



Consolidated Financial Results
for the Nine-Month Period Ended December 31, 2018 (Japan GAAP)

February 5, 2019

Company name: SQUARE ENIX HOLDINGS CO., LTD.
 Shares traded: Tokyo Stock Exchange, First Section
 Company code: 9684
 Company URL: <http://www.hd.square-enix.com/eng>
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 Financial report submission: February 8, 2019 (planned)
 Cash dividend payment commencement: —
 Supplementary quarterly materials prepared: Yes
 Quarterly results presentation held: Yes (for institutional investors and analysts)

(Amounts under one million yen are rounded down)

1. Consolidated Financial Results (April 1, 2018 through December 31, 2018)

(1) Consolidated Financial Results

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

	Net sales		Operating income		Ordinary income		Profit attributable to owners of parent	
Nine months ended	%		%		%		%	
December 31, 2018	179,070	(4.8)	11,720	(65.3)	15,970	(54.1)	8,916	(60.1)
December 31, 2017	188,090	(1.0)	33,771	57.2	34,785	57.8	22,327	30.9

Note: Nine months ended December 31, 2018 Comprehensive income: 7,385 million yen [(67.8%)]

Nine months ended December 31, 2017 Comprehensive income: 22,904 million yen [44.2%]

	Earnings per share, basic	Earnings per share, diluted
Nine months ended	yen	yen
December 31, 2018	74.83	74.69
December 31, 2017	185.77	185.40

(2) Consolidated Financial Position

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

	Total assets	Net assets	Equity ratio
As of			%
December 31, 2018	264,303	193,232	72.9
March 31, 2018	259,713	193,359	74.2

Note: Total equity As of December 31, 2018: 192,603 million yen

As of March 31, 2018: 192,612 million yen

2. Dividends

	Dividends per share				
	1Q	2Q	3Q	4Q	Total
	yen	yen	yen	yen	yen
Fiscal year ended March 31, 2018	—	10.00	—	55.00	65.00
Fiscal year ending March 31, 2019	—	10.00	—		
Fiscal year ending March 31, 2019 (projection)				43.00	53.00

Note: No change in dividend projections from the previous announcement.

3. Consolidated Forecasts (April 1, 2018 to March 31, 2019)

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

	Net sales	Operating income	Ordinary income	Profit attributable to owners of parent	Earnings per share
	%	%	%	%	yen
Fiscal year ending March 31, 2019	270,000 7.8	30,000 (21.4)	30,000 (17.0)	21,000 (18.7)	175.13

Note: No change in consolidated forecasts from the previous announcement.

Others

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

As of December 31, 2018	122,531,596
As of March 31, 2018	122,398,896
 2. Number of treasury stock:

As of December 31, 2018	3,324,379
As of March 31, 2018	3,324,459
 3. Average number of shares during the period (cumulative):

Nine-Month period ended December 31, 2018	119,159,606
Nine-Month period ended December 31, 2017	120,187,648

Disclaimer: (1) This document is a translation of the Japanese language "Kessan Tanshin" prepared in accordance with the guidelines of the Tokyo Stock Exchange. The Japanese language document shall prevail in the event any differences or discrepancies exist between this English translation and the original. (2) This earnings release is not subject to review procedures for quarterly financial statements (3) The forward-looking statements in this document are based upon the information currently available and necessarily include elements that are not entirely predictable. The achievement is not promised. Actual results may differ from the forward-looking statements in this document. (4) For additional information about forecasts, please refer to "1. Consolidated Results for the Nine-Month Period Ended December 31, 2018 (3) Qualitative information on consolidated business forecasts" section on page 4 of Supplemental Information.

Supplemental Information — Index

	Page
1. Consolidated Results for the Nine-Month Period Ended December 31, 2018	2
(1) Analysis of consolidated business results	2
(2) Analysis of consolidated financial position	3
(3) Qualitative information on consolidated business forecasts	4
2. Consolidated Financial Statements for the Nine-Month Period Ended December 31, 2018	5
(1) Consolidated Balance Sheets	5
(2) Consolidated Income Statement and Consolidated Statement of Comprehensive Income	7
Consolidated Income Statement	7
Consolidated Statement of Comprehensive Income	8
(3) Notes to Consolidated Financial Statements	9
(Note regarding going concern assumptions)	9
(Material changes in shareholders' equity)	9
(Changes in accounting policy)	9
(Additional information)	9
(Segment information)	10

1. Consolidated Results for the Nine-Month Period Ended December 31, 2018

(1) Analysis of consolidated business results

The Square Enix group (the "Group") is continuing determined efforts to strengthen the competitiveness and profitability of its Digital Entertainment, Amusement, Publication, and Merchandising business segments. Net sales for the Nine-Month period ended December 31, 2018 totaled ¥179,070 million (a decrease of 4.8% from the same period of the prior fiscal year), operating income amounted to ¥11,720 million (a decrease of 65.3% from the same period of the prior fiscal year), ordinary income amounted to ¥15,970 million (a decrease of 54.1% from the same period of the prior fiscal year).

SQUARE ENIX HOLDINGS CO., LTD. ("the Company"), had decided to undertake an in-depth review of the business strategy for a wholly-owned subsidiary Luminous Productions Co., Ltd. This decision has resulted in the booking of an extraordinary loss amounting to ¥3,733 million, primarily reflecting the disposition of the portion of the content production account related to the aforementioned subsidiary. These factors resulted in profit attributable to owners of parent of ¥8,916 million (a decrease of 60.1% from the prior fiscal year).

A discussion of results by segment for the Nine-Month period ended December 31, 2018 follows.

●Digital Entertainment

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

Net sales and operating income in the Digital Entertainment segment totaled ¥130,482 million (a decrease of 9.1% from the same period of the prior fiscal year), and ¥14,803 million (a decrease of 59.3% from the same period of the prior fiscal year), respectively.

Net sales rose compared to the same period of the prior fiscal year thanks to the launch of console titles including "SHADOW OF THE TOMB RAIDER," "JUST CAUSE 4," and "OCTOPATH TRAVELER."

Meanwhile, operating income declined year-on-year due to greater amortization of development costs for major new titles and increased advertising expenses.

In the smart devices and PC browser area, many of the titles newly launched in the prior fiscal year performed below expectations and failed to generate additional revenue on top of that from existing established games. A decrease in licensing income and an increase in advertising expenses also resulted in a year-on-year decline in net sales and operating income. "Romancing SaGa Re; univerSe," which was launched in December 2018, made a good start (net sales from this title are not recognized in Q3 but will be booked in Q4).

In the area of massively multiplayer online role-play games, net sales and operating income decreased compared to the same period of the prior fiscal year, which had seen the launch of expansion disks for "FINAL FANTASY XIV" and "DRAGON QUEST X."

●Amusement

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

Net sales and operating income in the Amusement segment totaled ¥34,298 million (an increase of 8.7% from the same period of the prior fiscal year), and ¥1,486 million (a decrease of 42.8% from the same period of the prior fiscal year), respectively.

Net sales rose compared to the same period of the prior fiscal year thanks to the release of new amusement machines and solid amusement facility operations. On the other hand, operating income declined year-on-year due to greater amortization charges associated with renewal of game machines installed in arcades and to lowering of profitability from amusement machine operations.

- Publication

The Publication segment consists of publication and licensing of comic magazines, comic books, and game strategy guides.

Net sales and operating income in the Publication segment totaled ¥9,969 million (an increase of 20.4% from the same period of the prior fiscal year) and ¥2,802 million (an increase of 52.7% from the same period of the prior fiscal year), respectively.

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

- Merchandising

The Merchandising segment consists of planning, production, distribution, and licensing of products primarily based on Group-owned IP.

Net sales and operating income in the Merchandising segment totaled ¥5,128 million (a decrease of 11.9% from the same period of the prior fiscal year), and ¥549 million (a decrease of 64.8% from the same period of the prior fiscal year), respectively.

Both net sales and operating income declined year-on-year during the nine-month period ended December 31, 2018, due to the high hurdle set in the same period of the prior fiscal year by the release of merchandise based on characters in the Group's IP portfolio.

(2) Analysis of consolidated financial position

- Assets

As of December 31, 2018, total current assets were ¥217,556 million, an increase of ¥1,456 million compared to March 31, 2018. This was mainly due to increases in content production account of ¥11,179 million, notes and accounts receivable of ¥6,531 million and the other on current assets of ¥4,261 million while cash and deposits decreased by ¥24,433 million. As of December 31, 2018, total non-current assets were ¥46,746 million, an increase of ¥3,134 million compared to March 31, 2018. This was mainly due to increases in the property, plant and equipment of ¥2,005 million and the investments and other assets of ¥842 million.

As a result, total assets were ¥264,303 million, an increase of ¥4,590 million compared to March 31, 2018.

- Liabilities

As of December 31, 2018, total current liabilities were ¥63,625 million, an increase of ¥4,783 million compared to March 31, 2018. This was mainly due to increases in the other on current liabilities of ¥7,479 million, notes and accounts payable-trade of ¥3,295 million and provision for sales returns of ¥3,246 million while income tax payable decreased by ¥7,435 million. As of December 31, 2018, total non-current liabilities were ¥7,445 million, a decrease of ¥65 million compared to March 31, 2018.

As a result, total liabilities were ¥71,071 million, an increase of ¥4,717 million compared to March 31, 2018.

●Net assets

As of December 31, 2018, net assets were ¥193,232 million, a decrease of ¥127 million compared to March 31, 2018. This was mainly due to profit attributable to owners of parent of ¥8,916 million, dividend payments of ¥7,741 million and a decrease of foreign currency translation adjustment of ¥1,543 million.

As a result, the consolidated equity ratio stood at 72.9% (74.2% as of March 31, 2018).

(3) Qualitative information on consolidated business forecasts

The business environment surrounding the Group is in the midst of a major transformation marked by rapid uptake of smart devices such as smartphones and tablets, as well as by greater competition and concentration in the console game markets of North America and Europe. By developing contents in keeping with such environmental changes and diversifying its earnings opportunities, the Group is working to establish an earnings foundation that enables the sustainable growth of sales and profits.

The Company does not revise at this point the forecast for the consolidated results of the fiscal year ending March 31, 2019, which was disclosed on May 11, 2018, since the Company needs to assess sales performance of multiple new titles with launch dates in the March quarter.

2. Consolidated Financial Statements for the Nine-Month Period Ended December 31, 2018

(1) Consolidated Balance Sheets

(Millions of yen)

	As of March 31, 2018	As of December 31, 2018
Assets		
Current assets		
Cash and deposits	136,785	112,351
Notes and accounts receivable-trade	24,383	30,914
Merchandise and finished goods	3,233	6,906
Work in progress	3	235
Raw materials and supplies	253	320
Content production account	44,167	55,346
Other	7,486	11,747
Allowance for doubtful accounts	(212)	(265)
Total current assets	216,100	217,556
Non-current assets		
Property, plant and equipment	16,060	18,065
Intangible assets	4,559	4,846
Investments and other assets	22,993	23,835
Total non-current assets	43,612	46,746
Total assets	259,713	264,303

As of March 31, 2018 As of December 31, 2018

Liabilities		
Current liabilities		
Notes and accounts payable-trade	14,848	18,143
Short-term loans payable	8,931	8,452
Income taxes payable	9,162	1,726
Provision for bonuses	3,246	1,927
Provision for sales returns	3,985	7,231
Provision for loss on game arcade closings	58	54
Other	18,610	26,089
Total current liabilities	58,842	63,625
Non-current liabilities		
Provision for directors' retirement benefits	88	52
Provision for loss on game arcade closings	41	11
Net defined benefit liability	2,676	2,662
Asset retirement obligations	2,812	2,931
Other	1,891	1,786
Total non-current liabilities	7,510	7,445
Total liabilities	66,353	71,071
Net assets		
Shareholders' equity		
Capital stock	23,868	24,039
Capital surplus	53,107	53,281
Retained earnings	129,513	130,688
Treasury stock	(10,159)	(10,161)
Total shareholders' equity	196,330	197,848
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	89	48
Foreign currency translation adjustment	(3,674)	(5,218)
Remeasurements of defined benefit plans	(132)	(74)
Total accumulated other comprehensive income	(3,718)	(5,244)
Subscription rights to shares	603	489
Non-controlling interests	144	140
Total net assets	193,359	193,232
Total liabilities and net assets	259,713	264,303

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

(Millions of yen)

	Nine months ended December 31, 2017	Nine months ended December 31, 2018
Net sales	188,090	179,070
Cost of sales	94,662	95,613
Gross profit	93,428	83,457
Reversal of provision for sales returns	6,175	4,161
Provision for sales returns	4,383	7,252
Gross profit-net	95,220	80,366
Selling, general and administrative expenses	61,448	68,645
Operating income	33,771	11,720
Non-operating income		
Interest income	68	116
Dividend income	7	0
Gain on forgiveness of payable for group tax	31	37
Foreign exchange gains	904	3,999
Miscellaneous income	299	214
Total non-operating income	1,312	4,368
Non-operating expenses		
Interest expenses	58	80
Commission fee	3	3
Office transfer related expenses	152	34
Loss on forgiveness of receivable for group tax	83	0
Miscellaneous loss	0	0
Total non-operating expenses	298	119
Ordinary income	34,785	15,970
Extraordinary income		
Gain on sales of non-current assets	10	15
Gain on sales of investment securities	4	0
Gain on reversal of subscription rights to shares	2	—
Gain on liquidation of subsidiaries	5	8
Total extraordinary income	23	23
Extraordinary losses		
Loss on sales of non-current assets	11	—
Loss on retirement of non-current assets	87	120
Loss on sales of shares of subsidiaries and associates	371	—
Loss on disposal of content	—	3,733
Other	5	5
Total extraordinary losses	475	3,858
Profit before income taxes	34,334	12,135
Income taxes-current	8,914	1,380
Income taxes-deferred	3,083	1,834
Total income taxes	11,997	3,215
Profit	22,336	8,919
Profit attributable to non-controlling interests	9	2
Profit attributable to owners of parent	22,327	8,916

Consolidated Statement of Comprehensive Income

(Millions of yen)

	Nine months ended December 31, 2017	Nine months ended December 31, 2018
Profit	22,336	8,919
Other comprehensive income		
Valuation difference on available-for-sale securities	(48)	(40)
Foreign currency translation adjustment	609	(1,550)
Remeasurements of defined benefit plans	7	57
Total other comprehensive income	568	(1,533)
Comprehensive income	22,904	7,385
(Breakdown)		
Comprehensive income attributable to owners of parent	22,893	7,389
Comprehensive income attributable to non-controlling interests	11	(4)

(3) Notes to Consolidated Financial Statements

(Note regarding going concern assumptions)

None

(Material changes in shareholders' equity)

None

(Changes in accounting policy)

Effective from the beginning of the fiscal year ending March 31, 2019, at foreign subsidiaries and affiliates that apply US GAAP, ASC 606, "Revenue from Contracts with Customers" has been adopted, while at other foreign subsidiaries and affiliates, IFRS 15, "Revenue from Contracts with Customers" has been adopted. As a result, there is no impact to the consolidated financial statements for the nine-month period ended December 31, 2018.

(Additional information)

(Application of Partial Amendments to Accounting Standard for Tax Effect Accounting, etc)

Effective from the beginning of the fiscal year ending March 31, 2019, the Group has adopted the "Partial Amendments to Accounting Standard for Tax Effect Accounting, etc. (ASBJ Guidance No.28 of February 16, 2018)." As a result, deferred tax assets are presented under investments and other assets, while deferred tax liabilities are presented under non-current liabilities.

(Segment information)

I. Outline of reporting segments for the Nine-Month period ended December 31, 2017

Information on sales and income by reporting segment

(Millions of yen)

	Reporting Segments					Adjustment (Note 1)	Consolidated total (Note 2)
	Digital Entertainment	Amusement	Publication	Merchandising	Total		
Sales and operating income							
Net sales							
(1) Sales to outside customers	143,574	31,536	8,251	4,727	188,090	—	188,090
(2) Intersegment sales	0	22	27	1,090	1,141	(1,141)	—
Total	143,574	31,558	8,279	5,818	189,231	(1,141)	188,090
Segment operating income	36,378	2,597	1,835	1,559	42,371	(8,599)	33,771

Notes: 1. Segment adjustments (¥8,599) million include unallocated corporate operating expenses (¥8,626) million.

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

II. Outline of reporting segments for the Nine-Month period ended December 31, 2018

Information on sales and income by reporting segment

(Millions of yen)

	Reporting Segments					Adjustment (Note 1)	Consolidated total (Note 2)
	Digital Entertainment	Amusement	Publication	Merchandising	Total		
Sales and operating income							
Net sales							
(1) Sales to outside customers	130,465	34,265	9,941	4,398	179,070	—	179,070
(2) Intersegment sales	17	33	27	730	809	(809)	—
Total	130,482	34,298	9,969	5,128	179,879	(809)	179,070
Segment operating income	14,803	1,486	2,802	549	19,642	(7,922)	11,720

Notes: 1. Segment adjustments (¥7,922) million include unallocated corporate operating expenses (¥7,999) million.

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