows:

	<u>Millions of Yen</u> <u>2022</u>	<u>Related Segment Name</u>
Sales to—NTT DOCOMO, Inc.	¥11,527	Digital Business

Impairment losses on fixed assets by reportable segment for the years ended March 31, 2023 and 2022, were as follows:

	<u>Millions of Yen</u> <u>2023</u>							
	<u>Reportable Segment</u>							
	<u>Music Business</u>	<u>Anime & Visual Content Business</u>	<u>Digital Business</u>	<u>Overseas Business</u>	<u>Total</u>	<u>Other</u>	<u>Eliminated</u>	<u>Total</u>
Impairment loss	¥358	¥284	¥157		¥800	¥50		¥851

	<u>Millions of Yen</u> <u>2022</u>							
	<u>Reportable Segment</u>							
	<u>Music Business</u>	<u>Anime & Visual Content Business</u>	<u>Digital Business</u>	<u>Overseas Business</u>	<u>Total</u>	<u>Other</u>	<u>Eliminated</u>	<u>Total</u>
Impairment loss		¥79	¥95		¥174			¥174

	<u>Thousands of U.S. Dollars</u> <u>2023</u>							
	<u>Reportable Segment</u>							
	<u>Music Business</u>	<u>Anime & Visual Content Business</u>	<u>Digital Business</u>	<u>Overseas Business</u>	<u>Total</u>	<u>Other</u>	<u>Eliminated</u>	<u>Total</u>
Impairment loss	\$2,681	\$2,126	\$1,175		\$5,991	\$374		\$6,373

Note: The amount under "Other" for the year ended March 31, 2023, is related to the technology business.

Information of goodwill by reportable segment for the years ended March 31, 2023 and 2022, was as follows:

	Millions of Yen							
	2023							
	Reportable Segment							
	Music Business	Anime & Visual Content Business	Digital Business	Overseas Business	Total	Other	Eliminated	Total
Amortization of goodwill	¥32		¥46		¥78			¥78
Goodwill at March 31, 2023	3		80		84			84

	Millions of Yen							
	2022							
	Reportable Segment							
	Music Business	Anime & Visual Content Business	Digital Business	Overseas Business	Total	Other	Eliminated	Total
Amortization of goodwill	¥10		¥ 46		¥ 57			¥ 57
Goodwill at March 31, 2022	39		126		166			166

	Thousands of U.S. Dollars							
	2023							
	Reportable Segment							
	Music Business	Anime & Visual Content Business	Digital Business	Overseas Business	Total	Other	Eliminated	Total
Amortization of goodwill	\$ 239		\$ 344		\$ 584			\$ 584
Goodwill at March 31, 2023	22		599		629			629

Note: For the year ended March 31, 2023, amortization of ¥32 million (\$239 thousand) for the music business comprises ¥12 million (\$89 thousand) in selling, general and administrative expenses and ¥20 million (\$149 thousand) in "Other" in other income (expenses).

24. SUBSEQUENT EVENT

Sales of Investment Securities

At the Board of Directors' meeting held on May 25, 2023, the Company resolved to sell investment securities held by the Avex Group (securities of one listed company). The sale was completed on May 26, 2023. As a result, in the first quarter of the year ending March 31, 2024, the Company plans to record gain on sales of investment securities of ¥1,624 million (\$12,162 thousand) on other income (expenses).

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