SQUARE ENIX CO., LTD.
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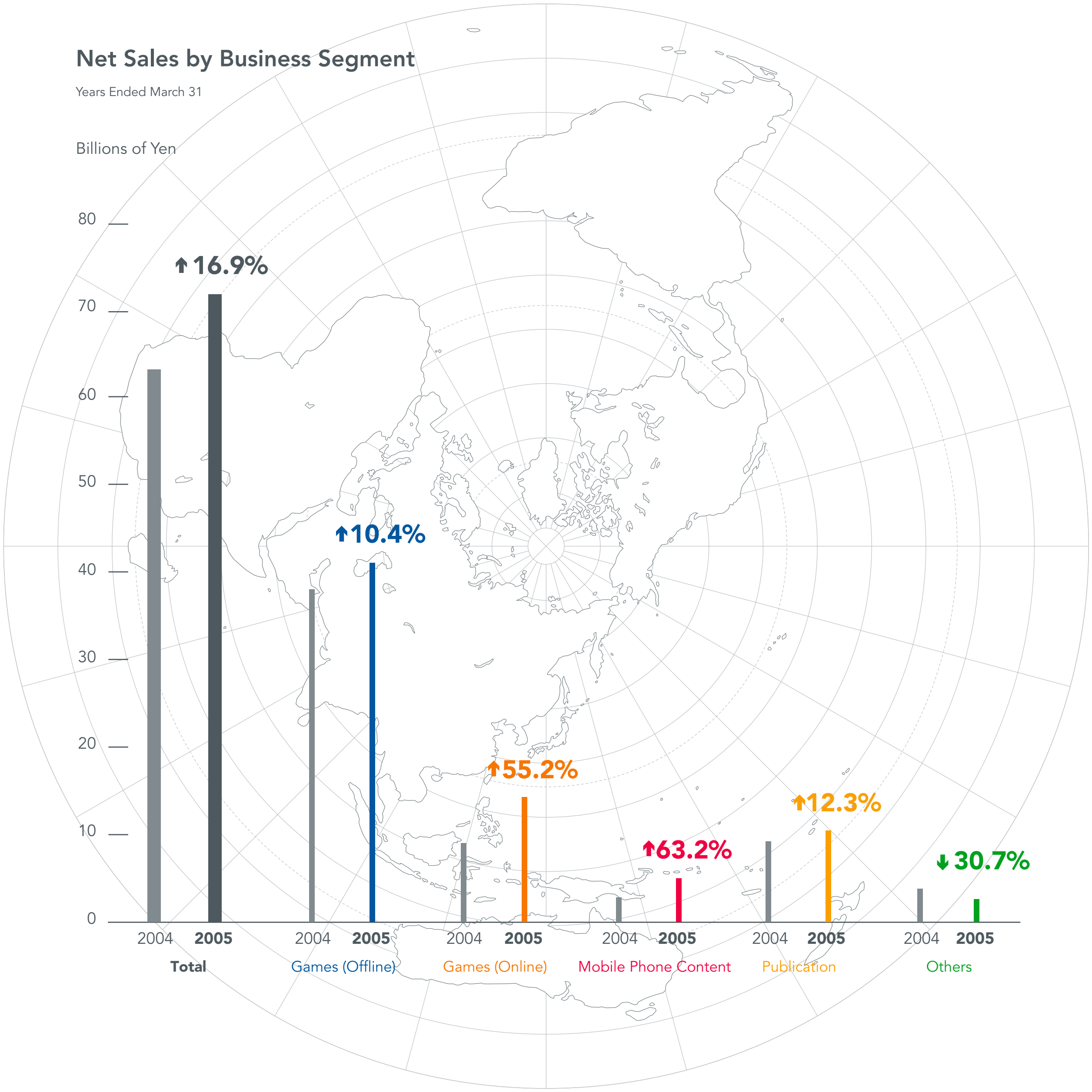
SQUARE ENIX

2005 ANNUAL REPORT

Join Our Adventure



Contents

Disclaimer Regarding Forward-Looking Statements

Statements in this annual report with respect to the current plans, estimates, strategy, and beliefs of SQUARE ENIX CO., LTD. and consolidated subsidiaries [collectively "SQUARE ENIX"] include both historical facts and forward-looking statements concerning the future performance of SQUARE ENIX. Such information is based on management's assumptions and beliefs in light of the information currently available and, therefore, involve risks and uncertainties. Actual results may differ materially from those anticipated in these statements due to the influence of a number of important factors.

Such factors include but are not limited to: [1]general economic conditions in Japan and foreign countries, in particular levels of consumer spending; [2] fluctuations in exchange rates, in particular the exchange rate of the Japanese yen in relation to the U.S. dollar, the euro and others, which SQUARE ENIX uses extensively in its overseas business; [3] the continuous introduction of new products, and rapid technical innovation in the digital entertainment industry; and [4] SQUARE ENIX's ability to continue developing products and services accepted by consumers in the intensely competitive market, which is heavily influenced by subjective and quickly changing consumer preferences.

Financial Highlights

SQUARE ENIX CO., LTD. and Consolidated Subsidiaries

Years Ended March 31	Millions of Yen 2005	Millions of Yen 2004	Thousands of U.S. Dollars 2005
For the Year			
Net sales	¥ 73,864	¥ 63,202	$ 687,819
Operating income	26,438	19,398	246,193
Net income	14,932	10,993	139,048
At Year-end			
Total assets	¥131,695	¥110,633	$1,226,327
Total shareholders' equity	108,933	96,700	1,014,373

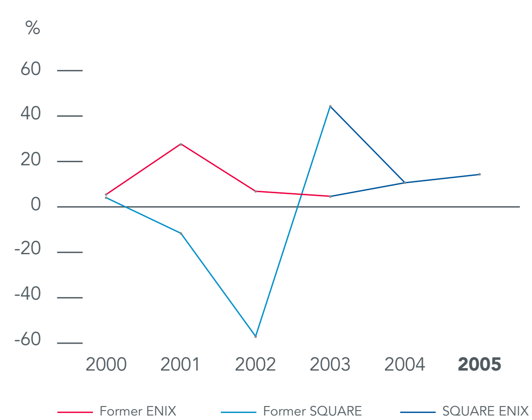
	Yen 2005	Yen 2004	U.S. Dollars 2005
Per Share of Common Stock			
Net income	¥ 135.63	¥ 100.04	$ 1.26
Total shareholders' equity	988.19	878.85	9.20

	% 2005	% 2004
Key Ratios		
Operating Income Margin	35.8%	30.7%
Return on Equity	14.5	11.9
Shareholders' Equity Ratio	82.7	87.4

Notes: For the convenience of readers, amounts in U.S. dollars have been translated from yen at the exchange rate prevailing in the Tokyo foreign exchange market as of March 31, 2005 of ¥107.39=US $1.

Operating Income Margin

Return on Equity



Notes: 1. Return on equity = Net income / Average shareholders' equity
2. The former ENIX did not prepare consolidated financial statements for the period between FY1999 and FY2000. The former ENIX figures for this period are, therefore, disclosed on a non-consolidated basis.
3. Return on equity for FY2003 has been calculated using the simple addition of the former ENIX and the former SQUARE's shareholders' equity as of the end of the previous period.

To Our Shareholders

President and Representative Director
Yoichi Wada

I am proud to present the annual report of SQUARE ENIX for fiscal 2004, ended March 31, 2005.

Fiscal 2004 was the Company's second year of business since we were formed through the merger of SQUARE CO., LTD., and ENIX CORPORATION. Consolidated net sales increased 16.9%, to ¥73,864 million; operating income rose 36.3%, to ¥26,438 million; recurring income jumped 41.9%, to ¥25,901 million; and net income climbed 35.8%, to ¥14,932 million. These results all represented record highs for the Company.

Our operating income margin of 35.8% and return on equity (ROE) of 14.5% are among the highest in the industry.

I am pleased to report that all of our operations are proceeding smoothly and according to plan.

As a gesture of appreciation to our shareholders, we added a commemorative dividend of ¥30 to our common dividend, making the total dividend for the period ¥60—double that of fiscal 2003.

Creative & Innovative

Video Game Industry Awaits the Release of Next-Generation Game Consoles

Looking at results by segment, Games (Offline) revenue—our largest segment—rose 10.4% in fiscal 2004, Games (Online) grew 55.2%, Mobile Phone Content jumped 63.2% and Publication increased 12.3%. We achieved revenue and income growth in all business segments, resulting in a more diverse and well-balanced business portfolio.

Total shareholders' equity at the end of the period totaled ¥108,933 million, and with no interest-bearing debt we were able to achieve an equity ratio of 82.7%. This indicates our sound financial position.

Nevertheless, we must not be complacent with our current position. These figures only show that we have built up our strength as planned for the coming challenges. Having completed phase 1, we now need to move on to phase 2. Within the next year or two, Sony Computer Entertainment Inc., Nintendo Co., Ltd., and Microsoft Corporation will release next-generation game consoles. This is a transitional period that occurs roughly every five years, in which downward pressure on prices, an increase in the number of choices for customers to purchase, and intensifying competition with alternate services and products combine to form a difficult market environment.

We have been preparing for this transitional period and are set to launch our strongest-ever lineup of titles. We are also increasing our sales efforts by securing SQUARE ENIX-dedicated shelf space in retail stores to cope with the market leveling off. We also grew revenue outside of packaged game software, further improving our ability to create a stable profit base.

We have also laid down the foundations to become a leader in this next generation of games consoles. At Electronic Entertainment Expo (E3), the world's largest video game trade show, held in Los Angeles in May 2005, Sony Computer Entertainment, Nintendo and Microsoft introduced SQUARE ENIX as one of the most important game software companies. Our presence in the video game industry has without a doubt become world class.

And yet, this is still not enough. The impact of current changes in the industrial structure reaches beyond the video game industry. These are fundamental changes, of the kind that come along only once every few decades, and impact all industries.

The emergence of next-generation game consoles is merely a part of this.

Network is the Game.
Everything plays Games.

The Impact of Ubiquitous Networking

When I say "changes of the industrial structure," I mean the fundamental changes that ubiquitous networking will bring.

The chart below shows the performances of various terminals. (To simplify, we used the clock speed of CPUs as a proxy to the performance of the terminal). This represents the supply curve.

The vertical axis uses a logarithmic scale, so you can really see how much progress had been made over the past decade or so. Also, it is clear that game consoles have been leading the performance of terminals since the late 1990s, especially when taking market penetration into account. This leadership gave the video game industry the leverage to make advances in entertainment.

The more important point, however, is what is happening to the customers' demand curve.

All new game consoles, including portable ones, are now equipped with networking connectivity. Personal computers (PCs), personal data assistants (PDAs) and even car navigation systems can now connect to the Internet. The various terminals that have evolved independently now have common functions as network terminals.

The processing power of each terminal may already be "good enough" since they offer new value to customers by becoming a new window to the Internet.

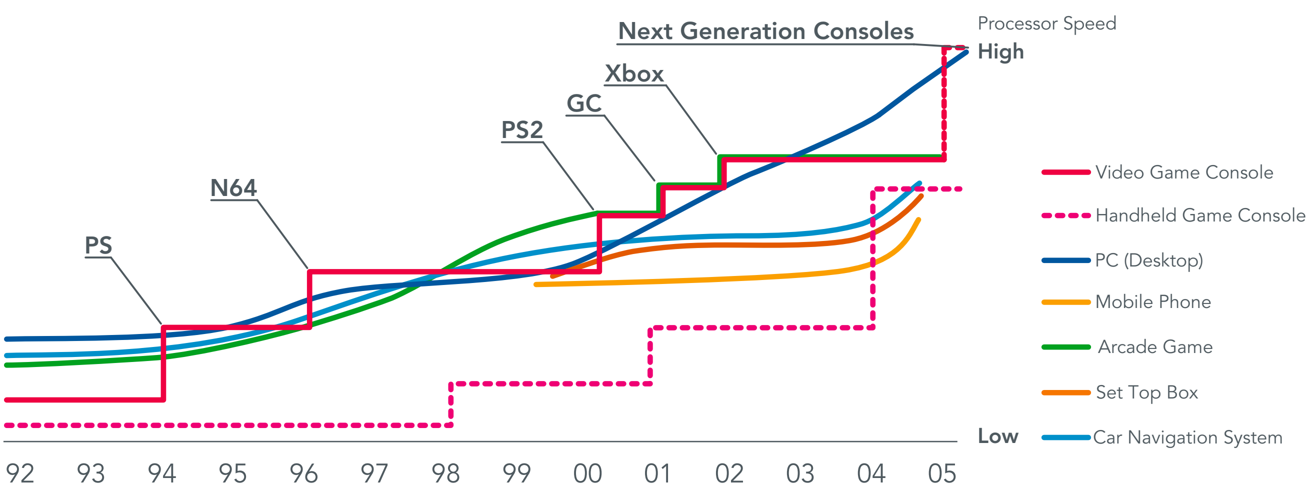
In other words, the customers' demand curve is not rising as much as the terminal capability supply curve, and it may not rise any further.

The remaining issue is communication infrastructure.

The chart on page 5 shows the home broadband penetration rate in Japan. Japan now has one of the best Internet infrastructures in the world, overcoming its slow start in the 1990s.

Communication is borderless, and communication environments in all countries are synergizing and advancing irreversibly. In the near future, I believe communication infrastructures will not be an issue in most countries.

Progress of Terminals —Taking CPU Power as an Example—



Created by SQUARE ENIX from various sources

Structural Changes Mean a Power Shift to Customers

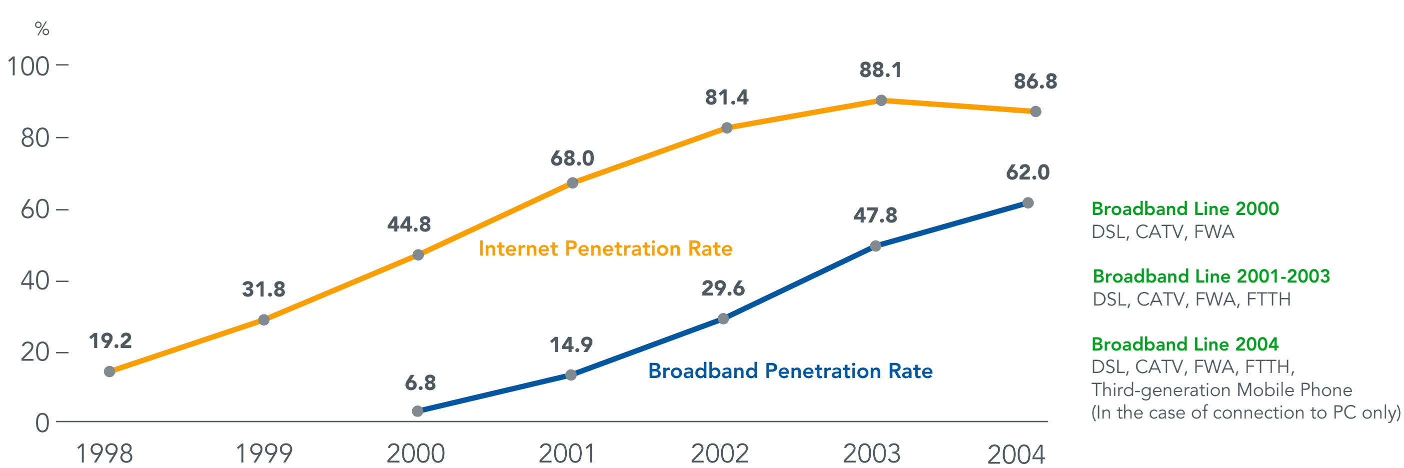
Prophets never tell us exactly when future events will take place. Business people are often overeager to act in fear that the future will suddenly becomes the present. If they acted too early one time, the next time they are overcautious and miss out on opportunities.

We have been bombarded with clichés, such as "consumer-owned" and "customer-centric," that herald a shift in power toward the customer. This time, however, it is different. The clichés are finally becoming a reality, and a true power shift is under way.

I firmly believe the most important quality that management can possess is insight into the timing and details of structural changes. The next two to three years will usher in structural changes not only to industry but to the entire social system. All my managerial strategies are based on this perspective toward these coming years.

Content is information. That is why these upcoming structural changes will directly affect our industry as well as the surrounding industries. When the processing power of terminals and communication bandwidth become more than "good enough," customers will have the same capability as content providers to broadcast content. In other words, customers will inevitably become suppliers of content, and content providers need to provide support for such customers to broadcast their own content while remaining content suppliers themselves.

Broadband Penetration Rate for Households in Japan



Source: Ministry of Internal Affairs and Communications Communications Usage Trend Survey

Our Vision for a New Era

Some people may wonder how we can make money in such a structural change; others may feel that there will be no profit opportunities because of this intensified competition. We believe the opportunity lies in the structural change itself.

We do not expect end users to spend more money. Customers will spend the same amount, but the money will be distributed differently. In the initial stage of the industry evolution, the value-added lies at the infrastructure layer. As a result, money is distributed heavily to the infrastructure providers. They will reinvest the cash to improve infrastructure. This will eventually lead to commoditization of the infrastructure and the distribution of money will be diminished.

Going forward, we expect more money to be distributed to the software layer rather than the infrastructure layer. Our fundamental strategy is to grasp this shift of value. The two points below sum up our competitive advantages in the marketplace.

1. We are not involved in the infrastructure or hardware sectors.

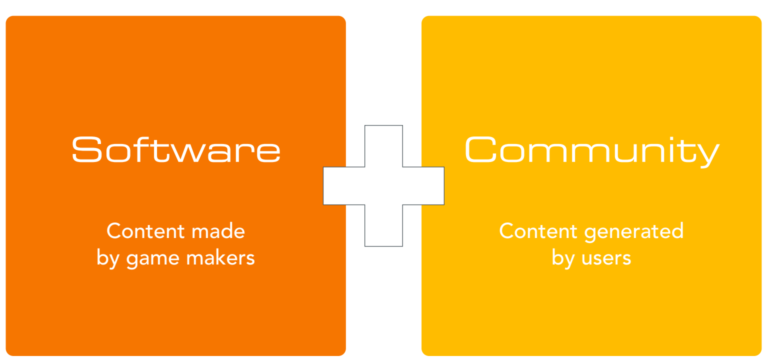
In what may seem like a contradiction in terms, our strength lies in what we lack. Players already successful in the infrastructure and hardware layers cannot deny their own business domains, and they will end up leaning toward an impractical vertical integration model, which is doomed to fail in the network age. Even if they pursue new businesses without seeking synergies with their existing core businesses, limited returns on investments in new fields are swayed by the oversized core businesses, and this eventually sinks new businesses.

2. We are one of a few players in the position to expand their presence comprehensively across all the areas in the software layer.

In the world where the larger value-added resides in the software layer, it is clear that the company that controls a larger part of the software layer wins. There are several layers in the software layer, including the software platform, application and user service layers. SQUARE ENIX is in the unique position of having advantages in each of these.

In the software platform layer, we have ramped up our development since acquiring UIEvolution, Inc., in 2004. To make all terminals become windows into a virtual space, we need a platform that absorbs the differences of terminals. This idea is embodied in our cross-platform strategy, which enables users to access content from game consoles, PCs and mobile phones anywhere.

In a networked society, content providers and customers will develop content together



The application layer is where our core capability resides. We have the property rights to a variety of games, *anime* and *manga* enjoyed by fans all over the world, backed by skilled personnel who continue to produce high-caliber content.

In the user service layer, our experience in the operation of online games is a source of competitiveness. The knowledge and skills to operate online games can be acquired only through actual operation, and as such it is very difficult to catch up if you are behind.

We are aware that we also have a weakness, which lies in our corporate culture and how we succeeded in the past. We excelled selling top-quality packaged software. Our emphasis on perfection, however, could have appeared to some as arrogance, particularly when dealing with the supporting role of customers' activities. In this new era, it is important to change our mindset so that our relationship with customers is content, and the quality of content is something we improve over time working with customers.

Grasping the shift of value-added in the industry is critical to be competitive. This is exactly why the most recent merger and acquisition (M&A) and alliance activities are based on economies of scope rather than scale.

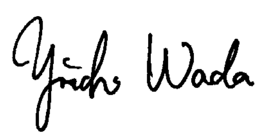
M&A and alliance activities that have happened to date have been relatively predictable, but we need to pick up speed to respond to a rising trend toward attempting to ride out structural changes by relying on huge amounts of capital.

The new society will require new values and social codes. We realize the important role lying squarely on our shoulders and continue to uphold our obligations to society.

Fiscal 2004 was a year of building stamina for SQUARE ENIX. Fiscal 2005 and 2006 will see the Company enhance its structure. The merger between SQUARE and ENIX was a significant milestone in the structural change within the game industry. Going forward, I expect more alliances with companies outside of the game industry will happen.

We appreciate your unwavering support.

July 2005



Yoichi Wada

President and Representative Director

Review of Operations

The Year in Review

SQUARE ENIX CO., LTD., and its consolidated subsidiaries (collectively, the "Company") have been making determined efforts to strengthen the foundation and profitability of its business segments of Games (Offline), Games (Online), Mobile Phone Content, Publication and Others. The Company has been pursuing fundamental R&D activities to obtain advanced information technologies, which are crucial in promoting growing network-related businesses, and to apply such technologies to our products and services.

The Games (Online) and Mobile Phone Content segments have continued to make significant growth in this fiscal year in addition to the Games (Offline) segment. The Publication segment has made increased income and profit despite unfavorable market conditions.

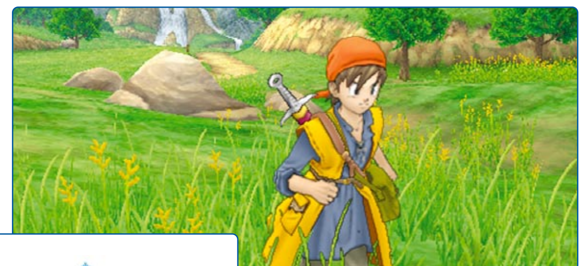
Overview by Business Segment

Games (Offline)

The Company plans, develops and distributes games for game consoles and mobile game terminals. The Company also handles localization of games developed and distributed in Japan to distribute in North America through SQUARE ENIX, INC., a wholly-owned subsidiary, while distribution in Europe and Asia is handled by leading publishers through license arrangements.

During this fiscal year, "DRAGON QUEST VIII Sora-to-Umi-to-Daichi-to-Norowareshi Himegimi" was released and is now the first PlayStation2 (PS2) title in Japan achieving over 3 million units shipped (3,610 thousand units in Japan as of March 31, 2005). In addition, "Kingdom Hearts Chain of Memories" for Game Boy Advance ("GBA") has over 1 million units shipped worldwide (360 thousand units in Japan, 720 thousand units in North America). Other new game titles released during this period are "FULLMETAL ALCHEMIST 2 Akaki Erikusiru-no-Akumu" (160 thousand units in Japan), "DRAGON QUEST & FINAL FANTASY in Itadaki Street Special" (380 thousand units in Japan), "RADIATA STORIES" (290 thousand units in Japan) and "MUSASHI: SAMURAI LEGEND" (80 thousand units in North America) for PS2; and "Toruneko no Daibouken 3 Advance –Fushigi no Dungeon–" (140 thousand units in Japan) and "FINAL FANTASY I·II Advance" (290 thousand units in Japan, 500 thousand units in North America and 150 thousand units in Europe) for GBA. Furthermore, the Company released "Egg Monster HEROES" (90 thousand units in Japan) for Nintendo DS in December 2004.

Consequently, net sales in the Games (Offline) segment totaled ¥41 billion (up 10.4% from the previous fiscal year), and operating income amounted to ¥19 billion (up 19.8%).



DRAGON QUEST VIII

Games (Online)

The Company plans, develops, distributes and operates online games connected to the network. In September 2004, the expansion pack "FINAL FANTASY XI: Chains of Promathia" was released in Japan and North America, while online game service "PlayOnline" and "FINAL FANTASY XI" ("FFXI") were launched in Europe.

Business Segment Information Fiscal year ended March 31, 2005

Millions of yen

	Games (Offline)	Games (Online)	Mobile Phone Content	Publication	Others	Elimination or corporate	**Consolidated total**
Net sales	41,944	13,853	4,557	10,859	2,649	—	73,864
Operating income	19,649	4,986	1,738	3,411	782	(4,131)	26,438
Operating income margin	46.8%	36.0%	38.1%	31.4%	29.5%	—	35.8%

The number of "FFXI" subscribers has been increasing at a steady pace since its launch in Japan (May 2002) and North America (Oct. 2003), reaching approximately 500,000. "FFXI" has now grown to be one of the top MMORPGs (Massively Multi-player Online RPGs) in the world. Game servers for the service are concentrated in Japan, and since access peak times differ from one continent to another, the operation efficiency has increased significantly as service areas have expanded. In addition, sales are steadily growing for "Cross Gate," an MMORPG developed specifically for the Asian market, and the title has acquired a top-tier position in terms of membership in the Chinese online gaming market.

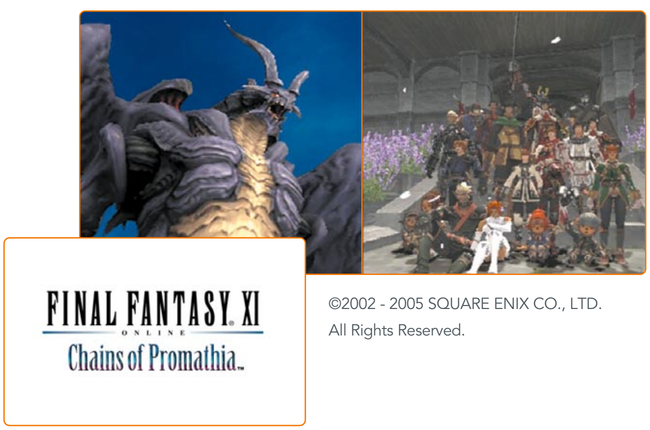
Consequently, net sales in the Games (Online) segment totaled ¥13 billion (up 55.2%), and operating income was ¥4 billion (up 112.4%).

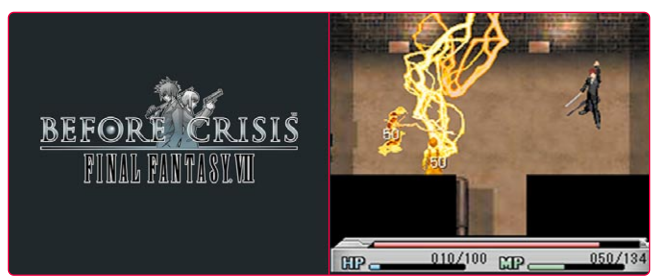
Mobile Phone Content

The Company plans, develops and provides content such as ring tones, wallpapers, games and portals for mobile phones.

We have been deploying our original content making the best use of its strength through providing a mobile network game, "BEFORE CRISIS -FINAL FANTASY VII-," which takes advantage of network and digital camera functions, a full-port version of "FINAL FANTASY II," an RPG for Nintendo Family Computer, and a mobile simulation game, "FRONT MISSION 2089." Furthermore, we collaborated in creating an interface for "EZ Game Street!," a game portal service for au-brand mobile phones. In addition, an expansion overseas in North America, Europe and Asia has been in progress.

Consequently, net sales in the Mobile Phone Content segment was ¥4 billion (up 63.2%), and operating income amounted to ¥1 billion (up 50.0%).





Consolidated Sales by Geographic Segment Fiscal year ended March 31, 2005

Millions of yen

	Japan	North America	Europe	Asia	Total
Consolidated net sales	59,092	12,295	1,298	1,179	73,864
Percentage of share	80.0%	16.6%	1.8%	1.6%	100.0%

Publication

The Company publishes magazines, comics, serial comics and game strategy books.

Its lineup includes monthly magazines "SHONEN GANGAN," "G FANTASY" and "GANGAN WING," and newly published a comic magazine for young adults, "YOUNG GANGAN."

"Mahoraba," featured in a monthly magazine, came on air as an animated television show during this period. Another television show, "FULLMETAL ALCHEMIST," which came on air in the previous fiscal year, ended September 2004, however, it has retained its popularity, and the Company has published over 15 million copies of its comics. In addition, the Company has published game strategy books for the two big titles "DRAGON QUEST V" and "DRAGON QUEST VIII."

Consequently, net sales in the Publication segment totaled ¥10 billion (up 12.3%), and operating income was ¥3 billion (up 7.3%).

Others

The Others segment covers the planning, production, distribution and licensing of SQUARE ENIX titles' derivative products.

The Company sells toys and merchandise for a wide range of ages, such as merchandise related to "DRAGON QUEST", pencils named "BATO-EN" and character goods related to "FINAL FANTASY," "Kingdom Hearts" and "FULLMETAL ALCHEMIST." The Company also sells and licenses music CDs as the soundtracks.

Net sales in the Others segment amounted to ¥2 billion (down 30.7%), and operating income totaled ¥0.7 billion (down 23.8%).

Corporate Governance

1. Basic Perspectives on Corporate Governance

The Company has adopted a statutory auditors system. To strengthen monitoring functions and ensure sound management, half of the statutory auditors are from outside. Also, in line with company standards and guidelines on decision authority, the Board of Directors, which focuses on enterprise-level management decisions, and decision-making committees related to business execution are clearly divided. Through these measures the Company is undertaking efforts to optimize and make more efficient managerial decisions and execution of operations.

2. Implemented Measures

(1) Management and other corporate governance systems regarding decision making, execution and monitoring of business operations

The Company has six directors (one outside director) and four statutory auditors (two outside auditors and one standing statutory auditor). The term for directors is one year, same as the company with committees system, and half of the statutory auditors are from outside.

There is also a stand-alone internal audit staff (directly reporting to the president) that communicates with the Board of Auditors and ChuoAoyama PricewaterhouseCoopers, performs a regular check and evaluation of the internal management structure including the Group companies—taking into account priorities and risks—and then reports and offers advice to the president.

The Board of Directors meets at least once a month and enhances mutual checking by vigorous discussions among the directors, including one outside director.

The Board of Auditors also meets at least once a month, and performs account and operation auditing based on audit policies. The auditors also attend the Board of Directors' meetings and audit the exercising of the directors' functions.

Regarding the utilization of outside independent professionals, significant legal issues and events are consulted with several outside counsels as needed. Accounting issues are reviewed by an independent audit firm, ChuoAoyama PricewaterhouseCoopers, under the Commercial Code of Japan and the Securities and Exchange Law.

In this fiscal year, certified public accountants in charge are as follows.

- Certified Public Accountants
  Partner staff: Nobuyoshi Yuasa, Yasuhisa Yajima
- Supporting staff
  Certified public accountants: 2, Assistants: 6, Other: 1

Remuneration for Directors and Auditors

Remuneration for directors stood at ¥332 million (including ¥6 million for an outside director).
Compensation for auditors came to ¥28 million (including ¥12 million for outside auditors).
Note: Above amounts include retirement benefits of ¥176 million paid to a retired director in accordance with the resolution of the annual general meeting of shareholders.

Compensation for Independent Audit Firm

The Company has paid compensation of ¥26 million to ChuoAoyama PricewaterhouseCoopers for auditing as defined in the Certified Public Accountants Law Article 2 No. 1.

(2) Personal, financial or business relationships and any conflict of interest between the Company and independent directors/auditors

No items specified.

(3) Enhancement of corporate governance for the last fiscal year

The Company has increased the number of Board members from five to six to strengthen its decision-making capacity to deal with the complicated and intense management tasks. Furthermore, the Company has appointed two directors to head development, accounting and finance, thereby strengthening control over operations.

Directors, Auditors and Executive Officers

Board of Directors

President and Representative Director
Yoichi Wada

Executive Vice President and Director
Keiji Honda

Director
Akitoshi Kawazu

Director
Yosuke Matsuda

Director
Yukinobu Chida

Director *1
Makoto Naruke

Corporate Auditors

Standing Auditor
Hiroshi Nakamura

Auditor
Toshio Maekawa

Auditor *2
Tamotsu Iba

Auditor *2
Norikazu Yahagi

Corporate Executives/ Executive Producers

Yoichi Wada
Keiji Honda
Akitoshi Kawazu
Yosuke Matsuda
Koichi Ishii
Yoshinori Kitase
Yosuke Saito
Koji Taguchi
Hiromichi Tanaka
Tatsuo Tomiyama
Satoshi Nakajima
Ken Narita
Shinji Hashimoto
Masashi Hiramatsu
Yu Miyake
Koji Yamashita

Honorary Chairman

Yasuhiro Fukushima

*1: Outside Director
*2: Outside Auditor

Financial Section

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 hokokusho*). The consolidated financial statements prepared in conformity with accounting principles generally accepted in the United States of America were audited by independent auditors.

Management's Discussion and Analysis of Operating Results and Financial Position (JPNGAAP)

The following is based on the views of SQUARE ENIX CO., LTD. (the "Company"), management as of July 31, 2005, 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. 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.

Revenue Recognition

Sales revenue of the Group are 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.

Allowance for Doubtful Accounts

The Group provides an allowance 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 allowance for doubtful accounts or record bad debt losses.

Content Production Account

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

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 this fiscal year ended March 31, 2005 (this "fiscal year") 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 this fiscal year, the Company recorded a loss from revaluation of investment in securities of ¥80 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.

Deferred Tax Assets

The Group records a valuation allowance to provide for amounts thought likely to decrease in deferred tax assets. In evaluating necessity of valuation allowance, the Company examines future taxable income and possible tax planning for deferred tax assets with a high likelihood for 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 will recognize deferred tax assets to the recoverable amount and increase profits by the same amount during the period the decision is made.

Accounting Method for the Merger

ENIX CORPORATION ("ENIX") and SQUARE CO., LTD. ("SQUARE"), merged on April 1, 2003, to form SQUARE ENIX CO., LTD. The pooling of interests method of accounting was applied to account for the merger. In the merger, the Company issued a total of 51,167,293 shares of common stock, and one share of SQUARE's common stock was exchanged for a 0.85 share of ENIX's common stock. In the merger, the two companies' controls over net assets and operations prior to the merger have been integrated, risks and profits after the merger have been continuously and equally shared, and, therefore, neither of the two companies was recognized as the acquiring company. From these factors, the Company decided to employ the pooling of interests method of accounting.

2. Analysis of Financial Policy, Capital Resources and Liquidity

The Group internally finances working capital and capital investment. As of March 31, 2005, there was no balance of interest-bearing debt. Cash and cash equivalents totaled ¥81,243 million at the end of this fiscal 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 for Fiscal 2005

Total Assets

Years ended March 31 — Millions of yen

2004	**2005**	Change
¥110,633	**¥131,695**	¥21,061

Total assets for fiscal 2005 amounted to ¥131,695 million, an increase of ¥21,061 million compared with the previous fiscal year. The breakdown of this increase is as follows.

Cash and Time Deposits

Years ended March 31 — Millions of yen

2004	**2005**	Change
¥58,676	**¥81,243**	¥22,567

Net cash provided by operating activities totaled ¥24,873 million.

Under cash flows from investing activities, we posted proceeds from redemption of investment securities of ¥2,000 million, comprised of redemption of government bonds. Payments for acquiring property and equipment decreased ¥1,390 million, primarily due to expenses related to the moving of our head office posted in the previous fiscal year. Accordingly, net cash provided by (used in) investing activities increased ¥574 million.

Net cash used in financing activities decreased ¥2,907 million, mainly due to payments for dividends.

Notes and Accounts Receivable

Years ended March 31 — Millions of yen

2004	**2005**	Change
¥12,046	**¥7,670**	¥(4,375)

Notes and accounts receivable changes according to the timing of releases. In fiscal 2005, we did not release any "million-seller" titles. Accordingly, as of March 31, 2005, notes and accounts receivable came to ¥7,670 million, a decrease of ¥4,375 million.

Content Production Account

Years ended March 31 — Millions of yen

2004	**2005**	Change
¥10,128	**¥15,510**	¥5,381

As a rule, content development costs for authorized productions are capitalized in the content production account until release. When the content (title) is released, this amount is then recorded as expenses.

Content development costs for authorized productions are reevaluated based on the current business environment. For those titles that we decided not to release as a part of this reevaluation process, we have posted these as a loss of write-off of content development account or as an extraordinary loss.

Costs during the pre-production phase before production is approved are posted as selling, general and administrative (SG&A) expenses.

As of March 31, 2005, content production account increased ¥5,381 million, to ¥15,510 million, as a result of development underway for several large titles scheduled for release by the end of March 2006.

Deferred Tax Assets

Years ended March 31 — Millions of yen

2004	**2005**	Change
¥1,850	**¥3,440**	¥1,590

As a result of a temporary increase in corporate tax payable, deferred tax assets increased ¥1,590 million.

Intangible Assets

Years ended March 31 — Millions of yen

2004	**2005**	Change
¥7,550	**¥6,096**	¥(1,454)

Intangible assets decreased ¥1,454 million, mainly as a result of ¥1,236 million of goodwill depreciation from the purchase of UIEvolution Inc., in the previous fiscal year.

Investment Securities

Years ended March 31 — Millions of yen

2004	**2005**	Change
¥3,516	**¥1,295**	¥(2,221)

Mainly as a result of the redemption of government bonds, investment securities decreased ¥2,221 million.

Total Liabilities

Years ended March 31			Millions of yen
	2004	**2005**	Change
	¥13,338	**¥22,103**	¥8,764

Primarily due to the temporary difference in valuation allowance of movie assets, etc., assumed from the former SQUARE being dissolved, accrued expenses increased ¥8,681 million. As a result, total liabilities at fiscal 2005 year-end were ¥22,103 million.

As of fiscal 2005 year-end, we had no interest-bearing liabilities.

Shareholders' Equity

Years ended March 31			Millions of yen
	2004	**2005**	Change
Common stock	¥ 7,154	**¥ 7,433**	¥ 278
Capital surplus reserve	36,393	**36,673**	280
Retained earnings	53,931	**65,561**	11,630
Unrealized gain on revaluation of securities	363	**472**	108
Foreign currency translation adjustment	(898)	**(807)**	90
Treasury stock	(245)	**(401)**	(156)
Total shareholders' equity	¥96,700	**¥108,933**	¥12,232

As of fiscal 2005 year-end, total shareholders' equity totaled ¥108,933 million, an increase of ¥12,232 million. The increase in common stock and capital surplus reserve is due to stock options being exercised.

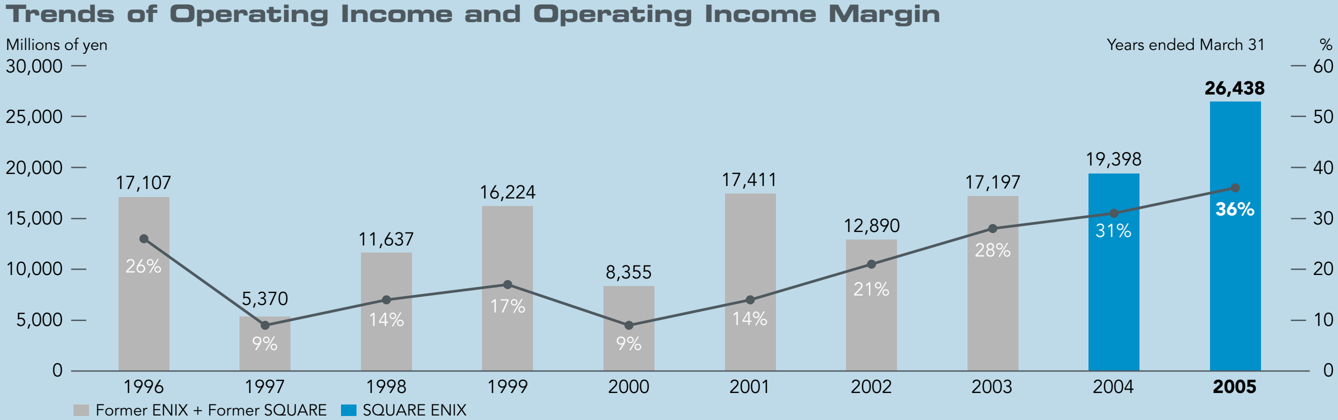
Sales and Operating Income

Years ended March 31 — Millions of yen

	2004	Composition	**2005**	Composition	Change	Percent change
Net sales	¥63,202	100.0%	**¥73,864**	100.0%	¥10,662	16.9%
Gross profit	41,117	65.1	**48,161**	65.2	7,043	17.1
Reversal of allowance for sales returns	1,420	2.2	**1,569**	2.1	149	10.5
Provision for allowance for sales returns	1,569	2.5	**1,316**	1.8	(253)	(16.1)
Net gross profit	40,968	64.8	**48,414**	65.5	7,446	18.1
Selling, general and administrative expenses	21,569	34.1	**21,975**	29.7	406	1.8
Operating income	19,398	30.7	**26,438**	35.8	7,040	36.3

In fiscal 2005, apart from our "Others businesses," we were able to post an increase in both income and profit in all our business segments. In particular, our Games (Online) and Mobile Phone Content business segments, which both have business models based on membership fees, showed large increases. Even in the competitive market environment we have faced during the two years since our merger, we have been able to show results where increases in sales have lead to corresponding increases in our operating profit ratio.

Trends of Operating Income and Operating Income Margin



Notes: 1. The former ENIX did not prepare consolidated financial statements for the period between FY1995 and FY2000. The former ENIX figures for this period are, therefore, disclosed on a non-consolidated basis.
2. Above figures and ratios have been calculated using the simple addition of the former ENIX and the former SQUARE by FY2002.

Non-Operating Income and Expenses

Years ended March 31			Millions of yen
	2004	**2005**	Change
Non-operating income	¥ 440	**¥ 542**	¥ 102
Non-operating expenses	1,590	**1,080**	(510)

In the previous fiscal year, a foreign exchange loss of ¥788 million, and equity in losses of non-consolidated subsidiaries and affiliates of ¥760 million (from the bankruptcy of equity-method affiliate DigiCube Co., Ltd.) were recorded as non-operating expenses.

In fiscal 2005, we posted a foreign exchange gain of ¥296 million under non-operating income, and a loss on write-off of content development account of ¥983 million under non-operating expenses. Mainly as a result of these factors, non-operating income increased ¥102 million, to ¥542 million, and non-operating expenses decreased ¥510 million, to ¥1,080 million.

Extraordinary Gain and Loss

Years ended March 31			Millions of yen
	2004	**2005**	Change
Extraordinary gain	¥300	**¥118**	¥(182)
Extraordinary loss	907	**443**	(464)

As a result in changes in the gain on sales of shares, extraordinary gain decreased ¥182 million, to ¥118 million.

Evaluation loss on shares held in affiliates and loss on disposal/sales of property and equipment decreased, and as a result extraordinary loss decreased ¥464 million, to ¥443 million. The goodwill of ¥145 million is the amortization of the balance of the three-year equal amortization goodwill from the planned dissolution in December 2005 of our original subsidiary in China, SQUARE ENIX WEBSTAR NETWORK TECHNOLOGY (BEIJING) CO., LTD. (60% stake), in line with the establishment of our 100% subsidiary SQUARE ENIX (China) CO., LTD., as our new base in China and Asia.

Dividends

The Company decided to pay out an annual dividend of ¥60 for the year ended March 31, 2005, including a special 25th anniversary dividend of ¥30, which was approved at our annual stockholders' meeting held on June 18, 2005. Accordingly, the unconsolidated dividend payout ratio for fiscal 2005 is 48.8%.

Capital Investment and Depreciation

Years ended March 31			Millions of yen
	2004	**2005**	Change
Capital expenditures	¥2,704	**¥1,523**	¥(1,181)
Depreciation	1,974	**1,814**	(160)

(The above figures for depreciation in the years ended March 31, 2005 do not include the goodwill. Under the goodwill, depreciation for the dollar-based goodwill of ¥1,236 million, resulting from the March 2004 purchase of UIEvolution Inc., was recorded. This period is the first period of depreciation, and depreciation will be carried out on a straight-line basis over a period of five years.)

Total capital expenditures for fiscal 2005 was ¥1,523 million, a decrease of ¥1,181 million. This is mainly due to extra capital expenditures recorded in the previous fiscal year as a result of our head office moving after the merger.

Overseas Sales

(North America)

Years ended March 31		Millions of yen
2004	**2005**	Change
¥15,618	**¥12,295**	¥(3,323)

In North America, our online service FINAL FANTASY XI, which began in the previous fiscal year, made a large contribution to sales. We were unable, however, to release any million-seller titles in the game industry. Accordingly, sales in North America decreased ¥3,323 million, to ¥12,295 million.

(Europe)

Years ended March 31		Millions of yen
2004	**2005**	Change
¥2,121	**¥1,298**	¥(823)

In Europe, we entered the online game and mobile phone content markets. In September 2004, we started FINAL FANTASY XI—Chains of Promathia into the online game market under our own brand at the same time as in the United States and Japan. However, as in the United States, we were unable to release any major titles.

Sales in Europe declined ¥823 million, to ¥1,298 million.

(Asia and Others)

Years ended March 31			Millions of yen
	2004	**2005**	Change
	¥972	**¥1,179**	¥207

In Asia and other regions, we established 100% subsidiary SQUARE ENIX (China) CO., LTD., as our base of operations in China and Asia, and are working to strengthen our operating capability. Accordingly, we will plan to dissolve our current subsidiary in China, SQUARE ENIX WEBSTAR NETWORK TECHNOLOGY (BEIJING) CO., LTD., as of December 2005. Until the dissolution of this subsidiary, we will transfer our online games, such as Crossgate, to the new firm and continue operations.

Sales in Asia and Others increased ¥207 million, to ¥1,179 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 multi-functional terminals will enable users easy access to various types of content. It is the Group's medium- and long-term strategy to respond to such changes and to open a new era of digital entertainment.

In such a period of transformation, the Group will continue to deal with such strategic tasks as an appropriate management of network communities, the deployment of "Polymorphic Content" based on diversified methods of expression and the formation of new platforms for various content.

The Company has announced its fiscal 2006 targets as below.

Years ended March 31			Millions of yen
	2004 Results	2005 Results	2006 Targets
Net sales	¥63,202	¥73,864	¥90,000
Operating income	19,398	26,438	27,000
Ordinary income	18,248	25,901	27,000
Net income	10,993	14,932	15,500

The Company perceives that the realization of growth while maintaining profitability is a fundamental management task. We set the target operation profit ratio at a range between 25% and 30% (JPNGAAP) as we sustain the investments necessary for growth. While maintaining our profit target level on an overall basis, we have planned up-front investment for the expansion of our network-related businesses overseas, and the releasing of new titles.

5. Dividend Policy

It is one of the Company's most important management policies to return profit to our 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. Regarding returning profit to shareholders as important, retained earnings are also to be expended for dividends, and we will maintain continuous and stable dividend payouts.

6. Risk Factors

■Changes to the Economic Environment

A marked downturn in the economic situation that would cause consumers to reduce spending could lead to a decrease in demand for our firms' products and services in the entertainment field, and there is a possibility that this could affect the Group's performance.

■Ability to Adapt to Changes

If the Company cannot adapt appropriately and timely to changes in customer preferences in the digital contents market and rapid technical advances (mentioned in Strategic Outlook, Issues Facing Management and Future Direction), then there is a possibility that this could affect the Group's performance.

■New Platforms

There is a possibility that our Group, in particularly our home-use game software business may be affected by the release of new platforms (game consoles) and manufacturers' strategies. When new platforms are about to be released, there is a tendency for consumers to avoid purchasing new games, and there is a possibility that the accompanying reduction in sales could affect the Group's performance.

■Securing Personnel

The Group continues to grow its business at a rapid rate and achieve growth. If we are not able to appropriately and timely develop the personnel required to carry out the Company's growth strategy—centered around developing new contents and services as well as expansion overseas—then there is a possibility that this could affect the Group's performance.

■International Business Expansion

In Games (Offline), Games (Online) and Mobile Phone Content business segments, the Group is expanding its business internationally. However, there is a possibility that the market trends, political/economic situation, laws, culture, religion and customs, etc., of these countries could affect the Group's performance.

■Exchange Rate Risk

The Company has established overseas consolidated subsidiaries in the United States, Europe and China. Local currency that these subsidiaries have earned is mainly used for settlements in that country or turned to local investment, and actual exchange rate risk is reduced. However, sales, costs and assets, etc., for overseas consolidated subsidiaries operating in foreign currencies are converted to yen when preparing consolidated financial statements. If the exchange rate at time of conversion has moved out of the expected band, then there is a possibility that this could affect the Group's performance.

■Sales of Used Game Software

When our games are sold as used items, no profit is returned to us. Accordingly, if the market for used games increases this may lead to a decrease in sales of our games, and there is a possibility that this could affect the Group's performance.

Consolidated Balance Sheets (JPNGAAP)

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

	Millions of yen	
	2005	2004
Assets		
I Current assets		
1. Cash and deposits	**¥ 81,243**	¥ 58,676
2. Notes and accounts receivable	**7,670**	12,046
3. Inventories	**1,112**	809
4. Content production account	**15,510**	10,128
5. Deferred tax assets	**3,440**	1,850
6. Other current assets	**1,337**	1,157
Allowance for doubtful accounts	**(262)**	(227)
Total current assets	**110,053**	84,441
II Non-current assets		
1. Property and equipment		
(1) Buildings and structures	**3,667**	3,445
Accumulated depreciation	**1,525**	1,250
	2,142	2,195
(2) Tools and fixtures	**9,116**	8,445
Accumulated depreciation	**6,162**	5,367
	2,954	3,077
(3) Other	**16**	7
Accumulated depreciation	**8**	7
	7	0
(4) Land	**3,813**	3,813
Total property and equipment	**8,918**	9,087
2. Intangible assets		
(1) Goodwill	**4,934**	—
(2) Other	**1,161**	7,550
Total intangible assets	**6,096**	7,550
3. Investments and other assets		
(1) Investment securities*[1]	**1,295**	3,516
(2) Long-term loans	**9**	4
(3) Rental deposits	**2,863**	2,864
(4) Deferred tax assets	**1,768**	2,665
(5) Other*[1]	**689**	502
Total investments and other assets	**6,626**	9,554
Total non-current assets	**21,641**	26,192
Total assets	**¥131,695**	¥110,633

The accompanying notes are an integral part of these statements.

	2005	2004
		Millions of yen
Liabilities		
I Current liabilities		
1. Notes and accounts payable	**¥ 2,241**	¥ 3,205
2. Long-term borrowings due within one year	**—**	18
3. Other accounts payable	**1,190**	1,020
4. Accrued expenses	**1,662**	1,551
5. Accrued corporate taxes	**9,994**	1,313
6. Accrued consumption taxes	**1,022**	408
7. Advance payments received	**896**	697
8. Deposits received	**385**	354
9. Reserve for bonuses	**1,021**	1,239
10. Allowance for sales returns	**1,316**	1,569
11. Other	**1,057**	807
Total current liabilities	**20,790**	12,185
II Non-current liabilities		
1. Allowance for retirement benefits	**1,173**	978
2. Allowance for directors' retirement benefits	**55**	110
3. Other	**84**	63
Total non-current liabilities	**1,313**	1,152
Total liabilities	**22,103**	13,338
(Minority interests)		
Minority interests in consolidated subsidiaries	**658**	594
(Shareholders' equity)		
I Common stock*2	**7,433**	7,154
II Capital surplus reserve	**36,673**	36,393
III Retained earnings	**65,561**	53,931
IV Unrealized gain on revaluation of other investment securities	**472**	363
V Foreign currency translation adjustment	**(807)**	(898)
VI Treasury stock*3	**(401)**	(245)
Total shareholders' equity	**108,933**	96,700
Total liabilities, minority interests and shareholders' equity	**¥131,695**	¥110,633

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

		2005	2004
I	Net sales	**¥73,864**	¥63,202
II	Cost of sales	**25,703**	22,084
	Gross profit	**48,161**	41,117
	Reversal of allowance for sales returns	**1,569**	1,420
	Provision for allowance for sales returns	**1,316**	1,569
	Net gross profit	**48,414**	40,968
III	Selling, general and administrative expenses*[1]	**21,975**	21,569
	1. Packaging freight charge	**634**	545
	2. Advertising expense	**5,346**	5,119
	3. Sales promotion expense	**109**	660
	4. Provision for doubtful accounts	**77**	332
	5. Compensation for directors	**233**	231
	6. Salary	**4,251**	3,887
	7. Provision to reserve for bonuses	**418**	1,130
	8. Net periodic pension costs	**107**	491
	9. Provision to reserve for directors' retirement benefits	**121**	6
	10. Welfare expense	**753**	698
	11. Rental expense	**1,033**	955
	12. Commissions paid	**2,667**	3,023
	13. Depreciation and amortization	**1,141**	1,179
	14. Other	**5,079**	3,307
	Operating income	**26,438**	19,398
IV	Non-operating income	**542**	440
	1. Interest income	**72**	67
	2. Dividends received	**4**	78
	3. Foreign exchange gain	**296**	—
	4. Rental income	**30**	0
	5. Miscellaneous income	**138**	294
V	Non-operating expenses	**1,080**	1,590
	1. Interest expenses	**2**	7
	2. Foreign exchange loss	**—**	788
	3. Stock issuance expense	**—**	8
	4. Loss on disposal of inventories	**3**	—
	5. Loss on write-off of content development account	**983**	—
	6. Equity on losses of non-consolidated subsidiaries and affiliates	**—**	760
	7. Miscellaneous loss	**90**	25
	Recurring income	**25,901**	18,248
VI	Extraordinary gain	**118**	300
	1. Gain on sale of property and equipment*[2]	**0**	—
	2. Gain on sale of investment securities	**106**	59
	3. Gain on sale of shares in affiliates	**—**	240
	4. Reversal of allowance for doubtful accounts	**11**	—
VII	Extraordinary loss	**443**	907
	1. Loss on sale of property and equipment*[3]	**2**	123
	2. Loss on disposal of property and equipment*[4]	**50**	198
	3. Evaluation loss on shares held in affiliates	**145**	125
	4. Loss on evaluation of investment securities*[5]	**80**	375
	5. Loss on sale of investment securities	**2**	84
	6. Accelerated amortization of goodwill	**145**	—
	7. Other	**16**	—
	Income before income taxes and distribution of loss in partnership (*tokumei-kumiai*)	**25,576**	17,640
	Distribution of loss in partnership (*tokumei-kumiai*)	**20**	24
	Income before income taxes	**25,556**	17,616
	Corporate, resident and enterprise taxes	**11,267**	3,600
	Deferred income taxes	**(760)**	2,962
	Minority interest in consolidated subsidiaries	**116**	59
	Net income	**¥14,932**	¥10,993

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	
	2005	2004
(Capital surplus)		
I Capital surplus at beginning of year	**¥36,393**	¥ 9,383
II Increase in capital surplus	**280**	27,010
1. Increase due to merger	**—**	26,792
2. Gain on disposal of treasury stock	**1**	4
3. Shares issued through stock options	**278**	213
III Capital surplus at end of year	**36,673**	36,393
(Retained earnings)		
I Retained earnings at beginning of year	**53,931**	33,341
II Increase in retained earnings	**14,932**	22,569
1. Net income	**14,932**	10,993
2. Increase due to merger	**—**	11,524
3. Increase due to increase in consolidated subsidiaries	**—**	16
4. Increase due to decrease in consolidated subsidiaries	**—**	36
III Decrease in retained earnings	**3,302**	1,979
1. Dividends	**3,301**	1,979
2. Bonus for directors	**0**	—
IV Retained earnings at end of year	**¥65,561**	¥53,931

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

	Millions of yen	
	2005	2004
I Cash flows from operating activities		
Income before income taxes	**¥25,556**	¥17,616
Depreciation and amortization	**1,814**	1,974
Increase (decrease) in allowance for doubtful accounts	**31**	224
(Decrease) increase in reserve for bonuses	**(218)**	688
Decrease in allowance for sales returns	**(267)**	(105)
Increase in allowance for retirement benefits	**195**	576
Decrease in allowance for directors' retirement benefits	**(54)**	(26)
Decrease in reserve for office relocation costs	**—**	(589)
Interest and dividends received	**(76)**	(145)
Interest expenses	**2**	7
Gain on sale of investment securities	**(106)**	(59)
Loss on sale of investment securities	**2**	84
Losses on investments in securities	**80**	375
Gain on sale of shares held in affiliates	**—**	(240)
Evaluation loss on shares held in affiliates	**145**	125
Loss on disposal of property and equipment	**50**	198
Gain on sales of property and equipment	**(0)**	—
Loss on sales of property and equipment	**2**	123
Decrease in accounts receivable	**4,319**	4,852
Increase in inventories	**(5,618)**	(6,745)
Decrease in purchase liabilities	**(953)**	(507)
Increase (decrease) in accrued consumption taxes	**614**	(104)
Decrease (increase) in other current assets	**(94)**	250
Decrease (increase) in other fixed assets	**(198)**	299
Increase (decrease) in other current liabilities	**701**	(2,014)
Directors' bonuses paid	**(0)**	—
Other	**1,632**	1,958
Subtotal	**27,559**	18,818
Interest and dividends received	**83**	126
Interest paid	**(0)**	(11)
Income taxes paid	**(2,768)**	(4,794)
Net cash provided by operating activities	**24,873**	14,139

The accompanying notes are an integral part of these statements.

	2005	2004
		Millions of yen
II Cash flows from investing activities		
Payments for acquiring property and equipment	**(1,318)**	(2,709)
Payments for acquiring intangible assets	**(362)**	(416)
Proceeds from redemption of investment securities	**2,000**	—
Payments for acquisition of shares in affiliates	**(27)**	(6,461)
Proceeds from sale of shares in affiliates	**—**	423
Proceeds from liquidation of shares in affiliates	**34**	—
Proceeds from return of guarantee money paid	**104**	407
Payments for provision of guarantee money paid	**(101)**	(1,843)
Other	**245**	20
Net cash provided by (used in) investing activities	**574**	(10,579)
III Cash flows from financing activities		
Decrease in short-term borrowings	**—**	(1,000)
Payments for acquisition of treasury stock	**(154)**	(147)
Payments for dividends	**(3,300)**	(1,955)
Payments for dividends for minority interests	**(2)**	(2)
Payments for merger negotiation fees	**—**	(4,153)
Payments for partnership distributions	**—**	(616)
Other	**549**	1,135
Net cash used in financing activities	**(2,907)**	(6,739)
IV Effect of exchange rate changes on cash and cash equivalents	**27**	(984)
V Net increase (decrease) in cash and cash equivalents	**22,567**	(4,164)
VI Cash and cash equivalents at beginning of year	**58,676**	39,847
VII Increase in cash and cash equivalents due to merger	**—**	22,632
VIII Increase in cash and cash equivalents due to increase in consolidated subsidiaries	**—**	484
IX Decrease in cash and cash equivalents due to decrease in consolidated subsidiaries	**—**	(123)
X Cash and cash equivalents at end of year*[1]	**¥81,243**	¥58,676

The accompanying notes are an integral part of these statements.

Notes to Consolidated Financial Statements (JPNGAAP)

SQUARE ENIX CO., LTD. and Consolidated Subsidiaries

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

1. Scope of Consolidation

• FY2003 (April 1, 2003 to March 31, 2004)

(1) Number of consolidated subsidiaries:
10 and one partnership
DIGITAL ENTERTAINMENT ACADEMY CO., LTD.
COMMUNITY ENGINE INC.
THE GAME DESIGNERS STUDIO, INC.
SQUARE ENIX U.S.A., INC.
SQUARE L.L.C.
SQUARE PICTURES, INC.
SQUARE ENIX EUROPE LTD.
SQUARE ENIX WEBSTAR NETWORK TECHNOLOGY (BEIJING) CO., LTD.
COMMUNITY ENGINE NETWORK SOFTWARE (BEIJING) CO., LTD.
UIEVOLUTION, INC.
FF·FILM PARTNERS (partnership)

COMMUNITY ENGINE NETWORK SOFTWARE (BEIJING) CO., LTD., and UIEVOLUTION, INC., were newly acquired during FY2004.

Due to the increasing importance of their business activities, COMMUNITY ENGINE INC. and SQUARE ENIX WEBSTAR NETWORK TECHNOLOGY (BEIJING) CO., LTD., have been included in the Company's scope of consolidation from this fiscal year. THE GAME DESIGNERS STUDIO, INC., SQUARE L.L.C., SQUARE PICTURES, INC., SQUARE ENIX EUROPE LTD. and FF FILM PARTNERS (partnership) have been included in the Company's scope of consolidation from this fiscal year due to the merger with SQUARE CO., LTD.

In addition, proceedings to liquidate ENIX AMERICA INC. were completed during this fiscal year.

(2) Non-consolidated subsidiaries
BMF CORPORATION
SPORTS BB CORPORATION
SOLID CO., LTD.

Proceedings are currently in progress to liquidate SPORTS BB CORP. following a resolution at the annual general meeting of stockholders held on March 15, 2004.

(Rationale for the exclusion of subsidiary companies from the scope of consolidation)
Non-consolidated subsidiaries conduct operations that are relatively small in scale. The total of 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.

• FY2004 (April 1, 2004 to March 31, 2005)

(1) Number of consolidated subsidiaries:
11 and one partnership
DIGITAL ENTERTAINMENT ACADEMY CO., LTD.
COMMUNITY ENGINE INC.
THE GAME DESIGNERS STUDIO, 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)

SQUARE ENIX (China) CO., LTD., was established in January 2005 and has been included in the Company's scope of consolidation from this fiscal year.

(2) Non-consolidated subsidiaries
BMF CORPORATION
SOLID CO., LTD.

SPORTS BB CORPORATION was liquidated during this fiscal year.

(Rationale for the exclusion of subsidiary companies from the scope of consolidation)
Same as FY2003

2. Application of the Equity Method of Accounting

• FY2003 (April 1, 2003 to March 31, 2004)

Number of equity-method non-consolidated subsidiaries: 1
DIGICUBE CO., LTD.

On November 26, 2003, the Company's affiliate, DIGICUBE CO., LTD., filed for bankruptcy with the Tokyo District Court. As a result of the declaration of bankruptcy, the firm was delisted from the Hercules Nippon New Market of the Osaka Securities Exchange on December 13, 2003.

Principal non-consolidated subsidiaries not accounted for by the equity method (BMF CORPORATION, SPORTS BB CORPORATION, SOLID CO., LTD., SQUARE U.S.A., INC.) and an affiliated company (KUSANAGI INC.) are excluded from the scope of consolidation as equity-method affiliates, as the Company's equity in net income (loss) and equity in retained earnings (deficit) in these companies are deemed to have immaterial effect on the Company's consolidated financial statements. In addition, as the Company's investment in MAG GARDEN CORP. is deemed to be temporary, it has been excluded from the scope of consolidation as an equity-method affiliate.

• FY2004 (April 1, 2004 to March 31, 2005)

Number of equity-method non-consolidated subsidiaries and affiliates: 0

Principal non-consolidated subsidiaries not accounted for under the equity method (BMF CORPORATION, SOLID CO., LTD., SQUARE U.S.A., INC.) and an affiliated company (KUSANAGI INC.) are excluded from the scope of consolidation as equity-method affiliates, as the Company's equity in net income (loss) and equity in retained earnings (deficit) in these companies are deemed to have immaterial effect on the Company's consolidated financial statements. In addition, as the Company's investment in MAG GARDEN CORP. is deemed to be temporary, it has been excluded from the scope of consolidation as an equity-method affiliate.

3. Fiscal Year-End of Consolidated Subsidiaries

• FY2003 (April 1, 2003 to March 31, 2004)

The fiscal year of SQUARE ENIX WEBSTAR NETWORK TECHNOLOGY (BEIJING) CO., LTD., COMMUNITY ENGINE NETWORK SOFTWARE (BEIJING) CO., LTD., SQUARE PICTURES, INC., and FF·FILM PARTNERS (partnership) ends 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 date of March 31 are reconciled for consolidation.

• FY2004 (April 1, 2004 to March 31, 2005)

The fiscal year of SQUARE ENIX WEBSTAR NETWORK TECHNOLOGY (BEIJING) CO., LTD., COMMUNITY ENGINE NETWORK SOFTWARE (BEIJING) CO., LTD., SQUARE ENIX (China) CO., LTD., SQUARE PICTURES, INC., and FF·FILM PARTNERS (partnership) ends 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 date of March 31 are reconciled for consolidation.

4. Summary of Significant Accounting Policies

(1) Standards and valuation methods for major assets

• FY2003 (April 1, 2003 to March 31, 2004)

A) Investment securities
   Held-to-maturity securities:
      Amortized cost method, amortized on a straight-line basis
   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 shareholders' equity at a net-of-tax amount, and the 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
   Content production account:
      Stated at cost, determined by the identified cost method
   Unfinished goods:
      Stated at cost, determined by the monthly average method
   Supplies:
      Stated at the last purchase price

• FY2004 (April 1, 2004 to March 31, 2005)

A) Investment securities
   Held-to-maturity securities:
      Same as FY2003
   Other investment securities
      Securities for which fair values are available:
         Same as FY2003
      Securities for which fair values are unavailable:
         Same as FY2003

B) Inventories
Manufactured goods, merchandise:
Same as FY 2003
Content production account:
Same as FY2003
Unfinished goods:
Same as FY2003
Supplies:
Same as FY2003

(2) Method for depreciation and amortization of major assets

• FY2003 (April 1, 2003 to March 31, 2004)

A) Property and equipment
Property and equipment of the Company and its domestic consolidated subsidiaries are depreciated using the declining-balance method.
Estimated useful lives of major assets are as follows:

Buildings and structures	3–50 years
Tools and fixtures	3–20 years

(Change in accounting policy)
Previously, assets with a purchase price greater than or equal to ¥100,000 and less than ¥200,000 were depreciated on a straight-line basis over a period of three years. To unify the accounting policy as a result of the merger and to further strengthen the financial position, from this fiscal year acquired assets that are deemed to have an immaterial impact on the Company's consolidated financial position are expensed at the time of purchase. The result of this change on the Company's consolidated operating income, recurring income and income before taxes for the fiscal year ended March 31, 2004 is considered immaterial.

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. For all other intangible fixed assets, 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.

• FY2004 (April 1, 2004 to March 31, 2005)

A) Property and equipment
Property and equipment of the Company and its domestic consolidated subsidiaries are depreciated using the declining-balance method.
Estimated useful lives of major assets are as follows:

Buildings and structures	3–50 years
Tools and fixtures	3–15 years

B) Intangible assets
Same as FY2003

(3) Accounting for allowances and reserves

• FY2003 (April 1, 2003 to March 31, 2004)

A) Allowance for doubtful accounts
An allowance for doubtful accounts provides for possible losses arising from default 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 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 next year in which they arise. In addition, the Company and its domestic consolidated subsidiaries provide a reserve for retirement benefits equal to 100% of such benefits the Company and its 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.

(Additional Information)
Until the previous fiscal year, the Company had provided a reserve for retirement benefits equal to 100% of such benefits the Company would be required to pay if all eligible employees were to voluntarily terminate their employment at the balance sheet date. Effective from the current fiscal year, as the number of Company employees exceeded 300 due to the merger with SQUARE, the Company changed its accounting policy for reserve for retirement benefits to the method described above.

As a result of this change, retirement expense increased ¥437 million, and recurring profit and income before income taxes each decreased ¥416 million.

Moreover, this change in accounting method was adopted in the second half of the fiscal year under review due to the merger with SQUARE and the increase in the Company's number of employees above 300. Reserve for retirement benefits for the first half were calculated using the previous method. Adjusting first-half accounts to reflect the change in accounting method, recurring profit and income before income taxes would increase ¥393 million.

D) Allowance for sales returns
An allowance is provided for losses due to the return of published materials, at an amount calculated based on historic experience, prior to this fiscal year. In addition, allowance is provided for losses due to the return of game software, at an estimated amount of future losses assessed by each game title.

E) 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.

• FY2004 (April 1, 2004 to March 31, 2005)

A) Allowance for doubtful accounts
Same as FY2003

B) Reserve for bonuses
Same as FY2003

C) Allowance for retirement benefits
An allowance for retirement benefits is provided at the amount incurred during this period, which is based on the estimated present value of the projected benefit obligation. Unrecognized actuarial differences are fully amortized in the next fiscal year in which they arise. Unrecognized prior service cost is amortized over a certain year (one year) with in the average remaining service period of the employees. In addition, the Company and its domestic consolidated subsidiaries provide a reserve for retirement benefits equal to 100% of such benefits the Company and its 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.

D) Allowance for sales returns
Same as FY2003

E) Allowance for directors' retirement benefits
Same as FY2003

(4) Translation of foreign currency transactions and accounts

• FY2003 (April 1, 2003 to March 31, 2004)

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 rate. The resulting translation gains or losses are charged or credited to income. All monetary assets and liabilities of overseas subsidiaries are translated as of the balance sheet year-end rate, 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 adjustment."

• FY2004 (April 1, 2004 to March 31, 2005)

Same as FY2003

(5) Accounting for leases

• FY2003 (April 1, 2003 to March 31, 2004)

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.

• FY2004 (April 1, 2004 to March 31, 2005)

Same as FY2003

(6) Accounting for deferred assets

• FY2003 (April 1, 2003 to March 31, 2004)

A) Stock issuance expenses
Costs associated with issuance of common shares are expensed as incurred.

• FY2004 (April 1, 2004 to March 31, 2005)

A) Stock issuance expenses
Same as FY2003

(7) Additional accounting policies used to prepare consolidated financial statements

• FY2003 (April 1, 2003 to March 31, 2004)

A) Accounting treatment of consumption tax
Income statement items are presented exclusive of consumption tax.

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.

• FY2004 (April 1, 2004 to March 31, 2005)

A) Accounting treatment of consumption tax
Same as FY2003

B) Accounting treatment of overseas subsidiaries
Same as FY2003

5. Valuation of Assets and Liabilities of Consolidated Subsidiaries

• FY2003 (April 1, 2003 to March 31, 2004)

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

• FY2004 (April 1, 2004 to March 31, 2005)

Same as FY2003

6. Amortization of Goodwill

• FY2003 (April 1, 2003 to March 31, 2004)

Goodwill is amortized over a period of 3 years on a straight-line basis.

• FY2004 (April 1, 2004 to March 31, 2005)

Goodwill is amortized over a period of 3–5 years on a straight-line basis.

7. Appropriation of Retained Earnings

• FY2003 (April 1, 2003 to March 31, 2004)

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

• FY2004 (April 1, 2004 to March 31, 2005)

Same as FY2003

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

• FY2003 (April 1, 2003 to March 31, 2004)

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.

• FY2004 (April 1, 2004 to March 31, 2005)

Same as FY2003

Reclassifications

• FY2003 (April 1, 2003 to March 31, 2004)

Not applicable

• FY2004 (April 1, 2004 to March 31, 2005)

(Consolidated Balance Sheets)
"Goodwill," which was included in "Intangible assets" in the previous year, is presented separately in the current year as the amount became material. In the previous year, "Goodwill" included in "Intangible assets" was ¥6,361 million.

Additional Information

• FY2003 (April 1, 2003 to March 31, 2004)

(Accounting treatment for costs related to the planning and development of game content paid to third parties)
Until the fiscal year ended March 31, 2003, the Company expensed the costs related to the planning and development of game content when paid to a third party. Effective from the fiscal year ended March 31, 2004, as a result of efforts to strengthen the decision-making process in connection to the development of game software and to implement more stringent selection criteria, such costs incurred during the development stage are capitalized as "Content production account" and charged to cost of sales at the time of sale of related game products. For the fiscal year ended March 31, 2004, "Content production account" included such capitalized costs in the amount of ¥3,763 million.

(Accounting for business combination)
On April 1, 2003, ENIX CORPORATION and SQUARE CO., LTD., merged and formed SQUARE ENIX CO., LTD. The merger was effected through the issue of 51,167,293 common shares and allocated on the basis of one SQUARE CO., LTD., common share for every 0.85 ENIX CORPORATION common shares. The merger was consummated on an equal footing by combining the entire control over net assets and management activities prior to the merger, and sharing both the post-merger benefits and risks equally. In addition, it was not possible to determine which entity was the acquirer. Therefore, this business combination was accounted for under the pooling-of interests method.

Details of post-merger assets and liabilities are provided as follows.

* Assets and Liabilities Transferred from SQUARE CO., LTD., due to the Merger

Category	Millions of yen
Assets	
Current assets	¥36,490
Cash and deposits	16,931
Accounts receivable–trade	11,438
Finished goods	45
Merchandise	11
Content production account	3,402
Suppliers	77
Prepaid expenses	375
Accounts receivable–other	483
Income taxes receivable	537
Deferred tax assets	2,980
Other current assets	217
Allowance for doubtful accounts	(10)
Fixed assets	¥14,370
Property and equipment	3,759
Buildings and structures	621
Tools and fixtures	2,663
Land	421
Construction in progress	53
Intangible assets	1,027
Goodwill	250
Trademarks	45
Telephone rights	6
Software	636
Software production account	88
Investments and other assets	9,584
Investment securities	1,345
Investment in subsidiaries	3,376
Long-term loans receivable	4
Long-term prepaid expenses	5
Investment in consortiums	560
Leasehold deposits	590
Deferred tax assets	3,383
Other investments	316
Allowance for doubtful accounts	(0)
Total assets	¥50,860
Liabilities	
Current liabilities	¥13,489
Accounts payable–trade	1,717
Current portion of long-term debt	22
Accounts payable–other	2,808
Payables arising due to merger	4,153
Income taxes payable	4
Consumption tax payable	422
Accrued expenses	1,248
Advances received	594
Deposits received	83
Reserve for bonuses	463
Allowance for sales returns	893
Reserve for office relocation costs	1,074
Other current liabilities	3
Fixed liabilities	¥ 359
Long-term debt	18
Long-term deposits received	39
Reserve for retirement benefits	301
Total liabilities	¥13,848
Net worth	¥37,012

Notes to Consolidated Balance Sheets

• FY2003 (April 1, 2003 to March 31, 2004)

*1 Investment in non-consolidated subsidiaries and affiliates

Investment securities	¥341 million
Investments and other assets	¥4 million

*2 Number of shares of outstanding:

Common stock	110,130,418

*3 Number of shares of treasury stock:

Common stock	99,539

4 Contingent liabilities for guarantees

The Company has issued a revolving guarantee to a maximum limit of US$15 million on behalf of consolidated subsidiary SQUARE ENIX U.S.A., INC., in favor of SONY COMPUTER ENTERTAINMENT AMERICA INC. As of March 31, 2004, the liability outstanding under the guarantee was US$432 thousand (¥45 million).

• FY2004 (April 1, 2004 to March 31, 2005)

*1 Investment in non-consolidated subsidiaries and affiliates

Investment securities	¥151 million
Investments and other assets	¥4 million

*2 Number of shares of outstanding:

Common stock	110,385,543

*3 Number of shares of treasury stock:

Common stock	150,650

4 Contingent liabilities for guarantees

The Company has issued a revolving guarantee to a maximum limit of US$15 million on behalf of consolidated subsidiary SQUARE ENIX INC., in favor of SONY COMPUTER ENTERTAINMENT AMERICA INC. As of March 31, 2005, there is no liability outstanding under the guarantee.

Notes to Consolidated Statements of Income

• FY2003 (April 1, 2003 to March 31, 2004)

*1 Selling, general and administrative expense includes R&D costs of ¥7 million.

*2 Breakdown of gain on sale of property and equipment

———

*3 Breakdown of loss on sale of property and equipment

Tools and fixtures	¥123 million

*4 Breakdown of loss on disposal of property and equipment

Tools and fixtures	¥159 million
Software	39 million
Total	¥198 million

*5 Loss on investment securities is due to the significant decline in market prices of marketable securities.

• FY2004 (April 1, 2004 to March 31, 2005)

*1 ——————

*2 Breakdown of gain on sale of property and equipment

Tools and fixtures	¥0 million

*3 Breakdown of loss on sale of property and equipment

Tools and fixtures	¥2 million

*4 Breakdown of loss on disposal of property and equipment

Tools and fixtures	¥47 million
Software	2 million
Total	¥50 million

*5 Same as FY2003

Notes to Consolidated Statements of Cash Flows

• FY2003 (April 1, 2003 to March 31, 2004)

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

(As of March 31, 2004)

Cash and deposits	¥58,676 million
Cash and cash equivalents	¥58,676 million

• FY2004 (April 1, 2004 to March 31, 2005)

*1 Reconciliation of cash and cash equivalents on consolidated statements of cash flows to the amounts disclosed in the consolidated balance sheet is as follows:

(As of March 31, 2005)

Cash and deposits	¥81,243 million
Cash and cash equivalents	¥81,243 million

Lease Transactions

• FY2003 (April 1, 2003 to March 31, 2004)

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

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

Millions of yen

	Acquisition cost	Accumulated depreciation	Net book value
Tools and fixtures	¥90	¥48	¥41
Total	¥90	¥48	¥41

Note: The acquisition cost payment is an insignificant portion of total property and equipment at the end of the period. Accordingly, the total acquisition cost includes the interest portion.

2. Ending balance of future lease payments

Due within one year	¥16 million
Due after one year	24 million
Total	¥41 million

Note: The total future lease payment at the end of the period is an insignificant portion of total property and equipment at the end of the period. Accordingly, the total future lease payment includes the interest portion.

3. Lease payment and depreciation

Lease expenses payment	¥18 million
Depreciation expense	¥18 million

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

• FY2004 (April 1, 2004 to March 31, 2005)

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

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

Millions of yen

	Acquisition cost	Accumulated depreciation	Net book value
Tools and fixtures	¥74	¥49	¥24
Total	¥74	¥49	¥24

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

2. Ending balance of future lease payments

Due within one year	¥14 million
Due after one year	9 million
Total	¥24 million

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

3. Lease payments and depreciation

Lease payments	¥16 million
Depreciation expense	¥16 million

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

Securities

• FY2003 (April 1, 2003 to March 31, 2004)

1. Held-for-sale securities
Not applicable

2. Held-to-maturity securities with market value

Millions of yen

	Type	Book value	Market value	Unrealized gain (loss)
Securities with market value exceeding book value	(1) Government bonds	¥2,000	¥2,000	¥0
	Subtotal	2,000	2,000	0
Total		¥2,000	¥2,000	¥0

3. Other investment securities with market value

Millions of yen

	Type	Acquisition cost	Market value	Unrealized gain (loss)
Securities with book value exceeding acquisition cost	(1) Stocks	¥179	¥797	¥617
	Subtotal	179	797	617
Securities with acquisition cost exceeding book value	(1) Stocks	¥ 76	¥ 71	¥ (4)
	Subtotal	76	71	(4)
Total		¥256	¥869	¥613

Note: 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 possibility of recovery.

An impairment loss of ¥222 million was incurred in connection with the Company's other marketable securities with market value.

4. Securities sold during the fiscal year (April 1, 2003 to March 31, 2004)

Millions of yen

Amount of sale	Gain on sale	Loss on sale
¥156	¥59	¥84

5. Investment securities whose fair values are not readily determined as of March 31, 2004

Millions of yen

	Book value
(1) Other marketable securities Unlisted securities (excluding OTC securities)	¥165

6. Redemption schedule of other securities with a maturity date on those to be held to maturity
Not applicable

• FY2004 (April 1, 2004 to March 31, 2005)

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	Unrealized gain (loss)
Securities with book value exceeding acquisition cost	(1) Stocks	¥179	¥ 994	¥814
	Subtotal	179	994	814
Securities with acquisition cost exceeding book value	(1) Stocks	¥ 76	¥ 58	¥ (18)
	Subtotal	76	58	(18)
Total		¥256	¥1,052	¥796

Note: 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 possibility of recovery.

4. Securities sold during the fiscal year (April 1, 2004 to March 31, 2005)

Millions of yen

Amount of sale	Gain on sale	Loss on sale
¥248	¥106	¥2

5. Investment securities whose fair values are not readily determined as of March 31, 2005

Millions of yen

	Book value
(1) Other marketable securities Unlisted securities (excluding OTC securities)	¥81

6. Redemption schedule of other securities with a maturity date on those to be held to maturity
Not applicable

Derivative Transactions

• FY2003 (April 1, 2003 to March 31, 2004)

The Group does not engage in derivative transactions.

• FY2004 (April 1, 2004 to March 31, 2005)

1. Condition of transaction

(1) Type of transaction and purpose
The Company does not engage in derivative transactions in principal, however, the Company enters into foreign exchange forward contracts to reduce the effect of fluctuations in foreign currencies.

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

(3) Risks
Foreign exchange forward contracts include the market risk of fluctuations in foreign currencies but in our estimation, the risk of nonperformance is considered to be low as the contracts are entered into with prestigious financial institutions.

(4) Risk Management
Contracts are approved by the representative director and executive director in charge, and the Accounting and Financing Division administer the risk management.

2. Market value of transaction
Not applicable

Retirement Benefits

• FY2003 (April 1, 2003 to March 31, 2004)

1. Overview of retirement benefit plan applied
The Company and its domestic consolidated subsidiaries applied a lump-sum retirement payment plan with regard to its retirement benefit obligation.
The projected benefits are allocated to periods of service on a straight-line basis. The Company's domestic consolidated subsidiaries apply the conventional method in the calculation of 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	¥988
Unrecognized actuarial difference	(10)
Allowance for retirement benefits	¥978

3. Retirement benefit expenses

	Millions of yen
Service cost	¥602
Interest cost	12
Retirement benefit expenses	¥615

4. Assumption used in accounting for retirement benefit obligation

Periodic allocation method for projected benefits	Straight-line basis
Discount rate	1.611%
Years over which net actuarial gains and losses are amortized	1 year

• FY2004 (April 1, 2004 to March 31, 2005)

1. Overview of retirement benefit plan applied
The Company and its domestic consolidated subsidiaries applied a lump-sum retirement payment plan with regard to its retirement benefit obligation.
The projected benefits are allocated to periods of service on a straight-line basis. The Company's domestic consolidated subsidiaries apply the conventional method in the calculation of 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	¥ 969
Unrecognized prior service cost	100
Unrecognized actuarial difference	103
Allowance for retirement benefits	¥1,173

3. Retirement benefit expenses

	Millions of yen
Service cost	¥210
Interest cost	15
Amortization of net actuarial gains and losses	10
Retirement benefit expenses	¥235

4. Assumption used in accounting for retirement benefit obligation

Periodic allocation method for projected benefits	Straight-line basis
Discount rate	1.652%
Years over which prior service costs are amortized	1 year
Years over which net actuarial gains and losses are amortized	1 year

Tax Effect Accounting

• FY2003 (April 1, 2003 to March 31, 2004)

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	¥ 115
Office tax payable	18
Accrues bonuses, allowance for bonuses to employees	500
Advances paid	252
Accrued expenses	309
Allowance for sales return	466
Prepaid expenses	205
Non-deductible portion of allowance for doubtful accounts	86
Tax credits	118
Non-deductible portion of allowance for content production account	(258)
Other	35
Total	1,850
2) Non-current assets	
Non-deductible portion of allowance for retirement benefits	392
Allowance for directors' retirement benefits	53
Non-deductible depreciation expense of property and equipment	684
Advance payments	552
Tax effect on deficit of subsidiaries	666
Loss on investments in securities	472
Other	91
Offset to deferred tax assets (non-current assets)	(249)
Total	2,665
Net deferred tax assets	4,515
Deferred tax liabilities	
Non-current liabilities	
Net unrealized gains on other investment securities	(249)
Offset to deferred tax assets (Non-current assets)	249
Total deferred tax liabilities	—
Balance: Net deferred tax assets (liabilities)	¥4,515

2. Reconciliation of the statutory tax rate and the effective tax rate

Statutory tax rate	42.05%
Permanent differences excluded from non-taxable expenses	0.18
Permanent differences excluded from gross revenue	(0.18)
Decrease in valuation allowance	(3.18)
Taxation on per capita basis for residents tax	0.07
Foreign tax credits	(0.33)
Special income tax credits	(0.95)
Investment loss on equity method	1.76
Tax effect on related companies' unappropriated retained earnings	(1.36)
Amortization on consolidation adjustment account	0.34
Adjustments in unrealized profits due to consolidation	(1.00)
Difference in tax rate with the parent company	0.01
Other	(0.15)
Effective tax rate	37.26%

• FY2004 (April 1, 2004 to March 31, 2005)

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	¥ 809
Office tax payable	19
Accrues bonuses, allowance for bonuses to employees	415
Advances paid	310
Accrued expenses	346
Allowance for sales return	442
Non-deductible portion of allowance for doubtful accounts	162
Tax credits	80
Non-deductible portion of allowance for content production account	(190)
Evaluation loss on content	1,140
Other	(97)
Total	3,440
2) Non-current assets	
Non-deductible portion of allowance for retirement benefits	477
Allowance for directors' retirement benefits	31
Non-deductible depreciation expense of property and equipment	562
Tax effect on deficit of subsidiaries	690
Loss on investments in securities	242
Other	87
Offset to deferred tax assets (non-current assets)	(324)
Total	1,768

Net deferred tax assets	5,209
Deferred tax liabilities	
Non-current liabilities	
Net unrealized gains on other investment securities	(324)
Offset to deferred tax assets (non-current assets)	324
Total deferred tax liabilities	—
Balance: Net deferred tax assets (liabilities)	¥5,209

2. Reconciliation of the statutory tax rate and the effective tax rate

Statutory tax rate	40.70%
Permanent differences excluded from non-taxable expenses	0.17
Permanent differences excluded from gross revenue	(0.01)
Taxation on per capita basis for residents tax	0.04
Special income tax credits	(0.56)
Amortization on consolidation adjustment account	2.43
Difference in tax rate with the parent company	(1.17)
Other	(0.49)
Effective tax rate	41.11%

Segment Information

[Consolidated Business Segment Information]

• FY2003 (April 1, 2003 to March 31, 2004)

Millions of yen

	Games (Offline)	Games (Online)	Mobile Phone Content	Publication	Others	Total	Eliminations or unallocated	Consolidated total
I Sales and operating income								
Net sales								
(1) Sales to outside customers	¥37,988	¥8,924	¥2,793	¥9,671	¥3,824	¥63,202	¥ —	¥63,202
(2) Intersegment sales	—	—	—	—	—	—	—	—
Total	37,988	8,924	2,793	9,671	3,824	63,202	—	63,202
Operating expenses	21,583	6,575	1,633	6,491	2,797	39,081	4,722	43,803
Operating income	¥16,404	¥2,348	¥1,159	¥3,180	¥1,027	¥24,120	¥ (4,722)	¥19,398
II Assets, depreciation and capital expenditures								
Assets	¥55,104	¥14,215	¥2,583	¥14,225	¥5,980	¥92,110	¥18,523	¥110,633
Depreciation	870	742	17	12	92	1,735	239	1,974
Capital expenditures	188	513	12	0	—	715	1,989	2,704

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

2. Major products offered by each business segment

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
Others	Derivative products such as character merchandise, school for game designers

3. Unallocated operating expenses included in "Eliminations or unallocated" totaled ¥4,722 million. These expenses are related to administrative departments of the Company.
4. Unallocated assets included in "Eliminations or unallocated" totaled ¥18,523 million. These assets are related to administrative departments of the Company.

   The Company used to include cash, deposits and marketable securities in the "Eliminations or unallocated" column. However, following the merger with SQUARE, these have been allocated to each business segment in order to properly reflect business substance. As a result, assets included in Games (Offline) business, Games (Online) business, Mobile Phone Content business, Publication business, and Others business increased by ¥23,829 million, ¥7,582 million, ¥2,166 million, ¥9,206 million, and ¥3,249 million, respectively, compared with the prior segmentation. Accordingly, the "Eliminations or unallocated" column decreased by ¥46,034 million.
5. As explained in "Summary of Significant Accounting Policies used in the Preparation of Consolidated Financial Statements, "the Company changed the method for depreciation and amortization of property and equipment. However, this change did not have a material impact.
6. Effective from the year ended March 31, 2004, the Company has partly changed its business segmentation due to the expansion of its business as a result of a merger with SQUARE. The main changes are that the computer software business has been divided into Games (Offline) business, Games (Online) business, and Mobile Phone Content business. In addition, the Company has re-examined the operations previously included in the other businesses segment and reclassified them into appropriate segments in order to more properly reflect the substance of its business. These changes did not have material impact on sales, operating expenses and assets for the year ended March 31, 2004. Business segment information for the year ended March 31, 2003, restated in accordance with current fiscal year's segmentation is as follows:

• (April 1, 2002 to March 31, 2003)

Millions of yen

	Games (Offline)	Games (Online)	Mobile Phone Content	Publication	Others	Total	Eliminations or unallocated	Consolidated total
I Sales and operating income								
Net sales								
(1) Sales to outside customers	¥11,912	¥ 942	¥1,656	¥5,920	¥1,445	¥21,877	¥ —	¥21,877
(2) Intersegment sales	—	—	—	—	—	—	—	—
Total	11,912	942	1,656	5,920	1,445	21,877	—	21,877
Operating expenses	8,278	1,309	872	4,582	1,197	16,240	1,033	17,274
Operating income (loss)	¥ 3,634	¥ (366)	¥ 784	¥1,337	¥ 247	¥ 5,637	¥ (1,033)	¥ 4,603
II Assets, depreciation and capital expenditures								
Assets	¥ 5,302	¥ 700	¥ 580	¥3,094	¥ 673	¥10,351	¥47,113	¥57,465
Depreciation	207	69	20	8	44	349	36	386
Capital expenditures	93	59	25	2	74	255	45	301

• FY2004 (April 1, 2004 to March 31, 2005)

Millions of yen

	Games (Offline)	Games (Online)	Mobile Phone Content	Publication	Others	Total	Eliminations or unallocated	Consolidated total
I Sales and operating income								
Net sales								
(1) Sales to outside customers	¥41,944	¥13,853	¥4,557	¥10,859	¥2,649	¥ 73,864	¥ —	¥ 73,864
(2) Intersegment sales	—	—	—	—	—	—	—	—
Total	41,944	13,853	4,557	10,859	2,649	73,864	—	73,864
Operating expenses	22,295	8,866	2,818	7,448	1,866	43,295	4,131	47,426
Operating income	¥19,649	¥ 4,986	¥1,738	¥ 3,411	¥ 782	¥ 30,569	¥ (4,131)	¥ 26,438
II Assets, depreciation and capital expenditures								
Assets	¥64,860	¥20,752	¥4,725	¥20,448	¥6,168	¥116,955	¥14,739	¥131,695
Depreciation	693	770	35	19	99	1,618	195	1,814
Capital expenditures	106	725	51	3	17	905	618	1,523

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

2. Major products offered by each business segment

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
Other	Derivative products such as character merchandise, school for game designers

3. Unallocated operating expenses included in "Eliminations or unallocated" totaled ¥4,131 million. These expenses are related to administrative departments of the Company.

4. Unallocated assets included in "Eliminations or unallocated" totaled ¥14,739 million. These assets are related to administrative departments of the Company.

[Consolidated Geographic Segment Information]

• FY2003 (April 1, 2003 to March 31, 2004)

Millions of yen

	Japan	North America	Europe	Asia	Total	Eliminations or unallocated	Consolidated total
I Sales and operating income							
Net sales							
(1) Sales to outside customers	¥49,354	¥12,981	¥148	¥ 717	¥ 63,202	¥ —	¥ 63,202
(2) Intersegment sales	3,718	389	279	—	4,387	(4,387)	—
Total	53,073	13,371	428	717	67,589	(4,387)	63,202
Operating expenses	36,880	10,178	336	796	48,191	(4,387)	43,803
Operating income (loss)	¥16,192	¥ 3,192	¥ 91	¥ (79)	¥ 19,398	¥ —	¥ 19,398
II Assets	¥96,547	¥12,106	¥772	¥1,207	¥110,633	¥ —	¥110,633

Notes: 1. The classification of geographic segments is made according to geographical distances.
2. Main countries and areas included in each segment are as follows:
(1) North America............. the United States of America
(2) Europe.......................... United Kingdom
(3) Asia............................... China
3. There are no unallocated operating expenses included in "Eliminations or unallocated."
4. There are no unallocated assets included in "Eliminations or unallocated."
5. As explained in "Summary of Significant Accounting Policies used in the Preparation of Consolidated Financial Statements, "the Company changed the method for depreciation and amortization of property and equipment. However, this change did not have a material impact.

• FY2004 (April 1, 2004 to March 31, 2005)

Millions of yen

	Japan	North America	Europe	Asia	Total	Eliminations or unallocated	Consolidated total
I Sales and operating income							
Net sales							
(1) Sales to outside customers	¥ 60,949	¥11,528	¥ 577	¥ 810	¥ 73,864	¥ —	¥ 73,864
(2) Intersegment sales	3,436	360	312	13	4,123	(4,123)	—
Total	64,386	11,889	889	823	77,988	(4,123)	73,864
Operating expenses	40,425	9,619	858	646	51,550	(4,123)	47,426
Operating income	¥ 23,960	¥ 2,270	¥ 31	¥ 176	¥ 26,438	¥ —	¥ 26,438
II Assets	¥118,306	¥10,694	¥1,010	¥1,683	¥131,695	¥ —	¥131,695

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

[Consolidated Overseas Sales]

• FY2003 (April 1, 2003 to March 31, 2004)

Millions of yen

	North America	Europe	Asia	Total
I Overseas sales	¥15,618	¥2,121	¥972	¥18,712
II Consolidated sales	—	—	—	63,202
III Percentage of overseas sales to consolidated sales	24.7%	3.4%	1.5%	29.6%

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

• FY2004 (April 1, 2004 to March 31, 2005)

Millions of yen

	North America	Europe	Asia	Total
I Overseas sales	¥12,295	¥1,298	¥1,179	¥14,772
II Consolidated sales	—	—	—	73,864
III Percentage of overseas sales to consolidated sales	16.6%	1.8%	1.6%	20.0%

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

[Related Party Transactions]

• FY2003 (April 1, 2003 to March 31, 2004)

(1) Directors and major individual shareholders

Relationship	Name	Occupation	Shares owned (%)	Transaction	Transaction amount (number of shares)	Balance at year-end (number of shares)
Director	Yasuhiro Fukushima	Chairman and representative director	22.3%	Note 1	20,000	20,000
Director	Yoichi Wada	President and representative director	0.0	Note 1	195,500	195,500
Director	Keiji Honda	Executive Vice President and representative director	0.0	Note 1	20,000	13,500
Director	Yukinobu Chida	Director	0.4	Note 1	14,000	—
Director	Makoto Naruke	Director	–	Note 1	51,000	51,000

Notes: 1. The Company has granted stock acquisition rights in accordance with Articles 280-20 and 280-21 of the Commercial Code of Japan.
2. Mr. Yasuhiro Fukushima retired on June 19, 2004.

• FY2004 (April 1, 2004 to March 31, 2005)

None.

Per Share Information

• FY2003 (April 1, 2003 to March 31, 2004)

Net assets per share (yen)	¥878.85
Net income per share (yen)	100.04
Diluted net income per share (yen)	99.76

• FY2004 (April 1, 2004 to March 31, 2005)

Net assets per share (yen)	¥988.19
Net income per share (yen)	135.63
Diluted net income per share (yen)	134.46

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

• FY2003 (April 1, 2003 to March 31, 2004)

Net income per share	
Net income (millions of yen)	¥ 10,993
Components not pertaining to common shareholders (millions of yen)	—
Components pertaining to common shareholders (millions of yen)	10,993
Average number of shares of common stock outstanding during the fiscal year (thousands of shares)	109,884
Adjustments to net income used to calculate diluted net income per share	
Adjustments to net income (millions of yen)	—
Increase in the number of common shares (thousands of shares)	316
(of which new shares with acquisition rights)	(316)

Number of latent shares with no dilution excluded from the calculation of diluted net income per share:

The issue of stock options was approved at the Company's annual general meeting of shareholders held on June 18, 2002 and June 23, 2003.

• FY2004 (April 1, 2004 to March 31, 2005)

Net income per share	
Net income (millions of yen)	¥ 14,932
Components not pertaining to common shareholders (millions of yen)	—
Components pertaining to common shareholders (millions of yen)	14,932
Average number of shares of common stock outstanding during the fiscal year (thousands of shares)	110,093
Adjustments to net income used to calculate diluted net income per share	
Adjustments to net income (millions of yen)	—
Increase in the number of common shares (thousands of shares)	962
(of which new shares with acquisition rights)	(962)

Number of latent shares with no dilution excluded from the calculation of diluted net income per share:

The issue of stock options was approved at the Company's annual general meeting of shareholders held on June 18, 2002 and June 23, 2003.

Subsequent Events

• FY2003 (April 1, 2003 to March 31, 2004)

None.

• FY2004 (April 1, 2004 to March 31, 2005)

None.

Supplementary Information

[Corporate bonds]

Not applicable.

[Debt]

Millions of yen

Classification	Balance as of the end of FY2003	Balance as of the end of FY2004	Interest rate (%)	Maturity
Short-term loans payable	¥—	¥—	—%	—
Current portion of long-term debt	18	—	—	—
Long-term debt, less current portion	—	—	—	—
Other interest-bearing debt	—	—	—	—
Total	¥18	¥—	—%	—

[Other]

Not applicable.

Consolidated Balance Sheets (U.S. GAAP)

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

	Millions of yen		Thousands of U.S. dollars
	2005	2004	**2005**
Assets			
Current assets			
Cash and cash equivalents	**¥ 81,244**	¥ 58,675	**$ 756,530**
Accounts and notes receivable, less allowance for doubtful accounts of 262 and 227, respectively	**7,409**	11,819	**68,991**
Inventories	**1,113**	809	**10,364**
Software development costs	**17,890**	12,507	**166,585**
Prepaid expenses and others current assets	**1,338**	1,163	**12,456**
Deferred income taxes	**3,575**	1,922	**33,286**
Total current assets	**112,569**	86,895	**1,048,212**
Property and equipment, net	**8,918**	9,085	**83,047**
Intangible assets, net	**73,905**	76,474	**688,196**
Investment securities	**1,295**	3,516	**12,062**
Lease deposits	**2,863**	2,864	**26,663**
Other assets	**699**	515	**6,509**
Deferred income taxes	**2,115**	2,699	**19,697**
Total assets	**¥202,364**	¥182,048	**$1,884,386**

The accompanying notes are an integral part of these consolidated financial statements.

	Millions of yen		Thousands of U.S. dollars
	2005	2004	**2005**
Liabilities and Stockholders' Equity			
Current liabilities			
Accounts and notes payable:			
Trade	**¥ 2,242**	¥ 3,200	**$ 20,875**
Other	**1,191**	1,020	**11,090**
Current portion of long-term debt	**—**	18	**—**
Advances received	**896**	696	**8,345**
Income taxes payable	**9,995**	1,313	**93,070**
Accrued bonus	**1,021**	1,239	**9,509**
Reserve for sales returns and price protection	**1,316**	1,569	**12,257**
Accrued expenses and other current liabilities	**4,459**	3,397	**41,517**
Deferred income taxes	**968**	1,142	**9,018**
Total current liabilities	**22,088**	13,594	**205,681**
Accrued pension costs	**1,228**	1,035	**11,439**
Other long-term liabilities	**139**	178	**1,300**
Deferred income taxes	**14,203**	14,380	**132,253**
Total liabilities	**37,658**	29,187	**350,673**
Minority interest in consolidated subsidiaries	**658**	594	**6,129**
Commitments and contingencies			
Stockholders' equity			
Common stock:	**7,434**	7,154	**69,220**
No par value. Authorized 300,000,000 shares, issued and outstanding 110,234,893 and 110,030,879 shares, respectively.			
Additional paid-in capital	**110,685**	110,404	**1,030,681**
Retained earnings	**46,801**	35,583	**435,806**
Accumulated other comprehensive loss	**(479)**	(637)	**(4,464)**
Treasury stock, at cost, 150,650 and 99,539 shares, respectively	**(393)**	(237)	**(3,659)**
Total stockholders' equity	**164,048**	152,267	**1,527,584**
Total liabilities and stockholders' equity	**¥202,364**	¥182,048	**$1,884,386**

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated Statements of Income (U.S. GAAP)

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

	Millions of yen			Thousands of U.S. dollars
	2005	2004	2003 (Unaudited)	**2005**
Net sales	**¥74,063**	¥63,095	¥21,883	**$689,660**
Cost of sales	**26,632**	28,991	12,345	**247,989**
Gross profit	**47,431**	34,104	9,538	**441,671**
Selling, general and administrative expenses	**23,169**	24,622	5,188	**215,751**
Income from operations	**24,262**	9,482	4,350	**225,920**
Other income (expenses):				
Interest income	**73**	67	1	**677**
Interest expense	**(2)**	(7)	(2)	**(20)**
Losses on sale of property and equipment	**—**	(124)	—	**—**
Losses on disposal of property and equipment	**—**	(749)	—	**—**
Write-down of investment securities	**(80)**	(375)	(100)	**(749)**
Foreign currency exchange gains (losses)	**297**	(788)	—	**2,761**
Other (expenses) income, net	**(258)**	102	(4)	**(2,391)**
Income before income taxes, minority interest and equity in losses of an affiliated company	**24,292**	7,608	4,245	**226,198**
Income taxes:				
Current	**11,267**	3,600	3,162	**104,917**
Deferred	**(1,612)**	(1,168)	(1,240)	**(15,013)**
	9,655	2,432	1,922	**89,904**
Income before minority interest and equity in losses of an affiliated company	**14,637**	5,176	2,323	**136,294**
Minority interest in earnings of consolidated subsidiaries	**(117)**	(61)	(27)	**(1,087)**
Equity in losses of an affiliated company	**—**	(760)	—	**—**
Net income	**¥14,520**	¥4,355	¥2,296	**$135,207**

Per share data:

	Yen			U.S. dollars
Net income—basic	**¥131.89**	¥39.58	¥39.06	**$1.23**
—diluted	**130.74**	37.99	38.57	**1.22**
Cash dividends	**¥ 60.00**	¥30.00	¥25.00	**$0.56**

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated Statements of Changes in Stockholders' Equity (U.S. GAAP)

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

Millions of yen (except number of shares)

	Common stock						
	Shares	Amount	Additional paid-in capital	Retained earnings	Accumulated other comprehensive income	Treasury stock, at cost	Total stockholders' equity
Balance at March 31, 2002 (unaudited)	58,778,325	¥6,940	¥ 9,383	¥32,398	¥ 70	¥ (38)	¥ 48,753
Dividends declared (unaudited)				(1,468)			(1,468)
Purchase of treasury stock (unaudited)	(36,716)					(47)	(47)
Unrealized gains on available-for-sale securities (unaudited)					13		13
Foreign currency translation adjustments (unaudited)					(17)		(17)
SFAS87 transition obligation (unaudited)				(20)			(20)
Net income (unaudited)				2,296			2,296
Balance at March 31, 2003	58,741,609	¥6,940	¥ 9,383	¥33,206	¥ 66	¥ (85)	¥ 49,510
Issuance of common stock to effect business combination	51,167,293		100,807				100,807
Dividends declared				(1,978)			(1,978)
Purchase of treasury stock	(88,221)					(211)	(211)
Reissuance of treasury stock	25,398					59	59
Exercise of stock option	184,800	214	214				428
Unrealized gains on available-for-sale securities					296		296
Foreign currency translation adjustments					(999)		(999)
Net income				4,355			4,355
Balance at March 31, 2004	110,030,879	¥7,154	¥110,404	¥35,583	¥(637)	¥(237)	¥152,267
Dividends declared				(3,302)			(3,302)
Purchase of treasury stock	(54,132)					(163)	(163)
Reissuance of treasury stock	3,021		1			7	8
Exercise of stock option	255,125	280	280				560
Unrealized gains on available-for-sale securities					109		109
Foreign currency translation adjustments					49		49
Net income				14,520			14,520
Balance at March 31, 2005	**110,234,893**	**¥7,434**	**¥110,685**	**¥46,801**	**¥(479)**	**¥(393)**	**¥164,048**

Thousands of U.S. dollars (except number of shares)

	Shares	Amount	Additional paid-in capital	Retained earnings	Accumulated other comprehensive income	Treasury stock, at cost	Total stockholders' equity
Balance at March 31, 2004	110,030,879	$66,623	$1,028,073	$331,343	$(5,929)	$(2,207)	$1,417,903
Dividends declared				(30,744)			(30,744)
Purchase of treasury stock	(54,132)					(1,524)	(1,524)
Reissuance of treasury stock	3,021		11			72	83
Exercise of stock option	255,125	2,597	2,597				5,194
Unrealized gains on available-for-sale securities					1,014		1,014
Foreign currency translation adjustments					451		451
Net income				135,207			135,207
Balance at March 31, 2005	**110,234,893**	**$69,220**	**$1,030,681**	**$435,806**	**$(4,464)**	**$(3,659)**	**$1,527,584**

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated Statements of Cash Flows (U.S. GAAP)

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

	Millions of yen			Thousands of U.S. dollars
	2005	2004	2003 (Unaudited)	**2005**
Cash flows from operating activities:				
Net income	**¥14,520**	¥ 4,355	¥ 2,296	**$135,207**
Adjustments to reconcile net income to net cash provided by operating activities:				
Deferred income taxes	**(1,486)**	(673)	(1,230)	**(13,834)**
Depreciation and amortization	**4,455**	5,406	386	**41,480**
Amortization and write-off of capitalized software developments costs	**7,321**	12,723	—	**68,171**
Write-down of investment securities	**80**	375	100	**749**
Losses on sale of property and equipment	**2**	124	—	**19**
Losses on disposal of property and equipment	**50**	749	46	**466**
Minority interest in earnings of consolidated subsidiaries	**117**	61	27	**1,087**
Equity in loss of affiliated company	**—**	760	—	**—**
Changes in assets and liabilities, net of effects of acquisitions:				
Accounts and notes receivable	**4,351**	4,849	(50)	**40,519**
Accrued pension costs	**193**	200	20	**1,794**
Inventories	**(235)**	(437)	115	**(2,191)**
Software development costs	**(12,704)**	(12,226)	—	**(118,301)**
Accounts and notes payable	**(948)**	(507)	681	**(8,823)**
Other assets	**(281)**	555	(460)	**(2,613)**
Other liabilities	**9,954**	(916)	1,217	**92,690**
Other	**(514)**	(1,261)	44	**(4,791)**
Net cash provided by operating activities	**24,875**	14,137	3,192	**231,629**
Cash flows from investing activities:				
Purchases of property and equipment	**(1,319)**	(2,709)	(215)	**(12,282)**
Purchases of intangible assets	**(363)**	(416)	(79)	**(3,377)**
Purchases of investment securities	**—**	—	(2,002)	**—**
Proceeds from sale of investment securities	**248**	—	120	**2,313**
Purchases of investment in affiliated company	**(27)**	—	(795)	**(255)**
Proceeds from sale of investment in affiliated company	**—**	423	4	**—**
Proceeds from maturity of treasury bond	**2,000**	—	—	**18,624**
Refund of lease deposits	**105**	407	3	**975**
Payment of lease deposits	**(102)**	(1,843)	(771)	**(948)**
Cash acquired in business acquisitions (net of cash used)	**—**	12,095	—	**—**
Other	**32**	292	(2)	**295**
Net cash provided by (used in) investing activities	**574**	8,249	(3,737)	**5,345**
Cash flows from financing activities:				
Repayment of short-term borrowings	**—**	(1,000)	(361)	**—**
Repayment of current portion of long term debt	**(18)**	—	—	**(171)**
Purchases of treasury stock	**(155)**	(147)	(47)	**(1,442)**
Dividends paid	**(3,302)**	(2,574)	(1,468)	**(30,753)**
Other	**567**	1,147	—	**5,288**
Net cash used in financing activities	**(2,908)**	(2,574)	(1,876)	**(27,078)**
Effect of exchange rate changes on cash and cash equivalents	**28**	(984)	(11)	**258**
Net increase (decrease) in cash and cash equivalents	**22,569**	18,828	(2,432)	**210,154**
Cash and cash equivalents at beginning of year	**¥58,675**	¥39,847	¥42,279	**$546,376**
Cash and cash equivalents at end of year	**¥81,244**	¥58,675	¥39,847	**$756,530**
Supplemental data:				
Cash paid during the year for—				
Income taxes	**¥ 2,768**	¥ 4,794	¥ 2,446	**$ 25,783**
Interest	**—**	11	2	**3**

The accompanying notes are an integral part of these consolidated financial statements.

Notes to Consolidated Financial Statements (U.S. GAAP)

SQUARE ENIX CO., LTD. and Consolidated Subsidiaries

1. Business and Organization

SQUARE ENIX CO., LTD. (the "Company") is a digital entertainment content provider. The Company was formed in connection with the merger of ENIX CORPORATION ("ENIX") and SQUARE CO., LTD. ("SQUARE") on April 1, 2003. The merger was consummated in the form of a statutory merger under the Japanese Commercial Code ("JCC"), with ENIX being the surviving entity.

The Company's businesses consist of five segments: (i) games, (ii) online games, (iii) Mobilephone Content, (iv) Publication, and (v) Others. (i) *Games:* The Company develops interactive games designed for video game console platforms and PCs, and publishes and distributes such games in Japan, North America, Europe and Asia. (ii) *Online Games:* The Company provides online game services including massively multi-players online RPGs such as "FINAL FANTASY XI" in Japan and North America, and "CROSS GATE" in Asia. (iii) *Mobilephone Content:* The Company's mobilephone content is delivered via third party telecommunication carriers while offering content such as games, wallpaper, and ring tones. (iv) *Publication:* Publishing of RPG strategy guide books, comic books and manga magazines. (v) *Others:* The Company produces character goods and toys.

As of March 31, 2005, the Company had eleven consolidated subsidiaries, one partnership and two non-consolidated subsidiaries. Three subsidiaries were established in Japan, four in the United States, one in the United Kingdom, and three in the People's Republic of China.

SQUARE ENIX, INC., the wholly-owned U.S. subsidiary, publishes video games, provides localization services to the Company translating Japanese content into English, provides online game and mobilephone content services, and markets middle-ware products to electronic device manufacturers.

SQUARE ENIX LTD., the U.K. wholly-owned subsidiary, provides localization services to the Company, translating Japanese content into English, French, Germany, Italy, and Spanish. Marketing and distribution of the translated content in the European market is carried out through outside independent licensees.

The Chinese subsidiary, SQUARE ENIX WEBSTAR NETWORK TECHNOLOGY (BEIJING) CO., LTD., is a joint venture company with SOFTSTAR ENTERTAINMENT, INC., ("SS"), a Taiwan based video game publisher, in which the Company holds a 60% ownership interest. The venture has been concentrated on providing online game services for CROSS GATE in China since its incorporation. In February 2005, the Company and SS agreed on dissolution of the venture, and it will be effective on December 1, 2005. In order to take over the current operation of the venture and to expand it over the future, the Company decided to establish a new wholly-owned new subsidiary, SQUARE ENIX (China) CO., LTD., which was incorporated on January 18, 2005 in Beijing, China.

2. Translation into U.S. Dollars

The accompanying consolidated financial statements are stated in Japanese yen, the functional currency of the country in which the Company is incorporated and principally operates. The U.S. dollar amounts included herein represents a translation using the mid price for telegraphic transfer of U.S. dollars for yen quoted by The Bank of Tokyo Mitsubishi, Ltd., as of March 31, 2005 of ¥107.39 to US$1, and are included solely for the convenience of the reader. The translation should not be construed as a representation that the yen amounts have been, could have been, or could in the future be converted into U.S. dollars at the above or any other rate.

3. Significant Accounting Policies

Basis of Accounting

The Company and its domestic subsidiaries maintain their books and records in conformity with generally accepted accounting principles and practices in Japan ("JPNGAAP"), and its foreign subsidiaries in conformity with those of the country of their domicile. The consolidated financial statements presented herein have been prepared in a manner and reflect certain adjustments that are necessary to conform to accounting principles generally accepted in the United States of America ("U.S.GAAP"). Such adjustments include principally accounting for business combinations, goodwill and other intangible assets, and pensions.

Principles of Consolidation

The consolidated financial statements include the financial statements of the Company and its wholly owned subsidiaries. All inter-company balances and transactions have been eliminated in consolidation.

Use of Estimates

The preparation of financial statements in conformity with U.S.GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the dates of the financial statements and the reported amounts of revenues and expenses during the reporting periods. The most significant estimates and assumptions relate to the recoverability of capitalized software development costs and other intangibles, inventories, realization of deferred income taxes and the adequacy of allowances for returns, price protection and doubtful accounts. Actual amounts could differ from these estimates.

Concentration of Credit Risk

If the financial condition and operations of the Company's customers deteriorate, the risk of collection could increase substantially. As of March 31, 2005 and 2004, the receivable balances from the Company's five largest customers amounted to approximately 60.1% and 40.4% of the Company's net accounts and notes receivable balance, respectively. For the years ended March 31, 2005, 2004 and 2003, the Company's five largest customers accounted for 25.4%, 21.6%, and 30.2% (unaudited) of net sales, respectively. The Company sets the credit limit to each customer and monitors its solvency continuously.

Cash and Cash Equivalents

The Company considers all highly liquid investments purchased with original maturities of three months or less to be cash equivalents.

Fair Value of Financial Instruments

The carrying amounts of cash and cash equivalents, accounts and notes receivable, accounts and notes payable and accrued expenses and approximate fair value because of their short maturity. Investments in marketable securities are stated at their fair value based on quoted market prices. Investments in non-marketable securities for which there are no quoted market price are stated at cost because reasonable estimates of their fair value could not be made without incurring excessive costs and it was not practicable to estimate their fair value of common stock representing certain closely held companies. The carrying amount of the Company's lines of credit approximates fair value because the interest rates of the lines of credit are based on floating rates identified by reference to market rates.

Fair value estimates are made at a specific point in time, based on relevant market information and information about the financial instruments. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

Inventories

Inventories are stated at the lower of cost or market. The Company periodically evaluates the carrying value of its inventories and makes adjustments as necessary. Cost is determined by the monthly average method for finished goods, merchandise and work in progress and, by the last purchase price method for other supplies.

Software Development Costs

The Company applies Statement of Financial Accounting Standards ("SFAS") No. 86, "*Accounting for the Cost of Computer Software to be Sold, Leased, or Otherwise Marketed*," pursuant to which, the Company capitalizes internal software development cost, as well as content cost, subsequent to establishment of technological feasibility of certain video game software. Capitalized software development costs on the accompanying consolidated balance sheets include the payment to an outside independent contactor as well as costs associated with internal development of the video game products. Software development costs are amortized as a component of "cost of sales" over the expected life of each video game product, starting from its initial delivery to the market. The Company continually evaluates the recoverability of capitalized software costs and will charge to earnings any amounts that are deemed unrecoverable or for projects that it will abandon.

Property and Equipment

Depreciation of property and equipment is computed on the declining-balance method for the Company and domestic subsidiaries, and the straight-line method for foreign subsidiaries over the estimated useful lives of the assets, ranging from 3 to 50 years for buildings and 3 to 20 years for machinery and equipment. The cost of additions and betterments are capitalized, and repairs and maintenance costs are charged to earnings in the periods incurred. When depreciable assets are retired or sold, the cost and related allowances for depreciation are removed from the accounts and the gain or loss is recognized.

Intangible Assets

Intangible assets consist of identifiable intangibles and the remaining excess purchase price paid over identified intangible and tangible net assets of acquired companies (goodwill). The Company applies the provisions of SFAS No. 141, "*Business Combinations*" in its entirety and SFAS No. 141 requires all business combinations be accounted for using the purchase method of accounting and that certain intangible assets acquired in a business combination shall be recognized as assets apart from goodwill. SFAS No. 142, "*Goodwill and Other Intangible Assets*" addresses the recognition and measurement of goodwill and other intangible assets subsequent to their acquisition. SFAS No. 142 provides that intangible assets with finite useful lives be amortized and that intangible assets with indefinite lives and goodwill not be amortized but tested for impairment annually.

SFAS No. 142 requires an annual test for impairment of goodwill, and between annual tests if events occur or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying amount. In assessing potential impairment of goodwill, the Company determines the implied fair value of each reporting unit using discounted cash flow analysis and compares such values to the respective reporting unit's carrying amount. The Company performs its annual test for indication of goodwill impairment in the fourth quarter of each fiscal year.

Impairment of Long-Lived Assets

The Company evaluates its long-lived assets for impairment as events or changes in circumstances indicate that the carrying amount of such assets may not be fully recoverable. The Company evaluates the recoverability of long-lived assets by measuring the carrying amount of the assets against the estimated undiscounted future cash flows associated with them. At the time such evaluations indicate that the future undiscounted cash flows of certain long-lived assets are not sufficient to recover the carrying value of such assets, the assets are adjusted to their fair values

Investment Securities

The Company invests in equity securities and bonds, and has classified its investment securities as available-for-sale and held-to-maturity, in accordance with SFAS No. 115 "*Accounting for Certain Investments in Debt and Equity Securities.*" Investment securities designated as available-for-sale, whose fair values are readily determinable, are carried at fair value with unrealized gains or losses included as a component of accumulated other comprehensive income, net of applicable taxes. Investment securities that are expected to be held-to-maturity are carried at amortized cost. Individual securities classified as either available-for-sale or held-to-maturity are reduced to net realizable value by a charge to income for other than temporary declines in fair value. Realized gains and losses are determined on the moving average cost method and are reflected in income.

Income Taxes

The Company recognizes deferred taxes using the asset and liability method. Under the asset and liability method, deferred income taxes are recognized for the differences between financial statement and tax bases of assets and liabilities at currently enacted statutory tax rates for the years in which the differences are expected to reverse. The effect on deferred taxes for a change in tax rates is recognized in income in the period that includes the enactment date. Valuation allowances are established when necessary to reduce deferred tax assets to the amounts expected to be realized.

Accounting for Consumption Taxes

The Japanese consumption taxes received and consumption taxes paid are not included in the accompanying consolidated statements of income. The consumption taxes paid are set off against consumption taxes received and the resultant balance due to Japanese tax authorities are presented in the consolidated balance sheets as "accrued expenses and other current liabilities."

Employee Benefit Plan

The Company and its domestic subsidiaries have defined benefit retirement plans, which are accounted for in accordance with SFAS No. 87 "*Employers' Accounting for Pensions.*"

Revenue Recognition

The Company recognizes revenue in accordance with Statement of Position ("SOP") No. 97-2, "*Software Revenue Recognition,*" which provides guidance on applying generally accepted accounting principles in recognizing revenue on software transactions and Staff Accounting Bulletin ("SAB") No. 101, "*Revenue Recognition in Financial Statements,*" as amended by SAB No. 104, "*Revenue Recognition,*" which outline the basic criteria that must be met to recognize revenue and provides guidance for presentation of revenue and for disclosure related to revenue recognition policies in financial statements. The Company recognizes revenue when the price is fixed and determinable, when there is persuasive evidence of an arrangement, upon fulfillment of its obligations under any such arrangement and when determination that collection is probable.

Sales Returns and Allowances and Bad Debt Reserves

The Company's software distribution arrangements with customers in Japan do not give customers the right to return products; however, the U.S. subsidiary, at its discretion, may accept product returns for stock balancing or defective products, sometimes negotiates accommodations to customers, including price discounts, credits and product returns, when demand for specific products falls below expectations, and accepts returns and grants price protection in connection with its publishing arrangements. The U.S. subsidiary estimates potential future product returns, price protection and sales incentives related to the current period product revenue. The U.S. subsidiary analyzes historical returns, current sell-through of distributor and retailer inventory of its products, current trends in the software games business segment and the overall economy, changes in customer demand and acceptance of its products and other related factors when evaluating the adequacy of the sales returns and price protection allowances. In addition, the U.S. subsidiary monitors and manages the volume of sales to retailers and distributors and monitors their inventories as substantial overstocking in the distribution channel can result in high returns or the requirement for substantial price protection in subsequent periods. Similarly, significant judgment is required to estimate the allowance for doubtful accounts in any period. The Company and the U.S. subsidiary analyze customer concentrations, customer credit-worthiness and current economic trends when evaluating the adequacy of the allowance for doubtful accounts.

Shipping and Handling Charges

Outbound shipping and handling charges of approximately ¥634 million, ¥545 million and ¥350 million (unaudited) for the years ended March 31, 2005, 2004 and 2003, respectively, are included in selling, general and administrative expenses.

Advertising Expenditures

The Company recognizes advertising expense as it is incurred except for cooperative advertising. Cooperative advertising obligations are accrued and amortized at the same time the related revenues are recognized. Total advertising expense was approximately ¥5,346 million, ¥5,119 million and ¥1,288 million (unaudited) for the years ended March 31, 2005, 2004 and 2003, respectively.

Line of Credit

As of March 31, 2005, the Company had an unused line of credit with a bank in the amount of ¥29,500 million at various rates expiring in 2006. No guarantee is provided for such line-of-credit.

Recently Issued Accounting Pronouncements

In November 2004, the Financial Accounting Standards Board ("FASB") issued SFAS No. 151, *Inventory Costs, an amendment of ARB No. 43*. This statement clarifies the accounting for idle capacity expense, freight, handling costs, and wasted material and is effective for inventory costs incurred during fiscal years beginning after June 15, 2005. The Company believes the adoption of this statement will not have a material effect on its results of operations, cash flows or financial position.

In December 2004, the FASB issued SFAS No. 123 (R), *Share Based Payment*. This statement establishes standards for the accounting for transactions in which an entity exchanges its equity instruments for goods and services. It focuses primarily on accounting for transactions in which an entity obtains employee services in share-based payment transactions (employee stock options). The statement requires the measurement of the cost of employee services received in exchange for an award of equity instruments (such as employee stock options) at fair value on the grant date. That cost will be recognized over the period during which an employee is required to provide services in exchange for the award (the requisite service period). This statement is effective as of the beginning of the first annual reporting period that begins after December 15, 2005. The Company is still considering transition methods under this standard.

In December 2004, the FASB issued SFAS No. 153, *Exchanges of Non-monetary Assets, an amendment of APB 29*. This statement clarifies that all non-monetary transactions that have commercial substance should be recorded at fair value and is effective for the fiscal periods beginning after June 15, 2005. The Company believes the adoption of this statement will not have a material effect on its results of operations, cash flows or financial position.

Stock-Based Compensation

The Company accounts for its incentive stock option plans using intrinsic value method in accordance with Accounting Principles Board Opinion No. 25, "*Accounting for Stock Issued to Employees*" ("APB25"). Under APB25, generally no compensation expenses are recorded when the terms of the award are fixed and the exercise price of the stock option equals or exceeds the fair value of the underlying stock on the date of grant.

In fiscal 2003, the Company adopted the disclosure provisions of SFAS No. 148 "*Accounting for Stock-Based Compensation—Transaction and Disclosure—an Amendment of FASB Statement No. 123,*" which provides alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation.

On April 1, 2003, the Company took over SQUARE's stock option plan as a result of the merger, pursuant to which, the directors, officers and employees of former SQUARE may purchase up to an aggregate of 3,330,895 shares of common stock of the Company.

In June 2004, the stockholders of the Company approved the Company's Stock Option Plan, pursuant to which officers, directors, employees of the Company may purchase up to an aggregate of 600,000 shares of common stock. As of March 31, 2005, 2004 and 2003, the plans had outstanding stock options totaling 3,258,775, 3,262,645 and 487,400 shares (unaudited) of the Company's common stock, respectively.

The following table summarizes the activity in options under the plans:

	Number of shares	Weighted-average exercise price
Options outstanding—March 31, 2003	487,400	¥2,374.92
Increase in option as a result of the merger with SQUARE on April 1st, 2003	3,330,895	3,084.84
Granted—exercise price equal to fair value	—	—
Granted—exercise less than fair value	—	—
Exercise less than fair value	184,800	2,313.00
Forfeited	370,850	2,984.04
Options outstanding—March 31, 2004	3,262,645	¥3,001.17
Granted—exercise price equal to fair value	580,000	2,981.00
Granted—exercise less than fair value	—	—
Exercised	255,125	2,186.14
Forfeited	328,745	2,964.57
Options outstanding—March 31, 2005	3,258,775	¥3,065.08

At March 31, 2005, 2004 and 2003, the number of options exercisable was 660,595, 723,397 and 185,945 (unaudited), respectively, and their related weighted average exercise prices were ¥3,065.08, ¥3,001.17 and ¥2,374.92 (unaudited), respectively.

Had compensation cost for the Company's stock option plan been determined based on the fair value at the grant date for awards in 2005, 2004 and 2003, consistent with the provisions of SFAS No. 123, the Company's net income and the net income per share would have been reduced to the pro forma amounts indicated below.

	Millions of yen			Thousands of U.S. dollars
	(Except share data) Years ended March 31			
	2005	2004	2003 (Unaudited)	**2005**
Net income:				
As reported	**¥14,520**	¥4,355	¥2,296	**$135,207**
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards	**387**	—	45	**3,600**
Pro forma net income	**¥14,133**	¥4,355	¥2,251	**$131,607**
Earnings per share:				
As reported—Basic	**¥131.89**	¥39.58	¥39.06	**$1.23**
Pro forma—Basic	**128.38**	—	38.28	**1.20**
As reported—Diluted	**¥130.74**	¥37.99	¥38.57	**$1.22**
Pro forma—Diluted	**127.26**	—	37.80	**1.19**

The pro forma disclosures shown are not representative of the effects on net income and the net income per share in future years.

The fair value of the Company's stock options used to compute pro forma net income and the net income per share disclosures is the estimated present value at the grant date using the Black–Scholes option-pricing model. The weighted average fair values of options granted were ¥666.56 and ¥146.27 (unaudited) for the years ended March 31, 2005 and 2003. The following weighted average assumptions for 2005 and 2003 were used to value grants: expected volatilities of 28.33 percent and 44.65 percent (unaudited); risk-free interest rates of 0.175 percent and 0.029 percent (unaudited); and expected holding periods of 4.8 years and 0.68 years (unaudited).

Earnings Per Share

Basic earnings per share ("EPS") are computed by dividing the net income (loss) applicable to common stockholders for the year by the weighted-average number of common shares outstanding during the year. Diluted EPS is computed by dividing the net income (loss) applicable to common stockholders for the year by the weighted-average number of common and common stock equivalents, which include common shares issuable upon the exercise of stock options outstanding during the year. Common stock equivalents are excluded from the computation if their effect is antidilutive.

Comprehensive Income (Loss)

Comprehensive income (loss) represents change in net assets of a business enterprise during a period from transactions and other events and circumstances from non-owner sources. Comprehensive income (loss) of the Company includes net income adjusted for the change in foreign currency translation adjustments and the change in net unrealized gains (losses) from investments.

Foreign Currency Translation and Transactions

The functional currency for the Company's foreign operations is the applicable local currency. Accounts of foreign operations are translated into Japanese yen using period-end exchange rates for assets and liabilities at the balance sheet date and average prevailing exchange rates for the period for revenue and expense accounts. Adjustments resulting from translation are included in other comprehensive income (loss). Realized and unrealized transaction gains and losses are included in income in the period in which they occur.

Reclassifications

Certain prior year amounts have been reclassified to conform to current year presentation.

4. Business Combinations

Acquisition of SQUARE

On April 1, 2003, the Company acquired all outstanding shares of SQUARE CO., LTD., a video game developer in Japan, in the form of a statutory merger. The purpose of the merger was to enhance the ability to provide high quality digital content in the rapidly changing digital entertainment industry. The aggregate purchase price, including assumption of liabilities and issuance of 51,167,293 shares of common stock was ¥117,131 million. The value of the Company's common stock issued in connection with this acquisition was based on the market price of the Company's common stock shortly before and after the date such proposed transaction was agreed and announced. The acquisition has been accounted for as a purchase business combination in accordance with SFAS No. 141 and, accordingly, the result of operations and financial position of the acquired business are included in the Company's consolidated financial statement from the dates of acquisition. The balance of the purchase price in excess of the fair value of the assets acquired and the liabilities assumed at the date of acquisition was recorded as goodwill totaling ¥35,624 million, none of which is expected to be deductible for tax purposes. The amount of purchased in-process research and development assets was ¥12,728 million. Of this, ¥4,862 million was charged to cost of sales during the year ended March 31, 2004.

The following table sets forth the components of the purchase price of the SQUARE acquisition:

	Millions of yen	Thousands of U.S. dollars
Cost of the acquisition:		
Value of stock issued	¥100,807	$ 953,798
Liabilities assumed	16,324	154,452
Total	¥117,131	$1,108,250
Allocation of purchase price:		
Current assets	¥ 49,973	$ 472,828
Non-current assets	8,012	75,807
Trademarks (indefinite useful life)	10,300	97,454
Licensing agreement (indefinite useful life)	9,710	91,872
Existing online game (useful life of 12 years)	12,850	121,581
Existing offline games and other (useful life ranging from 1 to 5 years)	3,130	29,614
Goodwill	35,624	337,061
Net deferred tax liabilities	(12,468)	(117,967)
Total	¥117,131	$1,108,250

Acquisition of UIEvolution

On March 24, 2004, the Company acquired all of the outstanding preferred and common stock of UIEvolution Inc. ("UIEvolution"), a Seattle-based middleware development company for approximately $58 million. The purpose of acquisition was to acquire core technology that could provide the Company with more flexibility to produce digital content for various types of platforms, by way of which, the Company expects to enhance its cutting edge under rapidly changing internet circumstances. This transaction was accounted for as a purchase business combination and included in the Company's operations since the date of acquisition. The balance of the purchase price in excess of the fair value of the assets acquired and the liabilities assumed at the date of acquisition was recorded as goodwill totaling ¥3,331 million, none of which is expected to be deductible for tax purposes. The Company's consolidated results of operations for the year ended March 31, 2004 reflected UIEvolution's operating activities for the period from March 24, 2004 (the date of acquisition) to March 31, 2004.

The following table sets forth the components of the purchase price of the UIEvolution acquisition:

	Millions of yen	Thousands of U.S. dollars
Cost of the acquisition:		
Cash, net of cash acquired	¥6,091	$57,640
Total	¥6,091	$57,640
Allocation of purchase price:		
Property and equipment	¥ 10	$ 94
Existing technology (useful life of 5 years)	2,853	26,994
Trade name and trade marks (useful life of 5 years)	401	3,794
Customer contracts (useful life of 2 years)	243	2,299
Goodwill	3,331	31,516
Net other liabilities	(747)	(7,057)
Total	¥6,091	$57,640

Unaudited Pro Forma Information

The unaudited pro forma data below for the year ended March 31, 2003 is presented as if the acquisitions of SQUARE and UIEvolution had taken place on April 1, 2002. The unaudited pro forma financial information is based on management's estimates and assumptions and does not purport to represent the results that actually would have occurred if the acquisitions had, in fact, been completed on the dates assumed, or which may result in the future. Pro forma data for the years ended March 31, 2005 and 2004 are not presented as it would not differ materially from reported results.

	Year ended March 31, 2003 Millions of yen (Except per share data)
Total revenue	¥62,380
Income before income taxes	¥2,794
Net income	¥1,334
Net income per share–Basic	¥12.12
Net income per share–Diluted	¥11.64

5. Equity Investment in the Affiliated Company

The Company had an equity interest of 26.54% in DigiCube Co., Ltd., a domestic video game whole-seller devoted to the convenience store market, listed on the Hercules market of Osaka Securities Exchange, and accounted for using the equity method. DigiCube went bankrupt in November 2003, and the Company recognized an impairment loss on its investment in DigiCube in the amount of ¥760 million. Whereas the bankruptcy proceeding is in progress as of March 31, 2005, the Company made settlement with the receiver and left itself from the proceeding in February 2004. Accordingly, the management of the Company expects that no further obligation would arise from the DigiCube investment. Equity method of accounting is no longer applied for the year ended March 31, 2005.

6. Inventories

As of March 31, 2005 and 2004, inventories consist of:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	**2005**
Finished goods and merchandise	**¥ 938**	¥668	**$ 8,734**
Work in progress	**99**	81	**919**
Other supplies	**76**	60	**711**
Total	**¥1,113**	¥809	**$10,364**

7. Software Development Costs

The following table provides the details of capitalized software development costs:

Years ended March 31	Millions of yen		Thousands of U.S. dollars
	2005	2004	**2005**
Beginning balance	**¥12,507**	¥ —	**$118,340**
Acquired from SQUARE	**—**	13,004	**—**
Increased during the year	**12,704**	12,226	**118,300**
Amortization	**(6,338)**	(12,660)	**(60,898)**
Written off	**(983)**	(63)	**(9,157)**
Ending balance	**¥17,890**	¥12,507	**$166,585**

8. Property and Equipment

As of March 31, 2005 and 2004, property and equipment consist of:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	**2005**
Buildings	**¥ 3,668**	¥ 3,445	**$ 34,155**
Machinery and equipment	**9,117**	8,445	**84,892**
Land	**3,814**	3,813	**35,513**
Other	**15**	9	**151**
Total	**16,614**	15,712	**154,711**
(Less accumulated depreciation)	**(7,696)**	(6,627)	**(71,664)**
Net book value	**¥ 8,918**	¥ 9,085	**$ 83,047**

Depreciation expenses for the years ended March 31, 2005, 2004 and 2003 were ¥1,433, ¥1,631 million and ¥342 million (unaudited), respectively.

9. Intangible Assets

As of March 31, 2005 and 2004, intangible assets consist of:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	**2005**
Software	**¥ 3,109**	¥ 2,837	**$ 28,946**
Patent and trademark	**10,789**	10,380	**100,463**
Online game	**12,850**	12,850	**119,657**
License agreement for related goods	**9,953**	9,710	**92,682**
Existing game	**2,940**	2,940	**27,377**
Existing technologies	**2,854**	2,853	**26,573**
Other intangible assets	**463**	1,411	**4,317**
(Less: accumulated amortization)	**(8,008)**	(5,462)	**(74,567)**
Net book value	**¥34,950**	¥37,519	**$325,448**
Goodwill	**¥38,955**	¥38,955	**$362,748**
Total	**¥73,905**	¥76,474	**$688,196**

Amortization expenses for the years ended March 31, 2005, 2004 and 2003 were ¥3,021 million, ¥3,775 million and ¥44 million (unaudited), respectively.

Expected annual amortization expenses for the ensuing fiscal years are as follows:

Years ending March 31	Millions of yen	Thousands of U.S. dollars
2006	¥ 2,367	$ 22,038
2007	1,876	17,465
2008	1,720	16,017
2009	1,618	15,068
2010	1,516	14,117
2011 and thereafter	5,919	55,117
	¥15,016	$139,822

10. Investment Securities

As of March 31, 2005 and 2004, investment securities consist of:

	Millions of yen			
	2005			
	Cost	Unrealized gain	Unrealized loss	Fair value
Marketable equity securities	**¥330**	**¥741**	**¥(18)**	**¥1,053**
Other equity securities	**242**	**—**	**—**	**242**
Total	**¥572**	**¥741**	**¥(18)**	**¥1,295**

				Thousands of U.S. dollars
				2005
	Cost	Unrealized gain	Unrealized loss	Fair value
Marketable equity securities	**$3,070**	**$6,901**	**$(168)**	**$9,803**
Other equity securities	**2,259**	**—**	**—**	**2,259**
Total	**$5,329**	**$6,901**	**$(168)**	**$12,062**

				Millions of yen
				2004
	Cost	Unrealized gain	Unrealized loss	Fair value
Marketable equity securities	¥ 548	¥613	¥—	¥1,161
Other equity securities	355	—	—	355
Treasury bond	2,000	—	—	2,000
Total	¥2,903	¥613	¥—	¥3,516

11. Accrued Expenses and Other Current Liabilities

Accrued expenses and other current liabilities as of March 31, 2005 and 2004 consist of:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	**2005**
Consumption taxes payable	**¥1,022**	¥ 408	**$ 9,525**
Unearned revenue	**1,057**	807	**9,844**
Deposit receipt	**385**	354	**3,591**
Accrued paid absence	**329**	257	**3,070**
Accrued expenses and other	**1,666**	1,571	**15,487**
Total	**¥4,459**	¥3,397	**$41,517**

12. Commitments and Contingencies

Certain subsidiaries lease office space under non-cancelable operating leases that expire in 2006. Future minimum rental payments required under non-cancelable terms of more than one year are as follows:

Years ending March 31	Millions of yen	Thousands of U.S. dollars
2006	¥ 84	$ 782
2007	28	260
2008	30	278
2009	31	294
2010	33	311
2011 and thereafter	9	82
Total minimum lease payments	¥215	$2,007

Rent expense is recognized on a straight-line basis over the lease periods. Rent expense under these operating leases was approximately ¥1,033 million for the year ended March 31, 2005.

The Company is involved in routine litigation in the ordinary course of its business, which in management's opinion, will not have a material adverse effect on the Company's financial condition, cash flows or results of operations.

13. Employee Benefit Plan and Retirement Benefit to Directors and Statutory Auditors

Employee Benefit Plan

The Company has defined benefit plans covering their domestic employees, which are internally funded. The benefits are in the form of lump-sum payment and are based on current basic rate pay applicable to former ENIX employees and the highest basic rate pay until present applicable to former SQUARE employees. For the new employees hired by the Company on and after April 1, 2003, the current basic rate pay is applicable to the basis of benefit. Effective April 1, 2005, the Company changed its plan policy, in which the benefit is defined as the accumulation of the product of base-pay and certain point earned in each year of service until termination.

The Company adopted SFAS No. 87 "*Employers' Accounting for Pensions*" for its domestic defined benefit plans effective April 1, 2002. A portion of the transitional obligation was allocated and charged directly to equity on the adoption date.

Certain U.S. and U.K. subsidiaries have defined contribution plans for their employees and the contributions are charged to earnings when incurred. No pension plan is provided for the employees of the Chinese subsidiary.

Net periodic pension cost of the Company and its domestic subsidiaries for the years ended March 31, 2005, 2004 and 2003 consist of the following:

	Millions of yen			Thousands of U.S. dollars
	2005	2004	2003 (Unaudited)	**2005**
Service cost	**¥214**	¥227	¥21	**$1,992**
Interest cost	**16**	8	1	**147**
Amortization of SFAS No. 87 transition obligation	**2**	2	2	**24**
Net periodic pension cost	**¥232**	¥237	¥24	**$2,163**

Reconciliation of beginning and ending balances of benefit obligations are as follows:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	**2005**
Change in benefit obligation:			
Benefit obligation at beginning of year	**¥ 983**	¥ 199	**$ 9,161**
Service cost	**214**	227	**1,992**
Interest cost	**16**	8	**147**
Benefit obligation transferred from acquired company	**—**	675	**—**
Prior service costs	**(101)**	—	**(939)**
Actuarial gains	**(104)**	(94)	**(965)**
Benefits paid	**(40)**	(32)	**(369)**
Benefit obligation at end of year	**¥ 968**	¥ 983	**$ 9,027**
Funded status	**(968)**	(983)	**(9,027)**
Unrecognized actuarial loss	**(180)**	(76)	**(1,673)**
Unrecognized prior service costs	**(101)**	—	**(939)**
Unrecognized FAS87 transition obligation	**21**	24	**200**
Net amount recognized	**¥(1,228)**	¥(1,035)	**$(11,439)**
Amount recognized in the balance sheet is:			
Accrued pension costs	**(1,228)**	(1,035)	**(11,439)**
Net amount recognized	**¥(1,228)**	¥(1,035)	**$(11,439)**
Accumulated benefit obligation at end of year	**¥ 845**	¥ 513	**$ 7,868**
Actuarial assumption:			
Discount rate	**1.652%**	1.611%	**1.652%**
Assumed rate of increase in compensation level	**4.101%**	4.370%	**4.101%**

The future benefit payments for the plan are expected as follows:

Years ending March 31	Millions of yen	Thousands of U.S. dollars
2006	¥ 77	$ 717
2007	80	753
2008	82	769
2009	81	755
2010	77	721
2011–2015	303	2,828

Retirement Benefit to Directors and Statutory Auditors

In order to prepare for the payment of retirement benefit to the Company's directors and statutory auditors in the future, the Company internally funds a retirement allowance. The Board of Directors determined the certain formula for calculation of retirement benefits, pursuant to which, the benefits are calculated based on a certain fixed amount multiplied by the number of years of office and the coefficient predetermined by the Board according to the title of directors. The JCC requires shareholders' approval before it is paid, and the Company accrues retirement allowance according to such formula until the benefits are approved by the shareholders for payment. The balances of ¥55 million and ¥110 million at March 31, 2005 and March 31, 2004, respectively, are presented as "other long-term liabilities" in the consolidated balance sheets. Charges to income for the directors' and corporate auditors' retirement plans were ¥121 million, ¥6 million and ¥7 million (unaudited) in 2005, 2004 and 2003, respectively.

14. Income Taxes

Domestic and foreign income (loss) before income taxes are as follows:

Years ended March 31	Millions of yen			Thousands of U.S. dollars
	2005	2004	2003 (Unaudited)	**2005**
Domestic	**¥21,745**	¥4,577	¥4,290	**$202,484**
Foreign	**2,547**	3,031	(45)	**23,714**
Total	**¥24,292**	¥7,608	¥4,245	**$226,198**

Income tax expenses are as follows:

Years Ended March 31	Millions of yen			Thousands of U.S. dollars
	2005	2004	2003 (Unaudited)	**2005**
Current:	**¥11,267**	¥ 3,600	¥ 3,162	**$104,917**
Domestic	**10,350**	1,723	3,162	**96,386**
Foreign	**917**	1,877	—	**8,531**
Deferred:	**¥ (1,612)**	¥(1,168)	¥(1,240)	**$ (15,013)**
Domestic	**(1,807)**	(1,234)	(1,240)	**(16,829)**
Foreign	**195**	66	—	**1,816**
Total	**¥ 9,655**	¥ 2,432	¥ 1,922	**$ 89,904**

The differences between the provision for income taxes and the income taxes computed using Japan statutory tax rate to pretax income as a percentage of pretax income are as follows:

Years ended March 31	**2005**	2004	2003 (Unaudited)
Statutory tax rate (%)	**40.70%**	42.05%	42.05%
Tax rate difference from foreign consolidated affiliates	**(1.23)**	(2.29)	—
Effect of tax rate change	**(0.86)**	(0.22)	0.57
Accumulated earnings tax	**—**	—	1.86
Investment tax credit	**(0.58)**	(2.19)	—
Reversal of valuation allowance on deferred tax assets	**—**	(3.50)	—
Others	**1.72**	(1.88)	0.81
Income tax expense (%)	**39.75%**	31.97%	45.29%

The components of the deferred tax assets and liabilities as of March 31, 2005 and 2004 consist of the following:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	**2005**
Deferred tax assets:			
Software development costs	**¥ 951**	¥ —	**$ 8,852**
Accrued paid absence	**134**	108	**1,250**
Accrued pension costs	**500**	416	**4,651**
Enterprise tax payable	**810**	115	**7,541**
Prepaid expenses	**310**	205	**2,888**
Accrued bonus	**416**	500	**3,871**
Reserve for sales return and price protection	**442**	553	**4,119**
Accrued expense and other	**366**	381	**3,411**
Investment securities	**934**	1,138	**8,695**
Investment tax credit	**80**	118	**749**
Other	**747**	34	**6,956**
Gross deferred tax assets	**¥ 5,690**	¥ 3,568	**$ 52,983**
Deferred tax liabilities:			
Software development costs	**¥ 968**	¥ 453	**$ 9,018**
Fixed assets	**13,752**	13,767	**128,055**
Valuation gain on investment securities	**324**	249	**3,019**
Other	**127**	—	**1,179**
Gross deferred tax liabilities	**¥15,171**	¥ 14,469	**$141,271**
Net deferred tax liabilities	**¥ (9,481)**	¥(10,901)	**$ (88,288)**

On April, 2003, the acquisition of SQUARE took place in the form of a qualified non-taxable merger. Accordingly, the tax attributes to produce future tax deduction in the amount of ¥9,867 million were transferred, without limitation, to the Company. It included pre-merger net operating loss carryforwards (NOLs) and the deductible temporary difference that arose from a past write-off of a depreciable motion picture film in the amount of ¥1,661 million and ¥2,211 million, respectively. Transferred pre-merger NOLs were fully utilized in the year ended March 31, 2004.

At March 31, 2005, the U.S. subsidiary had NOLs and research and development credits for federal income tax purposes of approximately $16 million and $0.3 million, respectively expiring beginning in 2022. Utilization of these net operating loss and credits carryforwards has certain limitations.

The total amount of undistributed earnings of foreign subsidiaries for income tax purposes was approximately ¥4,377 million and ¥5,128 million for the years ended March 31, 2005 and 2004, respectively. It is the Company's intention to reinvest undistributed earnings of its foreign subsidiaries and thereby indefinitely postpone their remittance. Accordingly, no provision has been made for the Japanese income taxes which may become payable if undistributed earnings of foreign subsidiaries were paid as dividends to the Company.

15. Stockholders' Equity

Merger

On April 2003, the Company issued 51,167,293 shares of common stock in exchange for shares of former SQUARE as a result of the statutory merger. The merger was accounted for using "pooling of interest method of accounting" for JCC purposes, and accordingly, the stockholders' equity of liquidated SQUARE was combined with that of the Company. The Company made cash payments to stockholders of former SQUARE in the total amount of ¥4,153 million in lieu of dividend for the final year of SQUARE ended March 31, 2003.

Dividend

The JCC requires that dividends declared to be paid out of retained earnings of the Company at the end of each fiscal year, and such retained earnings available for dividend shall be calculated in accordance with related JCC requirements and JPNGAAP. Since the merger with SQUARE was accounted for using "pooling of interest method of accounting" for JCC purposes, a certain portion of additional paid-in capital in the amount of ¥11,524 million under purchase method of accounting presented in the accompanying consolidated balance sheets as of March 31, 2004 constitutes retained earnings available for dividend transferred from SQUARE for JCC purposes.

JCC, as amended effective October 1, 2001, provides that earnings in an amount equal to at least 10% of appropriations of retained earnings that are paid in cash shall be appropriated as a legal reserve until an aggregated amount of additional paid-in capital and legal reserve equals 25% of stated capital. The Company has already met this requirement, and accordingly, it no longer needs to take reserve for future appropriation of retained earnings in cash.

Comprehensive Income

Accumulated other comprehensive (loss) income as of March 31, 2005 and 2004 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	**2005**
Foreign currency translation adjustments:			
Balance, beginning of year	**¥(956)**	¥ 43	**$(9,051)**
Aggregate adjustment for the year resulting from translation of foreign currency financial statements	**49**	(999)	**594**
Balance, end of year	**¥(907)**	¥(956)	**$(8,457)**
Net unrealized gains on available-for-sale securities:			
Balance, beginning of year	**¥ 319**	¥ 23	**$ 3,026**
Net increase	**109**	296	**967**
Balance, end of year	**¥ 428**	¥ 319	**$ 3,993**
Total accumulated other comprehensive income:			
Balance, beginning of year	**¥(637)**	¥ 66	**$(6,025)**
Adjustments for the year	**158**	(703)	**1,561**
Balance, end of year	**¥(479)**	¥(637)	**$(4,464)**

Tax effects allocated to each component of other comprehensive income (loss) and adjustments are as follows:

	Millions of yen		
2005	Pretax amount	Tax benefit (expense)	Net of tax amount
Foreign currency translation adjustments	**¥ 49**	**¥ —**	**¥ 49**
Net unrealized gain on available-for-sale securities:			
Unrealized gain arising during the year	**268**	**159**	**109**
Less: reclassification for gain included in net income	**—**	**—**	**—**
Net unrealized gain	**¥268**	**¥159**	**¥109**

	Thousands of U.S. dollars		
2005	Pretax amount	Tax benefit (expense)	Net of tax amount
Foreign currency translation adjustments	**$ 594**	**$ —**	**$ 594**
Net unrealized gain on available-for-sale securities:			
Unrealized gain arising during the year	**6,733**	**2,740**	**3,993**
Less: reclassification for gain included in net income	**—**	**—**	**—**
Net unrealized gain	**$6,733**	**$2,740**	**$3,993**

	Millions of yen		
2004	Pretax amount	Tax benefit (expense)	Net of tax amount
Foreign currency translation adjustments	¥(999)	¥ —	¥(999)
Net unrealized gain (loss) on available-for-sale securities:			
Unrealized gain (loss) arising during the year	539	220	319
Less: reclassification for gain (loss) included in net income	(39)	(16)	(23)
Net unrealized gain (loss)	¥ 500	¥204	¥ 296

	Millions of yen		
2003	Pretax amount	Tax benefit (expense)	Net of tax amount
Foreign currency translation adjustments	¥(16)	¥ —	¥(16)
Net unrealized gain (loss) on available-for-sale securities:			
Unrealized gain (loss) arising during the year	(49)	(21)	(28)
Less: reclassification for gain (loss) included in net income	71	(30)	41
Net unrealized gain (loss)	¥ 22	¥ 9	¥ 13

16. Earnings per Share

A reconciliation of the numerators and denominators of the basic and diluted earnings per share computation is as follows:

	Millions of yen			Thousands of U.S. dollars
	2005	2004	2003 (Unaudited)	**2005**
Net income	**¥14,520**	¥4,355	¥2,296	**$135,207**
Diluted net income	**¥14,520**	¥4,355	¥2,296	**$135,207**
Weighted-average common shares outstanding	**110,093,589**	110,030,879	58,750,427	**110,093,589**
Dilutive effect of:				
Stock option	**962,777**	4,609,207	750,756	**962,777**
Diluted common shares outstanding	**111,056,366**	114,640,086	59,501,183	**111,056,366**
Earnings per share:				
Basic	**¥131.89**	¥39.58	¥39.06	**$1.23**
Diluted	**130.74**	37.99	38.57	**1.22**

17. Segment Information

Operating segment information

The Company has five operating segments; (i) games, (ii) online games, (iii) Mobilephone Content, (iv) Publication, and (v) Others. Revenue from disc sales for Final Fantasy XI is included in the online games segment. They are defined for which separate financial information is available and regularly reviewed by the Company's chief operating decision maker. The Company's chief operating decision maker utilizes the information on operating income (loss) from each operating segment and allocates resources to each respective segment. Accordingly, these segments constitute "Reportable Segments" for purposes of SFAS No. 131 "*Disclosures about Segments of an Enterprise and Related Information.*" Since the Company is listed on Tokyo Stock Exchange, the segment information utilized by the Company's chief decision maker is based on JPNGAAP. The differences between JPNGAAP and U.S.GAAP are indicated in the tables below.

Years ended March 31	Millions of yen			Thousands of U.S. dollars
Net sales	**2005**	2004	2003 (Unaudited)	**2005**
Games	**¥41,945**	¥37,988	¥11,912	**$390,584**
Online games	**13,853**	8,924	942	**129,000**
Mobilephone Content	**4,557**	2,793	1,656	**42,437**
Publication	**10,860**	9,671	5,920	**101,125**
Others	**2,650**	3,826	1,447	**24,674**
Corporate and elimination	**—**	—	—	**—**
Total	**73,865**	63,202	21,877	**687,820**
U.S.GAAP adjustments	**198**	(107)	6	**1,840**
Consolidated	**¥74,063**	¥63,095	¥21,883	**$689,660**

Years ended March 31	Millions of yen			Thousands of U.S. dollars
Operating expenses	**2005**	2004	2003 (Unaudited)	**2005**
Games	**¥22,295**	¥21,583	¥ 8,278	**$207,608**
Online games	**8,867**	6,575	1,309	**82,565**
Mobilephone Content	**2,818**	1,633	872	**26,244**
Publication	**7,448**	6,491	4,582	**69,355**
Others	**1,867**	2,799	1,200	**17,385**
Corporate and elimination	**4,131**	4,722	1,033	**38,470**
Total	**47,426**	43,803	17,274	**441,627**
U.S.GAAP adjustments	**2,323**	9,811	213	**21,628**
Consolidated	**¥49,749**	¥53,613	¥17,487	**$463,255**

Years ended March 31	Millions of yen			Thousands of U.S. dollars
Operating income (loss)	**2005**	2004	2003 (Unaudited)	**2005**
Games	**¥19,650**	¥16,404	¥3,634	**$182,976**
Online games	**4,986**	2,348	(366)	**46,435**
Mobilephone Content	**1,739**	1,159	784	**16,193**
Publication	**3,412**	3,180	1,337	**31,770**
Others	**783**	1,029	247	**7,289**
Corporate and elimination	**(4,131)**	(4,722)	(1,033)	**(38,470)**
Total	**26,439**	19,398	4,603	**246,193**
U.S.GAAP adjustments	**(2,125)**	(9,916)	(208)	**(19,788)**
Consolidated	**¥24,314**	¥ 9,482	¥4,396	**$226,405**

Years ended March 31	Millions of yen			Thousands of U.S. dollars
Depreciation and amortization	**2005**	2004	2003 (Unaudited)	**2005**
Games	**¥ 694**	¥ 870	¥207	**$ 6,461**
Online games	**770**	742	69	**7,171**
Mobilephone Content	**36**	17	20	**334**
Publication	**20**	12	8	**182**
Others	**99**	94	46	**927**
Corporate and elimination	**195**	239	36	**1,820**
Total	**1,814**	1,974	386	**16,895**
U.S.GAAP adjustments	**2,641**	3,432	—	**24,585**
Consolidated	**¥4,455**	¥5,406	¥386	**$41,480**

Years ended March 31	Millions of yen			Thousands of U.S. dollars
Capital expenditures	**2005**	2004	2003 (Unaudited)	**2005**
Games	**¥ 106**	¥ 175	¥ 94	**$ 987**
Online games	**725**	384	59	**6,756**
Mobilephone Content	**52**	12	25	**484**
Publication	**4**	0	3	**35**
Others	**18**	—	74	**166**
Corporate and elimination	**619**	1,976	46	**5,762**
Total	**1,524**	2,548	301	**14,190**
U.S.GAAP adjustments	**—**	—	—	**—**
Consolidated	**¥1,524**	¥2,548	¥301	**$14,190**

Years ended March 31	Millions of yen			Thousands of U.S. dollars
Assets	**2005**	2004	2003 (Unaudited)	**2005**
Games	**¥ 64,860**	¥ 55,104	¥ 5,302	**$ 603,970**
Online games	**20,753**	14,215	700	**193,246**
Mobilephone Content	**4,725**	2,583	580	**44,004**
Publication	**20,448**	14,225	3,094	**190,410**
Others	**6,169**	5,983	676	**57,443**
Corporate and elimination	**14,740**	18,523	47,113	**137,255**
Total	**131,695**	110,633	57,465	**1,226,328**
U.S.GAAP adjustments	**70,669**	71,415	15	**658,058**
Consolidated	**¥202,364**	¥182,048	¥57,480	**$1,884,386**

Geographic information

The Company's chief decision maker also regularly reviews segment information by geographic area. Since such information is based on JPNGAAP, the differences between JPNGAAP and U.S.GAAP are indicated in the tables below.

Years ended March 31		Millions of yen		Thousands of U.S. dollars
Sales from external customers	**2005**	2004	2003 (Unaudited)	**2005**
Japan	**¥60,949**	¥49,354	¥21,368	**$567,550**
North America	**11,529**	12,981	509	**107,352**
Europe	**577**	148	—	**5,374**
Asia excluding Japan	**810**	719	—	**7,544**
Corporate and elimination	**—**	—	—	**—**
Total	**73,865**	63,202	21,877	**687,820**
U.S.GAAP adjustments	**198**	(107)	6	**1,840**
Consolidated	**¥74,063**	¥63,095	¥21,883	**$689,660**

Years ended March 31		Millions of yen		Thousands of U.S. dollars
Inter segment sales	**2005**	2004	2003 (Unaudited)	**2005**
Japan	**¥3,437**	¥3,718	¥—	**$32,003**
North America	**361**	389	—	**3,361**
Europe	**313**	279	—	**2,913**
Asia excluding Japan	**13**	0	—	**123**
Corporate and elimination	**(4,124)**	(4,386)	—	**(38,400)**
Total	**—**	—	—	**—**
U.S.GAAP adjustments	**—**	—	—	**—**
Consolidated	**¥ —**	¥ —	¥—	**$ —**

Years ended March 31		Millions of yen		Thousands of U.S. dollars
Total sales	**2005**	2004	2003 (Unaudited)	**2005**
Japan	**¥64,386**	¥53,073	¥21,368	**$599,553**
North America	**11,890**	13,371	509	**110,713**
Europe	**890**	428	—	**8,287**
Asia excluding Japan	**823**	717	—	**7,667**
Corporate and elimination	**(4,124)**	(4,387)	—	**(38,400)**
Total	**73,865**	63,202	21,877	**687,820**
U.S.GAAP adjustments	**198**	(107)	6	**1,840**
Consolidated	**¥74,063**	¥63,095	¥21,883	**$689,660**

Years ended March 31		Millions of yen		Thousands of U.S. dollars
Operating expenses	**2005**	2004	2003 (Unaudited)	**2005**
Japan	**¥40,425**	¥36,880	¥16,729	**$376,434**
North America	**9,619**	10,178	545	**89,575**
Europe	**859**	336	—	**7,998**
Asia excluding Japan	**646**	796	—	**6,020**
Corporate and elimination	**(4,123)**	(4,387)	—	**(38,400)**
Total	**47,426**	43,803	17,274	**441,627**
U.S.GAAP adjustments	**2,323**	9,811	213	**21,628**
Consolidated	**¥49,749**	¥53,613	¥17,487	**$463,255**

Years ended March 31		Millions of yen		Thousands of U.S. dollars
Operating income	**2005**	2004	2003 (Unaudited)	**2005**
Japan	**¥23,961**	¥16,192	¥4,639	**$223,119**
North America	**2,270**	3,192	(36)	**21,138**
Europe	**31**	91	—	**290**
Asia excluding Japan	**177**	(77)	—	**1,646**
Corporate and elimination	**—**	—	—	**—**
Total	**26,439**	19,398	4,603	**246,193**
U.S.GAAP adjustments	**(2,125)**	(9,916)	(208)	**(19,788)**
Consolidated	**¥24,314**	¥ 9,482	¥4,396	**$226,405**

Years ended March 31		Millions of yen		Thousands of U.S. dollars
Assets	**2005**	2004	2003 (Unaudited)	**2005**
Japan	**¥118,307**	¥ 96,547	¥57,262	**$1,101,657**
North America	**10,694**	12,106	203	**99,585**
Europe	**1,010**	772	—	**9,406**
Asia excluding Japan	**1,684**	1,208	—	**15,679**
Corporate and elimination	**—**	—	—	**—**
Total	**131,695**	110,633	57,465	**1,226,327**
U.S.GAAP adjustments	**70,669**	71,415	15	**658,059**
Consolidated	**¥202,364**	¥182,048	¥57,480	**$1,884,386**

18. Related Party Transaction

The balances and transactions with related parties included in the accompanying consolidated financial statements are as follows:

As of March 31		Millions of yen		Thousands of U.S. dollars
	2005	2004	2003 (Unaudited)	**2005**
Accounts payable to Armor Project Co., Ltd.	**¥—**	¥—	¥449	**$—**

Years ended March 31		Millions of yen		Thousands of U.S. dollars
	2005	2004	2003 (Unaudited)	**2005**
Royalty paid to Armor Project Co., Ltd.	**¥—**	¥—	¥378	**$—**

Armor Project Co., Ltd ("Armor Project") is a Japanese company that is owned by Mr. Yuji Horii, a director of former ENIX. The transaction with Armor Project was based on the license agreement with respect to the development of DRAGON QUEST series product, pursuant to which, the Company, as a licensee, paid royalty to Armor Project.

19. Subsequent Event

The annual stockholders' meeting for the year ended March 31, 2005 was held on June 18, 2005 in Tokyo. In the meeting, the year-end cash dividend in the total amount of ¥5,511 million was proposed by the management of the Company and approved by the stockholders.

ChuoAoyama PricewaterhouseCoopers

PRICEWATERHOUSECOOPERS

Kasumigaseki Bldg. 32nd Floor
3-2-5, Kasumigaseki, Chiyoda-ku,
Tokyo 100-6088, Japan

Report of Independent Auditors

To the Board of Directors and
Stockholders of Square Enix Co., Ltd.:

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of income, changes in stockholders' equity and cash flows present fairly, in all material respects, the financial position of Square Enix Co., Ltd. and it subsidiaries (collectively the "Company") at March 31, 2005 and 2004, and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

ChuoAoyama PricewaterhouseCoopers

July 5, 2005

Corporate Data

Company Profile (As of March 31, 2005)

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:
¥ 7,433,510,600

Number of employees:
1,662 (Consolidated)
1,291 (SQUARE ENIX)
Note: Number of employees does not include temporary staff.

SQUARE ENIX Group

(As of July 1, 2005)

Company Name Consolidated Subsidiaries	Established	Fiscal Year-End	Common Stock	Percent of Voting Rights	Principal Lines of Business
Japan					
The Gamedesigners Studio, Inc.	June 1999	March	¥ 10 million	100.0%	Planning, development, and sale of games
Community Engine Inc.	May 2000	March	¥ 25 million	84.3%	Network application, development, sale of middleware
DIGITAL ENTERTAINMENT ACADEMY CO., LTD.	October 1991	March	¥ 72 million	70.8%	School for computer game engineers
North America					
SQUARE ENIX, INC.	March 1989	March	US$10 million	100.0%	Sale of games, sale and management of online games in North America
UIEVOLUTION, INC.	August 2000	March	US$3 million	100.0% Note (100.0%)	Network application, development, and sale of middleware
SQUARE PICTURES, INC.	November 1997	December	US$0.1 million	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$6 million	100.0%	Development, sale, and management of online games in Asia
SQUARE ENIX WEBSTAR NETWORK TECHNOLOGY (BEIJING) CO., LTD.	December 2001	December	US$4 million	60.0%	Development, sale, and management of online games in Asia
COMMUNITY ENGINE NETWORK SOFTWARE (BEIJING) CO., LTD.	September 2003	December	877 thousand yuan RMB	80.0% Note (80.0%)	Network application, development, and sale of middleware
Partnership					
FF Film Partners	March 1998	December	—	92.2%	Licensing and management of movies and derivative products

(Note) Percent share of indirectly ownership

Investor Information

(As of March 31, 2005)

Share Information

Number of shares issued: 110,385,543

Number of shareholders: 37,154

(As of March 31, 2005)

Principal Shareholders

Rank	Shareholder	Investment in SQUARE ENIX (Thousands of Shares)	(%)
1	Yasuhiro Fukushima	23,626	21.40
2	Masashi Miyamoto	13,422	12.16
3	Fukushima Planning Co., Ltd.	9,763	8.84
4	Sony Computer Entertainment Inc.	9,520	8.62
5	Japan Trustee Services Bank, Ltd. (Trust Account)	6,383	5.78
6	The Master Trust Bank of Japan, Ltd. (Trust Account)	5,253	4.75
7	SNFE MAC Japan Active Shareholder Fund, L.P.	4,181	3.78
8	S System Co., Ltd.	2,545	2.30
9	Trust & Custody Services Bank, Ltd.	1,832	1.65
10	The Melon Bank Treaty Clients Omnibus	1,512	1.36

(As of March 31, 2005)

Shareholders Memo

» **Fiscal year-end:**
March 31

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

» **Number of shares authorized:**
440,000,000

» **Public announcements:**
Nihon Keizai Shimbun
(circulated in the Tokyo Metropolitan area)

» **Trading unit:**
100 shares

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

» **Securities code:**
9684

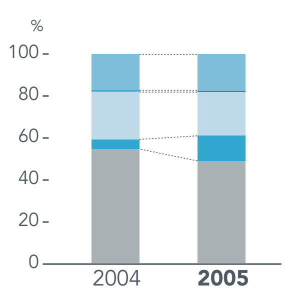
» **Transfer Agent:**
Securities Agency Department
UFJ Trust Bank Limited
7-10-11 Higashi-suna, Koto-ku, Tokyo 137-8081
TEL: +81-3-5683-5111

» **Transfer Agent Offices:**
UFJ Trust Bank Limited (domestic branches)

Note: On October 1, 2005, UFJ Trust Bank Limited will merge with The Mitsubishi Trust and Banking Corporation to form Mitsubishi UFJ Trust and Banking Corporation.

(As of March 31, 2004 and 2005)

Number of Shares Owned (Thousands of shares)



	2004		2005	
Financial Institutions	19,225	(17.46%)	19,475	(17.64%)
Securities Companies	486	(0.44%)	374	(0.34%)
Other Companies	25,023	(22.72%)	23,117	(20.94%)
Foreign Companies and Individuals	4,914	(4.46%)	13,252	(12.01%)
Individuals and Other	60,481	(54.92%)	54,164	(49.07%)
Total	110,130	(100.00%)	110,385	(100.00%)