



Consolidated Financial Results
for the Six-Month Period Ended September 30, 2018 (Japan GAAP)

November 7, 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: November 13, 2018 (planned)
 Cash dividend payment commencement: December 5, 2018 (planned)
 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 September 30, 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	
Six months ended	%		%		%		%	
September 30, 2018	112,234	(15.0)	10,077	(61.0)	15,015	(43.6)	8,639	(50.7)
September 30, 2017	132,043	24.2	25,816	132.3	26,617	217.7	17,515	218.7

Note: Six months ended September 30, 2018 Comprehensive income: 7,634 million yen [Δ 57.5%]
 Six months ended September 30, 2017 Comprehensive income: 17,974 million yen [454.2%]

	Earnings per share, basic	Earnings per share, diluted
Six months ended	yen	yen
September 30, 2018	72.52	72.36
September 30, 2017	145.06	144.79

(2) Consolidated Financial Position

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

	Total assets	Net assets	Equity ratio
As of			%
September 30, 2018	258,926	194,647	74.9
March 31, 2018	259,713	193,359	74.2

Note: Total equity As of September 30, 2018: 194,037 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 projection from 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 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 September 30, 2018	122,531,596
As of March 31, 2018	122,398,896
 2. Number of treasury stock:

As of September 30, 2018	3,325,865
As of March 31, 2018	3,324,459
 3. Average number of shares during the period (cumulative):

Six-Month period ended September 30, 2018	119,136,026
Six-Month period ended September 30, 2017	120,750,813

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 Six-Month Period Ended September 30, 2018 (3) Qualitative information on consolidated business forecasts" section on page 4 of Supplemental Information.

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1. Consolidated Results for the Six-Month Period Ended September 30, 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 business segments of Digital Entertainment, Amusement, Publication and Merchandising. Net sales for the Six-Month period ended September 30, 2018 totaled ¥112,234 million (a decrease of 15.0% from the same period of the prior fiscal year), operating income amounted to ¥10,077 million (a decrease of 61.0% from the same period of the prior fiscal year), and ordinary income amounted to ¥15,015 million (a decrease of 43.6% 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 ¥8,639 million (a decrease of 50.7% from the prior fiscal year).

A discussion of results by segment for the Six-Month period ended September 30, 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 ¥82,826 million (a decrease of 18.9% from the same period of the prior fiscal year), and ¥13,049 million (a decrease of 50.9% from the same period of the prior fiscal year), respectively.

In the console games area, we launched "OCTOPATH TRAVELLER," a brand new IP, and "SHADOW OF THE TOMB RAIDER," the final chapter of the rebooted TOMB RAIDER trilogy. Overall this sub-segment's net sales and operating income decreased compared to the same period of the prior fiscal year.

In the smart devices and PC browser area, most of the titles 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 also contributed to a year-on-year decline in net sales and operating profit.

In the area of massively multiplayer online role-playing games, net sales and operating profit decreased compared to the same period of the prior fiscal year, which had seen the launch of an expansion disk for "FINAL FANTASY XIV."

●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.

Net sales and operating income in the Amusement segment totaled ¥20,519 million (a decrease of 2.9% from the same period of the prior fiscal year), and ¥725 million (a decrease of 70.5% from the same period of the prior fiscal year), respectively.

Amusement facility operations remained solid, but amusement machines remained sluggish as no new amusement machines were launched.

●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 ¥6,090 million (an increase of 7.8% from the same period of the prior fiscal year) and ¥1,516 million (an increase of 9.6% from the same period of the prior fiscal year), respectively.

Sales of comic-books remained brisk as growth in digital formats offset a year-on-year decline in paper-media sales.

●Merchandising

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

Net sales and operating income in the Merchandising segment totaled ¥3,333 million (a decrease of 17.9% from the same period of the prior fiscal year), and ¥296 million (a decrease of 75.3% from the same period of the prior fiscal year), respectively.

Both net sales and operating profit declined year-on-year during the six-month period ended September 30, 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 September 30, 2018, total current assets were ¥211,359 million, a decrease of ¥4,741 million compared to March 31, 2018. This was mainly due to decreases in cash and deposits of ¥25,492 million, while content production account and notes and accounts receivable increased by ¥10,289 million and ¥5,629 million respectively. As of September 30, 2018, total non-current assets were ¥47,567 million, an increase of ¥3,954 million compared to March 31, 2018. This was mainly due to increases in the investments and other assets of ¥2,848 million.

As a result, total assets were ¥258,926 million, a decrease of ¥786 million compared to March 31, 2018.

●Liabilities

As of September 30, 2018, total current liabilities were ¥56,629 million, a decrease of ¥2,213 million compared to March 31, 2018. This was mainly due to decreases in income tax payable of ¥6,163 million, while notes and accounts payable increased by ¥2,672 million. As of September 30, 2018, total non-current liabilities were ¥7,649 million, an increase of ¥138 million compared to March 31, 2018.

As a result, total liabilities were ¥64,278 million, a decrease of ¥2,074 million compared to March 31, 2018.

●Net assets

As of September 30, 2018, net assets were ¥194,647 million, an increase of ¥1,287 million compared to March 31, 2018. This was mainly due to profit attributable to owners of parent of ¥8,639 million, dividend payments of ¥6,549 million and a decrease in foreign currency translation adjustment of ¥1,009 million. As a result, the consolidated equity ratio stood at 74.9% (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 consolidation 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.

In order to present its earnings forecasts in a more straightforward manner, the Company has decided to issue its consolidated forecasts as specific numbers rather than in ranges, as it had previously done.

The forecast for the consolidated business results for the fiscal year ending March 31, 2019 remains the same as what was disclosed on May 11, 2018 as the Company needs to monitor sales trends for multiple new blockbuster titles with launch dates in the second half of the fiscal year ending March 31, 2019.

2. Consolidated Financial Statements for the Six-Month Period Ended September 30, 2018

(1) Consolidated Balance Sheets

(Millions of yen)

	As of March 31, 2018	As of September 30, 2018
Assets		
Current assets		
Cash and deposits	136,785	111,292
Notes and accounts receivable-trade	24,383	30,012
Merchandise and finished goods	3,233	4,118
Work in progress	3	813
Raw materials and supplies	253	421
Content production account	44,167	54,457
Other	7,486	10,414
Allowance for doubtful accounts	(212)	(170)
Total current assets	216,100	211,359
Non-current assets		
Property, plant and equipment	16,060	16,989
Intangible assets	4,559	4,736
Investments and other assets	22,993	25,841
Total non-current assets	43,612	47,567
Total assets	259,713	258,926

As of March 31, 2018 As of September 30, 2018

Liabilities		
Current liabilities		
Notes and accounts payable-trade	14,848	17,520
Short-term loans payable	8,931	8,878
Income taxes payable	9,162	2,998
Provision for bonuses	3,246	2,399
Provision for sales returns	3,985	5,345
Provision for loss on game arcade closings	58	55
Other	18,610	19,430
Total current liabilities	58,842	56,629
Non-current liabilities		
Provision for directors' retirement benefits	88	52
Provision for loss on game arcade closings	41	21
Net defined benefit liability	2,676	2,599
Asset retirement obligations	2,812	2,844
Other	1,891	2,131
Total non-current liabilities	7,510	7,649
Total liabilities	66,353	64,278
Net assets		
Shareholders' equity		
Capital stock	23,868	24,039
Capital surplus	53,107	53,279
Retained earnings	129,513	131,603
Treasury stock	(10,159)	(10,166)
Total shareholders' equity	196,330	198,756
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	89	59
Foreign currency translation adjustment	(3,674)	(4,684)
Remeasurements of defined benefit plans	(132)	(94)
Total accumulated other comprehensive income	(3,718)	(4,719)
Subscription rights to shares	603	469
Non-controlling interests	144	141
Total net assets	193,359	194,647
Total liabilities and net assets	259,713	258,926

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

(Millions of yen)

	Six months ended September 30, 2017	Six months ended September 30, 2018
Net sales	132,043	112,234
Cost of sales	65,936	57,115
Gross profit	66,107	55,118
Reversal of provision for sales returns	6,149	4,139
Provision for sales returns	5,006	5,220
Gross profit-net	67,250	54,038
Selling, general and administrative expenses	41,434	43,960
Operating income	25,816	10,077
Non-operating income		
Interest income	45	79
Dividend income	3	0
Gain on forgiveness of payable for group tax	31	37
Foreign exchange gains	739	4,734
Miscellaneous income	225	153
Total non-operating income	1,045	5,006
Non-operating expenses		
Interest expenses	38	53
Commission fee	2	2
Office transfer related expenses	120	11
Loss on forgiveness of receivable for group tax	83	0
Miscellaneous loss	0	0
Total non-operating expenses	244	67
Ordinary income	26,617	15,015
Extraordinary income		
Gain on sales of non-current assets	10	—
Gain on sales of investment securities	4	—
Gain on reversal of subscription rights to shares	2	—
Gain on liquidation of subsidiaries	5	8
Total extraordinary income	23	8
Extraordinary losses		
Loss on sales of non-current assets	8	—
Loss on retirement of non-current assets	59	61
Loss on sales of shares of subsidiaries and associates	371	—
Loss on disposal of content	—	3,733
Other	4	1
Total extraordinary losses	443	3,795
Profit before income taxes	26,196	11,228
Income taxes-current	7,650	1,951
Income taxes-deferred	1,022	635
Total income taxes	8,672	2,587
Profit	17,524	8,641
Profit attributable to non-controlling interests	8	2
Profit attributable to owners of parent	17,515	8,639

Consolidated Statement of Comprehensive Income

(Millions of yen)

	Six months ended September 30, 2017	Six months ended September 30, 2018
Profit	17,524	8,641
Other comprehensive income		
Valuation difference on available-for-sale securities	(4)	(30)
Foreign currency translation adjustment	449	(1,015)
Remeasurements of defined benefit plans	5	38
Total other comprehensive income	450	(1,006)
Comprehensive income	17,974	7,634
(Breakdown)		
Comprehensive income attributable to owners of parent	17,967	7,638
Comprehensive income attributable to non-controlling interests	6	(3)

(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 six-month period ended September 30, 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 Six-Month period ended September 30, 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	102,104	21,128	5,623	3,186	132,043	—	132,043
(2) Intersegment sales	0	5	26	872	903	(903)	—
Total	102,104	21,133	5,649	4,059	132,947	(903)	132,043
Segment operating income	26,589	2,463	1,384	1,199	31,636	(5,820)	25,816

Notes: 1. Segment adjustments (¥5,820) million include unallocated corporate operating expenses (¥5,834) million.

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

II. Outline of reporting segments for the Six-Month period ended September 30, 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	82,812	20,496	6,066	2,858	112,234	—	112,234
(2) Intersegment sales	13	22	24	474	535	(535)	—
Total	82,826	20,519	6,090	3,333	112,770	(535)	112,234
Segment operating income	13,049	725	1,516	296	15,588	(5,511)	10,077

Notes: 1. Segment adjustments (¥5,511) million include unallocated corporate operating expenses (¥5,556) million.

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