SQUARE ENIX CO., LTD.
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Printed in Japan

SQUARE ENIX CO., LTD. ANNUAL REPORT 2007

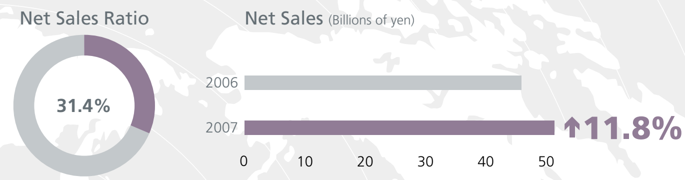
ANNUAL REPORT 2007

SQUARE ENIX

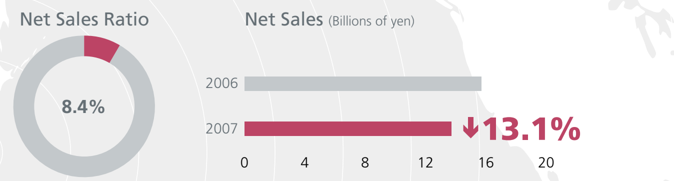
At a Glance

Net Sales by Business Segment

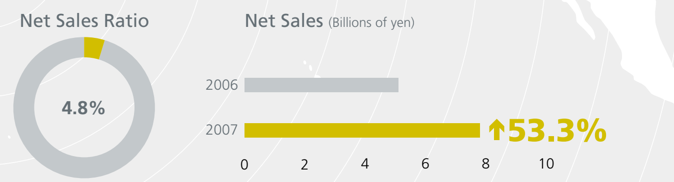
Games (Offline)



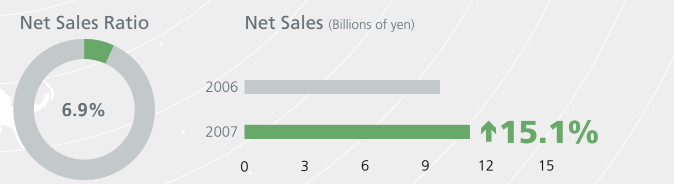
Games (Online)



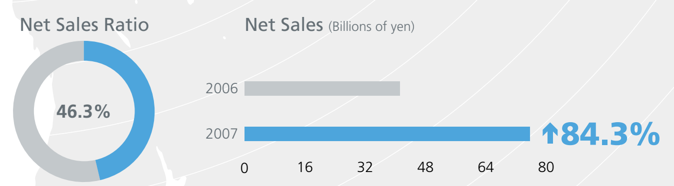
Mobile Phone Content



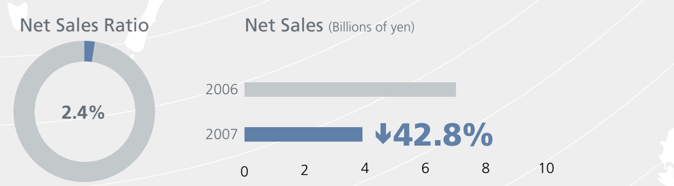
Publication



Amusement



Others



Contents

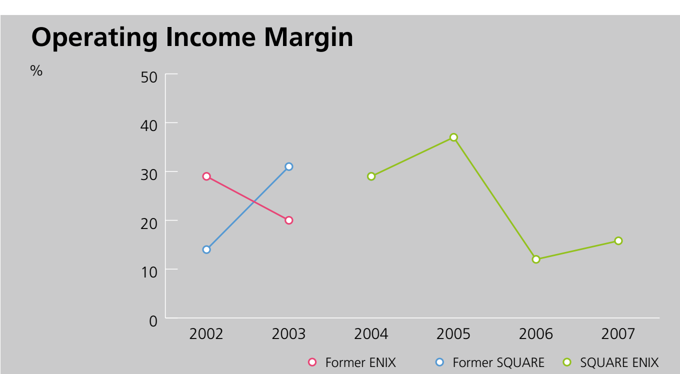
Disclaimer Regarding Forward-Looking Statements

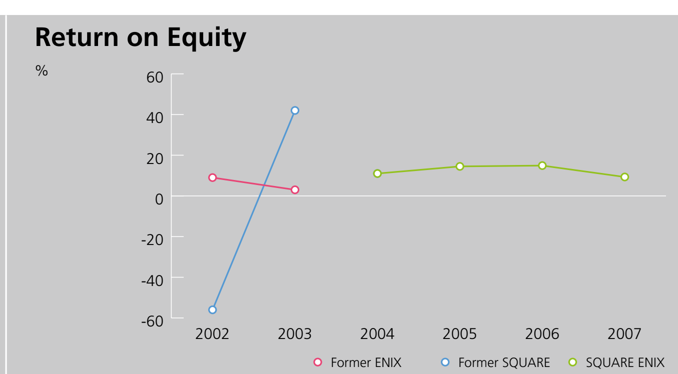
Financial Highlights

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

	Millions of Yen		Thousands of U.S. Dollars
	2007	2006	**2007**
For the Year			
Net sales	**¥163,472**	¥ 124,473	**$1,384,774**
Operating income	**25,916**	15,470	**219,539**
Net income	**11,619**	17,076	**98,430**
At year-end			
Total assets	**¥215,679**	¥213,348	**$1,827,019**
Total equity	**129,461**	120,993	**1,096,666**
	Yen		U.S. Dollars
Per Share of Common Stock			
Net income	**¥ 105.06**	¥ 154.65	**$ 0.89**
Total equity	**1,168.91**	1,094.50	**9.90**
	%		
Key Ratios			
Operating income margin	**15.9%**	12.4%	
Return on equity	**9.3**	14.9	
Equity ratio	**60.0**	56.7	

Notes: 1. For the convenience of readers, amounts in U.S. dollars have been translated from yen at the exchange rate prevailing on the Tokyo Foreign Exchange Market as of March 31, 2007 of ¥118.05=US$1.
2. Total equity = Common stock + Capital surplus reserve + Retained earnings + Treasury stock + Valuation and translation adjustments





Notes: 1. Return on equity = Net income / Average equity
2. Return on equity for fiscal 2004 has been calculated using the simple addition of the former ENIX and the former SQUARE's equity as of the end of the previous period.

Network is the Game.
Everything plays Games.

Yoichi Wada
President and Representative Director

I thank our shareholders for the opportunity to present our annual report for fiscal 2006, ended March 31, 2007.

In fiscal 2006, on a consolidated basis, net sales expanded 31.3%, to ¥163,472 million. Operating income surged 67.5%, to ¥25,916 million, and recurring income similarly rose 68.8%, to ¥26,241 million. Net income, on the other hand, declined 32.0%, to ¥11,619 million. As a result, the recurring income margin was 16.1%, and return on equity (ROE) came to 9.3%.

The Company's dividend policy is to maintain an optimal balance between performance-linked payouts and stable returns to shareholders. In line with this policy, we have set dividends to be ¥35 per share for fiscal 2006, resulting in a consolidated payout ratio of 33.3%.

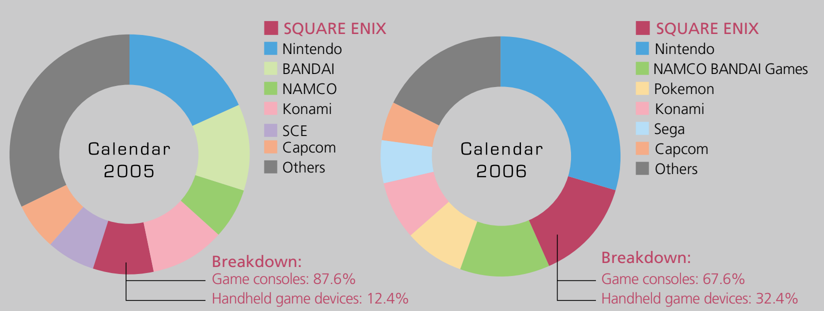
We enjoyed strong operating performance during the year. Our targets, however, are higher still, while our business environment is becoming increasingly challenging. We are tightening our belts and rallying our forces for another vigorous push forward.

Transition Period Continues in Fiscal 2006

In fiscal 2006, the video game industry remained in a period of major transition. Our challenge in this period of time would be to transform ourselves to be capable in the new business environment, while maintaining sales and profits.

[Figure 1]

Domestic Share, Based on Net Sales



Sources: Share information from "The Annual Video Game Industry Report." Breakdown of game consoles and handheld game devices information compiled by SQUARE ENIX

Robust performance of SQUARE ENIX unit

We have acquired Taito in fiscal 2005, but we run its business separate from Square Enix. Thus, I'd like to review our businesses separately.

An effective combination of the present and future has driven our success in the Games (Offline) segment of Square Enix. As for current-generation software titles, major titles such as "FINAL FANTASY XII" and "KINGDOM HEARTS II" for the PlayStation 2 (PS2), both launched in Japan in the previous fiscal year, were released in Europe and North America and contributed substantially to earnings and profits.

"SQUARE ENIX Corners," the dedicated shelf spaces for Square Enix titles, were deployed in over 900 retail stores throughout Japan, which have boosted our sales capitalizing our strong brand in an extremely competitive sales environment. The system particularly contributed to increase the sales of catalogue titles as well as new ones.

We have built a sound business foundation in Europe and North America. In Europe, we began publishing our titles ourselves in fiscal 2006. This move boosted not only the sales of the two new titles mentioned above, but also those of catalogue titles due to our improved ability to fulfill repeat orders. As a result, we succeeded in fully capturing market opportunities in game software for current-generation game consoles.

For next-generation game consoles, it become important to select appropriate region, customer segment and timing based on careful analysis, as opposed to the wining strategy for the current generation of selecting and concentrating on the wining game console.

Next-generation game consoles take networked environments as a given, and offer attractive high-definition (HD) graphics capability as their selling point. The flip side, of course, is that these consoles cannot be enjoyed in full unless they are networked and viewed with HD displays. Handheld game devices, on the other hand, are self-sufficient and have no particular environment requirements. Consequently, we expected that the next generation handheld game devices would penetrate the market ahead of the next generation consoles in fiscal 2006 and fiscal 2007, and adjusted development resources accordingly.

Examples of our success with this approach in Japan include sales of the totally remade "FINAL FANTASY III", which sold 990,000 copies in Japan and 460,000 copies in North America; and "Dragon Quest Monsters: Joker", which sold 1.41 million copies in Japan. Both titles were developed for Nintendo Co., Ltd.'s new handheld game device, NINTENDO DS, and played a major role in our success. Our decision to utilize Nintendo Wi-Fi connection in "Dragon Quest Monsters: Joker" proved to be extremely popular, with over 5.6 million cumulative online accesses, proving new market potential.

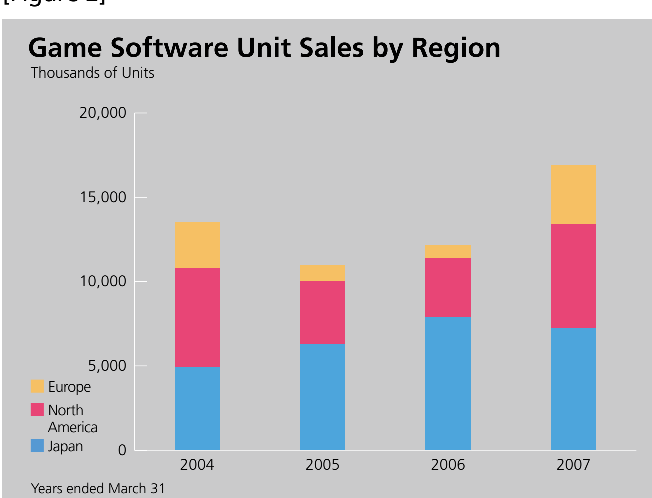
This strategy is for the transition period, of course, and we have no intention of relying solely on handheld game devices in the future. In fact, over the next few years we aim to put our resources in research and development of cutting edge technologies in the next generation consoles and personal computer (PC). We will also work on improving our development pipelines to achieve more efficient and flexible game development. For that purpose, we created the Research and Development Division as a permanent organization in fiscal 2006, in a departure from our previous project-based R&D activities.

In the Games (Online) segment, we are continuing to raise the bar on profits each year. In fiscal 2006, we maintained a profit margin of 49.5%, which is extremely high. A high dependency on "FINAL FANTASY XI" is one of our weaknesses in this business, but in fiscal 2006 we set the stage to move on to the next generation of games.

In the Mobile Phone Content business, we cleared our profit target and posted a new record, but our overseas expansion fell short of expectations. It is becoming apparent that the mobile phone markets in overseas develop very differently from Japanese one. We need to calibrate our strategy accordingly.

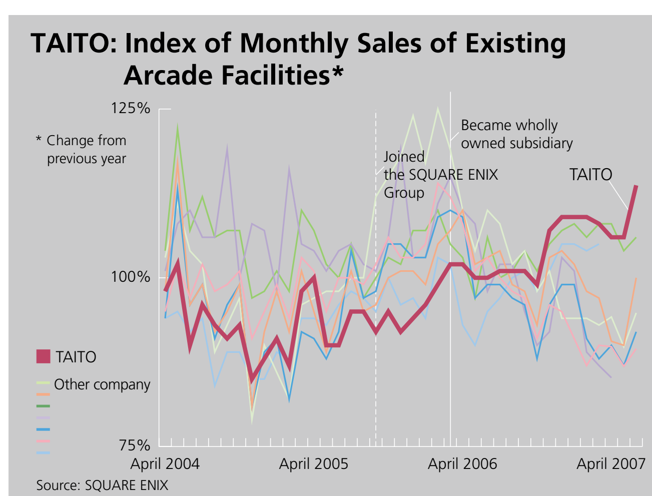
In the Publication segment, we achieved the highest levels of sales and profits that we have seen since the days of the former ENIX. Rather than relying on a single hit product, we acquired the ability to generate a constant stream of hits, and our strategy of taking our content across diverse media including, periodicals, anime titles and comic books, is proving to be effective.

[Figure 2]



Game Software Unit Sales by Region

[Figure 3]



TAITO: Index of Monthly Sales of Existing Arcade Facilities*

Creative & Innovative

TAITO unit Poised at the Starting Line

Now, I present the progress we made in TAITO, which became fully consolidated in fiscal 2006. From the strategic point of view, integrating TAITO, which develops and sells arcade machines and operates arcade facility, into the Group is significant in two ways.

First, our new portfolio of businesses increases our touch points with customers, rounding out our strategies in this respect. Various entertainment media are beginning to cross-penetrate. In such a business environment, we need to increase our touch points with customers to understand and respond to various demands of customers. Square Enix had far to go in the virtual space, addition of Taito will enhance our ability to use physical locations and to create the entertainment that appeals to 5 senses nurtured through arcade game development.

The second significance is financial one. Games (Offline) and Games (Online) become increasingly capital intensive and require longer time of investment. TAITO, on the other hand, runs a flow-based business, require less capital and generate stable flow of cash. The financial risk profiles of these two businesses are polar opposites, a balance that I believe will allow us to develop our business more aggressively.

TAITO's performance to date, however, had not been strong enough for it to function as a supporting pillar of the Group. We positioned fiscal 2006 as a time of restructuring, preparing TAITO to make a fresh start in fiscal 2007. What we needed to do was simple. We had to reallocate resources optimally. The key was to take actions in the fastest manner.

First, we moved out of unprofitable businesses, closed down arcade facilities that were losing money, and made personnel cutbacks. In addition to businesses that were obviously generating losses, we also shut down businesses where the use of capital is not efficient. We completed this process in fiscal 2006.

The next step was to allocate additional resources and invigorate businesses that were delivering borderline performances.

As the first step, we needed to revitalize arcade facility operation. This business generates revenue through investment in three areas: real estate, arcade machines and people. In the past, being overly obsessed with arcade facility location resulted in disadvantageous real estate agreements that sapped funds for arcade investment. Consistent renewal of arcade machines on arcade floors was allowed to fall behind for lack of funds. Arcade revenue and profit suffered as a result, leaving too little money for proper personnel investment. The cycle was vicious.

Our basic approach was to reverse this cycle by making appropriate and audacious investments to reenergize personnel and renovate arcade machines, then make clear that we will only accept real estate with terms reasonable to us. The amount of funds we actually invest will be at the same level as before, but this structural reform should erase the chronic deficits. Taking a determinedly proactive approach should also boost employee morale and positively impact sales. As Figure 3 shows, these efforts have already begun to bear fruit.

After the completion of revitalizing the arcade facility operation business, we plan to move on the next step of strengthening the arcade machine business.

On the separate note, TAITO also has mobile phone content and console game businesses, but with different characteristics and business direction than those of SQUARE ENIX. For this reason, we have made the conscious decision to run these businesses independently from SQUARE ENIX. We believe that this path represents a better approach toward synergy.

Note: When converting TAITO to a subsidiary, all its businesses, including the amortization of goodwill, were consolidated into the amusement business.

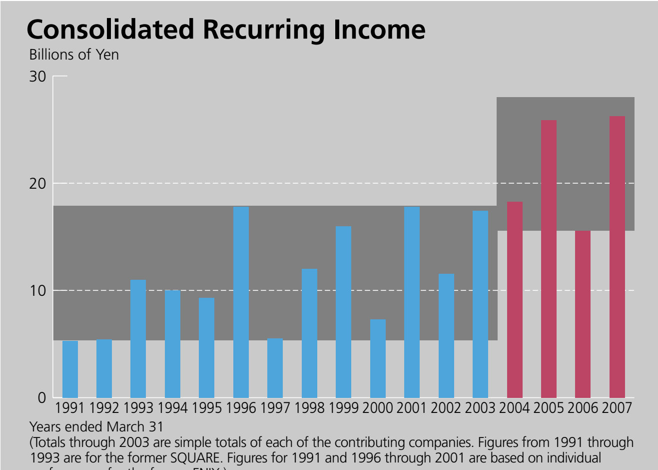
Aiming for ¥50 Billion in Recurring Income

We aim to become a leading global content provider and community management company. Put it in numbers, our current goal is to achieve recurring income of ¥50 billion.

Four years have passed since the merger between ENIX and SQUARE. Despite a number of twists and turns along the way, I think you will agree after looking at Figure 4 that the combined recurring income range has been clearly improved from the time that the two companies were separate.

Now that we have developed the core structure that can generate consistent ¥25±5 billion in recurring income consistently, our next step is to achieve ¥50 billion in a single fiscal year. Next, we will put in place the corporate structures to deliver ¥50±10 billion on a regular basis; ¥35±5 billion from SQUARE ENIX (excluding the amusement business) and ¥10±5 billion from TAITO (the amusement business). We will judiciously apply the funds we have at hand to propel ourselves along this path.

[Figure 4]



Years ended March 31
(Totals through 2003 are simple totals of each of the contributing companies. Figures from 1991 through 1993 are for the former SQUARE. Figures for 1991 and 1996 through 2001 are based on individual performance for the former ENIX.)

What is happening in the industry and what is our plan?

Video games came out in amusement centers more than 30 years ago, and the breakthrough of the Space Invaders game of TAITO in Japan gave the infant industry a strong momentum. Console games arrived a few years later, and in no time a wave of popularity that started in Japan had propagated throughout the world. Nowadays, no corner of the world is unaware of video games. Moving into the 2000s, different multi-functional platforms, such as mobile phones and personal digital assistants (PDAs), developed the capability to accomodate games. In line with the growing range of platforms for playing games, the game-player segment itself grew more diverse.

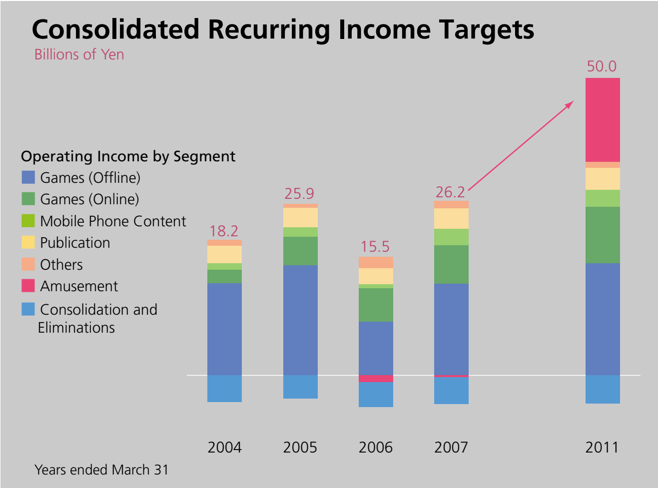
At the same time, the cross-penetration with other entertainment media, such as movies based on games and games based on movies, added depth to the video game market. In a short period of time the video game industry has grown to be the well recognized industry in the world.

Incumbent game software companies are no longer the only participants in the video game industry, but I wonder how many people in the industry truly recognize this fact. Game software companies used to operate within the closed ecosystems created by game console providers. Now we need to excel not only in the ability of developing creative content, but also in the ability of business development.

There are immense opportunities before us.

At the same time, we face competitive pressures like we have never before experienced.

[Figure 5]



I think PC-based casual game market in U.S. -consisting of people who play games occasionally and informally-is typical example of such threats. It has unexpectedly swelled into a market worth several billion dollars in a few years.

The shift in game media from masked read-only memory and optical discs to networks is transforming marketing and distribution. Even though the industry may accept the logic of this metamorphosis, concrete plans to counter it are few and far between. Many of the leading game companies lagged behind the smaller competititors to realize the huge potential of the PC-based casual game in U.S, whereby housewives and other people who had never before played games suddenly became aficionados.

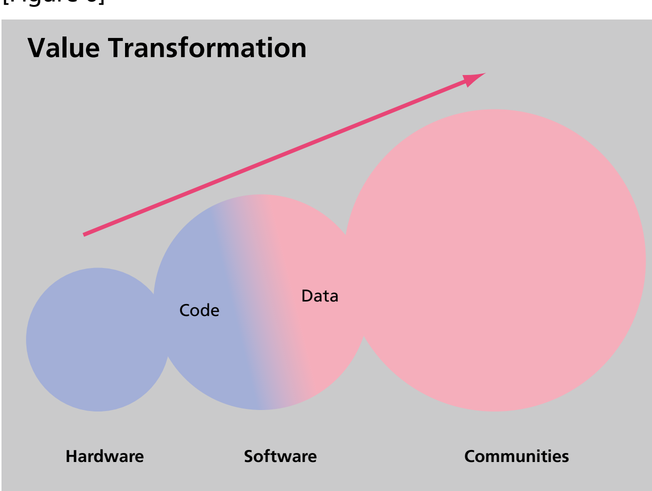
We are seeing a dramatic increase in opportunity for companies in other industries to enter the video game industry with totally different business models. As a result, there is no future for those of us who have staked our futures on the game business unless we are willing to break free of tradition and make conscious decisions to changes our strategies.

At present, our basic policy is to be diverse.

As customers themselves have diversified, as has their interaction with content, content and services naturally should also become more varied. By this, I mean not to seek the middle ground or to become more decentralized. Rather, I mean that we must identify a few groups of customers that each share tastes and preferences, understand each group deeply, and deliver a number of selected content and services that truly cater to each of specific customer group. We should seek to have diverse customer groups as possible.

Moreover, our business model must be flexible. As our vision of the future for the ecosystem, or the huge industry system including games remains unfortunately unclear, it is vital to have a host of strategic options, which enables us to conform to any environmental changes responsively.

[Figure 6]



SQUARE ENIX Group aspires to evoke emotions

In closing, I would like to describe our long-term objectives. We want to build a company that evokes specific emotions or memories among everyone who hears the name SQUARE ENIX. Earlier, I mentioned that we aimed to be the world’s leading content provider and community management company. I mean the same thing here.

Next, I would like to refer to our essential business domains and priority areas to realize this vision. I admit it is somewhat abstract, but I believe it is important to mention here.

It is often said that the value in the computer industry has changed from the realm of hardware to software, and is now moving from software to services. The concept of “communities (relations)” in our business may correspond to the “services” in the computer industry.

To clarify this argument, it is useful to break down software into code and data. Code is the “engine” that drives data, “content.” Game is unique software in which data plays more important role than in business software.

We shall focus on creating the content, data, and derive our revenue and earnings from the communities.

Immediate task for us is to ride out the transition period and emerge in our new identity. We are putting our full efforts into generating results that will meet the expectations of our stakeholders. As we take on these new challenges, we look forward to your continued support.

July 2007

Yoichi Wada

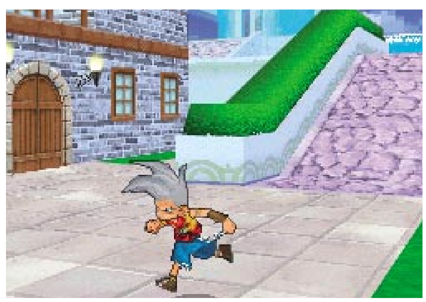
Yoichi Wada
President and Representative Director
SQUARE ENIX CO., LTD.

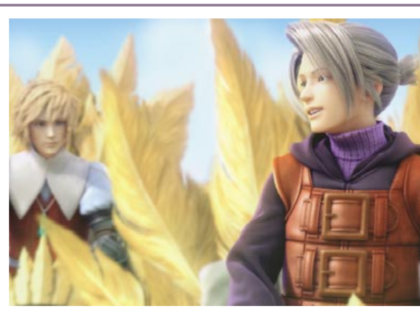
The Year in Review

SQUARE ENIX CO., LTD., and its consolidated subsidiaries (collectively, "the Company") strive to strengthen the foundation and profitability of the Games (Offline), Games (Online), Mobile Phone Content, Publication, Amusement and Others business segments.

The Company has been pursuing fundamental R&D activities to obtain advanced information technologies crucial to promote its network-related businesses as well as to apply the obtained technologies to its products and services.

The total number of game titles shipped, including repeat orders, reached 7,210 thousand units in Japan, 6,150 thousand units in North America, 3,500 thousand units in the PAL region (Europe, etc.) and 70 thousand units in Asia, for a grand total of 16,930 thousand units.





TITLE DESIGN: YOSHITAKA AMANO
ILLUSTRATION: AKIHIKO YOSHIDA

Overview by Business Segment

Games (Offline)

The Company plans, develops and distributes games for game consoles (including handheld game devices). The Company also handles localization of games developed and distributed in Japan for distribution in North America through a wholly owned subsidiary, SQUARE ENIX, INC., while distribution in Europe and Asia were handled primarily by leading publishers through license arrangements until the end of the preceding fiscal year. Starting from the fiscal year under review, distribution in Europe has been handled by a wholly owned subsidiary, SQUARE ENIX LTD.

During the fiscal year under review, the Company released "FINAL FANTASY XII" (1,680 thousand units sold in North America and 1,100 thousand units in Europe as of March 31, 2007), "KINGDOM HEARTS II" (700 thousand units in Europe, ditto) and "DIRGE OF CERBERUS –FINAL FANTASY VII–" (460 thousand units in North America and 270 thousand units in Europe, ditto) for PlayStation2, as well as "FINAL FANTASY III" (990 thousand units in Japan and 460 thousand units in North America, ditto) and "DRAGONQUEST MONSTERS: Joker" (1,410 thousand units in Japan, ditto) for Nintendo DS. In addition, value-priced titles achieved strong sales both in Japan and overseas markets.

Consequently, sales in the Games (Offline) segment totaled ¥51,316 million (up 11.8% from the previous fiscal year results), and operating income amounted to ¥16,348 million (up 70.5%, ditto).

Business Segment Information (Fiscal year ended March 31, 2007)

(Millions of yen)

	Games (Offline)	Games (Online)	Mobile Phone Content	Publication	Amusement	Others	Elimination or corporate	Consolidated total
Net sales	51,316	13,660	7,767	11,208	75,702	3,978	(161)	163,472
Operating income	16,348	6,767	3,013	3,603	(351)	1,311	(4,776)	25,916
Operating income margin	31.9%	49.5%	38.8%	32.1%	(0.5%)	33.0%	–	15.9%

Games (Online)

The Company plans, develops, distributes and operates network-compliant online games.

During the fiscal year under review, the Company released "FINAL FANTASY XI: Treasures of Aht Urhgan," a new expansion pack for "FINAL FANTASY XI," a massively multi-player online role-playing game (MMORPG) with 500,000 paying subscribers, in Japan, North America and Europe. The Company, at the same time, started support for the Xbox 360 platform.

Consequently, sales in the Games (Online) segment totaled ¥13,660 million (down 13.1% from the previous fiscal year), and operating income amounted to ¥6,767 million (up 14.6%, ditto).

Mobile Phone Content

The Company plans, develops and provides content for mobile phones, including ring tones, wallpapers, games and portals. During the fiscal year under review, the Company continued to build its service lineup by reinforcing original content, led by such portal services as "DRAGON QUEST" and "FINAL FANTASY."

Consequently, sales in the Mobile Phone Content segment totaled ¥7,767 million (up 53.3% from the previous fiscal year), and operating income amounted to ¥3,013 million (up 314.9%, ditto).

CHARACTER DESIGN:
TETSUYA NOMURA

Consolidated Sales by Geographic Segment (Fiscal year ended March 31, 2007)

(Millions of yen)

	Japan	North America	Europe	Asia	Total
Consolidated net sales	125,848	23,801	12,271	1,551	163,472
Percentage of share	77.0%	14.6%	7.5%	1.0%	100.0%

Publication

FULLMETAL ALCHEMIST, Volume 16
©2007 Hiromu Arakawa

FINAL FANTASY XII Official Guidebook
©2006 SQUARE ENIX CO.,LTD. All Rights Reserved.
CHARACTER DESIGN: Akihiko Yoshida

DRAGONQUEST MONSTERS: Joker Official Guidebook
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Shonen Gangan, April edition
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The Company publishes comic magazines, serial comics and game strategy books.

During the fiscal year under review, the Company published monthly magazines "SHONEN GANGAN," "G Fantasy," "GANGAN WING" and "YOUNG GANGAN," as well as putting efforts into sales of comic collections taken from regular monthly magazine serials and various game strategy guide books. In addition, the Company published a major game strategy book for "FINAL FANTASY XII," which was released in March 2006 in Japan.

During the year, sales in the Publication segment totaled ¥11,208 million (up 15.1% from the previous fiscal year results), and operating income amounted to ¥3,603 million (up 25.7%, ditto).

Amusement

This segment includes the operating results of all the businesses of the TAITO Group and goodwill amortization incurred from the consolidation of the TAITO Group. The TAITO Group's operating results are included in the Company's consolidated statement of income from October 2005.

During the fiscal year under review, the Company initiated a drastic restructuring of the Amusement business segment, including divestiture of commercial *karaoke* business, closure of underperforming arcade facilities and streamlining of human resources, to improve the efficiency of the segment, and made financial treatments relating to such measures.

However, the segment struggled in terms of profit, as the amusement facility operations—a major business in this segment—failed

Arcade Facilities

to offset unfavorable results in the commercial karaoke business.

Consequently, sales in the Amusement segment amounted to ¥75,702 million (up 84.3% from the previous fiscal year), and the operating loss was ¥351 million (the operating loss in the six-month period from October 2005 to March 2006 was ¥1,170 million.)

Others

The Others segment covers the planning, production, distribution and licensing of derivative products from the Company’s titles, as well as operation of a school for game designers.

During the fiscal year under review, the CG-animated film “FINAL FANTASY VII: Advent Children,” which was released in Japan in the previous fiscal year and sold over a million copies, marked its international debut. The licensing income of the film is included in this segment.

Consequently, sales in the Others segment totaled ¥3,978 million (down 42.8% from the previous fiscal year results), and operating income amounted to ¥1,311 million (down 34.7%, ditto).

1. Basic Perspectives on Corporate Governance

The Company has adopted the Corporate Auditor System for its corporate governance. To strengthen monitoring functions and further ensure transparent management, half or more of the corporate auditors are persons outside the Company. In addition, the Board of Directors, which focuses on managerial decisions, is clearly separated from decision-making bodies in charge of the execution of operations, in accordance with the objective standards provided under the Company's internal decision-making authority rules. Through such measures, the Company seeks to optimize the efficiency of managerial decisions and the execution of operations.

2. Implementation Status of Corporate Governance Measures

(1) Management and other corporate governance structures for decision-making, execution of operations and auditing

The Company's Board of Directors consists of five directors (including one outside director). The Company has four corporate auditors, (all of whom are outside, including one standing corporate auditor). The term for directors is one year, the same as for companies using the Committee System.

The Company has an Auditing Division, which performs a stand-alone internal audit function and reports directly to the president. Auditing Division performs regular checks and evaluations of internal control structures, including those of Group companies, taking priorities and risks into account, while communicating with the Board of Auditors and the independent audit firm. The Auditing Division provides reports and advice directly to the president.

The Board of Directors meets, in principle, once a month and enhances mutual checking through vigorous discussion and exchanges of opinions among the directors, including the outside director.

The Board of Auditors also meets once a month, in principle, and conducts accounting and operational audits based on the audit plans. The corporate auditors attend Board of Directors' meetings and audit directors' execution of duties.

Regarding the utilization of outside independent professionals, the Company consults with several outside counsels, as needed, on significant legal issues and affairs. The Company retains Ernst & Young ShinNihon as its statutory audit firm under the Companies Act and the Securities Exchange Law to perform independent third-party accounting audits and fully cooperates with them to ensure the smooth performance of their duties.

The following certified public accountants (CPAs) conducted audit operations for the Company during fiscal 2006.

- CPAs performing the audit
  Partners: Koichiro Watanabe, Norimasa Yaguchi, Kenichi Shibata
- Personnel providing audit assistance
  13 CPAs and 17 assistant CPAs

- Remuneration to Directors and Auditors
  Remuneration paid to directors totaled ¥234 million, of which ¥6 million was paid to the outside director.
  Remuneration paid to corporate auditors totaled ¥31 million, of which ¥12 million was paid to outside corporate auditors.

- Compensation to Independent Audit Firm
  Compensation paid to Ernst & Young ShinNihon for contracted services prescribed by Article 2, Paragraph 1, of the Certified Public Accountants Law amounted to ¥47 million.

(2) Personal, financial, business or other relationships constituting conflicts of interest between the Company and its outside director and outside corporate auditors

There are no such relationships to be specified.

(3) Basic policy on building an internal control system

On May 8, 2006, the Board of Directors passed a resolution establishing the Company's Basic Policy on Building an Internal Control System. The Company is in the process of building the system, ensuring the thoroughness of auditing and supervisory functions and confirming that all business activities are executed in conformance with laws, regulations and the Company's Articles of Incorporation. The Company is also promoting enhanced efficiency in the directors' exercise of duties.

(4) Overview of liability limitation agreements

The Company has liability limitation agreements in place with its outside director and outside corporate auditors in accordance with Article 427, Paragraph 1, of the Companies Act to limit liabilities provided under Article 423, Paragraph 1. These agreements limit the liability of the outside director and each outside corporate auditor to ¥10 million or the legally specified amount, whichever is greater, on condition that the director or the auditors have performed their duties in good faith and without gross negligence.

(5) Prescribed number of directors

The Company's Articles of Incorporation stipulate that the number of directors shall not exceed 12.

(6) Resolution requirements for election of directors

The Company's Articles of Incorporation stipulate that resolutions for the election of directors shall be made by the majority of the votes of shareholders present at the Company's general meeting of shareholders where shareholders in attendance hold one-third or more of outstanding voting rights.

(7) Institutions that determine appropriation of surplus

The Company's Articles of Incorporation stipulate that matters provided under Article 459, Paragraph 1, of the Companies Act may be determined by the Company's Board of Directors, unless legally stipulated otherwise. The objective of this provision is to expand the range of options enabling expeditious capital measures.

(8) Special resolutions requirements at general meetings of shareholders

The Company's Articles of Incorporation stipulate that the special resolutions provided under Article 309, Paragraph 2, of the Companies Act may be passed by a majority of two-thirds or more of the votes of shareholders present at the Company's general meeting of shareholders where shareholders in attendance holding one-third or more of outstanding voting rights. The objective of this relaxation of special resolution requirements is to ensure the smooth proceedings of general meetings of shareholders.

Directors, Auditors and Executive Officers

Board of Directors

President and
Representative Director
Yoichi Wada

Executive Vice President
and Representative Director
Keiji Honda

Director
Yosuke Matsuda

Director
Yukinobu Chida

Director *1
Makoto Naruke

Corporate Auditors

Standing Auditor *2
Ryoichi Kobayashi

Auditor *2
Tamotsu Iba

Auditor *2
Norikazu Yahagi

Auditor *2
Ryuji Matsuda

*1: Outside Director
*2: Outside Auditor

Corporate Executives/ Executive Producers

Yoichi Wada
Keiji Honda
Yosuke Matsuda
Akitoshi Kawazu
Yoshinori Kitase
Yosuke Saito
Michihiro Sasaki
Koji Taguchi
Hiromichi Tanaka
Tatsuo Tomiyama
Ken Narita
Shinji Hashimoto
Yoichi Haraguchi
Masashi Hiramatsu
Yu Miyake
Koji Yamashita
John Yamamoto

Honorary Chairman

Yasuhiro Fukushima

(As of July 1, 2007)

Contents

SQUARE ENIX CO., LTD., assumes full responsibility of the consolidated financial statements prepared in conformity with accounting principles generally accepted in Japan, which are the English translation of the consolidated financial statements submitted to the Director of the Kanto Finance Bureau in Japan (*yukashoken hokokusyo*).

The following statements are based on management's view of SQUARE ENIX CO., LTD. (the Company), as of June 30, 2007, and has not been audited. The following management's discussion and analysis also contains forward-looking statements concerning the future performance of the Company. Please read the disclaimer regarding forward-looking statements at the beginning of this annual report.

1. Significant Accounting Policies and Estimates

The consolidated financial statements of the SQUARE ENIX Group (the Group) are prepared in accordance with generally accepted accounting principles in Japan (JPNGAAP). In preparing the consolidated financial statements, management shall choose and apply accounting policies, and make estimates that affect the disclosure of amounts in assets, liabilities, income and expenses. Management formulated these estimates based on historical performance and other factors. However, actual results may differ materially from these estimates due to uncertainties inherent in the estimates.

Important accounting policies used in the Group's consolidated financial statements are contained in the section titled "Summary of Significant Accounting Policies Used in the Preparation of Consolidated Financial Statements," which begins from page 29 of this report. In particular, judgments for the estimates made in the preparation of the consolidated financial statements are affected by accounting policies.

(1) Revenue Recognition

Sales revenue of the Group is recognized when products are ordinarily shipped or services are provided, while royalty revenue is recognized based on the statement from the licensee. In certain cases, the recognition of sales is decided according to contracts with suppliers and type of products.

(2) Provision for Doubtful Accounts

The Group provides a provision for doubtful accounts based on estimated irrecoverable amounts to prepare for bad debt losses on accounts receivable. In the event that the financial condition of a supplier deteriorates and their solvency declines, the Group may provide additional amounts to the provision for doubtful accounts or record bad debts and losses.

(3) Content Production Account

When the Group determines that differences between actual costs and market value of the content production account based on expected future demand and market conditions, have reached a certain level, the Group will then recognize a write-down of the content production account. If future demand and market conditions are worse than management's forecasts, there is the possibility that further write-offs will then become necessary.

(4) Unrealized Losses on Investments

The Group owns shares in financial institutions and companies with which it sells or purchases goods. These shareholdings include stock in listed companies subject to price fluctuation risks in the stock market and stock in privately held companies for which share prices are difficult to calculate. In the event that the fair market value of these shares as of the end of fiscal 2006, ended March 31, 2007, have declined no less than 50% of their acquisition cost, the entire amount is treated as an impairment.

In the event of a 30% to 50% decline, an amount determined as necessary considering its significance and potential for recovery is treated as an impairment. During fiscal 006, the Company recorded a loss on valuation of investment securities amounting to ¥194 million. A worsening in market conditions or unstable performance at the invested company may require the recording of revaluation losses in the event that losses are not reflected in the current book value, or, the book value becomes irrecoverable.

(5) Deferred Tax Assets

The Group records a valuation allowance to provide for amounts thought likely to decrease in deferred tax assets. In evaluating the necessity of a valuation allowance, the Company examines future taxable income and possible tax planning for deferred tax assets with a high likelihood of realization. If the Company decides that all or a portion of net deferred tax assets cannot be realized in the future, the Company writes down deferred tax assets during the fiscal year the decision is made. If the Company decides that deferred tax assets in excess of the recorded amount can be realized in the future, the Company recognizes deferred tax assets to the recoverable amount and increases profits by the same amount during the period the decision is made.

2. Analysis of Financial Policy, Capital Resources and Liquidity

The Company internally finances working capital and capital investment, and utilizes the issuance of corporate bonds. The Company has issued yen-denominated zero-coupon warrant bonds with maturity in 2010. As of March 31, 2007, there was no outstanding balance of interest-bearing debt. Net Assets stood at 60.0%. Cash and cash equivalents at end of year amounting to ¥99,847 million, ¥24,595 million increase from the prior year.

The Group believes that it is possible to procure the funds required for working capital and capital investment in the future to maintain growth based on its sound financial standing and ability to generate cash through operating activities.

3. Analysis of Business Performance in Fiscal 2006 (Ended March 31, 2007)

Assets

Total Assets

Years ended March 31 — Millions of yen

2006	**2007**	Change
¥213,348	**¥215,679**	¥2,331

Total assets as of March 31, 2007, amounted to ¥215,679 million, an increase of ¥2,331 million compared with the previous fiscal year-end. The major factors contributing to this change are as follows.

Cash and Deposits

Years ended March 31			Millions of yen
	2006	**2007**	Change
	¥75,257	**¥99,852**	¥24,595

Cash flows in fiscal 2006, as well as the principal factors behind these flows, are described below.

(1) Net cash provided by operating activities
Income before income taxes totaled ¥18,374 million. Due to a decrease in accounts receivable and an increase in inventories, net cash provided by operating activities was ¥32,809 million. The decrease in accounts receivable is mainly attributable to differences in the timing of game titles released during the year.
(2) Net cash used in investing activities
Net cash used in investing activities amounted to ¥5,671 million. Major factors included ¥10,733 million in payments for acquiring property and equipment and ¥4,514 million in proceeds from divestiture of a business. This business transfer arose from the sale of the commercial karaoke machine business of TAITO CORPORATION.
(3) Net cash used in financing activities
Net cash used in financing activities was ¥2,912 million. This decrease was due primarily to payments for dividends of ¥3,314 million.

Notes and Accounts Receivable

Years ended March 31			Millions of yen
	2006	**2007**	Change
	¥33,215	**¥21,206**	¥(12,009)

The year-end balance of notes and accounts receivable varies greatly depending on the timing of new game title releases. Notes and accounts receivable at year-end were ¥21,206 million, a decrease of ¥12,009 million from the prior year. The decrease was due primarily to stronger title releases during the previous year. In fiscal 2005, the Company had such major releases as "FINAL FANTASY XII," released in Japan on March 16, 2006, and "KINGDOM HEARTS II," released in North America on March 28, 2006.

Content Production Account

Years ended March 31			Millions of yen
	2006	**2007**	Change
	¥7,312	**¥11,903**	¥4,591

As a rule, content development costs incurred after the outset of a title's authorized productions through release are capitalized in the content production account. When the title is released, this amount is then recorded as an expense.

The content production account is reevaluated based on the current business environment. In the event that a title development project is canceled as a result of such reevaluation, the Company may write-off capitalized development costs for the canceled title in the content production account as an extraordinary loss. Costs incurred during the pre-production phase—the phase before development is formally approved by a decision-making body—are posted as selling, general and administrative (SG&A) expenses as they are incurred.

As of March 31, 2007, the content production account totaled ¥11,903 million, an increase of ¥4,591 million compared with the end of the previous fiscal year.

Deferred Tax Assets (current and non-current)

Years ended March 31			Millions of yen
	2006	**2007**	Reference: Change
Current	¥7,877	**¥5,634**	¥(2,243)
Non-current	6,523	**4,939**	(1,584)

In September 2005, the Company acquired 93.7% of the common shares of TAITO CORPORATION via a takeover bid. Subsequently, Taito was merged with SQEX, Inc., a wholly owned subsidiary of the Company, resulting in Taito becoming a wholly owned subsidiary of the Company, as planned. The temporary tax differences associated with the takeover of Taito are recognized as a tax effect that the Company is expected to benefit from as a result of its profitability to recover the difference in the future, and were recorded as a deferred tax asset. Current deferred tax assets as of March 31, 2007, decreased ¥2,243 million, to ¥5,634 million, while non-current deferred tax assets decreased by ¥1,584 million, to ¥4,939 million.

Property and Equipment

Years ended March 31			Millions of yen
	2006	**2007**	Change
	¥29,995	**¥25,664**	¥(4,330)

Total property and equipment decreased by ¥4,330 million, to ¥25,664 million, due primarily to a decrease in buildings and structures, arising from the closure of unprofitable amusement facilities, from ¥7,148 million to ¥5,962 million, and the disposal of older amusement equipment.

Intangible Assets

Years ended March 31			Millions of yen
	2006	**2007**	Change
	¥25,389	**¥21,657**	¥(3,731)

The amortization of goodwill was the main reason for the ¥3,731 million decrese in total intangible assets, to ¥21,657 million. In fiscal 2006, in addition to usual goodwill amortization, the Group posted ¥1,381 million as an accelerated amortization of goodwill, which was represented as extraordinary loss, owing to the disposal of the commercial karaoke business in the Amusement segment. As a result, the balance of goodwill remaining within intangible assets on March 31, 2007 was ¥20,276 million.

Investments and Other Assets

Years ended March 31		Millions of yen
2006	**2007**	Change
¥25,712	**¥21,748**	¥(3,964)

Total investments and other assets decreased by ¥3,964 million, to ¥21,748 million. Major items included a decrease in rental deposits from ¥17,361 million to ¥14,198 million, owing to the closure of amusement facilities, and a decrease from ¥1,459 million to ¥455 million in investment securities. An allowance for doubtful accounts has been provided for claims in bankruptcy.

Liabilities

Total Liabilties

Years ended March 31		Millions of yen
2006	**2007**	Change
¥91,234	**¥85,040**	¥(6,194)

Total liabilities as of March 31, 2007, amounted to ¥85,040 million, a decrease of ¥6,194 million compared with the previous fiscal year-end.

Current Liabilities

Years ended March 31	Millions of yen	
2006	**2007**	Change
¥37,840	**¥32,404**	¥(5,436)

Total current liabilities decreased by ¥5,436 million during the fiscal year, to ¥32,404 million as of March 31, 2007. Notably, other accounts payable fell from ¥6,509 million to ¥4,773 million, accrued expenses decreased from ¥6,413 million to ¥3,379 million, accrued corporate taxes decreased from ¥4,848 million to ¥994 million, and reserve for bonuses decreased from ¥2,648 million to ¥1,872 million. On the other hand, in line with an increase of overseas sales, allowance for sales returns increased from ¥1,186 million to ¥2,271 million. Also, a reserve was set aside for the closure of unprofitable amusement facilities, causing allowance for store closings to increase from ¥292 million to ¥2,973 million.

Non-Current Liabilities

Years ended March 31	Millions of yen	
2005	**2006**	Change
¥53,394	**¥52,635**	¥(758)

Total non-current liabilities decreased ¥758 million, to ¥52,635 million. The principal reason stems from offering the elective early-retirement plan to Taito employees, which resulted in the departure of approximately 170 employees on March 31, 2007. In accordance with the retirements, allowance for retirement benefits decreased from ¥3,001 million to ¥2,169 million. Same as in fiscal year 2005, non-current liabilities include ¥50,000 million issue of yen-denominated convertible bonds with warrants, maturing in 2010, as of March 31, 2007. As these debentures are zero-coupon, no interest payment liability is incurred.

Shareholders' Equity / Net Assets

Years ended March 31			Millions of yen
	2006	**2007**	Change
Common stock	¥ 7,803	**—**	—
Capital surplus reserve	37,044	**—**	—
Retained earnings	76,022	**—**	—
Unrealized gain on revaluation of other investment securities	531	**—**	—
Foreign currency translation adjustments	97	**—**	—
Treasury stock	(506)	**—**	—
Total shareholders' equity	¥120,993	**—**	—
Common stock	—	**¥ 8,038**	—
Capital surplus reserve	—	**37,279**	—
Retained earnings	—	**84,315**	—
Treasury stock	—	**(540)**	—
Total shareholders' equity	—	**129,092**	—
Unrealized gain on revaluation of other investment securities	—	**(8)**	—
Foreign currency translation adjustments	—	**377**	—
Total valuation and translation adjustments	—	**368**	—
Minority interests in consolidated subsidiaries—	—	**1,178**	
Total net assets	—	**¥130,639**	—

As of March 31, 2007, total net assets amounted to ¥130,639 million. During the current accounting period, the method of presentation of shareholders' equity changed. The increase in net assets was due primarily to the increase of ¥8,293 million in retained earnings from the prior year.

Increases in shareholders' equity and the capital surplus reserve resulted from the exercise of stock options (stock acquisition rights).

Consolidated Statements of Income

Net Sales and Operating Income

Years ended March 31 — Millions of yen

	2006	Composition	**2007**	Composition	Amount change	Percent change
Net sales	¥124,473	100.0%	**¥163,472**	**100.0%**	¥38,999	31.3%
Gross profit	56,367	45.3	**76,210**	**46.6**	19,843	35.2
Reversal of allowance for sales returns	1,316	1.1	**1,186**	**0.8**	(129)	(9.8)
Provision for allowance for sales returns	1,186	1.0	**2,271**	**1.4**	1,084	91.4
Net gross profit	56,497	45.4	**75,125**	**46.0**	18,628	33.0
Selling, general and administrative expenses	41,026	33.0	**49,209**	**30.1**	8,182	19.9
Operating income	15,470	12.4	**25,916**	**15.9**	10,446	67.5

Comparisons by segment against the preceding fiscal year are provided in the section describing operating performance on pages 8-11.

Non-Operating Income and Expenses

Years ended March 31 — Millions of yen

	2006	**2007**	Reference: Change
Non-operating income	¥1,046	**¥1,176**	¥130
Non-operating expenses	968	**852**	(116)

Non-operating income increased ¥130 million, to ¥1,176 million, owing to an increase in interest income.

Non-operating expenses decreased ¥116 million, to ¥852 million. In fiscal 2006, no loss on write-off of content production account was recorded.

Extraordinary Gain and Loss

Years ended March 31 — Millions of yen

	2006	**2007**	Reference: Change
Extraordinary gain	¥1,361	**¥3,778**	¥2,417
Extraordinary loss	7,878	**11,629**	3,751

Extraordinary gain amounted to ¥3,778 million. In the Amusement segment, disposal of the commercial karaoke business generated a ¥2,697 million gain on divestiture of a business. The introduction of an early retirement program at Taito resulted in reversal of allowance for retirement benefits of ¥465 million, and gain on sale of investment securities of ¥410 million.

Extraordinary loss totaled ¥11,629 million as a result of the following: provision of allowance for game arcade closings of ¥2,784 million, loss on disposal and write-down of assets associated with business restructuring of ¥2,275 million, provision of allowance for doubtful accounts of ¥2,086 million, accelerated amortization of goodwill in line with the disposal of the commercial karaoke business of ¥1,831 million, impairment loss of ¥1,085 million and severance payments associated with business restructuring of ¥925 million. These factors sprang primarily from the restructuring of the Amusement business.

Capital Expenditures and Depreciation

Years ended March 31 — Millions of yen

	2006	**2007**	Change
Capital expenditures	¥9,169	**¥11,360**	¥2,191
Depreciation	8,419	**11,115**	2,696

Note: Depreciation does not include amortization of goodwill.

Capital expenditures for the fiscal 2006 amounted to ¥11,360 million, an increase of ¥2,191 million compared with the previous fiscal year. This was mainly owing to the fact that the Amusement business was only included in the scope of consolidation for the second half of fiscal 2005, whereas the business was consolidated through fiscal 2006.

Overseas Sales

Geographic segment sales are dependent on game title development in Japan. As a result, overseas sales fluctuate depending on the timing of overseas game title releases.

North America

Years ended March 31 — Millions of yen

2006	**2007**	Change
15,635	**23,801**	8,166

In North America, the Company's main businesses are Games (Offline), Games (Online) and Mobile Phone Content. In the Games (Offline) business in this region, game titles developed by the Company are sold under license from consolidated subsidiaries, mainly by SQUARE ENIX, INC. In the fiscal year under review, several titles for PS2 were released, including the titles "FINAL FANTASY XII" and "DIRGE OF CERBERUS –FINAL FANTASY VII–." The Company's online game service "Play Online" —focused on "FINAL FANTASY XI"—performed well. As a result, sales in North America increased ¥8,166 million, to ¥23,801 million.

Europe

Years ended March 31			Millions of yen
	2006	**2007**	Change
	¥1,378	**¥12,271**	¥10,893

The Company primarily conducts Games (Offline), Games (Online) and Mobile Phone Content businesses in Europe. In this region, sales of the Company's game content were generally licensed to leading European publishers. However, during the period under review, SQUARE ENIX LTD., a wholly owned subsidiary of the Company in this region, began preparations for game sales under the Company's own brand. Sales during the year included such titles as "FINAL FANTASY XII," "KINGDOM HEARTS II" and "Dragon Quest: The Journey of the Cursed King" for PS2. As a result, sales in Europe increased ¥10,893 million, to ¥12,271 million.

Asia

Years ended March 31			Millions of yen
	2006	**2007**	Change
	¥3,025	**¥1,551**	¥(1,474)

In Asia, the Company provides primarily Games (Online) and Amusement services. In the Games (Online) business, the Company primarily operates "CROSS GATE" online game service for the PC platform in China. In the Amusement business, the Company operates game arcade facilities in South Korea and China. Sales in Asia decreased ¥1,474 million, to ¥1,551 million.

4. Strategic Outlook, Issues Facing Management and Future Direction

It is management's main task to grow the Company in the medium and long term, maintaining profitability with the creation of advanced, high-quality content.

As the development and popularization of information technology (IT) and network environments are rapidly advancing, new digital entertainment will transform the industry structure in the near future; customer needs for network-compliant entertainment will increase; and multifunctional terminals will allow users easy access to various types of content.

It is the Company's medium- and long-term strategy to respond to such changes and open a new era of digital entertainment.

In the fiscal year ending March 31, 2008, as part of our implementation of a medium-term business strategy, we will focus on expanding our existing offline game franchises and strengthening our network-related businesses. We will also work to restore profitability to the Amusement business.

The Group's targets for the fiscal year ending March 31, 2008 are as follows (as of May 23, 2007):

Years ended March 31					Millions of yen
	2004 Results	2005 Results	2006 Results	2007 Results	2008 Targets
Net sales	¥63,202	¥73,864	¥124,473	¥163,472	¥162,500
Operating income	19,398	26,438	15,470	25,916	21,000
Recurring income	18,248	25,901	15,547	26,241	20,000
Net income	10,993	14,932	17,076	11,619	12,000

Owing to the consolidation of Taito at the end of September 2005, Taito's operating results are reflected in the Company's consolidated statements of income from October 2005. Following this merger, we have set an operating income ratio of 20% or more and average annual growth in net income per share (EPS) of 10% as our main numerical targets.

5. Dividend Policy

It is one of the Company's most important management policies to return profit to shareholders. We will reserve retained earnings as we take priority over investments for effective purposes for future growth of corporate value, such as the enhancement and expansion of existing business operations, capital investments for new business development and merger and acquisition (M&A) activities. After ensuring that sufficient funds are retained for these purposes, we return profit to shareholders in a manner that strikes an optimal balance between linkage to operating performance and a consistent payout, resulting in continuous and stable dividend payouts. For dividends linked with consolidated operating results, our target is a consolidated payout ratio of 30%.

The Company's basic policy is to pay dividends out of retained earnings twice each fiscal year, awarding an interim dividend and a year-end dividend. Decisions on awarding dividends from retained earnings are made by the annual general meeting of shareholders for the year-end dividend and by the Board of Directors for the interim dividend.

As to the dividends for fiscal 2006, in line with our highest level of consolidated recurring income on record, the Company awarded dividends for the term of ¥35 per share (¥10 per share in interim dividends and ¥25 per share as the year-end dividend), an increase of ¥5 from fiscal 2005, which was ¥30 per share (¥10 per share in interim dividends and ¥20 as the year-end dividend). This dividend increase resulted in a consolidated payout ratio of 33.3%.

Dividends from retained earnings during the fiscal year were as follows:

Date of resolution

Board of Directors' resolution	Total dividends (Millions of yen)	Dividends per share (Yen)
November 17, 2006 Board of Directors' resolution	¥1,105	¥10
June 23, 2007 Resolution of the annual general meeting of shareholders	2,768	25

6. Risk Factors

The risks described below are those that could impact the Company's management performance. Forward-looking statements are in accordance with management's judgments as of June 30, 2007.

(1) Changes in the Economic Environment

In the event of an exceptionally harsh downturn in the economy, causing consumer expenditures to fall, demand for the Group's products and services in the entertainment field may decline. Such circumstances may lead to an adverse impact on the Group's business performance.

(2) Changes in Consumer Preferences in the Digital Content Market and the Group's Ability to Respond to the Rapid Progress of Innovative Technology

In such a period of transition as stated in the medium- and long-term strategy and tasks, it is probable such change may affect the Group's business performance if it is unable to deal with the transitions properly and promptly.

(3) Changes in Game Platforms and the Company's Response

The Group's core business predominantly involves the sale of software for use on home-use video game consoles. Consequently, the Company's business may be subject to the impact of transition to next-generation console platforms and changes in console manufacturers' strategies.

(4) Securing Human Resources to Execute the Group's Growth Strategies Concentrating on Creation of New Conent Services and Business Development Overseas

The Group has been making rapid growth in the expansion of its business operations globally. Delays in developing human resources may adversely affect the Group's business performance.

(5) Expansion in the Group's International Business Operations

In the Games (Offline), Games (Online) and Mobile Phone Content business segments, the Group is pursuing expansion of its international business operations. A variety of factors present in the countries and regions in which the Group operates overseas may affect the Group's business performance. Such factors include market trends, political situations, economic climates, law and legal factors, cultural factors, religious factors, customs and other factors.

(6) Fluctuation of Exchange Rates

The Group includes consolidated subsidiaries located in North America, Europe and Asia. The risks of foreign exchange loss have been reduced as foreign currency gained by subsidiaries is expended for settlement or reinvestment in each country. However, sales, expenses and assets of the overseas subsidiaries are converted into Japanese yen amounts in the consolidated financial statements. Consequently, the exchange rate may affect the Group's financial results as it fluctuates beyond our forecast.

(7) Entertainment Industry Laws

The operation of game centers is subject to government control under the Law for Proper Control of Entertainment and Amusement Business and other related laws and regulations. These laws and regulations include an approval and licensing system for the opening and operation of amusement centers, regulations on business hours (ordinances vary, but operation is generally prohibited from midnight to 10 a.m.), age restrictions (ordinances vary, but the admittance of persons under 16 years old after 6 p.m. and persons under 18 years old after 10 p.m. is generally prohibited), area restrictions on outlet opening, and regulations concerning facility structure, interior, lighting and noise. While complying with the laws, the Group has actively pursued the establishment of new centers. However, if regulations were to change owing to the establishment of new laws or other reasons, the Group's business performance may be affected.

(8) Management of Personal Information

In conjunction with the enactment of the Personal Information Protection Law, the Group has bolstered employee training with the aim of increasing awareness about the handling of personal information. The Group has also improved the timeliness of its personal information management systems and identified all personal information obtained by the Group. The Group has undertaken a full range of measures to strengthen its internal control systems, including ongoing improvements to technology controlling access to its customer database and to its data security system, restrictions on personnel permitted to access information and establishment of a system to deal with customer inquiries regarding personal information. To this point, no leakage of personal information has occurred from the Group. The Group intends to maintain its stringent management systems for personal information by reviewing current systems and enhancing employee training. However, if a leak of personal information were to occur from the Group, the Group's business performance may be affected.

(9) Accidents and Disasters

The Group periodically carries out accident prevention checks, facility checks and emergency drills to minimize accidents and the impacts of disasters, including terrorist attacks, infectious diseases, food poisoning, fires, electrical blackouts, computer system/server malfunctions, earthquakes, and typhoon and flood damage. However, in the event of accidents or disasters it may not be possible to avoid or alleviate all adverse impacts. If a major earthquake or disaster occurs, which could impede the continuation of business, the Group's business performance may be affected.

(10) Litigation

The Group is being managed strictly in compliance with laws and regulations and with full respect for third parties' rights while carrying out its operations. However, in the course of its business activities in Japan and abroad the risk of the Group becoming the defendant of litigation cannot be discounted. If such litigation were to occur, the Group's business performance may be affected.

SQUARE ENIX CO., LTD. and Consolidated Subsidiaries
As of March 31

	Millions of yen	
	2007	2006
Assets		
I Current assets		
1. Cash and deposits	**¥ 99,852**	¥ 75,257
2. Notes and accounts receivable*[5]	**21,206**	33,215
3. Inventories	**4,188**	5,489
4. Content production account	**11,903**	7,312
5. Deferred tax assets	**5,634**	7,877
6. Other	**4,656**	3,968
Allowance for doubtful accounts	**(832)**	(868)
Total current assets	**146,608**	132,251
II Non-current assets		
1. Property and equipment		
(1) Buildings and structures	**17,316**	18,694
Accumulated depreciation	**11,354**	11,546
	5,962	7,148
(2) Tools and fixtures	**11,365**	12,481
Accumulated depreciation	**7,963**	8,761
	3,401	3,719
(3) Amusement equipment	**41,577**	58,733
Accumulated depreciation	**30,778**	45,292
	10,798	13,440
(4) Other	**24**	26
Accumulated depreciation	**19**	15
	5	10
(5) Land	**5,404**	5,516
(6) Construction in progress	**91**	159
Total property and equipment	**25,664**	29,995
2. Intangible assets		
(1) Cost of investments in subsidiaries in excess of net assets acquired	**—**	23,446
(2) Goodwill	**20,276**	—
(3) Other	**1,381**	1,942
Total intangible assets	**21,657**	25,389
3. Investments and other assets		
(1) Investment securities*[1]	**455**	1,459
(2) Long-term loans	**176**	173
(3) Rental deposits	**14,198**	17,361
(4) Construction cooperation fund	**1,886**	2,158
(5) Claims in bankruptcy	**5,065**	2,240
(6) Deferred tax assets	**4,939**	6,523
(7) Other*[1]	**541**	533
Allowance for doubtful accounts	**(5,515)**	(4,738)
Total investments and other assets	**21,748**	25,712
Total non-current assets	**69,071**	81,097
Total assets	**¥215,679**	¥213,348

The accompanying notes are an integral part of these statements.

	2007	2006
		Millions of yen
Liabilities		
I Current liabilities		
1. Notes and accounts payable	**¥ 13,275**	¥ 12,124
2. Other accounts payable	**4,773**	6,509
3. Accrued expenses	**3,379**	6,413
4. Accrued corporate taxes	**994**	4,848
5. Accrued consumption taxes	**895**	1,245
6. Advance payments received	**1,188**	991
7. Deposits received	**490**	421
8. Reserve for bonuses	**1,872**	2,648
9. Allowance for sales returns	**2,271**	1,186
10. Allowance for store closings	**2,973**	292
11. Other	**289**	1,159
Total current liabilities	**32,404**	37,840
II Non-current liabilities		
1. Corporate bonds	**50,000**	50,000
2. Allowance for retirement benefits	**2,169**	3,001
3. Allowance for directors' retirement benefits	**262**	189
4. Other	**204**	202
Total non-current liabilities	**52,635**	53,394
Total liabilities	**85,040**	91,234
Minority interests		
Minority interests in consolidated subsidiaries	**—**	1,120
Shareholders' equity		
I Common stock*2	**—**	7,803
II Capital surplus reserve	**—**	37,044
III Retained earnings	**—**	76,022
IV Unrealized gain on revaluation of other investment securities	**—**	531
V Foreign currency translation adjustments	**—**	97
VI Treasury stock*3	**—**	(506)
Total shareholders' equity	**—**	120,993
Total liabilities, minority interests and shareholders' equity	**—**	¥213,348

The accompanying notes are an integral part of these statements.

	2007	2006
	Millions of yen	
Net assets		
I Shareholders' equity		
1. Common stock	¥ 8,038	—
2. Capital surplus reserve	37,279	—
3. Retained earnings	84,315	—
4. Treasury stock	(540)	—
Total shareholders' equity	129,092	—
II Valuation and translation adjustments		—
1. Unrealized gain on revaluation of other investment securities	(8)	—
2. Foreign currency translation adjustments	377	—
Total valuation and translation adjustments	368	—
III Minority interests in consolidated subsidiaries	1,178	—
Total net assets	130,639	—
Total liabilities and net assets	¥215,679	—

The accompanying notes are an integral part of these statements.

Consolidated Statements of Income (JPNGAAP)

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

Millions of yen

		2007	2006
I	Net sales	**¥163,472**	¥124,473
II	Cost of sales	**87,262**	68,105
	Gross profit	**76,210**	56,367
	Reversal of allowance for sales returns	**1,186**	1,316
	Provision for allowance for sales returns	**2,271**	1,186
	Net gross profit	**75,125**	56,497
III	Selling, general and administrative expenses	**49,209**	41,026
	1. Packaging freight charges	**2,493**	1,623
	2. Advertising expenses	**6,331**	7,458
	3. Sales promotion expenses	**1,060**	1,177
	4. Provision for doubtful accounts	**—**	101
	5. Compensation for directors	**682**	498
	6. Salaries	**15,482**	11,604
	7. Provision of reserve for bonuses	**2,237**	1,350
	8. Net periodic pension cost	**446**	251
	9. Provision of reserve for directors' retirement benefits	**42**	19
	10. Welfare expenses	**2,046**	1,511
	11. Rental expenses	**2,325**	1,949
	12. Commissions paid	**3,357**	3,204
	13. Depreciation and amortization	**1,464**	1,648
	14. Other*1	**11,238**	8,625
	Operating income	**25,916**	15,470
IV	Non-operating income	**1,176**	1,046
	1. Interest income	**467**	139
	2. Dividends received	**3**	23
	3. Foreign exchange gain	**147**	508
	4. Rental income	**69**	63
	5. Support fees received	**—**	28
	6. Facilities' installation cooperation fees	**51**	79
	7. Investment profit on equity method	**29**	—
	8. Miscellaneous income	**407**	202
V	Non-operating expenses	**852**	968
	1. Interest expense	**2**	29
	2. Commissions paid	**—**	94
	3. Loss on disposal of inventories	**119**	151
	4. Loss on write-off of content production account	**—**	460
	5. Loss on inventory valuation	**281**	190
	6. Stock issuance expenses	**31**	—
	7. Corporate bond issuance expenses	**—**	17
	8. Loss on write-off of advance license payment	**244**	—
	9. Investment loss on equity method	**—**	7
	10. Miscellaneous loss	**172**	18
	Recurring income	**26,241**	15,547
VI	Extraordinary gain	**3,778**	1,361
	1. Gain on sale of investment securities	**410**	1,353
	2. Gain on divestiture of a business	**2,697**	—
	3. Reversal of allowance for doubtful accounts	**2**	—
	4. Reversal of allowance for retirement benefits	**465**	—
	5. Other	**203**	8
VII	Extraordinary loss	**11,629**	7,878
	1. Loss on sale of property and equipment*2	**17**	19
	2. Loss on disposal of property and equipment*3	**1,085**	457
	3. Impairment loss*5	**368**	4,426
	4. Loss on valuation of investment securities*4	**194**	91
	5. Loss on disposal and write-down of assets associated with business restructuring*6	**2,275**	—
	6. Severance payments associated with business restructuring	**925**	—
	7. Loss on liquidation of affiliates	**—**	209
	8. Adjustment loss in connection with advanced received in mobile business	**—**	302
	9. Accelerated amortization of goodwill	**1,831**	—
	10. Extraordinary loss on inventory write-offs	**—**	1,652
	11. Provision of allowance for doubtful accounts	**2,086**	505
	12. Provision of allowance for game arcade closings	**2,784**	153
	13. Other	**60**	59
	Income before income taxes and distribution of loss in a partnership (*tokumei-kumiai*)	**18,390**	9,031
	Distribution of loss in a partnership (*tokumei-kumiai*)	**16**	40
	Income before income taxes	**18,374**	8,990
	Corporate, inhabitants' and enterprise taxes	**2,915**	1,835
	Refunded income taxes	**(127)**	(912)
	Deferred income taxes	**3,941**	(9,039)
	Minority interest in consolidated subsidiaries	**24**	31
	Net income	**¥ 11,619**	¥ 17,076

The accompanying notes are an integral part of these statements.

Consolidated Statements of Capital Surplus and Retained Earnings (JPNGAAP)

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

	Millions of yen
	2006
Capital surplus	
I Capital surplus at beginning of year	¥36,673
II Increase in capital surplus	370
1. Gain on disposition of treasury stock	0
2. Shares issued through stock options	370
III Capital surplus at end of year	37,044
Retained earnings	
I Retained earnings at beginning of year	65,561
II Increase in retained earnings	17,076
1. Net income	17,076
III Decrease in retained earnings	6,616
1. Dividends	6,616
2. Bonuses for directors	—
IV Retained earnings at end of year	¥76,022

The accompanying notes are an integral part of these statements.

Consolidated Statement of Changes in Net Assets (JPNGAAP)

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

	Shareholders' equity					Valuation, currency translation and other adjustments			Millions of yen	
	Common stock	Capital surplus reserve	Retained earnings	Treasury stock	Total shareholders' equity	Unrealized gain on revaluation of other investment securities	Foreign currency translation adjustments	Total valuation and translation adjustments	Minority interests in consolidated subsidiaries	Total net assets
Balance as of March 31, 2006	¥7,803	¥37,044	¥76,022	¥(506)	¥120,364	¥ 531	¥ 97	¥ 628	¥1,120	¥122,114
Changes during the year										
New stock issuances	234	234	—	—	469	—	—	—	—	469
Year-end dividends from retained earnings	—	—	(2,210)	—	(2,210)	—	—	—	—	(2,210)
Interim dividends from retained earnings	—	—	(1,105)	—	(1,105)	—	—	—	—	(1,105)
Net income	—	—	11,619	—	11,619	—	—	—	—	11,619
Disposition of treasury stock	—	(0)	—	2	2	—	—	—	—	2
Acquisition of treasury stock	—	—	—	(37)	(37)	—	—	—	—	(37)
Change due to increase in consolidation	—	—	(10)	—	(10)	—	—	—	—	(10)
Net changes in items other than shareholders' equity during the year	—	—	—	—	—	(540)	280	(260)	57	(202)
Total changes during the year	234	234	8,293	(34)	8,727	(540)	280	(260)	57	8,525
Balance as of March 31, 2007	¥8,038	¥37,279	¥84,315	¥(540)	¥129,092	¥ (8)	¥377	¥ 368	¥1,178	¥130,639

The accompanying notes are an integral part of these statements.

Consolidated Statements of Cash Flows [JPNGAAP]

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

	2007	2006
		Millions of yen
I Cash flows from operating activities		
Income before income taxes	**¥18,374**	¥8,990
Depreciation and amortization	**11,115**	8,419
Impairment loss	**368**	4,426
Increase in allowance for doubtful accounts	**734**	611
(Decrease) increase in reserve for bonuses	**(775)**	643
Increase (decrease) in allowance for sales returns	**1,077**	(155)
Decrease in allowance for retirement benefits	**(832)**	(1,213)
Increase in allowance for directors' retirement benefits	**72**	19
Increase in allowance for store closings and other allowances	**2,773**	153
Interest and dividends received	**(470)**	(163)
Interest expense	**2**	29
Foreign exchange gain	**(76)**	—
Gain on sale of investment securities	**(410)**	(1,353)
Loss on investments in securities	**194**	91
Loss on disposal of property and equipment	**1,085**	457
Loss on sale of property and equipment	**17**	19
Gain on divestiture of a business	**(2,697)**	—
Amortization of goodwill	**1,386**	—
Accelerated amortization of goodwill	**1,831**	—
Other loss	**693**	—
Decrease (increase) in accounts receivable	**11,090**	(16,330)
(Increase) decrease in inventories	**(2,780)**	9,140
Increase in accounts payable	**1,671**	1,797
(Decrease) increase in accrued consumption taxes	**(320)**	102
Decrease in other current assets	**800**	57
(Increase) decrease in other non-current assets	**(158)**	358
(Decrease) increase in other current liabilities	**(5,432)**	391
Other	**243**	2,643
Subtotal	**39,577**	19,138
Interest and dividends received	**487**	121
Interest paid	**(5)**	(30)
Income taxes paid	**(7,249)**	(10,054)
Net cash provided by operating activities	**32,809**	9,174

The accompanying notes are an integral part of these statements.

		Millions of yen
	2007	2006
II Cash flows from investing activities		
Payments for acquiring property and equipment	**(10,733)**	(8,258)
Payments for acquiring intangible assets	**(413)**	(340)
Proceeds from sale of investment securities	**443**	1,504
Payments for acquisition of shares in consolidated subsidiaries	**(63)**	(53,747)
Proceeds from divestiture of a business	**4,514**	—
Proceeds from return of guarantee money paid	**1,113**	1,160
Payments for provision of guarantee money paid	**(398)**	(234)
Other	**(134)**	(122)
Net cash used in investing activities	**(5,671)**	(60,039)
III Cash flows from financing activities		
Proceeds from short-term loans	**—**	40,000
Payments of short-term loans	**—**	(40,000)
Proceeds from issuance of corporate bonds	**—**	50,000
Proceeds from issuance of shares of common stock	**438**	—
Payments for acquisition of treasury stock	**(37)**	(104)
Payments for dividends	**(3,314)**	(6,617)
Payments for dividends for minority interests	**(2)**	—
Other	**2**	876
Net cash (used in) provided by financing activities	**(2,912)**	44,153
IV Effect of exchange rate changes on cash and cash equivalents	**356**	719
V Net increase (decrease) in cash and cash equivalents	**24,582**	(5,991)
VI Cash and cash equivalents at beginning of year	**75,252**	81,243
VII Cash and cash equivalents of newly consolidated subsidiaries	**13**	—
VIII Cash and cash equivalents at end of year	**¥ 99,847**	¥ 75,252

The accompanying notes are an integral part of these statements.

Summary of Significant Accounting Policies Used in the Preparation of Consolidated Financial Statements

1. Scope of Consolidation

• FY2005 (April 1, 2005 to March 31, 2006)

(1) Number of consolidated subsidiaries:
17 and one partnership
DIGITAL ENTERTAINMENT ACADEMY CO., LTD.
COMMUNITY ENGINE INC.
TAITO CORPORATION
SQUARE ENIX, INC.
SQUARE L.L.C.
SQUARE PICTURES, INC.
SQUARE ENIX LTD.
SQUARE ENIX (China) CO., LTD.
SQUARE ENIX WEBSTAR NETWORK TECHNOLOGY (BEIJING) CO., LTD.
COMMUNITY ENGINE NETWORK SOFTWARE (BEIJING) CO., LTD.
UIEVOLUTION, INC.
FF·FILM·PARTNERS (partnership)
HUANG LONG CO., LTD.
BEIJING TAIXIN CULTURAL AMUSEMENT CO., LTD.
TAITO KOREA CORPORATION
TAITO ART CORPORATION
EFFORT CO., LTD.
TAITO TECH CO., LTD.

HUANG LONG CO., LTD. was established in August 2005 and has been included in the Company's scope of consolidation effective this fiscal year.

In this fiscal year, THE GAME DESIGNERS STUDIO, INC., changed its name to SQEX, INC. Subsequently, on March 31, 2006, SQEX merged with TAITO CORPORATION concurrent with the latter company's acquisition by the Company and on the same day changed its name to TAITO CORPORATION.

Also in this fiscal year, the Company's consolidated financial statements have been prepared on the basis of the Company's assumption of a controlling interest in TAITO CORPORATION, BEIJING TAIXIN CULTURAL AMUSEMENT CO., LTD., TAITO KOREA CORPORATION, TAITO ART CORPORATION, EFFORT CO., LTD. and TAITO TECH CO., LTD., as of September 30, 2005.

SQUARE ENIX WEBSTAR NETWORK TECHNOLOGY (BEIJING) CO., LTD., is currently undergoing liquidation procedures.

(2) Non-consolidated subsidiaries:
SOLID CO., LTD.
UIE JAPAN CO., LTD.
ZERO RESEARCH LTD.

UIE JAPAN CO., LTD., and ZERO RESEARCH LTD. were established in this fiscal year.

(Rationale for the exclusion of subsidiaries from the scope of consolidation)
Non-consolidated subsidiaries conduct operations that are relatively small in scale. The total amounts of the non-consolidated subsidiaries' assets, sales, equity in net income (loss), and equity in retained earnings (deficit) are deemed to have an immaterial effect on the Company's financial performance and consolidated financial statements.

• FY2006 (April 1, 2006 to March 31, 2007)

(1) Number of consolidated subsidiaries:
19 and one partnership
DIGITAL ENTERTAINMENT ACADEMY CO., LTD.
COMMUNITY ENGINE INC.
TAITO CORPORATION
SQUARE ENIX OF AMERICA HOLDINGS, INC.
SQUARE ENIX, INC.
SQUARE L. L. C.
SQUARE PICTURES, INC.
SQUARE ENIX LTD.
SQUARE ENIX (China) CO., LTD.
SQUARE ENIX WEBSTAR NETWORK TECHNOLOGY (BEIJING) CO., LTD.
COMMUNITY ENGINE NETWORK SOFTWARE (BEIJING) CO., LTD.
UIEVOLUTION, INC.
FF·FILM·PARTNERS (partnership)
HUANG LONG CO., LTD.
BEIJING TAIXIN CULTURAL AMUSEMENT CO., LTD.
TAITO KOREA CORPORATION
TAITO ART CORPORATION
EFFORT CO., LTD.
TAITO TECH CO., LTD.
UIE JAPAN CO., LTD.

UIE JAPAN CO., LTD., has been included in the Company's scope of consolidation effective this fiscal year, owing to its increase in materiality.

In this fiscal year, the Company established SQUARE ENIX OF AMERICA HOLDINGS, INC., in November 2006 as a holding company to oversee the Company's operations in North America.

On December 6, 2006, through investment in kind of shares amounting to US$19,100 thousand in Company's subsidiaries SQUARE ENIX, INC., and SQUARE PICTURES, INC., these companies became special-purpose subsidiaries under Article 24, Paragraph 5, Item 4 of the Securities Exchange Law and Cabinet Ordinance No. 19 Concerning the Disclosure of Corporate Details.

SQUARE ENIX WEBSTAR NETWORK TECHNOLOGY (BEIJING) CO., LTD. is currently undergoing liquidation procedures.

(2) Non-consolidated subsidiaries:

SOLID CO., LTD.
SG Lab Inc.
Stylewalker, Inc.
PlayOnline Co., Ltd.

ZERO RESEARCH LTD. was liquidated during the fiscal year ended March 31, 2007. The Company established SG Lab Inc., Stylewalker, Inc., and PlayOnline Co., Ltd. during the fiscal year ended March 31, 2007.

(Rationale for the exclusion of subsidiaries from the scope of consolidation)

Same as FY2005

2. Application of the Equity Method of Accounting

• FY2005 (April 1, 2005 to March 31, 2006)

Number of equity-method affiliates: 3

Baltec Co., Ltd.
Kaaku LTD.
Kaasa Solution GmbH

Principal non-consolidated subsidiaries that were not accounted for under the equity method (UIE JAPAN CO., LTD., ZERO RESEARCH LTD., and SOLID CO., LTD.) and affiliated companies (BMF CORPORATION and KUSANAGI INC.) were excluded from the scope of application of the equity-method affiliates, as the Company's equity in net income (loss) and equity in retained earnings (deficit) in these companies were deemed to have an immaterial effect on the Company's consolidated financial statements. Baltec Co., Ltd., Kaaku LTD., and Kaasa Solution GmbH were consolidated subsidiaries of TAITO CORPORATION acquired during the period.

• FY2006 (April 1, 2006 to March 31, 2007)

Number of equity-method affiliates: 4

Baltec Co., Ltd.
Brave, Inc.
Kaaku Ltd.
Kaasa Solution GmbH

Non-consolidated subsidiaries that are not accounted for under the equity method (SOLID CO., LTD., SG Lab Inc., Stylewalker, Inc., and PlayOnline Co., Ltd.) and affiliated companies (BMF CORPORATION and KUSANAGI INC.) were excluded from the scope of application of the equity method because their impact on consolidated net income and retained earnings are small.

During the fiscal year ended March 31, 2007, the Company invested in Brave, Inc., turning this company into a subsidiary accounted for under the equity method.

3. Fiscal Year-End of Consolidated Subsidiaries

• FY2005 (April 1, 2005 to March 31, 2006)

Among the Company's consolidated subsidiaries, the fiscal year of SQUARE ENIX (China) CO., LTD., HUANG LONG CO., LTD., COMMUNITY ENGINE NETWORK SOFTWARE (BEIJING) CO., LTD., BEIJING TAIXIN CULTURAL AMUSEMENT CO., LTD., SQUARE PICTURES, INC., and FF·FILM PARTNERS ends on December 31.

In the preparation of consolidated financial statements, their financial statements for the December 31 fiscal year end are used. Significant transactions between their fiscal year end and the consolidated balance sheet date of March 31 are reconciled for consolidation.

For SQUARE ENIX WEBSTAR NETWORK TECHNOLOGY (BEIJING) CO., LTD., a provisional settlement of accounts for this fiscal year was used as the basis for the preparation of consolidated financial statements.

• FY2006 (April 1, 2006 to March 31, 2007)

Same as FY2005

4. Summary of Significant Accounting Policies

(1) Standards and valuation methods for major assets

• FY2005 (April 1, 2005 to March 31, 2006)

A) Investment securities
Held-to-maturity securities:
Not applicable
Other investment securities
Securities for which fair values are available:
Market value, determined by the quoted market price as of the balance sheet date, with unrealized gains and losses reported as a separate component of sharehold-ers' equity at a net-of-tax amount, and cost of sales determined by the moving-average method
Securities for which fair values are unavailable:
Stated at cost determined by the average method.

B) Inventories
Manufactured goods, merchandise:
Stated at cost, determined by the monthly average method
Certain consolidated subsidiaries, however, determine cost by the moving-average method
Content production account:
Stated at cost, determined by the identified cost method
Amusement equipment:
Stated at cost, determined by the identified cost method
Unfinished goods:
Stated at cost, determined by the monthly average method
Certain consolidated subsidiaries, however, determine cost by the moving-average method

Supplies:
Stated at the last purchase price

• FY2006 (April 1, 2006 to March 31, 2007)

A) Investment securities
Other investment securities
Securities for which fair values are available
Market value, determined by the quoted market price (Unrealized gains and losses are reported as a separate component of net assets, with cost of sales determined by the moving-average method.
Securities for which fair values are unavailable
Same as in FY2005
B) Inventories
Manufactured goods, merchandise
Same as in FY2005
Content production account
Same as in FY2005
Amusement equipment
Same as in FY2005
Unfinished goods
Some consolidated subsidiaries state at cost, determined by the moving-average method
Supplies
Same as in FY2005

(2) Method of depreciation and amortization of major assets:
• FY2005 (April 1, 2005 to March 31, 2006)

A) Property and equipment
Property and equipment of the Company and its domestic consolidated subsidiaries are depreciated using the declining-balance method. However, the straight-line method is applied to buildings (excluding building fixtures) acquired on or after April 1, 1998. The estimated useful lives of major assets are as follows:

Buildings and structures	3–65 years
Tools and fixtures	3–15 years
Amusement equipment	3–8 years

B) Intangible assets
In-house software used by the Company and its domestic consolidated subsidiaries is amortized using the straight-line method based on an estimated useful life of five years. Trademarks are amortized using the straight-line method based on an estimated useful life of 10 years. Goodwill is amortized using the straight-line method over a period of five years.

• FY2006 (April 1, 2006 to March 31, 2007)

A) Property and equipment
Same as in FY2005

B) Intangible assets
The Company and certain consolidated subsidiaries amortize software used in-house using the straight-line method, based on an internal estimate of its useful life (five years). Trademarks are amortized using the straight-line method over 10 years.

(3) Accounting for allowances and reserves:
• FY2005 (April 1, 2005 to March 31, 2006)

A) Allowance for doubtful accounts
An allowance for doubtful accounts provides for possible losses arising from defaults on accounts receivable. The allowance is made up of two components: the estimated credit loss for doubtful receivables based on an individual assessment of each account, and a general reserve calculated based on historical default rates.
B) Reserve for bonuses
A reserve for bonuses provided for payments to employees of the Company and its consolidated subsidiaries at the amount expected to be paid in respect of the calculation period ended on the balance sheet date.
C) Allowance for sales returns
An allowance is provided for losses due to the return of published materials, at an amount calculated based on historical experience, prior to this fiscal year. In addition, an allowance is provided for losses due to the return of game software and other items, at an estimated amount of future losses assessed by each game title.
D) Allowance for store closings
For store closures determined during this fiscal year, an allowance is provided at an amount in line with reasonable estimates of future losses arising from such closures.
E) Allowance for retirement benefits
An allowance for retirement benefits is provided at the amount incurred during this fiscal year, which is based on the estimated present value of the projected benefit obligation. Unrecognized actuarial differences are fully amortized in the year following the year in which they arise. At certain consolidated subsidiaries, amortization for each period is made over a certain period (five years) using the straight-line method within the average remaining years of service of employees when the differences are recognized, commencing from the period after the period in which they are incurred. Unrecognized prior service cost is amortized over a certain period (one year or five years) within the average remaining service period of the employees. In addition, at certain of the Company's domestic consolidated subsidiaries, a reserve for retirement benefits is provided equal to 100% of such benefits the subsidiaries would be required to pay under the lump-sum retirement plan if all eligible employees were to voluntarily terminate their employment at the balance sheet date.

F) Allowance for directors' retirement benefits
An allowance for directors' retirement benefits is provided to adequately cover the costs of directors' retirement benefits, which are accounted for on an accrual basis in accordance with internal policy.

• FY2006 (April 1, 2006 to March 31, 2007)

A) Allowance for doubtful accounts
Same as in FY2005
B) Reserve for bonuses
Same as in FY2005
C) Allowance for sales returns
Same as in FY2005
D) Allowance for store closings
Same as in FY2005
E) Allowance for retirement benefits
Same as in FY2005
F) Allowance for directors' retirement benefits
Same as in FY2005

(4) Translation of foreign currency transactions and accounts:
• FY2005 (April 1, 2005 to March 31, 2006)

All monetary assets and liabilities of the Company and its domestic consolidated subsidiaries denominated in foreign currencies are translated at the balance sheet date at the year-end rates. The resulting translation gains or losses are charged or credited to income. All monetary assets and liabilities of overseas consolidated subsidiaries are translated as of the balance sheet date at the year-end rates, and all income and expense accounts are translated at rates for their respective periods. The resulting translation adjustments are recorded in minority interests in consolidated subsidiaries and shareholders' equity as "Foreign currency translation adjustments."

• FY2006 (April 1, 2006 to March 31, 2007)

All monetary assets and liabilities of the Company and its domestic consolidated subsidiaries denominated in foreign currencies are translated at the balance sheet date at the year-end rates. The resulting translation gains or losses are charged or credited to income. All monetary assets and liabilities of overseas consolidated subsidiaries are translated as of the balance sheet date at the year-end rates, and all income and expense accounts are translated at rates for their respective periods. The resulting translation adjustments are recorded in net assets as "Foreign currency translation adjustments" and are included in minority interests in consolidated subsidiaries.

(5) Accounting for leases:
• FY2005 (April 1, 2005 to March 31, 2006)

Finance leases, other than those for which the ownership of the leased assets are considered to be transferred to the lessees, are accounted for as operating leases.

• FY2006 (April 1, 2006 to March 31, 2007)

Same as in FY2005

(6) Accounting for deferred assets:
• FY2005 (April 1, 2005 to March 31, 2006)

A) Stock issuance expenses
Costs associated with issuances of shares of common stock are expensed as incurred.
B) Corporate bond issuance expenses
Costs associated with issuances of shares of common stock are expensed as incurred.

• FY2006 (April 1, 2006 to March 31, 2007)

A) Share delivery expenses
Costs associated with issuances of shares of common stock are expensed as incurred.
B) Corporate bond issuance expenses
Not applicable

(7) Additional accounting policies used to prepare consolidated financial statements:
• FY2005 (April 1, 2005 to March 31, 2006)

A) Accounting treatment of consumption taxes
Income statement items are presented exclusive of consumption taxes.
B) Accounting treatment of overseas subsidiaries
The accounts and records of overseas subsidiaries are maintained in conformity with accounting principles and practices generally accepted in their respective countries.

• FY2006 (April 1, 2006 to March 31, 2007)

A) Accounting treatment of consumption taxes
Same as in FY2005
B) Accounting treatment of overseas consolidated subsidiaries
Same as in FY2005

5. Valuation of Assets and Liabilities of Consolidated Subsidiaries

• FY2005 (April 1, 2005 to March 31, 2006)

All assets and liabilities of consolidated subsidiaries are revalued on acquisition.

• FY2006 (April 1, 2006 to March 31, 2007)

Same as in FY2005

6. Amortization of Cost of Investments in Subsidiaries in Excess of Net Assets Acquired

• FY2005 (April 1, 2005 to March 31, 2006)

Cost of investments in subsidiaries in excess of net assets acquired is amortized over a period of 5-20 years on a straight-line basis.

• FY2006 (April 1, 2006 to March 31, 2007)

Not applicable

7.Amortization of goodwill

• FY2005 (April 1, 2005 to March 31, 2006)

Not applicable

• FY2006 (April 1, 2006 to March 31, 2007)

Goodwill is amortized using the straight-line method over a period of either five years or 20 years. However, goodwill whose value has been extinguished is fully amortized during the consolidated fiscal year in which it was incurred.

8. Appropriation of Retained Earnings

• FY2005 (April 1, 2005 to March 31, 2006)

The consolidated statement of capital surplus and retained earnings is prepared based on retained earnings (deficit) appropriations determined during the fiscal year.

• FY2006 (April 1, 2006 to March 31, 2007)

Not applicable

9. Scope of Cash and Cash Equivalents in the Statements of Cash Flows

• FY2005 (April 1, 2005 to March 31, 2006)

Cash and cash equivalents in the consolidated statements of cash flows is comprised of cash on hand, bank deposits which are able to be withdrawn on demand and highly liquid short-term investments with an original maturity of three months or less and with minor risk of significant fluctuations in value.

• FY2006 (April 1, 2006 to March 31, 2007)

Same as in FY2005

New Accounting Standards

• FY2005 (April 1, 2005 to March 31, 2006)

(Accounting standard for impairment of non-current assets)
Effective this fiscal year, the Company has adopted an accounting standard for the impairment of fixed assets "Opinion Concerning Establishment of Accounting Standard for the Impairment of Fixed Assets" [Business Accounting Council, August 9, 2002]) and "Guidance on Accounting Standard for Impairment of Fixed Assets "(Accounting Standard Implementation Guidance No. 6 [Accounting Standards Board of Japan, October 31, 2003]). As a result, income before income taxes decreased ¥4,426 million in this fiscal year from the amount which would have been recorded under the method applied in the previous year. The effect of the new accounting standard on segment information has been reflected wherever relevant. The cumulative amount of impairment loss was deducted directly from the book value of each asset in accordance with the amended consolidated accounting policy.

• FY2006 (April 1, 2006 to March 31, 2007)

(Accounting Standard for Presentation of Net Assets in the Balance Sheet)
"Accounting Standard for Presentation of Net Assets in the Balance Sheet" (Accounting Standards Board of Japan Statement No. 5, December 9, 2005) and "Guidance on Accounting Standard for Presentation of Net Assets in the Balance Sheet" (Accounting Standards Board of Japan Guidance No. 8, December 9, 2005) was applied from the consolidated fiscal year ended March 31, 2007. The amount corresponding to total shareholders' equity under the previous method of presentation is ¥129,461 million.

The net assets section of the consolidated balance sheet was prepared in accordance with the revised "Regulations for Consolidated Financial Statements".

(Accounting Standards for Business Combinations)
Effective the fiscal year ended March 31, 2007, the Company has adopted "Accounting Standard for Business Combinations" ("Statement of Opinion on Implementing Accounting Standard for Business Combinations," (Business Accounting Council, October 31, 2003), "Accounting Standard for Business Divestitures" (Accounting Standards Board of Japan Statement No. 7, December 27, 2005) and "Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures" (Accounting Standards Board of Japan Guidance No. 10, December 27, 2005).

Reclassifications

• FY2005 (April 1, 2005 to March 31, 2006)

Not applicable

• FY2006 (April 1, 2006 to March 31, 2007)

(Consolidated Balance Sheets)

In accordance with revisions made in the regulations for the consolidated balance sheet, the consolidation adjustment account and the "goodwill" portion of the "other" item within intangible assets at March 31, 2006 were reclassified into "goodwill" effective the fiscal year ended March 31, 2007. In the consolidated balance sheet at March 31, 2006, the "goodwill" portion of the "other" item within intangible fixed assets amounted to ¥218 million.

(Consolidated Statements of Cash Flows)

Within cash flows from operating activities, for the fiscal year ended March 31, 2006, foreign exchange gains and losses were recorded in the "other" category of cash flows from operating activities. This has been listed as a separate accounting category effective the fiscal year ended March 31, 2007.

The amount within the "other" category corresponding to foreign exchange gains and losses for the fiscal year ended March 31, 2006 was ¥223 million.

For the fiscal year ended March 31, 2006, goodwill amortization was included within the "other" segment in cash flows from operating activities. This has been listed as a separate accounting category effective the fiscal year ended March 31, 2007.

Amortization of the consolidated adjustment account, included in the "other" category for the fiscal year ended March 31, 2006 was ¥1,445 million.

Notes to Consolidated Balance Sheets

• FY2005 (April 1, 2005 to March 31, 2006)

*1 Investments in non-consolidated subsidiaries and affiliates:

Investment securities	¥35 million
Investments and other assets	¥24 million

*2 Number of shares of common stock outstanding:

Common stock	110,729,623

*3 Number of shares of treasury stock:

Common stock	182,139

*4 Contingent liabilities for guarantees:

The Company has issued a revolving guarantee to a maximum limit of U.S.$15 million on behalf of consolidated subsidiary SQUARE ENIX, INC., in favor of SONY COMPUTER ENTERTAINMENT AMERICA INC. As of March 31, 2006, there was no liability outstanding under the guarantee.

The Company has issued a guarantee on behalf of consolidated subsidiary TAITO CORPORATION covering its bank overdraft agreement (maximum amount: ¥41,000 million).

As of March 31, 2006, there is no liability outstanding under this guarantee.

Consolidated subsidiary TAITO CORPORATION has issued guarantees on behalf of its commercial audiovisual products customers covering their leasing fee liabilities to TOKYO LEASING Corporation and KYOCERA Leasing Co., Ltd. These guarantees cover leasing fee liabilities up to ¥60 million.

*5 Notes maturing at the end of FY2005

Not applicable

• FY2006 (April 1, 2006 to March 31, 2007)

*1 Investments in non-consolidated subsidiaries and affiliates:

Investments and other assets	¥119 million

*2 Number of shares of common stock outstanding:

Not applicable

*3 Number of shares of treasury stock:

Not applicable

*4 Contingent liabilities for guarantees:

The Company's consolidated subsidiary TAITO CORPORATION has issued a guarantee of ¥12 million covering its lease obligations to Diamond Asset Finance Co., Ltd., one of the Company's sales partners.

*5 Notes maturing at the end of FY2006:

Notes maturing at the end of FY2006 was as if the notes had been settled as of the end of FY2006, although that date fell on a bank holiday. The amount of notes maturing at the end of FY2006 was as follows.

Notes receivable	¥410 million

Notes to Consolidated Statements of Income

• FY2005 (April 1, 2005 to March 31, 2006)

*1 Selling, general and administrative expenses include R&D costs of ¥1,145 million.

*2 Breakdown of loss on sale of property and equipment

Tools and fixtures	¥19 million

*3 Breakdown of loss on disposal of property and equipment

Buildings and structures	¥52 million
Tools and fixtures	¥220 million
Amusement equipment	¥159 million
Software	¥22 million
Other	¥3 million
Total	¥457 million

*4 Loss on valuation of investment securities was due to the significant decline in market prices of marketable securities.

*5 Impairment loss

In this fiscal year, the Group posted impairment losses on the following non-current assets:

Location	Usage	Category	Impairment amount
Nagareyama-shi, Chiba	Idle assets	Land	¥ 42
Tokushima-shi, Tokushima	Idle assets	Land	146
Chiyoda-ku, Tokyo and other	Idle assets	Telephone subscription rights	9
Republic of Korea (TAITO KOREA CORPORATION)	—	Goodwill	260
The United States of America (UIEVOLUTION, INC.)	—	Cost of investments in subsidiaries in exess of net assets acquired	3,926
Other	—	—	41
Total			¥4,426

Cash inflows from business segments of the Group are complementary to one another in terms of similarities in nature of products, merchandise, services and markets. Consequently, all assets for operational purposes are classified in one asset group, and idle assets which are not used for operational purposes are classified individually. In addition, assets related to the Group's headquarters and welfare facilities are classified as common-use assets.

Since the market values of the idle assets listed above have declined severely in relation to their book values, and because it remains uncertain as to whether the Group will be able to utilize these assets in the future, their book values have been reduced to the recoverable amounts. The resulting losses have been posted as an impairment loss totaling ¥198 million.

Furthermore, the recoverable amounts for these assets have been determined according to market prices calculated using real estate appraisals.

An amount of ¥260 million related to the Republic of Korea (TAITO KOREA CORPORATION) has been posted as an impairment loss. This is the difference between the appraised income potential in excess of acquisition cost for amusement facilities in Korea at the time of acquisition, and the current level of income assessed as recoverable above acquisition cost.

Goodwill impairment totaling ¥3,926 million listed for the United States of America (UIEVOLUTION, INC.) has been posted as an impairment loss. This amount is the appraised difference between future cash inflows and the current book value.

• FY2006 (April 1, 2006 to March 31, 2007)

*1 Selling, general and administrative expenses include R&D costs of ¥2,374 million.

*2 Breakdown of loss on sale of property and equipment

Tools and fixtures	¥17 million

*3 Breakdown of loss on disposal of property and equipment

Buildings and structures	¥269 million
Tools and fixtures	¥266 million
Amusement equipment	¥484 million
Software	¥56 million
Other	¥7 million
Total	¥1,085 million

*4 Loss on valuation of investment securities was due to the significant decline in market prices of marketable securities.

*5 Impairment loss

In this fiscal year, the Group posted impairment losses on the following asset groups:

Millions of yen

Location	Usage	Category	Impairment amount
Kumagaya-shi, Saitama	Idle assets	Buildings, land	¥ 91
Chiyoda-ku, Tokyo and other	Idle assets, other	Tools and fixtures	169
Chiyoda-ku, Tokyo and other	Idle assets	Telephone subscription rights	21
Republic of Korea		Goodwill	40
Other			44
Total			¥368

Cash inflows from each business segments of the Group are complementary to one another in terms of similarities in nature of products, merchandise, services and markets. Consequently, all assets for operational purposes are classified in one asset group, and idle assets which are not used for operational purposes are classified individually. In addition, assets related to the Group's headquarters and welfare facilities are classified as common-use assets.

Of the assets listed above, as a result of the restructuring of the amusement business, the assets owned by the pachinko and slot machine department were marked down to their recoverable values, resulting in an impairment loss of ¥102 million, which were recorded as an extraordinary loss.

For e-commerce assets, tools and fixtures were marked down to their recoverable values, resulting in an impairment loss of ¥66 million, which was posted as an extraordinary loss. As the market values of buildings, land and telephone subscription rights that were idle were substantially lower than their market values, and they were not expected to be used in the future, they were marked down to their recoverable values, resulting in an impairment loss of ¥112 million, which was posted as an extraordinary loss.

In principle, the recoverable amounts for these assets are determined based on market prices calculated using real estate appraisals.

Related to the Republic of Korea (TAITO KOREA CORPORATION), an impairment loss of ¥40 million has been posted as an extraordinary loss. This is the difference between the appraised income potential in excess of acquisition cost for amusement facilities in Korea at the time of acquisition, and the current level of income assessed as recoverable above acquisition cost.

*6 A breakdown of loss on disposal and write-down of assets associated with business restructuring was as follows:

Inventories	¥1,368 million
Amusement equipment	¥666 million
Other (current assets)	¥239 million
Total	¥2,275 million

Items Pertaining to the Consolidated Statements of Changes in Net Assets

• FY2006 (April 1, 2006 to March 31, 2007)

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

	Shares at the end of FY2005 (Thousands of shares)	Share Increases during the Year (Thousands of shares)	Share Decreases during the Year (Thousands of shares)	Shares at the End of FY2006 (Thousands of shares)
Shares issued and outstanding				
Common stock*1	110,729	218	—	110,947
Total	110,729	218	—	110,947
Treasury stock*2				
Common stock	182	12	0	193
Total	182	12	0	193

*1 The increase of 218,000 shares of common stock issued and outstanding is due to stock options.

*2 The increase of 12,000 shares of treasury stock is due to the acquisition of fractional shares constituting less than one trading unit. The decrease of 0 thousand shares of treasury stock is due to the sale of fractional shares constituting less than one trading unit.

2. Stock options and the Company's stock options

Category	Details of stock options	Type of shares issuable for the exercise of stock options	Number of shares for the purpose of stock options: End of FY2005	Increase during FY2006	Decrease during FY2006	End of FY2006	Balance at the end of FY2006 (Millions of yen)
Supplying company (parent company)	Issuance of yen-denominated zero-coupon warrant bonds maturing in 2010 approved by resolution of the Board of Directors	Common stock	9,803,921	4,901,961	—	14,705,882	—
	Total	—	9,803,921	4,901,961	—	14,705,882	—

Note: The increase of 4,901,961 shares during the year was due to conversion price adjustment conditions being applied to warrant bonds in accordance with the debenture indenture.

3. Dividends

(1) Dividend payments

Resolution	Type of shares	Total dividends (Millions of yen)	Dividends per share (Yen)	Record date	Effective date
Ordinary general meeting of shareholders on June 24, 2006	Common stock	2,210	20	March 31, 2006	June 26, 2006
Board of Directors' meeting on November 17, 2006	Common stock	1,150	10	September 30, 2006	December 8, 2006

(2) Dividends having a record date during the current fiscal year, but whose effective date for dividends falls in the following fiscal year

Resolution	Type of shares	Total dividends (Millions of yen)	Source of dividends	Dividends per share (Yen)	Record date	Effective date
Ordinary general meeting of shareholders on June 23, 2006	Common stock	2,768	Retained earnings	25	March 31, 2007	June 25, 2007

Notes to Consolidated Statements of Cash Flows

• FY2005 (April 1, 2005 to March 31, 2006)

*1 A reconciliation of cash and cash equivalents in the consolidated statements of cash flows to the amounts disclosed in the consolidated balance sheets is as follows:

(As of March 31, 2006)

Cash and deposits	¥75,257 million
Time deposits with maturity periods over three months	(5 million)
Cash and cash equivalents	¥75,252 million

*2 Assets and liabilities of key companies that became consolidated subsidiaries following the acquisition of their shares.

The following figures represent the assets and liabilities of TAITO CORPORATION and its affiliated companies at the time it became a consolidated subsidiary through an acquisition of shares, as well as the acquisition cost of shares of TAITO in relation to the net payment for acquiring TAITO CORPORATION and its affiliated companies:

Current assets	¥26,776 million
Non-current assets	41,508 million
Cost of investments in subsidiaries in excess of net assets acquired	15,975 million
Current liabilities	(15,298 million)
Non-current liabilities	(2,641 million)
Minority interests in consolidated subsidiaries	(3,246 million)
Acquisition cost of shares	63,074 million
Cash and cash equivalents	(9,930 million)
Net payment for acquisition of shares	53,143 million

• FY2006 (April 1, 2006 to March 31, 2007)

*1 A reconciliation of cash and cash equivalents in the consolidated statements of cash flows to the amounts disclosed in the consolidated balance sheets is as follows:

(As of March 31, 2007)

Cash and deposits	¥99,852 million
Time deposits with maturity periods over three months	(¥5 million)
Cash and cash equivalents	¥99,847 million

*2 Breakdown of key assets and liabilities resulting from the transfer of a business.

The following figures represent reductions in key assets and liabilities as a result of the transfer of the karaoke business of a consolidated subsidiary, TAITO CORPORATION:

Current assets	¥552 million
Non-current assets	1,879 million
Total assets	2,431 million
Current liabilities	614 million
Total liabilities	614 million

Lease Transactions

• FY2005 (April 1, 2005 to March 31, 2006)

Information related to finance leases other than those that transfer ownership to the lessee

1. Acquisition cost, accumulated depreciation, accumulated impairment loss and net book value of leased assets:

Millions of yen

	Acquisition cost	Accumulated depreciation	Net book value
Buildings and structures	¥1,278	¥ 213	¥1,064
Tools and fixtures	1,802	984	818
Total	¥3,080	¥1,197	¥1,882

Note: The total amount of future lease payments at the end of the year was an insignificant portion of total property and equipment at the end of the year. Accordingly, total acquisition cost includes the interest portion thereon.

2. Ending balance of future lease payments:

Due within one year	¥ 493 million
Due after one year	1,389 million
Total	¥1,882 million

Note: The total future lease payments at the end of the year was an insignificant portion of total property and equipment at the end of the year. Accordingly, total future lease payments includes the interest portion thereon.

3. Lease payments, reversal of impairment of leased assets, depreciation expense, interest and impairment loss:

Lease payments	¥552 million
Depreciation expense	¥552 million

4. Method of calculation for depreciation
Depreciation is calculated using the straight-line method over a useful life with no residual value.

(Impairment loss)
No impairment loss was recognized on leased assets.

• FY2006 (April 1, 2006 to March 31, 2007)

Information related to finance leases other than those that transfer ownership to the lessee
1. Acquisition cost, accumulated depreciation, accumulated impairment loss and net book value of leased assets:

Millions of yen

	Acquisition cost	Accumulated depreciation	Net book value
Buildings and structures	¥ 238	¥ 73	¥ 165
Tools and fixtures	2,182	811	1,371
Total	¥2,420	¥884	¥1,536

Note: Same as FY2005

2. Ending balances of future lease payments:

Due within one year	¥451 million
Due after one year	1,084 million
Total	¥1,536 million

Note: Same as FY2005

3. Lease payments, reversal of impairment of leased assets, depreciation expense, interest and impairment loss:

Lease payments	¥499 million
Depreciation expense	¥499 million

4. Method of calculation for depreciation
Same as FY2005

(Impairment loss)
No impairment loss was recognized on leased assets.

Securities

• FY2005 (April 1, 2005 to March 31, 2006)

1. Held-for-sale securities
Not applicable

2. Held-to-maturity securities with market value
Not applicable

3. Other investment securities with market value:

Millions of yen

	Type	Acquisition cost	Balance sheet value	Difference
Securities with book value exceeding acquisition cost	(1) Stocks	¥174	¥1,128	¥953
	(2) Bonds			
	1. Government bonds, municipal bonds, etc.	—	—	—
	2. Corporate bonds	—	—	—
	3. Others	—	—	—
	(3) Others	—	—	—
	Subtotal	174	1,128	953
Securities with acquisition cost exceeding book value	(1) Stocks	¥210	¥ 197	¥(12)
	(2) Bonds			
	1. Government bonds, municipal bonds, etc.	—	—	—
	2. Corporate bonds	—	—	—
	3. Others	—	—	—
	(3) Others	—	—	—
	Subtotal	210	197	(12)
Total		¥384	¥1,325	¥941

Note: For the year ended March 31, 2006, the impairment loss associated with the fair market value determination of other investment securities with market value was ¥91 million. Impairment loss on securities is charged to income when the market price at the end of the fiscal year falls less than 50% of the acquisition cost. Impairment loss on securities is charged to income when the market price at the end of the fiscal year falls between 30% and 50% of the acquisition cost after considering factors such as the significance of amount and the likelihood of recovery.

In the period ended March 31, 2005, the impairment loss associated with the fair market value determination of other investment securities with market value was ¥80 million.

4. Securities sold during the fiscal year:
(April 1, 2005 to March 31, 2006)

Millions of yen

Amount of sale	Gain on sale	Loss on sale
¥1,504	¥1,353	¥—

5. Investment securities whose fair values are not readily determinable:

Millions of yen

	Book value
(1) Other investment securities	
Unlisted securities (excluding OTC securities)	¥132
Unlisted overseas bonds	0

6. Redemption schedule for other securities with maturities and hold-to-maturity securities
Not applicable

• FY2006 (April 1, 2006 to March 31, 2007)

1. Held-for-sale securities
Not applicable

2. Held-to-maturity securities with market value
Not applicable

3. Other investment securities with market value:

Millions of yen

	Type	Acquisition cost	Book value	Difference
Securities with book value exceeding acquisition cost	(1) Stocks	¥102	¥142	¥39
	(2) Bonds			
	1. Government bonds, municipal bonds	—	—	—
	2. Corporate bonds	—	—	—
	3. Others	—	—	—
	(3) Others	—	—	—
	Subtotal	102	142	39
Securities with acquisition cost exceeding book value	(1) Stocks	¥260	¥ 203	¥(57)
	(2) Bonds			
	1. Government bonds, municipal bonds	—	—	—
	2. Corporate bonds	—	—	—
	3. Others	—	—	—
	(3) Others	—	—	—
	Subtotal	260	203	(57)
Total		¥363	¥345	¥(17)

Note: For the year ended March 31, 2007, the impairment loss associated with the fair market value determination of other investment securities with market value was ¥36 million. Impairment loss on securities is charged to income when the market price at the end of the fiscal year falls less than 50% of the acquisition cost. Impairment loss on securities is charged to income when the market price at the end of the fiscal year falls between 30% and 50% of the acquisition cost after considering factors such as the significance of amount and the likelihood of recovery.

For the year ended March 31, 2006, the impairment loss associated with the fair market value determination of other investment securities with market value was ¥91 million.

4. Securities sold during the fiscal year:
(April 1, 2006 to March 31, 2007)

Millions of yen

Amount of sale	Gain on sale	Loss on sale
¥443	¥410	¥—

5. Investment securities whose fair values are not readily determinable:

Millions of yen

	Book value
(1) Other investment securities	
Unlisted securities (excluding OTC securities)	¥108
Unlisted overseas bonds	0

Note: For the fiscal year ended March 31, 2007, the Company posted ¥157 million in impairment losses related to its investments in unlisted companies.

6. Redemption schedule of other securities with maturities and hold-to-maturity securities
Not applicable

Derivative Transactions

• FY2005 (April 1, 2005 to March 31, 2006)

1. Terms of transaction

(1) Type of transaction and purpose

The Company does not engage in derivative transactions in principal; however, the Company enters into forward foreign exchange contracts to reduce the effect of fluctuations in foreign currencies.

(2) Transaction policy

The Company enters into forward foreign exchange contracts to cover anticipated transactions denominated in foreign currencies but does not enter into these contracts for speculation.

(3) Risks

Forward foreign exchange contracts are subject to market risk arising from fluctuations in foreign currencies, but the Company deems the risk of nonperformance by the counterparties to these contracts to be low as the Company only enters into such contracts with financial institutions with high credit ratings.

(4) Risk management

Contracts are approved by the representative director and executive director in charge, and the Accounting and Financing Division administers risk management.

2. Market value of transaction

Not applicable

• FY2006 (April 1, 2006 to March 31, 2007)

1. Terms of transaction

(1) Type of transaction and purpose

The Company does not engage in derivative transactions in principal; however, the Company enters into forward foreign exchange contracts to reduce the effect of fluctuations in foreign currencies.

(2) Transaction policy

The Company enters into forward foreign exchange contracts to cover anticipated transactions denominated in foreign currencies but does not enter into these contracts for speculation.

(3) Risks

Forward foreign exchange contracts are subject to market risk arising from fluctuations in foreign currencies, but the Company deems the risk of nonperformance by the counterparties to these contracts to be low as the Company only enters into such contracts with financial institutions with high credit ratings.

(4) Risk management

Contracts are approved by the representative director and executive director in charge, and the Accounting and Financing Division administers risk management.

2. Market value of transactions

Not applicable

Retirement Benefits

• FY2005 (April 1, 2005 to March 31, 2006)

1. Overview of retirement benefit plan

The Company and its domestic consolidated subsidiaries have a lump-sum retirement payment plan with regard in accordance with their internal bylaws.

The projected benefits are allocated to periods of service on a straight-line basis. The Company's domestic consolidated subsidiaries apply a simplified method in the calculation of the retirement benefit obligation. In addition, certain of the Company's overseas subsidiaries maintain defined contribution retirement pension plans.

2. Retirement benefit obligation:

	Millions of yen
Retirement benefit obligation	¥(11,249)
Fair value of plan assets	10,622
Net unfunded obligation	(627)
Unrecognized prior service cost	(1,895)
Unrecognized actuarial loss	(479)
Allowance for retirement benefits	¥ (3,001)

3. Retirement benefit expenses:

	Millions of yen
Service cost	¥ 378
Interest cost	129
Expected return on plan assets	(89)
Amortization of prior service cost	(356)
Amortization of net actuarial gain	(103)
Retirement benefit expenses	¥ (40)

4. Assumptions used in accounting for retirement benefit obligation:

Periodic allocation method for projected benefits	Straight-line basis
Discount rates	1.700%–1.837%
Expected rate of return on plan assets	1.700%
Period over which prior service cost is amortized	1–5 years
Period over which net actuarial gain or loss is amortized	1–5 years

• FY2006 (April 1, 2006 to March 31, 2007)

1. Overview of retirement benefit plan
The Company and its domestic consolidated subsidiaries have a lump-sum retirement payment plan with regard in accordance with their internal bylaws.
The projected benefits are allocated to periods of service on a straight-line basis. The Company's domestic consolidated subsidiaries apply a simplified method in the calculation of the retirement benefit obligations. In addition, certain of the Company's overseas subsidiaries maintain defined contribution retirement pension plans.

2. Retirement benefit obligation:

	Millions of yen
Retirement benefit obligation	¥(10,612)
Fair value of plan assets	9,871
Net unfunded obligation	(741)
Unrecognized prior service cost	(1,138)
Unrecognized actuarial loss	(289)
Allowance for retirement benefits	¥ (2,169)

3. Retirement benefit expenses:

	Millions of yen
Service cost	¥600
Interest cost	172
Expected return on plan assets	(170)
Amortization of prior service cost	(406)
Amortization of net actuarial loss	190
Retirement benefit expenses	¥386

Note: Due to the restructuring of certain businesses, such as the amusement business, during the year, a substantial number of employees retired, and the Company recognized a curtailment of its retirement benefit plan in accordance with "Accounting for Transfers between Retirement Benefit Schemes" (Application Guideline No. 1 of the Business Accounting Principles). As a result, the Company recognized a partial reversal of allowance for retirement benefits and a lump-sum amortization of unrecognized gain/loss amounting to ¥465 million as an extraordinary gain, which was included in the amortization of prior service cost and amortization of net actuarial gains and losses during the year.
In addition to the above, the Company recorded an extraordinary loss for premium severance payments of ¥925 million.

4. Assumption used in accounting for retirement benefit obligation:

Periodic allocation method for projected benefits	Straight-line basis
Discount rates	1.700%–2.093%
Expected rate of return on plan assets	1.700%
Period over which prior service cost is amortized	1–5 years
Period over which net actuarial gain or loss is amortized	1–5 years

Stock Options

• FY2006 (April 1, 2006 to March 31, 2007)

1. Details, scale of and changes in stock options

(1) Details of stock options

	2001 Stock options	2002 Stock options	2004 Stock options	2005 Stock options	2005 Stock options
Category and number of grantees	Company directors and employees 766	Company directors and employees 696	Company directors and employees 206	Company directors and employees 52	Directors and employees of the Company's subsidiaries 3
Number of stock options	520,710 shares of common stock*1	2,550,000 shares of common stock*2	600,000 shares of common stock	902,000 shares of common stock	7,000 shares of common stock
Date granted	June 23, 2001	June 22, 2002	June 19, 2004	June 18, 2005	June 18, 2005
Conditions for vesting of interests	No conditions have been set for vesting of interests	No conditions have been set for vesting of interests	No conditions have been set for vesting of interests	No conditions have been set for vesting of interests	No conditions have been set for vesting of interests
Service period	No service period has been established.	No service period has been established.	No service period has been established.	No service period has been established.	No service period has been established.
Rights exercise period	January 4, 2002 to June 30, 2006	July 1, 2004 to June 30, 2009	July 1, 2006 to June 30, 2009	July 1, 2007 to June 30, 2010	July 1, 2007 to June 30, 2010

Notes: 1 The number of stock options indicated for 2001 was adjusted for the business combination (1 to 0.85) with SQUARE CO., LTD. on April 1, 2003.

2 The number of stock options indicated for 2002 was adjusted for the April 1, 2003 business merger (1 to 0.85) with SQUARE CO., LTD.

(2) Scale of and changes in stock options

Stock options corresponding to the year under review, the number of stock options and the status of their conversion to shares of common stock are indicated below.

1) Number of stock options

	2001 Stock options	2002 Stock options	2004 Stock options	2005 Stock options	2005 Stock options
Before vesting					
(Shares)					
March 31, 2006	—	—	561,000	902,000	7,000
Granted	—	—	—	—	—
Expired	—	—	4,000	23,000	—
Vested	—	—	557,000	—	—
Unvested balance	—	—	—	879,000	7,000
After vesting					
(Shares)					
March 31, 2006	327,165	1,621,545	—	—	—
Vested	—	—	557,000	—	—
Exercised	—	218,195	—	—	—
Expired	327,165	30,600	17,000	—	—
Balance unexercised	—	1,372,750	540,000	—	—

2) Price information

Yen

	2001 Stock options	2002 Stock options	2004 Stock options	2005 Stock options	2005 Stock options
Exercise price	¥3,430	¥2,152	¥2,981	¥3,365	¥3,360
Average share price at exercise	—	¥3,059	—	—	—
Fair market value on grant date	—	—	—	—	—

2. Estimate of fair value of stock options

Not applicable

3. Method of estimating vested interests in stock options

Not applicable

Tax Effect Accounting

• FY2005 (April 1, 2005 to March 31, 2006)

1. Significant components of deferred tax assets and liabilities are summarized as follows:

Deferred tax assets	
1) Current assets	
Enterprise tax payable	¥ 37
Business office tax payable	20
Accrued bonuses, allowance for bonuses to employees	708
Advances paid	128
Accrued expenses	180
Allowance for sales returns	358
Non-deductible portion of allowance for doubtful accounts	169
Non-deductible portion of allowance for content production account	(194)
Valuation loss on content production account	835
Loss carried forward	4,665
Non-deductible valuation gain on allowance for retirement benefits	1,060
Non-deductible amortization of goodwill	191
Other	(285)
Total	7,877
2) Non-current assets	
Non-deductible portion of allowance for retirement benefits	433
Allowance for directors' retirement benefits	34
Non-deductible depreciation expense of property and equipment	1,191
Loss on investments in securities	339
Non-deductible portion of allowance for doubtful accounts	38
Loss carried forward	12,201
Other	198
Valuation allowance	(7,206)
Offset to deferred tax assets (non-current assets)	(707)
Total	6,523
Net deferred tax assets	14,401
Deferred tax liabilities	
Non-current liabilities	
Net unrealized gains on other investment securities	(364)
Other	(342)
Offset to deferred tax assets (non-current assets)	707
Total deferred tax liabilities	—
Balance: Net deferred tax assets (liabilities)	¥14,401

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

Statutory tax rate	40.70%
Permanent differences excluded from non-taxable expenses	0.72
Permanent differences excluded from gross revenue	(209.88)
Taxation on per capita basis for inhabitants' taxes	1.05
Special income tax credits	(10.14)
Amortization of and impairment loss on goodwill	22.73
Valuation allowance	78.80
Reclaimed payment	2.94
Tax effect resulting from reorganization of subsidiaries	(9.50)
Loss carried forward	(6.35)
Other	(1.35)
Effective tax rate	(90.28)%

• FY2006 (April 1, 2006 to March 31, 2007)

1. Significant components of deferred tax assets and liabilities are summarized as follows:

	Millions of yen
Deferred tax assets	
1) Current assets	
Enterprise tax payable	¥ 114
Business office tax payable	50
Accrued bonuses, allowance for bonuses to employees	760
Advances paid	36
Accrued expenses	588
Allowance for sales returns	536
Non-deductible portion of allowance for doubtful accounts	119
Valuation loss on content production account	158
Inventory valuation loss	176
Loss on disposal of assets related to business restructuring	919
Non-deductible amortization of goodwill	110
Loss carried forward	4,059
Other	173
Valuation allowance	(1,871)
Offset to deferred tax liabilities (current)	(298)
Total	5,634
2) Non-current assets	
Non-deductible portion of allowance for retirement benefits	500
Allowance for directors' retirement benefits	64
Non-deductible depreciation expense of property and equipment	577
Loss on investments in securities	763
Non-deductible portion of allowance for doubtful accounts	902
Allowance for store closings	1,201
Loss carried forward	5,891
Other	362
Valuation allowance	(5,220)
Offset to deferred tax assets (non-current assets)	(102)
Total	4,939
Net deferred tax assets	10,573

Deferred tax liabilities	
1) Current liabilities	
Accrued expenses and other cost calculation details	298
Offset to deferred tax assets (non-current assets)	(298)
Total	—
2) Non-current liabilities	
Other	102
Offset to deferred tax assets (non-current assets)	(102)
Total deferred tax liabilities	—
Balance: Net deferred tax assets (liabilities)	¥10,573

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

Statutory tax rate	40.70%
Permanent differences excluded from non-taxable expenses	0.45
Taxation on per capita basis for inhabitants' taxes	0.63
Foreign taxes	0.23
Amortization of goodwill	7.13
Valuation allowance	(6.95)
Refunded income taxes	(0.62)
Adjustments to deferred tax assets	(1.86)
Adjustments for unrecognized losses	(1.52)
Differences in tax rates from the parent company's statutory tax rate	(0.77)
Other	(0.79)
Effective tax rate	36.63%

Segment Information

[Consolidated Business Segment Information]

• FY2005 (April 1, 2005 to March 31, 2006)

Millions of yen

	Games (Offline)	Games (Online)	Mobile Phone Content	Publication	Amusement	Others	Total	Eliminations or unallocated	Consolidated total
I Sales and operating income									
Net sales									
(1) Sales to external customers	¥45,916	¥15,720	¥5,067	¥ 9,742	¥41,069	¥6,957	¥124,473	¥ —	¥124,473
(2) Intersegment sales	—	—	—	—	—	—	—	—	—
Total	45,916	15,720	5,067	9,742	41,069	6,957	124,473	—	124,473
Operating expenses	36,326	9,812	4,341	6,875	42,240	4,949	104,545	4,457	109,003
Operating income (loss)	¥ 9,590	¥ 5,907	¥ 726	¥ 2,866	¥ (1,170)	¥2,007	¥ 19,927	¥ (4,457)	¥ 15,470
II Total assets, depreciation, impairment loss and capital expenditures									
Total assets	¥67,658	¥15,421	¥4,056	¥12,348	¥80,897	¥6,912	¥187,293	¥26,055	¥213,348
Depreciation	690	663	47	15	6,364	68	7,714	569	8,419
Impairment loss	1,308	1,308	1,308	—	271	—	4,197	229	4,426
Capital expenditures	1,075	640	89	1	6,521	91	8,401	748	9,169

Notes: 1. The classification of business segments is made based on the types of products and services.

2. Major products offered by business segment are summarized as follows:

Segment	Major Products
Games (Offline)	Games
Games (Online)	Online games
Mobile Phone Content	Content for mobile phones
Publication	Magazine comics, serial comics, game-related books
Amusement	All businesses of the Taito Group including Amusement Operations and Rental, Sales of Goods and Merchandise and Content Services
Others	Derivative products such as character merchandise, school for game designers

3. Unallocated operating expenses included in “Eliminations or unallocated” totaled ¥4,457 million. These expenses were related to administrative departments of the Company which provide services and operational support that cannot be allocated to specific business segments.
4. Unallocated assets included in “Eliminations or unallocated” totaled ¥26,055 million. These assets mainly consisted of deferred tax assets.

• FY2006 (April 1, 2006 to March 31, 2007)

Millions of yen

	Games (Offline)	Games (Online)	Mobile Phone Content	Publication	Amusement	Others	Total	Eliminations or unallocated	Consolidated total
I Sales and operating income									
Net sales									
(1) Sales to external customers	¥51,316	¥13,660	¥7,759	¥11,208	¥75,610	¥3,915	¥163,472	¥ —	¥163,472
(2) Intersegment sales	—	—	7	—	91	62	161	(161)	—
Total	51,316	13,660	7,767	11,208	75,702	3,978	163,634	(161)	163,472
Operating expenses	34,968	6,893	4,753	7,604	76,054	2,666	132,941	4,614	137,555
Operating income (loss)	¥16,348	¥ 6,767	¥3,013	¥ 3,603	¥ (351)	¥1,311	¥ 30,693	¥ (4,776)	¥ 25,916
II Total assets, depreciation and capital expenditures									
Total assets	¥60,153	¥18,062	¥8,695	¥ 9,544	¥74,491	¥7,865	¥178,812	¥36,866	¥215,679
Depreciation	402	593	246	12	9,134	82	10,471	643	11,115
Impairment loss	—	—	—	—	368	—	368	—	368
Capital expenditures	428	411	79	22	9,477	108	10,528	832	11,360

Notes: 1. The classification of business segments is made based on the types of products and services.

2. Major products offered by business segment are summarized as follows:

Segment	Major Products
Games (Offline)	Games
Games (Online)	Online games
Mobile Phone Content	Content for mobile phones
Publication	Magazine comics, serial comics, game-related books
Amusement	All businesses of the Taito Group including Amusement Operations and Rental, Sales of Goods and Merchandise and Content Services
Others	Derivative products such as character merchandise, school for game designers

3. Unallocated operating expenses included in “Eliminations or unallocated” totaled ¥4,614 million. These expenses were related to administrative departments of the Company which provide services and operational support that cannot be allocated to specific business segments.

4. Unallocated assets included in “Eliminations or unallocated” totaled ¥36,866 million. These assets mainly consisted of cash and deposits, deferred tax assets and buildings and structures of administrative departments of the Company.

[Consolidated Geographic Segment Information]

• FY2005 (April 1, 2005 to March 31, 2006)

Millions of yen

	Japan	North America	Europe	Asia	Total	Eliminations or unallocated	Consolidated total
I Sales and operating income							
Net sales							
(1) Sales to external customers	¥107,354	¥14,670	¥ 413	¥2,035	¥124,473	¥ —	¥124,473
(2) Intersegment sales	4,316	837	364	5	5,523	(5,523)	—
Total	111,670	15,507	778	2,040	129,997	(5,523)	124,473
Operating expenses	99,910	12,109	728	1,778	114,526	(5,523)	109,003
Operating income	¥ 11,760	¥ 3,398	¥ 49	¥ 262	¥ 15,470	¥ —	¥ 15,470
II Total assets	¥196,210	¥12,683	¥1,207	¥3,247	¥213,348	¥ —	¥213,348

Notes: 1. The classification of geographic segments is made based on geographical distance.
2. Main countries included in each segment:
(1) North America.............the United States of America
(2) Europe ....United Kingdom
(3) Asia..............................China, Korea
3. There were no unallocated operating expenses included in "Eliminations or unallocated."
4. There were no unallocated assets included in "Eliminations or unallocated."

• FY2006 (April 1, 2006 to March 31, 2007)

Millions of yen

	Japan	North America	Europe	Asia	Total	Eliminations or unallocated	Consolidated total
I Sales and operating income							
Net sales							
(1) Sales to external customers	¥128,665	¥22,341	¥11,409	¥1,056	¥163,472	¥ —	¥163,472
(2) Intersegment sales	9,776	833	457	11	11,078	(11,078)	—
Total	138,441	23,174	11,867	1,067	174,551	(11,078)	163,472
Operating expenses	119,465	17,552	9,901	1,713	148,633	(11,077)	137,555
Operating income (loss)	¥ 18,976	¥ 5,621	¥1,965	¥ (645)	¥ 25,917	¥ (0)	¥ 25,916
II Total assets	¥203,303	¥11,881	¥7,585	¥2,747	¥225,517	¥(9,838)	¥215,679

Notes: 1. The classification of geographic segments is made according to geographical distance.
2. Main countries included in each segment:
(1) North America.............the United States of America
(2) Europe ....United Kingdom
(3) Asia..............................China, Korea
3. There were no unallocated operating expenses included in "Eliminations or unallocated."
4. There were no unallocated assets included in "Eliminations or unallocated."

[Consolidated Overseas Sales]

• FY2005 (April 1, 2005 to March 31, 2006)

Millions of yen

	North America	Europe	Asia	Total
I Overseas sales	¥15,635	¥1,378	¥3,025	¥ 20,039
II Consolidated sales	—	—	—	124,473
III Overseas sales as a percentage of consolidated sales	12.6%	1.1%	2.4%	16.1%

Notes: 1. The classification of geographic segments is made based on geographical distance.
2. Main countries included in each segment:
(1) North America.............the United States of America, Canada
(2) Europe ....United Kingdom, France, Germany, others
(3) Asia.............................China, Korea, others
3. Overseas sales represent sales of the Company and its consolidated subsidiaries to countries and areas outside of Japan.

• FY2006 (April 1, 2006 to March 31, 2007)

Millions of yen

	North America	Europe	Asia	Total
I Overseas sales	¥23,801	¥12,271	¥1,551	¥ 37,624
II Consolidated sales	—	—	—	163,472
III Overseas sales as a percentage of consolidated sales	14.6%	7.5%	1.0%	23.0%

Notes: 1. The classification of geographic segments is made based on geographical distance.
2. Main countries included in each segment:
(1) North America.............the United States of America, Canada
(2) Europe ....United Kingdom, France, Germany, others
(3) Asia.............................China, Korea, others
3. Overseas sales represent sales of the Company and its consolidated subsidiaries to countries and areas outside Japan.

Business separations

FY2005 (April 1, 2005 to March 31, 2006)

Not applicable

• FY2006 (April 1, 2006 to March 31, 2007)

During the year, the Company transferred the commercial karaoke-on-demand business of TAITO CORPORATION, a consolidated subsidiary.

1. Name of the recipient company
   XING INC.
2. Details of the business separation
   The commercial karaoke-on-demand business of TAITO CORPORATION, a consolidated subsidiary.
3. Reasons for the business separation
   Since TAITO CORPORATION was included in consolidation in September 2005, the Company has considered medium- to long-term growth strategies for the entire Group. One of the conclusions reached through this process was that the sale of TAITO CORPORATION's commercial karaoke-on-demand business to XING INC. would contribute to raising the corporate value of the Group.
4. Date of business separation
   July 3, 2006
5. Overview of business separation
   At a meeting of its Board of Directors held on April 27, 2006, TAITO CORPORATION approved a resolution to transfer its commercial karaoke-on-demand business to XING INC. This business was spun off as a new company, and all shares of the new company were sold to XING INC.
6. Change in equity of affiliated companies and method of accounting
   Not applicable
7. Name of separated business
   AM (Amusement) and Others
8. Overview of losses recorded in the consolidated financial statements for the year ended March 31, 2007 as a result of the business separation:

Net sales	¥1,248 million
Operating loss	¥97 million
Ordinary loss	¥217 million

[Related Party Transactions]

• FY2005 (April 1, 2005 to March 31, 2006)

None

• FY2006 (April 1, 2006 to March 31, 2007)

(1) Major Director and Individual Shareholders

						Relationships					
Attribute	Name	Location	Capital or investment (Millions of yen)	Details of business or occupation	Voting rights (%) (Millions of yen)	Concurrent Director positions	Business relationship	Transaction details	Transaction amount (Millions of yen)	Category	Balance at the end of year (Millions of yen)
Director	Makoto Naruke	—	—	Director of the Company, President and Representative Director of ASPIRE CORPORATION	—	—	—	Consulting fees to ASPIRE CORPORATION	4	—	—

Note:1. The terms of the transaction and method of determining the terms and prices of the transaction were determined after receiving individual estimates used to determine market rates.

Per Share Information

• FY2005 (April 1, 2005 to March 31, 2006)

Net assets per share (yen)	¥1,094.50
Net income per share (yen)	154.65
Diluted net income per share (yen)	153.44

• FY2006 (April 1, 2006 to March 31, 2007)

Net assets per share (yen)	¥1,168.91
Net income per share (yen)	105.06
Diluted net income per share (yen)	104.71

Note: The basis for calculating net income per share and diluted net income per share is provided as follows:

• FY2005 (April 1, 2005 to March 31, 2006)

Net income per share:	
Net income (millions of yen)	¥ 17,076
Income not available to common shareholders (millions of yen)	—
Income available to common shareholders (millions of yen)	17,076
Average number of shares of common stock outstanding during the fiscal year (thousands of shares)	110,419
Adjustments to net income used to calculate diluted net income per share:	
Adjustments to net income (millions of yen)	—
Increase in the number of shares of common stock (thousands of shares)	870
(number of shares reserved for the purpose of new share issuance against exercise of subscription rights)	(870)

Summary of residual securities that do not dilute the Company's earnings per share:

The issuance of stock options was approved at the Company's annual general meeting of shareholders held on June 18, 2005, and bonds with warrants were issued based on a resolution approved by the Board of Directors on November 9, 2005.
An overview of the stock option plan is provided in "4. Status of Parent Company, 1. Status of Shares, etc., (2) Status of stock options, etc."

• FY2006 (April 1, 2006 to March 31, 2007)

Net income per share:	
Net income (millions of yen)	¥ 11,619
Income not available to common shareholders (millions of yen)	—
Income available to common shareholders (millions of yen)	11,619
Average number of shares of common stock outstanding during the fiscal year (thousands of shares)	110,600
Adjustments to net income used to calculate diluted net income per share:	
Adjustments to net income (millions of yen)	—
Increase in the number of shares of common stock (thousands of shares)	366
(number of shares reserved for the purpose of new share issuance against exercise of subscription rights)	(366)

Summary of residual securities that do not dilute the Company's earnings per share:

The issuance of stock options was approved at the Company's annual general meeting of shareholders held on June 18, 2005, and bonds with warrants were issued based on a resolution approved by the Board of Directors on November 9, 2005.
An overview of the stock option plan is provided in "4. Status of Parent Company, 1. Status of Shares, etc., (2) Status of stock options, etc."

Significant Subsequent Events

• FY2005 (April 1, 2005 to March 31, 2006)

Business transfer of consolidated subsidiary TAITO CORPORATION's commercial karaoke-on-demand business

1. Reasons for the business transfer
   At a meeting of its Board of Directors held on April 27, 2006, TAITO CORPORATION resolved to transfer its commercial karaoke-on-demand business to XING INC. This business was separated as a new company, and all shares of the new company were sold to XING INC.
   Since TAITO CORPORTATION was added as a consolidated subsidiary in September 2005, the Company has considered medium- to long-term growth strategies for the entire Group. One of the conclusions reached through this process was that the sale of TAITO CORPORATION's commercial karaoke-on-demand business to XING INC. would contribute to raising the corporate value of the Group.
2. Name of the partner company to transfer
   XING INC.
3. Detail of the business to transfer

Selling party	TAITO CORPORATION
Main operations	- Operation and rental business - Product and merchandise sales - Content services - Other businesses
Paid-in capital	¥16 million
Shareholding ratio	SQUARE ENIX CO., LTD. 100%
Brands	LAVCA, X2000
Partner company to transfer	XING INC.
Main operations	- Commercial karaoke-on-demand business - Mobile phone content distribution business
Paid-in capital	¥1,621 million
Shareholding ratio	Brother Industries LTD. 88%, INTEC LEASING INC. 11%
Brand	JOYSOUND

4. Book value of assets and liabilities to be transferred:

Planned amount of assets to be transferred	¥2,602 million
Planned amount of liabilities to be transferred	¥708 million

5. Date of transfer July 3, 2006
6. Transfer price ¥4,683 million (planned)

• FY2006 (April 1, 2006 to March 31, 2007)

Granting of Stock Options

At the 27th Annual General Meeting of Shareholders, convened on June 23, 2007, a resolution was passed to grant stock acquisition rights to directors as a part of their remuneration in accordance with articles 236 and 238 of Corporation Law.

These stock options are outlined below.

(1) Reason for issuing stock acquisition rights to directors
    The objective of issuing stock acquisition rights as stock options is to provide an incentive to the Company's directors in consideration of the execution of their duties, to improve operating performance and corporate value and to heighten their managerial awareness from a shareholder's perspective.

(2) Overview of stock options

1. Recipients of stock acquisition rights allocation
   Directors of the Company
2. Type and number of shares for the purpose of stock acquisition rights
   A maximum of 450,000 shares of common stock in a one-year period. In the event that the Company conducts a stock split or a reverse stock split, the Company shall adjust this number in the manner it deems fit.
3. Amount payable upon delivery of stock acquisition rights
   No cash need be paid in exchange for these stock acquisition rights.
4. Value of assets subscribed upon exercise of each stock acquisition right
   The value of assets subscribed upon exercise of stock acquisition rights shall be the per-share payment that may be paid upon accepting delivery ("hereinafter, Exercise Price") multiplied by the number of shares granted that corresponds to these stock acquisition rights.
   The exercise price shall be the average of the closing price on Tokyo Stock Exchange during the six months period preceding the month in which the allocation date falls (exception applies in the event trading is not conducted on that day), multiplied by 1.05 with amounts less than one yen truncated. If the amount is less than the closing price of the day preceding the allocation date, the closing price of the day preceding the allocation date shall be used. (If the closing price is not available on the day preceding the allocation date, the most recent closing price shall be used.)
   In the event the Company carries out a stock split or a reverse stock split and revaluation of the Company's shares of common stocks become nesessary, the Company applies any appropriate measures deemed necessary to justify the price per share.
   No cash need be paid in exchange for these stock options.

Additional Consolidated Information

[Corporate Bonds Issued]

Company	Bond type	Issue date	Outstanding balance at end of FY2005 (Millions of yen)	Outstanding balance at end of FY2006 (Millions of yen)	Coupon (%)	Security	Maturity
SQUARE ENIX CO., LTD.	Five-year yen-denominated bonds with warrants*1	November 25, 2005 (UK time)	50,000	50,000	—	None	November 25, 2010 (UK time)
Total			50,000	50,000			

*1 [Bonds with Warrants Issued]
(As of March 31, 2007)

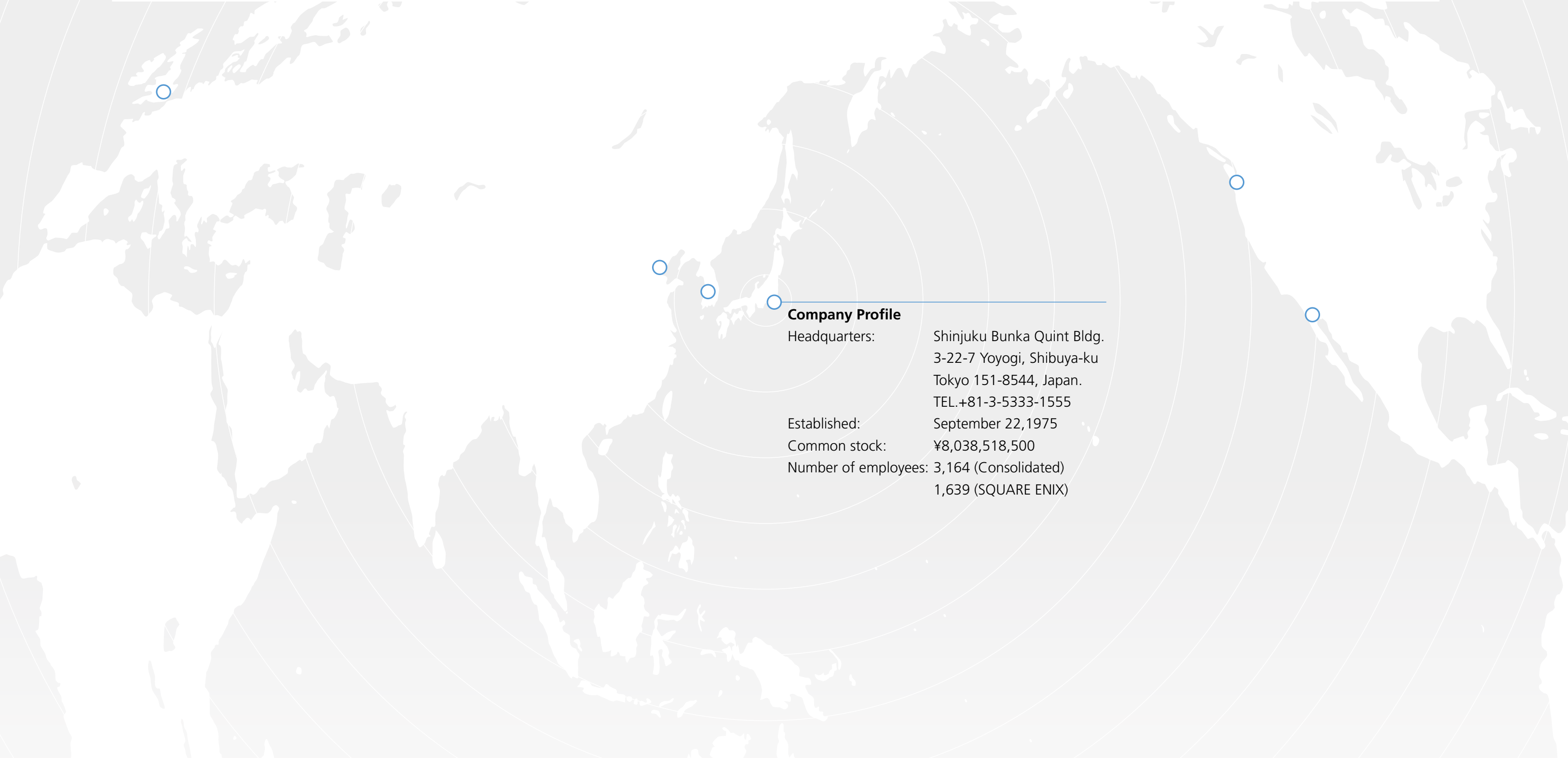
Issue price 100% of face value
Aggregate issue amount of issuance ¥50.0 billion
Warrants applicable to Common shares
Exercise price (yen)*2 ¥3,400
Period for exercising warrants
November 28, 2005 to November 11, 2010 (local time where funds are deposited)
Share price when issued due to exercising of warrants and amount capitalized (yen)
Issue price: ¥3,400
Amount capitalized: ¥1,700
Conditions for exercise of warrants
Warrants cannot be partially exercised

*2 Said convertible debenture indenture stipulates provisions for adjusting the exercise price, and the exercise price was updated on November 17, 2006. The exercise price prior to the adjustment was ¥5,100.

[Borrowings]
Not applicable

[Other]
Not applicable

Corporate Data (As of March 31, 2007)



Company Profile

Headquarters:	Shinjuku Bunka Quint Bldg. 3-22-7 Yoyogi, Shibuya-ku Tokyo 151-8544, Japan. TEL.+81-3-5333-1555
Established:	September 22,1975
Common stock:	¥8,038,518,500
Number of employees:	3,164 (Consolidated) 1,639 (SQUARE ENIX)

SQUARE ENIX Group

Company Name Consolidated Subsidiaries	**Established**	**Fiscal Year-End**	**Common Stock**	**Percent of Voting Rights**	**Principal Lines of Business**
Japan					
Community Engine Inc.	May 2000	March	¥25 million	58.8%	Network application, development, sale of middleware
DIGITAL ENTERTAINMENT ACADEMY CO., LTD.	October 1991	March	¥72 million	72.2% (1.4)	School for computer game engineers
TAITO CORPORATION	August 1953	March	¥4,524 million	100.0%	Management and operation of arcade facilities; planning, development, production, sale and rental of coin-operated game machines planning, development and sale of game software; planning, development and sale of mobile phone content
TAITO ART CORPORATION	November 1966	March	¥35 million	100.0% (100.0%)	Travel agency and insurance agency
EFFORT CO., LTD.	February 1999	March	¥10 million	100.0% (100.0%)	Planning and production of music content
North America					
SQUARE ENIX OF AMERICA HOLDINGS, INC.	November 2006	March	US$1	100.0%	Holding of shares in and business management of Square Enix Group companies located in North America
SQUARE ENIX, INC.	March 1989	March	US$10 million	100.0% (100.0%)	Sale of games, sale and management of online games in North America
UIEVOLUTION, INC.	August 2000	March	US$0.2	100.0% (100.0%)	Development, sale and licensing of network applications and middleware
SQUARE PICTURES, INC.	November 1997	December	US$0.1 million	100.0% (100.0%)	Management of overseas film revenues
Europe					
SQUARE ENIX LTD.	December 1998	March	GB£3 million	100.0%	Sale of games, sale and management of online games in Europe
Asia					
SQUARE ENIX (China) CO., LTD.	January 2005	December	US$12 million	100.0%	Development, sale, and management of online games in Asia
Huang Long Co., Ltd.	August 2005	December	10 million yuan RMB	— [100.0%]	Sale and operation of online games in Asia
BEIJING TAIXIN CULTURAL ENTERTAINMENT CO., LTD.	July 1996	December	16,617 thousand yuan RMB	80.0% (80.0%)	Management of arcade facilities and rental of game machines
TAITO KOREA CORPORATION	May 2004	March	3,300 million won	100.0% (100.0%)	Management and operation of arcade facilities
Partnership					
FF Film Partners	March 1998	December	—	92.2%	Licensing and management of movies and derivative products

Notes: 1. In the Percentage of Voting Rights column, numbers in parentheses ( ) represent the percentage of indirect holdings and are including in the total percentage of voting rights held by the Company. Numbers in brackets [ ] represent the percentage of holdings of closely related parties of parties of the same interest and are excluded from the total percentage of voting rights held by the Company.

2. On March 31, 2006, TAITO CORPORATION (the former SQEX, Inc., name changed on March 31, 2006) absorbed the former TAITO CORPORATION. To make the de facto surviving company of this merger—the former TAITO CORPORATION—a wholly owned subsidiary of the Company, the former TAITO CORPORATION was absorbed by TAITO CORPORATION (the former SQEX, Inc.) on a pro forma basis. Consequently, the date of establishment is recorded as that of the de facto surviving company, the former TAITO CORPORATION.

Share Information

Number of shares issued: 110,947,818

Number of shareholders: 34,711

Principal Shareholders

Rank	Shareholder	Investment in SQUARE ENIX (Thousands of Shares)	(%)
1	Yasuhiro Fukushima	23,626	21.29
2	Fukushima Planning Co., Ltd.	9,763	8.80
3	Sony Computer Entertainment Inc.	9,520	8.58
4	Masashi Miyamoto	7,882	7.10
5	The Master Trust Bank of Japan, Ltd. (Trust Account)	4,775	4.30
6	Japan Trustee Services Bank, Ltd. (Trust Account)	4,658	4.19
7	Investors Bank	4,524	4.07
8	The Chase Manhattan Bank, NA, London SL Omnibus Account	4,090	3.68
9	JP Morgan Chase Oppenheimer Funds JASDEC Account	3,264	2.94
10	S System Co., Ltd.	2,045	1.84

Note: The above investment of Japan Trustee Services Bank, Ltd. (Trust Account), includes 1,047,000 shares held in the name of Japan Trustee Services Bank, Ltd. (Trust Account 4).

Shareholders' Memo

» **Fiscal year:**
April 1 to March 31

» **Record dates for dividends from retained earnings:**
September 30
March 31

» **Annual general meeting of shareholders:**
June

» **Administrator of the Register of Shareholders:**
Mitsubishi UFJ Trust and Banking Corporation

» **Shareholder registration agent:**
Securities Agency Department
Mitsubishi UFJ Trust and Banking Corporation
7-10-11 Higashi-suna, Koto-ku, Tokyo 137-8081
TEL: +81-120-232-711

» **Transfer agent offices:**
Mitsubishi UFJ Trust and Banking Corporation
(domestic branches)

» **Listed on:**
The First Section of the Tokyo Stock Exchange

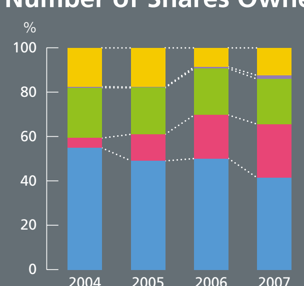
» **Securities code:**
9684

» **Trading unit:**
100 shares

» **Public notices:**
URL:http://www.aspir.co.jp/koukoku/9684/9684.html
(Japanese)

(Public notices will be announced in the *Nihon Keizai Shimbun*, a Japanese-language newspaper, in case an electronic notice is not possible due to an accident or any other unavoidable reasons.)

Number of Shares Owned (Thousands of shares)



	2004		2005		2006		2007	
Financial Institutions	19,225	(17.46%)	19,475	(17.64%)	9,456	(8.54%)	**13,756**	**(12.40%)**
Securities Companies	486	(0.44%)	374	(0.34%)	822	(0.74%)	**1,843**	**(1.66%)**
Other Companies	25,023	(22.72%)	23,117	(20.94%)	23,178	(20.94%)	**22,553**	**(20.33%)**
Foreign Companies and Individuals	4,914	(4.46%)	13,252	(12.01%)	21,761	(19.65%)	**26,801**	**(24.16%)**
Individuals and Other	60,481	(54.92%)	54,164	(49.07%)	55,510	(50.13%)	**45,992**	**(41.45%)**
Total	110,130	(100.00%)	110,385	(100.00%)	110,729	(100.00%)	**110,947**	**(100.00%)**