

Consolidated Financial Results
for the Nine-Month Period Ended December 31, 2017 (Japan GAAP)

February 6, 2018

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 9, 2018 (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, 2017 through December 31, 2017)

(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, 2017	188,090 (1.0)	33,771 57.2	34,785 57.8	22,327 30.9
December 31, 2016	190,084 24.4	21,477 (9.7)	22,050 (8.9)	17,055 26.0

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

Nine months ended December 31, 2016 Comprehensive income: 15,879 million yen [26.6%]

	Earnings per share, basic	Earnings per share, diluted
Nine months ended	yen	yen
December 31, 2017	185.77	185.40
December 31, 2016	139.76	139.51

(2) Consolidated Financial Position

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

	Total assets	Net assets	Equity ratio	Net assets per share
As of			%	yen
December 31, 2017	251,886	189,666	75.0	1,586.85
March 31, 2017	243,859	181,904	74.4	1,485.56

Note: Total equity As of December 31, 2017: 188,948 million yen

As of March 31, 2017: 181,322 million yen

2. Dividends

	Dividends per share				
	1Q	2Q	3Q	4Q	Total
	yen	yen	yen	yen	yen
Fiscal year ended March 31, 2017	—	10.00	—	40.00	50.00
Fiscal year ending March 31, 2018	—	10.00	—		
Fiscal year ending March 31, 2018 (projection)				30.00 ~38.00	40.00 ~48.00

Note: No change in Dividend projection from previous announcement

3. Consolidated Forecasts (April 1, 2017 to March 31, 2018)

(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
Fiscal year ending March 31, 2018	%		%		%		%		yen
	240,000	(6.6)	25,000	(20.1)	25,000	(19.7)	16,500	(17.7)	137.60
	~260,000	~1.2	~30,000	~(4.1)	~30,000	~(3.6)	~19,500	~(2.7)	~162.62

Note: No change in consolidated forecasts from 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: No
 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, 2017	122,394,896
As of March 31, 2017	122,373,396
 2. Number of treasury stock:

As of December 31, 2017	3,323,876
As of March 31, 2017	316,434
 3. Average number of shares during the period (cumulative):

Nine-Month period ended December 31, 2017	120,187,648
Nine-Month period ended December 31, 2016	122,034,901

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, 2017 (3) Qualitative information on consolidated business forecasts" section on page 5 of Supplemental Information.

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1. Consolidated Results for the Nine-Month Period Ended December 31, 2017

(1) Analysis of consolidated business results

The Square Enix group (the "Group") is continuing determined efforts to strengthen the competitiveness and profitability of its business segments of Digital Entertainment, Amusement, Publication and Merchandising. Net sales for the Nine-Month period ended December 31, 2017 totaled ¥188,090 million (a decrease of 1.0% from the same period of the prior fiscal year), operating income amounted to ¥33,771 million (an increase of 57.2% from the same period of the prior fiscal year), ordinary income amounted to ¥34,785 million (an increase of 57.8% from the same period of the prior fiscal year), and profit attributable to owners of parent amounted to ¥22,327 million (an increase of 30.9% from the same period of the prior fiscal year).

A discussion of results by segment for the Nine-Month period ended December 31, 2017 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.

During the Nine-Month period ended December 31, 2017, while "DRAGON QUEST XI: Echoes of an Elusive Age," the latest title of the "DRAGON QUEST" series and "FINAL FANTASY XII THE ZODIAC AGE" were launched, a decrease in the number of blockbuster titles resulted in net sales decline as compared to the same period of the prior fiscal year. On the other hand, strong high-margin download sales of previously released catalogue titles such as "NieR:Automata" have resulted in an increase of operating income, as compared to the same period of the prior fiscal year.

In the smart devices and PC browser area, our established lineup of popular games such as "FINAL FANTASY BRAVE EXVIUS," "HOSHI NO DRAGON QUEST," "DRAGON QUEST MONSTERS SUPER LIGHT" and "KINGDOM HEARTS Union X" is continuing to show strong performances globally, and an increase of royalty income pushed both net sales and operating income, as compared to the same period of the prior fiscal year.

In the area of massively multiplayer online role playing games, revenues from the latest expansions of "FINAL FANTASY XIV" and "DRAGON QUEST X" led to an increase in the number of paying subscribers and disk sales, which resulted in an increase of net sale and operating income, as compared to the same period of the prior fiscal year.

Net sales and operating income in the Digital Entertainment segment totaled ¥143,574 million (a decrease of 1.8%

from the same period of the prior fiscal year), and ¥36,378 million (an increase of 66.9% from the same period of the prior fiscal year), respectively.

- Amusement

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

During the Nine-Month period ended December 31, 2017, operation of the amusement facilities has been showing steady performance while new amusement machine releases decreased, which led to the decline in this segment's net sales and operating income.

Net sales and operating income in the Amusement segment totaled ¥31,558 million (a decrease of 4.5% from the same period of the prior fiscal year), and ¥2,597 million (a decrease of 29.2% from the same period of the prior fiscal year), respectively.

- Publication

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

During the Nine-Month period ended December 31, 2017, sales of comic books continues strong, in particular, the digital format sales increased, as compared to the same period of the prior fiscal year.

Net sales and operating income in the Publication segment totaled ¥8,279 million (an increase of 14.1% from the same period of the prior fiscal year) and ¥1,835 million (an increase of 6.5% from the same period of the prior fiscal year), respectively.

- Merchandising

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

During the Nine-Month period ended December 31, 2017, sales and licensing performed strongly thanks to character goods and soundtracks derived from the Group's own IPs, as well as character goods originated in renowned third-party IPs.

Net sales and operating income in the Merchandising segment totaled ¥5,818 million (an increase of 23.1% from the same period of the prior fiscal year), and ¥1,559 million (a decrease of 0.4% from the same period of the prior fiscal year), respectively.

(2) Analysis of consolidated financial position

- Assets

As of December 31, 2017, total current assets were ¥214,408 million, an increase of ¥5,369 million compared to March 31, 2017. This was mainly due to an increase in content production account of ¥10,284 million, while the other on current assets decreased by ¥5,461 million. As of December 31, 2017, total non-current assets were ¥37,477 million, an increase of ¥2,657 million compared to March 31, 2017. This was mainly due to increases in the property, plant and equipment of ¥1,600 million and the investments and other assets of ¥785 million.

As a result, total assets were ¥251,886 million, an increase of ¥8,027 million compared to March 31, 2017.

- Liabilities

As of December 31, 2017, total current liabilities were ¥54,635 million, a decrease of ¥809 million compared to March 31, 2017. This was mainly due to an increase in income tax payable of ¥5,605 million, while the other on current liabilities and provision for sales returns decreased by ¥4,215 million and ¥1,770 million respectively. As of December 31, 2017, total non-current liabilities were ¥7,584 million, an increase of ¥1,074 million compared to March 31, 2017.

As a result, total liabilities were ¥62,220 million, an increase of ¥265 million compared to March 31, 2017.

- Net assets

As of December 31, 2017, net assets were ¥189,666 million, an increase of ¥7,761 million compared to March 31, 2017. This was mainly due to profit attributable to owners of parent of ¥22,327 million, dividend payments of ¥6,072 million and acquisition of treasury stock of ¥9,258 million.

As a result, the consolidated equity ratio stood at 75.0% (74.4% as of March 31, 2017).

(3) Qualitative information on consolidated business forecasts

The console game markets in North America and Europe are increasingly getting competitive and oligopolistic. On the other hand, the game content market for smart devices such as smartphones and tablet PCs centering in Japan, North America, Europe and China has been growing to surpass the console software market. Digital sales of full-game download and premium downloadable content are rapidly increasing mainly in North America and Europe on top of the conventional package distribution. In addition, consumers' demand for new experiences such as online multi-play and live entertainment are increasing. As such, the business environment surrounding the Group is in the midst of major changes. The Group is focusing all efforts to achieve growth coupled with profits on a solid revenue foundation through introduction of responsive and flexible content development conforming to the ever-changing environment as well as diversification of profit opportunities.

Given the environmental changes described above, it is expected that the consolidated forecasts for financial results will fluctuate ever-larger. The Group, therefore, has made consolidated forecasts in a range of forecasted figures in lieu of specific figures.

2. Consolidated Financial Statements for the Nine-Month Period Ended December 31, 2017

(1) Consolidated Balance Sheets

(Millions of yen)

	As of March 31, 2017	As of December 31, 2017
Assets		
Current assets		
Cash and deposits	129,364	130,820
Notes and accounts receivable-trade	26,053	24,370
Merchandise and finished goods	2,820	3,592
Work in progress	11	6
Raw materials and supplies	302	295
Content production account	34,548	44,833
Other	16,252	10,791
Allowance for doubtful accounts	(314)	(300)
Total current assets	<u>209,038</u>	<u>214,408</u>
Non-current assets		
Property, plant and equipment	14,234	15,835
Intangible assets	4,735	5,006
Investments and other assets	15,850	16,635
Total non-current assets	<u>34,820</u>	<u>37,477</u>
Total assets	<u>243,859</u>	<u>251,886</u>

(Millions of yen)

	As of March 31, 2017	As of December 31, 2017
Liabilities		
Current liabilities		
Notes and accounts payable-trade	14,220	14,012
Short-term loans payable	8,437	9,166
Income taxes payable	1,665	7,270
Provision for bonuses	2,358	1,431
Provision for sales returns	6,197	4,427
Provision for loss on game arcade closings	64	60
Asset retirement obligations	17	—
Other	22,482	18,267
Total current liabilities	55,445	54,635
Non-current liabilities		
Provision for directors' retirement benefits	88	88
Provision for loss on game arcade closings	83	51
Net defined benefit liability	2,546	2,712
Asset retirement obligations	2,450	2,802
Other	1,340	1,928
Total non-current liabilities	6,510	7,584
Total liabilities	61,955	62,220
Net assets		
Shareholders' equity		
Capital stock	23,828	23,860
Capital surplus	53,067	53,099
Retained earnings	109,764	126,018
Treasury stock	(897)	(10,155)
Total shareholders' equity	185,763	192,822
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	364	316
Foreign currency translation adjustment	(4,640)	(4,033)
Remeasurements of defined benefit plans	(165)	(157)
Total accumulated other comprehensive income	(4,440)	(3,874)
Subscription rights to shares	453	578
Non-controlling interests	128	139
Total net assets	181,904	189,666
Total liabilities and net assets	243,859	251,886

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

(Millions of yen)

	Nine months ended December 31, 2016	Nine months ended December 31, 2017
Net sales	190,084	188,090
Cost of sales	105,326	94,662
Gross profit	84,758	93,428
Reversal of provision for sales returns	3,190	6,175
Provision for sales returns	6,440	4,383
Gross profit-net	81,508	95,220
Selling, general and administrative expenses	60,030	61,448
Operating income	21,477	33,771
Non-operating income		
Interest income	50	68
Dividend income	1	7
Gain on forgiveness of payable for group tax	62	31
Foreign exchange gains	478	904
Miscellaneous income	68	299
Total non-operating income	661	1,312
Non-operating expenses		
Interest expenses	41	58
Commission fee	5	3
Office transfer related expenses	31	152
Loss on forgiveness of receivable for group tax	6	83
Miscellaneous loss	2	0
Total non-operating expenses	88	298
Ordinary income	22,050	34,785
Extraordinary income		
Gain on sales of non-current assets	4	10
Gain on sales of investment securities	—	4
Gain on reversal of subscription rights to shares	20	2
Gain on liquidation of subsidiaries	—	5
Total extraordinary income	24	23
Extraordinary losses		
Loss on sales of non-current assets	—	11
Loss on retirement of non-current assets	165	87
Loss on sales of shares of subsidiaries and associates	—	371
Other	13	5
Total extraordinary losses	178	475
Profit before income taxes	21,896	34,334
Income taxes-current	3,925	8,914
Income taxes-deferred	914	3,083
Total income taxes	4,839	11,997
Profit	17,056	22,336
Profit attributable to non-controlling interests	1	9
Profit attributable to owners of parent	17,055	22,327

Consolidated Statement of Comprehensive Income

(Millions of yen)

	Nine months ended December 31, 2016	Nine months ended December 31, 2017
Profit	17,056	22,336
Other comprehensive income		
Valuation difference on available-for-sale securities	48	(48)
Foreign currency translation adjustment	(1,362)	609
Remeasurements of defined benefit plans	136	7
Total other comprehensive income	(1,176)	568
Comprehensive income	15,879	22,904
(Breakdown)		
Comprehensive income attributable to owners of parent	15,913	22,893
Comprehensive income attributable to non-controlling interests	(34)	11

(3) Notes to Consolidated Financial Statements

(Note regarding going concern assumptions)

None

(Material changes in shareholders' equity)

The Company repurchased its own shares by means of a tender offer in accordance with the board resolution as of May 24, 2017. As a result, treasury stock increased by ¥9,241 million during the Nine-Month period ended December 31, 2017, and amounted to ¥10,155 million as of December 31.

(Segment information)

I. Outline of reporting segments for the Nine-Month period ended December 31, 2016

Information on sales and income by reporting segment

	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	146,215	33,038	7,222	3,608	190,084	—	190,084
(2) Intersegment sales	—	6	35	1,119	1,160	(1,160)	—
Total	146,215	33,044	7,257	4,727	191,245	(1,160)	190,084
Segment operating income	21,793	3,666	1,723	1,565	28,749	(7,271)	21,477

Notes: 1. Segment adjustments (¥7,271) million include unallocated corporate operating expenses (¥7,297) 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, 2017

Information on sales and income by reporting segment

	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.