SQUARE ENIX CO., LTD.   www.square-enix.co.jp/

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SQUARE ENIX CO., LTD. 2004 ANNUAL REPORT

2004 ANNUAL REPORT

> Networks Will Transform

the Entertainment Industry.

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 forward-looking statements are 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.

Contents

Financial Highlights

SQUARE ENIX CO., LTD. and Consolidated Subsidiaries

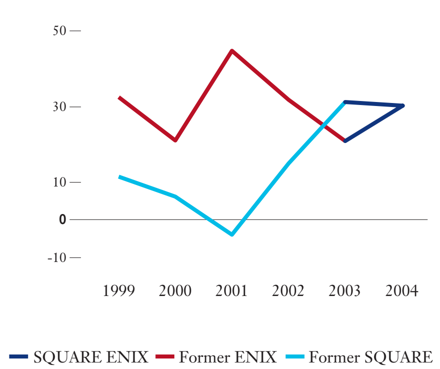
Years Ended March 31

	Millions of Yen			Thousands of U.S. Dollars
	2004	2003	2003	2004
	SQUARE ENIX	Former ENIX	Former SQUARE	SQUARE ENIX
FOR THE YEAR:				
Net sales	¥63,202	¥21,877	¥40,286	$597,994
Operating income	19,398	4,603	12,594	183,537
Net income	10,993	2,419	14,074	104,012
AT YEAR-END:				
Total assets	110,633	57,465	54,354	1,046,769
Total shareholders' equity	96,700	49,647	37,727	914,940

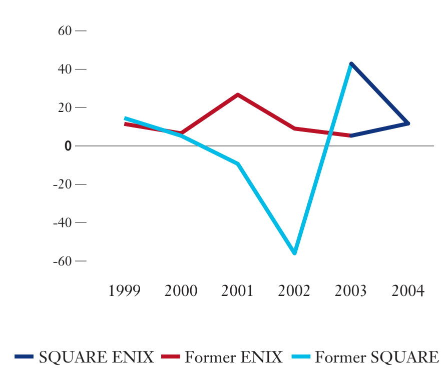
	Yen			U.S. Dollars
PER SHARE OF COMMON STOCK:				
Net income	¥100.04	¥41.18	233.83	$0.95
Total shareholders' equity	878.85	845.18	626.78	8.32

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, 2004 of ¥105.69=U.S. $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 FY1998 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

Square Enix Co., Ltd. is proud to present its first annual report for fiscal 2003, ended March 31, 2004, following the merger of Enix Corporation and Square Co., Ltd. on April 1, 2003.

For its first fiscal year, consolidated net sales totaled ¥63,202 million, operating income was ¥19,398 million and net income amounted to ¥10,993 million for an operating income margin of 30.7% and return on equity (ROE) of 11.9%. Compared against the simple addition of the historical figures of the former Enix Corporation and Square Co., Ltd., performance in fiscal 2003 reached a record high. Square Enix got an excellent start to its new journey owing to the smooth integration of the two companies following the merger.

The Square Enix Group aims to become one of the world's largest and best digital content providers. While our performance during the fiscal year under review was encouraging, we believe it was nothing more than a start of what is to come. Here, we would like to discuss our vision, perception of the operating environment and future management strategies.

A Fundamental Industry Change from Evolution in Network Technology

One factor why we decided on the merger was the major changes underway in the video game industry.

The structure of the IT industry in general has been changing from a vertically integrated to a horizontally linked industry—the typical example is the PC industry. Being part of the increasingly horizontally linked IT industry the video game business has been in the rare position of being able to maintain a vertically integrated business model. We believe that this atypical position was possible due to the unique capability of game consoles to make unique entertainment experiences possible—experiences that other hardware and software vendors were unable to provide on other platforms. We also believe that it was possible due to

> Network is the Game.

Everything plays Games.

market growth that kept profits well distributed within the industry value chain.

However, these conditions have changed.

For hardware vendors, this change was embodied by the ability of PCs, and in the near future mobile phones, to match the unique features of game consoles, which had lost their lead in graphics rendering capabilities. Game consoles were also behind PCs in incorporating networking functions, an indispensable competitive feature in the new industry structure. For software vendors, this change represented an increase in development costs to accommodate much improved hardware specifications and technical difficulties in transferring game software to other media. For customers, this change meant the emergence of markets for new digital content beyond video games. All of these changes collided together in the game industry. The strength of having a vertically integrated business model began to become a weakness, because there were few companies, other than console providers, which were large enough to weather downward pricing pressure and so the market grew too large for console providers to keep pace.

At a glance, this might appear to be a problem unique to Japan, but we believe it applies in global markets as well. These conditions are not reflected outside Japan yet owing to differences in the timing of game console proliferation in Japan and other countries, as well as differences in the distribution structure. Even if the aforementioned change did not occur, the real issue at hand is advancements in network technology. Open networks disrupt vertically integrated business models, and this is not something unique to Japan.

The video game industry is changing from a vertically integrated model to a horizontally linked one, and customer ownership is shifting from game console manufacturers to content providers.

A New Era of Entertainment

Another factor why we decided on the merger was to tackle a massive new market.

Taking another look at changes in the industry structure, we see that the process of change is offering customers new forms of entertainment. Companies unable to adjust to this change will fail, and companies that precisely adapt to this change will be offered incredible business opportunities.

Square Enix expresses the new era of networking in the following two catchphrases.

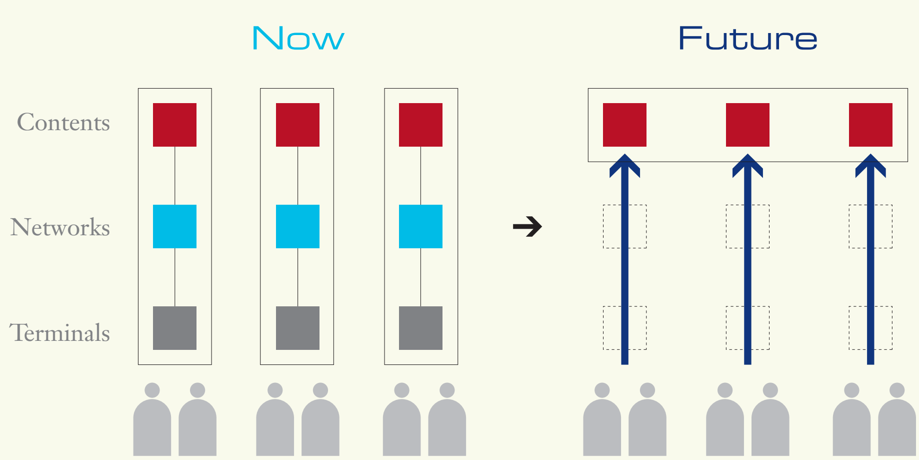
"Network is the Game"

Network is the Game is our way of expressing the fact that communication across networks is an essential element in new network-based interactive content. To think abstractly, it can be said that a game is a form of communication based on a set of rules. The enjoyment derived from a game of chess or sports is created through interaction between people. Technology has advanced to the point of allowing users to enjoy communicating through virtual worlds. Demand for communications, and the communities that naturally formed as a result, present an unlimited market restricted only by the whims of people.

"Everything Plays Games"

With the advancement of multifunctional, high-performance platforms, the way users access content is diversifying. Users will be able to access the same content at any time no matter where they are, and they will be able to access various kinds of content from a single platform.

Networks will transform the Entertainment Industry.



In any case, we believe users stand to benefit no matter what happens next in the coming era of network gaming.

It is our view that these developments are occurring in not only the TV gaming industry, but also the IT industry as a whole.

Becoming the Largest and Finest Digital Content Provider

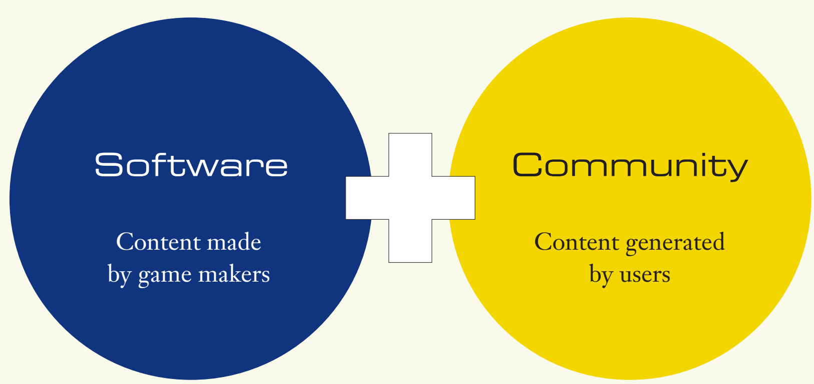
A noteworthy point about the video game industry is that it has increased the variety and quality of entertainment through technology. The video game industry is in the best position to take advantage of the technological changes mentioned above. To this end, we believe the mission of Square Enix is to lead the industry into a new era of entertainment.

To be able to adapt to any industry structure, more specifically, to take the initiative in designing the next ecosystem, Square Enix must have influence over the whole value chain, reinforce its financial capacity, and enhance its presence to form broad-ranging alliances.

The former Enix and Square were similar in terms of their commitment to the quality of their products, but they had different business models and different areas of business focus. As a result of the merger, the two companies were able to mutually complement these differences and achieve the above-mentioned objectives in a short time.

In addition, both companies share a point in common in that they were early to start initiatives in network content and we believe this will become a crucial cornerstone for our future growth, despite the fact that both companies' preeminence in packaged

Network is the Game.



software tended to overshadow their efforts on the online games front.

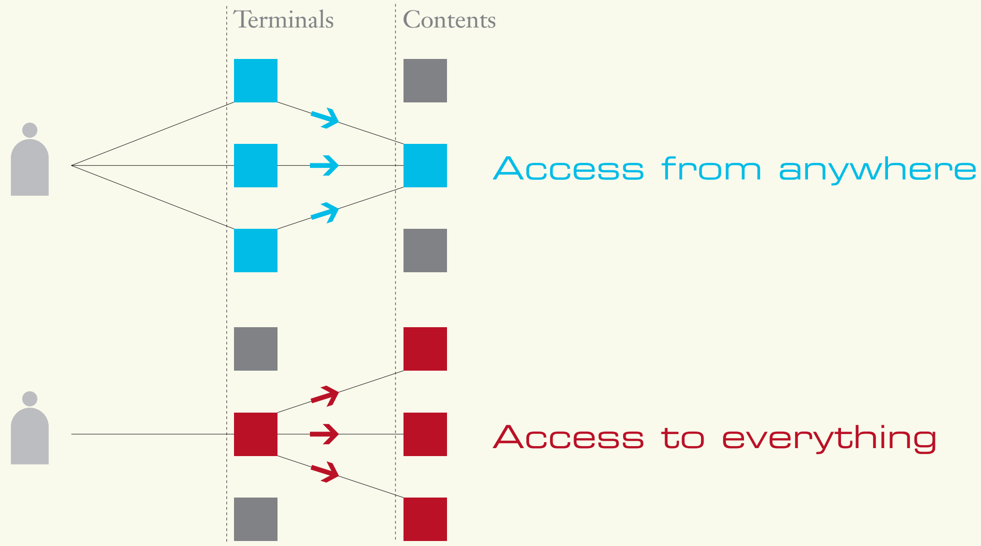
What is Square Enix's strategy in this challenging but exciting business environment? We think the following three actions are critical: enhance community management; deploy polymorphic content; and define new platforms.

Network content is comprised of two elements, namely software and communities. Communities are a previously nonexistent service category, and managing the quality of these communities is an area where we can add the most value going forward. Communities provide the most value to users, and managing them is the most difficult business area for providers to enter. For these very reasons, Square Enix plans to concentrate on enhancing community management skills.

Our next strategy is the development of polymorphic content. This entails the creation of original content with the intent of deployment across various platforms while leveraging the unique features of each platform and media type. Recently, there has been an industry trend toward creating games based on preexisting content such as sports and movies. In other words, many games are created as a secondary usage of the original content for which others hold the intellectual property (IP) rights. We are focusing on capitalizing on our own IPs. As the "Everything Plays Games" trend continues, we expect profits will converge on the industry players, such as Square Enix, who possess the IP rights to original content.

Our third strategy is to define new platforms, yet this does not mean we intend to become a hardware manufacturer. As the industry shifts to a horizontally

Everything plays Games.



linked structure, Square Enix intends to develop a new relationship with various hardware and software companies to define new platforms that will be a combination of many technologies provided by the various industry players.

With regard to our medium-term outlook, we plan to lay the groundwork for earnings in fiscal 2004 and fiscal 2005 based on products currently in the pipeline. We expect an outline of the new industry structure to emerge in fiscal 2005 or fiscal 2006. Therefore, Square Enix has chosen the first two years as a period for reinforcing its business foundation and making forward-looking investments. As a part of these efforts, we enhanced our management and organization of overseas operations in the U.S., Europe and China, beginning in April 2004. In fiscal 2006, 2007 and 2008, we will take partin full-fledged competition within the IT industry as a whole, and I have chosen these years as a time for expansion. By 2010, the Square Enix Group plans on becoming one of the largest and best digital content providers in the world and profiting from its endeavors.

We are now setting out on a new adventure. To this end, we ask for the steadfast support of our shareholders.

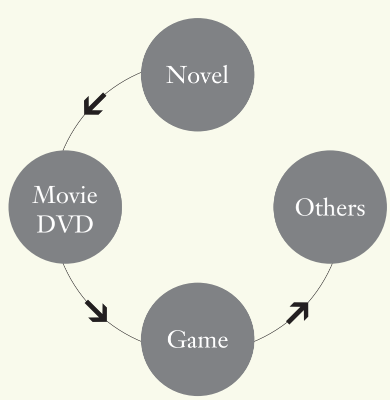
July 2004

Yoichi Wada

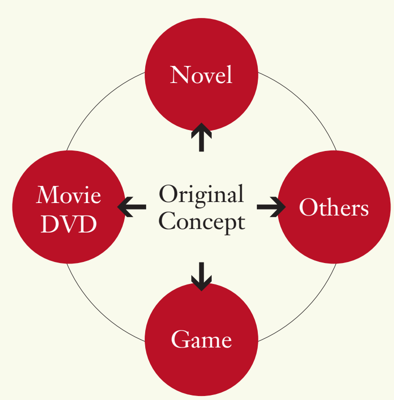
President and Representative Director

Deploy "Polymorphic Content".

Traditional model of Secondary use of Content



"Polymorphic Content"



Review of Operations

The Year in Review

Since the merger on April 1, 2003, Square Enix Co., Ltd. ("the Company") has made determined efforts to strengthen the foundation and profitability of its business segments, which comprise Games (Offline), Games (Online), Mobilephone Content, Publication, and Others.

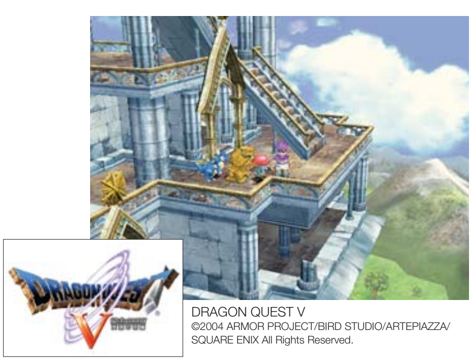
As a result, Square Enix secured earnings and expanded operations in all business segments in fiscal year ended March 31, 2004 (this "Fiscal Year"), its first fiscal year since the merger.

Overview by Business Segment

> Games (Offline)

In the Games (Offline) segment in this Fiscal Year, the Company shipped many best-selling titles worldwide. More than two million copies of FINAL FANTASY X-2 for the PlayStation 2, and more than one million copies of FINAL FANTASY TACTICS ADVANCE for the Game Boy Advance were shipped in North America and Europe. In Japan, the Company released a new PlayStation 2 version of DRAGON QUEST V TENKU NO HANAYOME-originally released for the Super Famicom in 1992-which shipped 1.3 million copies in only two days after its release. The Company also shipped more than half a million copies of KENSHIN DRAGON QUEST - YOMIGAERISHI DENSETSU NO TSURUGI in Japan, a new type of game that is independent of game platforms.

Sales in the Games (Offline) segment were ¥37,988 million, and operating income was ¥16,404 million.



DRAGON QUEST V

> Games (Online)

Since the May 2002 launch of our PlayOnline service and the Company's flagship online title, FINAL FANTASY XI-a massively multiplayer online role-playing game (MMORPG)-the number of PlayOnline subscribers has continued to grow at a steady pace. During this Fiscal Year, our subscriber base became one of the largest in Japan, spurred on by the release of the FINAL FANTASY XI: Rise of the Zilart expansion pack in April 2003.

Overseas, the Company made its debut in the North American online gaming market with the launch of PlayOnline services and the PC version of FINAL FANTASY XI in October 2003. In addition, the Company released a PlayStation 2 version of the same game in March 2004, significantly increasing the number of subscribers to PlayOnline. As of March 31, 2004, there were approximately half a million FINAL FANTASY XI players around the world. In addition, sales are steadily growing for Crossgate, a MMORPG developed specifically for the Asian market, and the title has acquired a leading position in terms of membership in the Chinese online gaming market.

In this way, the Company achieved stable growth and established an earnings foundation in Japan and overseas, marking this Fiscal Year as the first year for online games.

Sales in the Games (Online) segment totaled ¥8,924 million, and operating income was ¥2,348 million.

FINAL FANTASY XI

Title Design by Yoshitaka Amano Image Illustration:©2003 Yoshitaka Amano

Business Segment Information (Fiscal year ended March 31, 2004)

Millions of Yen

	Games (Offline)	Games (Online)	Mobilephone Content	Publication	Others	Elimination or corporate	Consolidated total
Net sales	37,988	8,924	2,793	9,671	3,824	—	63,202
Operating income	16,404	2,348	1,159	3,180	1,027	(4,722)	19,398
Operating income	43.2%	26.3%	41.5%	32.9%	26.9%	—	30.7%

> Mobilephone Content

The Company provides content for mobilephones such as ring tones and wallpaper, as well as role-playing games (RPGs) and adventure games. In Japan, the Company proved beyond any doubt that mobilephones are a viable game platform by releasing complete versions of DRAGON QUEST and FINAL FANTASY for NTT DoCoMo's FOMA handsets.

The Company made significant strides during this Fiscal Year, entering overseas markets in North America and Asia, and began to provide content to Verizon Wireless and AT&T Wireless in the U.S. In March 2004, the Company acquired U.S.-based UIEvolution, which possesses technology that is able to distribute the same content to any number of mobilephones, thus providing a foundation for future overseas development.

Sales in the Mobilephone Content segment were ¥2,793 million. Operating income was ¥1,159 million.

> Publication

The Company publishes monthly magazines including SHONEN GANGAN, G FANTASY, and GANGAN WING. During this Fiscal Year, from among these serial comics the Company created three animation series, FULLMETAL ALCHEMIST, E'S, and PAPUWA, which were aired on television.

Of these titles, FULLMETAL ALCHEMIST is a best-selling hit with over 1.1 million publications in print, including comics and fan books. Synergetic effects from FULLMETAL ALCHEMIST are also substantial. In the Games (Offline) segment, the newly created FULLMETAL ALCHEMIST game title for the PlayStation 2 shipped 250,000 copies, and the circulation of SHONEN GANGAN, the monthly magazine featuring the FULLMETAL ALCHEMIST comic, more than doubled. Despite the lack of publications of game strategy books for major titles in this Fiscal Year, the Publication segment performed admirably well.

Sales in the Publication segment amounted to ¥9,671 million and operating income was ¥3,180 million.

> Others

The Others segment covers the planning, production, sales, and licensing of Square Enix titles' derivative products. The Company offers character goods related to FINAL FANTASY, the BATO-EN series of popular pencil battle games related to DRAGON QUEST, as well as a wide variety of other toys and goods for all ages. The Company also licenses music CDs including the soundtracks of popular games.

Total sales in the Others segment were ¥3,824 million, and operating income was ¥1,027 million.

Consolidated Sales by Geographic Segment (Fiscal year ended March 31, 2004)

Millions of Yen

	Japan	North America	Europe	Asia	Total
Consolidated net sales	44,491	15,618	2,121	972	63,202
Percentage of Share	70.4%	24.7%	3.4%	1.5%	100.0%

Directors, Auditors and Executive Officers

Board of Directors

Yoichi Wada
President and Representative Director

Keiji Honda
Executive Vice President and Director

Akitoshi Kawazu
Director

Yosuke Matsuda
Director

Yukinobu Chida
Director

Makoto Naruke
Director

Corporate Auditor

Hiroshi Nakamura
Standing Auditor

Toshio Maekawa
Auditor

Tamotsu Iba
Auditor

Norikazu Yahagi
Auditor

Executive Officers

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

Honorary Chairman

Yasuhiro Fukushima

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 (yuka shoken hokokusho). Please refer to the yukashoken hokokusho for the original Japanese consolidated financial statements and the report of independent auditors attached thereto.

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 management's discussion and analysis contains figures representing the simple unadjusted total of the consolidated results for the fiscal year ended March 31, 2003 of the former ENIX CORPORATION ("ENIX") and the former SQUARE CO., LTD. ("SQUARE") (the "Simple Total") as well as the Simple Total of the former two companies' business segment results reclassified corresponding to the current business segments of SQUARE ENIX CO., LTD. (the "Company"). These Simple Totals were calculated by the Company for the purpose of facilitating year-on-year comparisons, and have not been audited by an external auditor.

The following management's discussion and analysis also contains forward-looking statements concerning the future performance of the Company. Please read the cautionary note 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 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 deemed necessary, the Group writes down the content production account to the recoverable amount based on projected demand and market conditions. In the event that market conditions and demand are worse than management projected, additional write-downs may be necessary.

Unrealized Losses on Investments

The Group owns shares in financial institutions, and companies with which it sells or purchases goods. These shareholdings are 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, 2004 (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 importance 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 ¥375 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 write down deferred tax assets during the fiscal year the decision was 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 was made.

Accounting method for the Merger

ENIX and 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 common stock. Neither of the two companies would be recognized as the acquiring company, and, therefore, the pooling of interest method of accounting was employed. 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 would be 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, 2004, ¥18 million of long-term debt due within one year was the Group's only interest-bearing debt, and the shareholders' equity ratio was 87.4%. Cash and cash equivalents totaled ¥58,676 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 2004

Total Assets

(Millions of yen)

	Former ENIX	Former SQUARE	SimpleTotal for Fiscal 2003	Fiscal 2004	Change
Total Assets	57,465	54,354	111,819	110,633	(1,186)

As of March 31, 2004, total assets amounted to ¥110,633 million, a decrease of ¥1,186 million from the Simple Total of ¥111,819 million a year earlier. A breakdown follows:

Cash and Time Deposits

(Millions of yen)

	Former ENIX	Former SQUARE	SimpleTotal for Fiscal 2003	Fiscal 2004	Change
Cash and Time Deposits	39,847	23,219	63,066	58,676	(4,390)

Net cash provided by operating activities was ¥14,139 million. Net cash used in investing activities totaled ¥10,579 million, owing primarily to expenses related to the move of headquarters in July 2003 to combine the employees of the former two companies in one location, and expenditures for the acquisition of UIEVOLUTION INC. in the United States. These were one-time factors.

Net cash used in financing activities was ¥6,739 million, as a result of the payment of ¥69 per share to former SQUARE shareholders instead of ordinary dividends as part of the merger procedure. Cash and cash equivalents, end of period amounted to ¥58,676 million, a decrease of ¥4,390 million from the Simple Total a year earlier.

Notes and Accounts Receivable

(Millions of yen)

	Former ENIX	Former SQUARE	SimpleTotal for Fiscal 2003	Fiscal 2004	Change
Notes and accounts receivable	5,150	11,808	16,958	12,046	(4,912)

Notes and accounts receivable is largely affected by the release of titles by the end of the fiscal year. As of March 31, 2003, the former SQUARE had shipped 1.95 million copies of FINAL FANTASY X-2, and the former ENIX had shipped 550,000 copies of Dragon Quest Monsters: Caravan Heart. By March 31, 2004, the Company had shipped 1.3 million copies of Dragon Quest V: Tenkuu no Hanayome. Due to a difference in the number of titles sold at the end of respective fiscal year, notes and accounts receivable decreased ¥4,912 million to ¥12,046 million on March 31, 2004.

Content Production Account

(Millions of yen)

	Former ENIX	Former SQUARE	SimpleTotal for Fiscal 2003	Fiscal 2004	Change
Content Production Account	—	3,679	3,679	10,128	6,449

At the former ENIX, payments to external developers in charge of planning and creating game titles were charged as expenses when incurred. From this Fiscal Year, however, the Company capitalizes payments during the development process in the content production account until the time of product launch. This change was made as a result of the Company strengthening the decision-making process at the start of game title development with stricter standards for starting title development projects. The content production account includes the amount of ¥3,763 million used in this Fiscal Year for development of titles started by ENIX. All of the development costs of titles started by the former SQUARE were accounted for the content production account as before.

In the event that a title development project is canceled, the Company may write off capitalized development costs for the canceled title in the content production account as an extraordinary loss. In this Fiscal Year, no title development projects were canceled. As of March 31, 2004, the content production account totaled ¥10,128 million, an increase of ¥6,449 million from the end of the previous fiscal year.

Deferred Tax Assets

(Millions of yen)

	Former ENIX	Former SQUARE	SimpleTotal for Fiscal 2003	Fiscal 2004	Change
Deferred Tax Assets	941	3,257	4,198	1,850	(2,348)

Deferred tax assets at the end of the Fiscal Year were ¥1,850 million, a decline of ¥2,348 million, owing mainly to the reversal of a deductible temporary difference in the movie assets at the former SQUARE.

Property, Plant and Equipment

(Millions of yen)

	Former ENIX	Former SQUARE	SimpleTotal for Fiscal 2003	Fiscal 2004	Change
Property, Plant and Equipment	5,188	3,821	9,009	9,087	78

Property, plant and equipment totaled ¥9,087 million as of March 31, 2004, an increase of ¥78 million from the previous fiscal year. Buildings and structures increased ¥307 million to ¥2,195 million, tools and fixtures declined ¥176 million to ¥3,077 million, land was unchanged at ¥3,813 million, and construction in progress decreased ¥53 million to ¥0.

Intangible Assets

(Millions of yen)

	Former ENIX	Former SQUARE	SimpleTotal for Fiscal 2003	Fiscal 2004	Change
Intangible Assets	119	1,037	1,156	7,550	6,394

In March 2004, the Company acquired UIEVOLUTION INC. in the United States, and made it a consolidated subsidiary in order to incorporate its wireless communications technologies, which are fundamental to promote network-related businesses, into product and service planning. In conjunction with this acquisition, the Company recorded goodwill of US$57 million, which will be amortized evenly over five years from the fiscal year ending March 31, 2005. In this Fiscal Year, the Company recorded the consolidated adjustment account due to the addition of SQUARE ENIX WEBSTAR NETWORK TECHNOLOGY (BEIJING) CO., LTD. to the scope of consolidation. The consolidated adjustment account will be amortized evenly over three years. In this Fiscal Year, the Company recorded ¥145 million in amortization of the consolidated adjustment account. As a result, intangible assets increased ¥6,394 million to ¥7,550 million as of March 31, 2004.

Investment Securities

(Millions of yen)

	Former ENIX	Former SQUARE	SimpleTotal for Fiscal 2003	Fiscal 2004	Change
Investment Securities	3,674	1,860	5,534	3,516	(2,018)

Investment securities declined by approximately ¥2,018 million to ¥3,516 million compared with the Simple Total, owing primarily to the bankruptcy of DIGICUBE CO., LTD., an equity method affiliate, and the sale of shares.

Total Liabilities

(Millions of yen)

	Former ENIX	Former SQUARE	SimpleTotal for Fiscal 2003	Fiscal 2004	Change
Total Liabilities	7,665	15,389	23,044	13,338	(9,706)

As of March 31, 2004, total liabilities were ¥13,338 million, a decrease of ¥9,706 million from the Simple Total of ¥23,044 million.

Current Liabilities

(Millions of yen)

	Former ENIX	Former SQUARE	SimpleTotal for Fiscal 2003	Fiscal 2004	Change
Current Liabilities	7,418	15,029	22,447	12,185	(10,262)

As with current assets, current liabilities are affected by the release of titles by the end of the fiscal year. Notes and accounts payable decreased ¥543 million. Short-term borrowings of ¥1,000 million held by the former SQUARE at the end of the previous fiscal year were repaid in full during this Fiscal Year. The former SQUARE had recorded ¥4,153 million in accrued cash distribution in lieu of dividend to retiring shareholders and ¥1,074 million in allowance for relocation expenses under current liabilities as of March 31, 2003. In addition, accrued taxes declined ¥1,887 million from the previous fiscal year. Current liabilities as of March 31, 2004 declined ¥10,262 million to ¥12,185 million, compared with the Simple Total.

Non-current Liabilities

(Millions of yen)

	Former ENIX	Former SQUARE	SimpleTotal for Fiscal 2003	Fiscal 2004	Change
Non-current Liabilities	236	359	595	1,152	557

Non-current liabilities amounted to ¥1,152 million, an increase of ¥557 million from the end of the previous fiscal year, reflecting a change in accounting method for allowance for retirement benefits from the simple method to the method based on actuarial valuation.

Minority Interests in Consolidated Subsidiaries

(Millions of yen)

	Former ENIX	Former SQUARE	SimpleTotal for Fiscal 2003	Fiscal 2004	Change
Minority Interests in Consolidated Subsidiaries	162	1,237	1,399	594	(805)

Minority interests in consolidated subsidiaries decreased due mainly to changes in the scope of consolidation.

The first change was the dissolution of the joint venture between the former SQUARE and ELECTRONIC ARTS INC. in the United States, for a decline of approximately ¥1,000 million in minority interests. The second change was the addition of SQUARE ENIX WEBSTAR NETWORK TECHNOLOGY (BEIJING) CO., LTD. to the scope of consolidation by the Company's strategic intent. As a result, minority interests in consolidated subsidiaries fell ¥805 million to ¥594 million as of March 31, 2004.

Shareholders' Equity

Shareholders' equity increased ¥9,326 million to ¥96,700 million compared with the Simple Total. The Company used the pooling of interests method of accounting in the merger, and takes over the equity structure from the former SQUARE. Net income was ¥10,993 million in this Fiscal Year.

Breakdown of Shareholders' Equity

(Millions of yen)

	Former ENIX	Former SQUARE	March 31, 2004
Common stock	6,940	11,945	7,154
Capital Surplus Reserve	9,383	14,847	36,393
Retained earnings	33,341	10,659	53,931
Unrealized Gain on Revaluation of Securities	23	223	363
Foreign Currency Translation Adjustments	43	60	(898)
Treasury Stock	(84)	(8)	(245)
Total Shareholders' Equity	49,647	37,727	96,700

Common stock carried on from the former ENIX, the surviving company of the merger, was ¥7,154 million as of March 31, 2004, reflecting an increase by the exercise of stock options. Capital surplus reserve totaled ¥36,393 million as of March 31, 2004. The Company recorded an increase of capital surplus from capital reduction of ¥11,945 million realized by the merger, and took over capital surplus reserve of ¥14,847 million from the former SQUARE. The capital surplus reserve as of March 31, 2004 amounted ¥36,393 million, reflecting reassurance of treasury stock of ¥4 million and the issuance of shares from stock options of ¥213 million.

Sales and Operating Income

Games (Offline)

(Millions of yen)

	Fiscal 2003	Fiscal 2004	Change
Net Sales	45,677	37,988	(7,689)
Operating Income	18.212	16,404	(1,808)
Operating Income Margin	39.9%	43.2%	—

In the Games (Offline) business, the Company shipped more than a million copies of Dragon Quest V: Tenkuu no Hanayome in Japan as well as FINAL FANTASY X-2 and FINAL FANTASY TACTICS ADVANCE overseas.

The operating income margin was 43.2%, an improvement from the previous fiscal year due to higher efficiency from stronger title development management after the merger. Only titles that cleared sales and earnings standards began development, as business plans were created for each title and management of development expenses was unified on a per-title basis, as was done at the former SQUARE. Sales in the Games (Offline) business declined ¥7,689 million to ¥37,988 million, and operating income decreased ¥1,808 million to ¥16,404 million, compared to the Simple Total.

Games (Online)

(Millions of yen)

	Fiscal 2003	Fiscal 2004	Change
Net Sales	4,154	8,924	4,770
Operating Income	(985)	2,348	3,333
Operating Income Margin	(23.7)%	26.3%	—

In the Games (Online) business, this Fiscal Year was a great year of progress for the MMORPG FINAL FANTASY XI ("FFXI"), which was released in May 2002 in Japan. PlayOnline services for "FFXI" were launched in October 2003 in North America, bringing the total number of paying users to approximately 500,000 people around the world by the end of this Fiscal Year. Sales of "FFXI" exceeded ¥2,000 million in North America, and were approximately ¥8,000 million in total with Japan. "FFXI" is growing into a world-class online game.

The business model for "FFXI" is based on users purchasing software on CD-ROMs, accessing our game servers, and paying a monthly membership fee to play the game online. Therefore, online game business sales include both CD-ROM software sales and membership fees. Monthly membership fees are ¥1,280 in Japan and US$12.95 in North America. The addition of a playable character is an extra charge of ¥100 per month in Japan and $1.00 per month in North America. As of March 31, 2004, the average number of characters played by each user was 2.5 characters around the world.

Played in mainland China and Taiwan, CROSSGATE also performed well. Our consolidated subsidiary SQUARE ENIX WEBSTAR NETWORK TECHNOLOGY (BEIJING) CO., LTD. recorded sales of more than ¥700 million. Players use prepaid cards containing a unique user ID and a password to access game servers to enjoy playing the game online in hourly units according to amounts on the prepaid card. CROSSGATE game software CD-ROMs are distributed for free as a countermeasure to illegal copying. Revenues from these prepaid cards of approximately ¥800 million are recorded as other accounts payable under current liabilities, as a result of carrying forward card revenue for unfulfilled services.

Sales in the Games (Online) segment, mainly derived from these two games, was ¥8,924 million in this Fiscal Year, an increase of ¥4,770 million from the Simple Total. Operating income improved ¥3,333 million to ¥2,348 million. The Company plans to reveal new titles and expand the reach of "FFXI" services into new regions in fiscal 2005.

Mobilephone Content

(Millions of yen)

	Fiscal 2003	Fiscal 2004	Change
Net sales	1,696	2,793	1,097
Operating Income	755	1,159	404
Operating Income Margin	44.5%	41.5%	—

In this Fiscal Year, the Mobilephone Content business grew steadily along with the Games (Online) business. The Mobilephone Content business develops products through mainly outsourcing production, and provides various content for mobilephones including ring tones, wallpaper and games. Development expenses are recognized at the time of occurrence.

The Mobilephone Content business just began expanding overseas in this Fiscal Year, launching mobilephone content operations in North America and Asia. As a result, overseas operations made insignificant contributions to sales and profits in this Fiscal Year..

The Company plans to accelerate business development at overseas bases from fiscal 2005 onward.

Sales in the Mobilephone Content business were ¥2,793 million, an increase of ¥1,097 million from the Simple Total. Operating income rose ¥404 million to ¥1,159 million.

Publication

(Millions of yen)

	Fiscal 2003	Fiscal 2004	Change
Net Sales	6,417	9,671	3,254
Operating Income	1,820	3,180	1,360
Operating Income Margin	28.4%	32.9%	—

Until the previous fiscal year, the former ENIX had its own publication business, while the former SQUARE licensed out its game strategy books and other publications to third parties, and recorded revenue from royalties.

In this Fiscal Year, the Publication business grew considerably on the back of the major hit FULLMETAL ALCHEMIST, which is published in the Company's SHONEN GANGAN monthly magazine. FULLMETAL ALCHEMIST comic volumes 5, 6 and 7 were released in June and October 2003 and March 2004, respectively, bringing the total number of comics in print to more than 10 million for volumes 1-7 of the series. Total sales volume of other fan club books and novels topped one million copies. Since becoming an animated TV program in October 2003, sales of FULLMETAL ALCHEMIST comic books have grown faster than volumes 1-4 of the series released prior to the previous fiscal year. FULLMETAL ALCHEMIST is a prime example of our successful media mix.

There were no major title releases for game strategy books during this Fiscal Year. Increase of sales from strategy books for big titles is expected in the future.

In this Fiscal Year, sales in the Publication business increased ¥3,254 million to ¥9,671 million, and operating income rose ¥1,360 million to ¥3,180 million.

Others

(Millions of yen)

	Fiscal 2003	Fiscal 2004	Change
Net Sales	4,220	3,824	(396)
Operating Income	2,188	1,027	(1,161)
Operating Income Margin	51.9%	26.9%	—

In the Others business, the Company plans, produces, sells and licenses derivatives of game software content. The sales and profits of consolidated subsidiary DIGITAL ENTERTAINMENT ACADEMY CO., LTD. are included in the other business segment.

Compared with the Simple Total, the operating income margin declined significantly in the Others business, from 51.9% to 26.9%, owing to the write-off of production costs for the FINAL FANTASY movie at the former SQUARE in fiscal 2002, resulting in the recording of nearly all revenues from related DVD royalties as profits at the former SQUARE in fiscal 2003. Sales in the other business fell ¥396 million to ¥3,824 million, and operating income dropped ¥1,161 million to ¥1,027 million.

Non-Operating Expenses

(Millions of yen)

	Former ENIX	Former SQUARE	SimpleTotal for Fiscal 2003	Fiscal 2004	Change
Non-operating Expenses	24	390	414	1,590	1,176

Under non-operating expenses, the Company recorded ¥760 million in equity in losses of non-consolidated subsidiaries and affiliates due to the bankruptcy of DIGICUBE CO., LTD. In addition, a foreign exchange loss of ¥788 million was posted, for an increase of ¥655 million from the previous fiscal year, due to the appreciation of the yen against the dollar. As a result of these factors, non-operating expenses totaled ¥1,590 million in this Fiscal Year, an increase of ¥1,176 million from the ¥414 million recorded in the previous fiscal year.

Extraordinary Loss

(Millions of yen)

	Former ENIX	Former SQUARE	SimpleTotal for Fiscal 2003	Fiscal 2004	Change
Extraordinary Loss	215	3,878	4,093	907	(3,186)

Extraordinary loss declined ¥3,186 million to ¥907 million, reflecting ¥1,074 million in provision for allowance for relocation expenses and ¥1,503 million in loss on write-off of bad debts incurred by the former SQUARE in the previous fiscal year.

Deferred Income Taxes

(Millions of yen)

	Former ENIX	Former SQUARE	SimpleTotal for Fiscal 2003	Fiscal 2004	Change
Deferred Income Taxes	(1,156)	(6,248)	(7,404)	2,962	10,366

The Company records deferred income taxes, as it believes that future deductions of temporary differences on the amortization of the movie business at the former SQUARE in the previous fiscal year can be recovered.

Overseas Sales

Overseas sales differ from geographical segment sales in that figures are calculated based on what region products were finally sold in. For example, titles licensed from Japan to publishers in Europe are recorded as sales in Japan under geographical segment sales, whereas they are included in Europe under overseas sales.

Overseas sales at the former ENIX in the previous fiscal year were less than 10% of total overseas sales, so they were recorded in Japan.

Overseas Sales (North America)

(Millions of yen)

	Former ENIX	Former SQUARE	SimpleTotal for Fiscal 2003	Fiscal 2004	Change
North America	—	11,587	11,587	15,618	4,031

In the Games (Offline) business, the Company released a total of five titles, comprising three titles for the PlayStation 2 (FINAL FANTASY X-2, UNLIMITED SAGA and DRAKENGARD), one title for the PlayStation (FINAL FANTASY ORIGINS), two titles for the Game Boy Advance (FINAL FANTASY TACTICS ADVANCE and SWORD of MANA), and one title for the GameCube (FINAL FANTASY CRYSTAL CHRONICLES). In the previous fiscal year, the former SQUARE released one new title in North America, and shipped more than 1.5 million copies of KINGDOM HEARTS during the year. In this Fiscal Year, the Company released a number of new titles in North America. In the previous fiscal year, the Company dissolved the sales joint venture with ELECTRONIC ARTS, INC. in the United States, and established is own distribution channel through consolidated subsidiary SQUARE ENIX, INC. (which changed its name from SQUARE ENIX U.S.A., INC. on July 1, 2004) during this Fiscal Year.

In the Games (Online) business, the Company launched the PC version of FINAL FANTASY XI in October 2003 and started PlayOnline services. In March 2004, the PlayStation 2 version of FINAL FANTASY XI was shipped preinstalled on hard disk drives, recording sales of more than ¥2,000 million combining both the packaged version and membership fees. As a result, sales in North America totaled ¥15,618 million, an increase of ¥4,031 million.

Overseas Sales (Europe)

(Millions of yen)

	Former ENIX	Former SQUARE	SimpleTotal for Fiscal 2003	Fiscal 2004	Change
Europe	—	2,695	2,695	2,121	(574)

Title sales volume in Europe was 2.74 million units compared with 2.7 million in the previous fiscal year. In this Fiscal Year, the Company released a total of five titles, comprising two titles for the PlayStation 2 (FINAL FANTASY X-2 and UNLIMITED SAGA), two titles for the Game Boy Advance (FINAL FANTASY TACTICS ADVANCE and SWORD of MANA), and one title for the GameCube (FINAL FANTASY CRYSTAL CHRONICLES).

In the previous fiscal year, the former SQUARE released two titles for the PlayStation 2 (FINAL FANTASY X and KINGDOM HEARTS) in Europe, as well as two titles for the PlayStation (FINAL FANTASY ANTHOLOGY and FINAL FANTASY ORIGINS). In Europe, the Company licenses sales to leading publishers, and sales volume was largely unchanged from the previous fiscal year. Royalties that the Company receives are different in value based on contractual conditions. Therefore, in this Fiscal Year, sales in Europe increased ¥574 million to ¥2,121 million compared with the previous fiscal year.

Overseas Sales (Asia and Others)

(Millions of yen)

	Former ENIX	Former SQUARE	SimpleTotal for Fiscal 2003	Fiscal 2004	Change
Asia and Others	—	142	142	972	830

In Asia and other regions, SQUARE ENIX WEBSTAR NETWORK TECHNOLOGY (BEIJING) CO., LTD., a joint venture in China, was added to the scope of consolidation in this Fiscal Year. Therefore, sales in Asia and other regions increased ¥830 million to ¥972 million.

4. Strategic Outlook, Issues Facing Management and Future Direction

In its long-term management strategy, the Group believes that an important management issue is achieving growth over the long term while maintaining profitability through the creation of advanced and high-quality content. In fiscal 2005, the Company will focus efforts on broadening its existing franchise in the Games (Offline) business and strengthening network-related operations.

Targets for fiscal 2005 are as follows:

(Millions of yen)

	Fiscal 2004 Results	Fiscal 2005 Targets	Change
Net Sales	63,202	76,000	12,798
Operating Income	19,398	21,500	2,102
Ordinary Income	18,248	21,500	3,252
Net Income	10,993	11,500	507

The Company believes that achieving growth backed by strong profitability is an important management task. As a result, the Company will continue to invest as necessary in future growth, targeting a consolidated operating income margin of 25-30% based on Japanese accounting standards.

The Company is formulating a business plan to achieve this target in fiscal 2005, and plans to make forward-looking investment in overseas business development, mainly in network-related operations, and in new titles to maintain targeted profit margins.

5. Dividend Policy

The Company positions the return of profits to its shareholders as an important management policy and aims to continuously distribute stable dividends while striving to improve profitability and strengthen the financial foundation.

Retained earnings are used for investment to increase corporate value, such as the capital investment and research and development expenditure necessary to fortify and expand existing businesses as well as develop new businesses.

6. Risk Factors

The following risks may adversely affect the business performance of the Company. Forward-looking statements by management are based on information currently available at the time of the creation of this annual report.

1. The Company's ability to respond to changes in customer preferences and the pace of technological change in the digital content market;
2. The Company's ability to attract qualified personnel to carry out its growth strategies through overseas business development and the creation of new content; and
3. Exchange rate fluctuations.

Consolidated Balance Sheets (JPNGAAP)

SQUARE ENIX CO., LTD. and Consolidated Subsidiaries

(Millions of Yen)

	As of March 31, 2004	As of March 31, 2003	
	SQUARE ENIX	Former ENIX	Former SQUARE
(Assets)			
Current assets			
Cash and time deposits	¥58,676	¥39,847	¥23,219
Notes and accounts receivable	12,046	5,150	11,808
Inventories	809	372	159
Content production account	10,128	—	3,679
Deferred tax assets	1,850	941	3,257
Other current assets	1,157	110	1,583
Allowance for doubtful accounts	(227)	(9)	(14)
Total current assets	84,441	46,412	43,693
Non-current assets			
Property, plant and equipment			
Buildings and structures	3,445	2,121	1,806
Accumulated depreciation	1,250	867	1,171
	2,195	1,254	634
Tools and fixtures	8,445	1,673	7,407
Accumulated depreciation	5,367	1,132	4,695
	3,077	541	2,712
Other	7	7	—
Accumulated depreciation	7	7	—
	0	0	—
Land	3,813	3,392	421
Construction in progress	—	—	53
Total property, plant and equipment	9,087	5,188	3,821
Intangible assets	7,550	119	1,037
Investments and other assets			
Investment securities	3,516	3,674	1,860
Long-term loans	4	—	4
Rental deposits	2,864	—	664
Deferred tax assets	2,665	632	2,648
Other	502	1,439	623
Allowance for doubtful accounts	—	—	(0)
Total investments and other assets	9,554	5,745	5,801
Total non-current assets	26,192	11,053	10,660
Total assets	110,633	57,465	54,354

The accompanying notes are an integral part of these statements.

(Millions of Yen)

	As of March 31, 2004	As of March 31, 2003	
	SQUARE ENIX	Former ENIX	Former SQUARE
(Liabilities)			
Current liabilities			
Notes and accounts payable	¥3,205	¥2,019	¥1,729
Short-term borrowings	—	—	1,000
Long-term borrowings due within one year	18	—	22
Other accounts payable	1,020	763	6,885
Accrued expenses	1,551	—	1,466
Accrued corporate taxes	1,313	3,168	22
Accrued consumption taxes	408	111	—
Advance payments received	697	759	—
Deposits received	354	282	—
Reserve for bonuses	1,239	87	463
Allowance for sales returns	1,569	213	1,549
Reserve for relocation-related costs	—	—	1,074
Deferred tax liabilities	—	—	246
Other	807	13	569
Total current liabilities	12,185	7,418	15,029
Non-current liabilities			
Long-term debt	—	—	18
Allowance for retirement benefits	978	100	301
Allowance for directors' retirement benefits	110	136	—
Other	63	—	39
Total non-current liabilities	1,152	236	359
Total liabilities	13,338	7,655	15,389
(Minority interests)			
Minority interests in consolidated subsidiaries	594	162	1,237
(Shareholders' equity)			
Common stock	7,154	6,940	11,945
Capital surplus reserve	36,393	9,383	14,849
Retained earnings	53,931	33,341	10,659
Unrealized gain on revaluation of securities	363	23	223
Foreign currency translation adjustment	(898)	43	60
Treasury stock	(245)	(84)	(8)
Total shareholders' equity	96,700	49,647	37,727
Total liabilities, minority interests and shareholders' equity	110,633	57,465	54,354

The accompanying notes are an integral part of these statements.

Consolidated Statements of Income (JPNGAAP)

SQUARE ENIX CO., LTD. and Consolidated Subsidiaries

(Millions of Yen)

	Fiscal year ended March 31, 2004	Fiscal year ended March 31, 2003	
	SQUARE ENIX	Former ENIX	Former SQUARE
Net sales	¥63,202	¥21,877	¥40,286
Cost of sales	22,084	12,368	10,967
Gross profit	41,117	9,508	29,318
Reversal of allowance for sales returns	1,420	111	842
Provision for allowance for sales returns	1,569	—	1,549
Net gross profit	40,968	9,620	28,612
Selling, general and administrative expenses	21,569	5,017	16,018
Packaging freight charge	545	350	19
Advertising expense	5,119	1,288	2,850
Sales promotion expense	660	291	—
Provision for doubtful accounts	332	0	0
Compensation for directors	231	141	142
Salary payments	3,887	909	1,005
Provision to reserve for bonuses	1,130	80	87
Retirement benefit expenses	491	20	30
Provision to reserve for directors' retirement benefits	6	7	—
Welfare expense	698	107	142
Rental expense	955	201	492
Commissions paid	3,023	401	3,536
Depreciation	1,179	385	690
Other	3,307	831	7,020
Operating income	19,398	4,603	12,594
Non-operating income	440	73	556
Interest income	67	0	90
Interest from securities	—	0	—
Dividends received	78	0	104
Rental income	0	23	—
Gain on sale of patent rights	—	31	—
Equity in gains of non-consolidated subsidiaries and affiliates	—	—	182
Miscellaneous income	294	17	179
Non-operating expenses	1,590	24	390
Interest expenses	7	2	30
Foreign exchange loss	788	11	122
Stock issuance expense	8	10	—
Loss on disposal of inventories	—	—	148
Equity in losses of non-consolidated subsidiaries and affiliates	760	—	—
Miscellaneous loss	25	—	87
Recurring profits	18,248	4,652	12,760
Extraordinary income	300	15	335
Gain on sale of property, plant and equipment	—	—	4
Gain on sale of investment securities	59	—	228
Gain on sale of shares in affiliates	240	—	—
Gain on cancellation of defined corporate pension	—	15	—
Gain on changes in equity method affiliates	—	—	103
Extraordinary loss	907	215	3,878
Loss on sale of property, plant and equipment	123	—	67
Loss on disposal of property, plant and equipment	198	45	107
Loss on restructuring at affiliates	—	54	—
Evaluation loss on shares held in affiliates	125	15	—
Loss on investment securities	375	100	606
Loss on sale of investment securities	84	—	—
Loss on disposal of content	—	—	107
Provision for reserve for relocation-related costs	—	—	1,074
Bad-debt loss	—	—	1,503
Other	—	—	412
Income before income taxes and distribution of loss in partnership (Tokumei-kumiai)	17,640	4,452	9,217
Distribution of loss in partnership (Tokumei-kumiai)	24	—	97
Income before income taxes	17,616	4,452	9,119
Corporate, resident and enterprise taxes	3,600	3,162	521
Deferred income taxes	2,962	(1,156)	(6,248)
Minority interest in consolidated subsidiaries	59	27	770
Net income	10,993	2,419	14,074

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

(Millions of Yen)

	Fiscal year ended March 31, 2004	Fiscal year ended March 31, 2003	
	SQUARE ENIX	Former ENIX	Former SQUARE
(Capital surplus)			
Capital surplus at beginning of year	¥9,383	¥9,383	¥17,201
Increase in capital surplus	27,010	—	—
Increase due to merger	26,792	—	—
Gain on disposal of treasury stock	4	—	—
Shares issued through stock options	213	—	—
Decrease in capital surplus	—	—	2,354
Decrease due to transfer to retained earnings	—	—	2,354
Capital surplus at end of year	36,393	9,383	14,847
(Retained earnings)			
Retained earnings at beginning of year	33,341	32,400	(1,615)
Increase in retained earnings	22,569	2,419	16,429
Net income	10,993	2,419	14,074
Increase due to merger	11,524	—	—
Increase due to transfer from capital surplus	—	—	2,354
Increase due to increase in consolidated subsidiaries	16	—	—
Increase due to decrease in consolidated subsidiaries	36	—	—
Increase due to change in ratio of minority interests	—	—	0
Decrease in retained earnings	1,979	1,478	4,154
Dividends	1,979	1,468	—
Directors' bonuses	—	9	—
Cash distribution in lieu of dividend to retiring stockholders	—	—	4,153
Decrease due to increase in consolidated subsidiaries	—	—	1
Retained earnings at end of year	53,931	33,341	10,659

The accompanying notes are an integral part of these statements.

Consolidated Statements of Cash Flows (JPNGAAP)

SQUARE ENIX CO., LTD. and Consolidated Subsidiaries

(Millions of Yen)

	Fiscal year ended March 31, 2004	Fiscal year ended March 31, 2003	
	SQUARE ENIX	Former ENIX	Former SQUARE
Cash flows from operating activities			
Income before income taxes	¥17,616	4,452	9,119
Depreciation	1,974	386	1,685
Increase (decrease) in allowance for doubtful receivables	224	(14)	0
Increase (decrease) in reserve for bonuses	688	(32)	154
(Decrease) in allowance for sales returns	(105)	(111)	(127)
Increase (decrease) in allowance for retirement benefits	576	(4)	155
(Decrease) increase in allowance for directors' retirement benefits	(26)	7	(92)
(Decrease) increase in reserve for relocation-related costs	(589)	—	1,074
Loss from bad debt	—	—	1,503
Interest and dividend received	(145)	—	(194)
Interest income	—	(0)	—
Dividends received	—	(0)	—
Interest from securities	—	(0)	—
Interest expenses	7	2	30
Loss on restructuring of affiliates	—	54	—
Gain on sale of investment securities	(59)	—	(228)
Loss on sale of investment securities	84	—	—
Losses on investments in securities	375	100	606
Gain on sale of shares held in affiliates	(240)	—	—
Evaluation loss on shares held in affiliates	125	15	—
Loss on disposal of property and equipment	198	45	107
Loss on sales of property and equipment	123	—	63
Decrease (increase) in accounts receivable	4,852	(46)	(7,296)
(Increase) decrease in inventories	(6,745)	154	(2,764)
(Decrease) increase in purchase liabilities	(507)	681	764
(Decrease) increase in accrued consumption taxes	(104)	45	—
Decrease in other current assets	250	9	—
Decrease (increase) in other fixed assets	299	(470)	—
(Decrease) increase in other current liabilities	(2,014)	374	—
Payment of directors' bonuses	—	(9)	—
Other	1,958	—	321
Subtotal	18,818	5,639	4,884
Interest and dividends received	126	2	392
Interest paid	(11)	(2)	(8)
Income taxes paid	(4,794)	(2,446)	(22)
Net cash provided by operating activities	14,139	3,192	5,245

(Millions of Yen)

	Fiscal year ended March 31, 2004	Fiscal year ended March 31, 2003	
	SQUARE ENIX	Former ENIX	Former SQUARE
Cash flows from investing activities			
Payments for acquiring property, plant and equipment	(2,709)	(215)	(368)
Payments for acquiring intangible assets	(416)	(79)	(232)
Payments for transfer of business	—	—	(300)
Payments for acquiring investment securities	—	(2,002)	—
Proceeds from sales of investment securities	—	120	246
Payments for acquisition of shares in affiliates	(6,461)	(795)	—
Proceeds from sale of shares in affiliates	423	4	—
Proceeds from return of guarantee money paid	407	3	—
Payments for provision of guarantee money paid	(1,843)	(771)	—
Other	20	—	(25)
Net cash used in investing activities	(10,579)	(3,737)	(649)
Cash flows from financing activities			
Decrease (increase) in short-term borrowings	(1,000)	(359)	1,000
Payments for acquisition of treasury stock	(147)	(47)	—
Payments for dividends	(1,955)	(1,467)	—
Payments for dividends for minority interests	(2)	(2)	—
Payments for merger negotiation fees	(4,153)	—	—
Payments for partnership distributions	(616)	—	(363)
Other	1,135	—	(163)
Net cash (used in) provided by financing activities	(6,739)	(1,876)	473
Effect of exchange rate changes on cash and cash equivalents	(984)	(11)	(487)
Net (decrease) increase in cash and cash equivalents	(4,164)	(2,432)	4,581
Cash and cash equivalents at beginning of year	39,847	42,280	18,629
Increase in cash and cash equivalents due to merger	22,632	—	—
Increase in cash and cash equivalents due to increase in consolidated subsidiaries	484	—	8
Decrease in cash and cash equivalents due to decrease in consolidated subsidiaries	(123)	—	—
Cash and cash equivalents at end of year	58,676	39,847	23,219

The accompanying notes are an integral part of these statements.

Notes to Consolidated Financial Statements (JPNGAAP)

SQUARE ENIX CO., LTD. and Consolidated Subsidiaries

Notes Regarding Going Concern Issues

Previous fiscal year (April 1, 2002 to March 31, 2003)

ENIX

—

SQUARE

Following ratification at a general meeting of shareholders held on February 13, 2003, Square Co., Ltd. ("SQUARE") agreed to merge with Enix Corporation ("ENIX") effective April 1, 2003. On that date, assets and liabilities of SQUARE and ENIX were transferred at book value to the post-merger entity, Square Enix Co., Ltd. ("SQUARE ENIX" or "the Company"), together with all rights and obligations of each company. Consolidated financial statements have been prepared on the basis the Company is a going concern.

Fiscal year under review (April 1, 2003 to March 31, 2004)

—

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

1. Scope of Consolidation

Previous fiscal year (April 1, 2002 to March 31, 2003)

ENIX

(1) Number of consolidated subsidiaries: 2
  Digital Entertainment Academy Co., Ltd.
  ENIX AMERICA INC.

(2) Principal non-consolidated subsidiaries:
  BMF Corporation
  Community Engine Inc.
  ENIX WEBSTAR NETWORK TECHNOLOGY (BEIJING) CO., LTD.
  (Rationale for the exclusion of subsidiary companies from the scope of consolidation)
  The 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 impact on ENIX's financial performance and consolidated financial statements.

SQUARE

Number of consolidated subsidiaries: 7
Number of patnership: 1
Solid CO.,LTD.
The Game Designers Studio, Inc.
SQUARE SOFT, INC.
SQUARE USA, INC.
SQUARE PICTURES, INC.
SQUARE ELECTRONIC ARTS L.L.C.
SQUARE EUROPE LTD.
FF Film Partners (Partnership)
SQUARE absorbed Square Sounds Co., Ltd. on April 1, 2002.
The Game Designers Studio, Inc. has been included in SQUARE's scope of consolidation from the fiscal year under review due to the increasing importance of its activities and control exercised by SQUARE.
In addition, as the total assets, net sales, net income, and retained earnings were deemed to have an immaterial impact on SQUARE's consolidated financial statements, Escape Co., Ltd.. was excluded from SQUARE's scope of consolidation.

Fiscal year under review (April 1, 2003 to March 31, 2004)

The Company

(1) Number of consolidated subsidiaries: 10
  Number of partnerships: 1
  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 the fiscal year under review. 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 the fiscal year under review.
  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 the fiscal year under review due to the merger with SQUARE In addition, steps to liquidate ENIX AMERICA INC. were completed during the fiscal year under review.

(2) Principal non-consolidated subsidiaries:
  BMF Corporation
  Sports BB Corporation.
  Solid CO.,LTD.

Steps are currently in progress to liquidate Sports BB Corporation. following a resolution at a shareholders meeting held on March 15, 2004.

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

The 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.

2. Application of the Equity Method

Previous fiscal year (April 1, 2002 to March 31, 2003)

ENIX

Principal non-consolidated subsidiaries not accounted for by the equity method are BMF Corporation, Community Engine Inc., ENIX WEBSTAR NETWORK TECHNOLOGY (BEIJING) CO., LTD. and MAG Garden Corp. These companies have been excluded from the scope of consolidation as equity-method affiliates, as ENIX's equity in net income (loss) and equity in retained earnings (deficit) in these companies are deemed to have an immaterial effect on ENIX's financial performance and consolidated financial statements.

SQUARE

Number of equity-method non-consolidated subsidiaries: 1

Escape Co., Ltd..

Number of equity-method affiliates: 2

Digicube Co., Ltd.

SQUARE ELECTRONIC ARTS L.L.C.

Affiliated company Kusanagi Inc. conducts operations that are relatively small in scale. Kusanagi Inc.'s net income (loss) and retained earnings (deficit) are deemed to have an immaterial effect on SQUARE's financial performance and consolidated financial statements. Accordingly, Kusanagi Inc. has been excluded as an equity-method affiliate.

Fiscal year under review (April 1, 2003 to March 31, 2004)

The Company

Number of equity-method affiliates: 1

Digicube Co., Ltd.

On November 26, 2003, 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.

Principal non-consolidated subsidiaries not accounted for by the equity method include BMF Corporation, Sports BB Corporation., Solid CO.,LTD., SQUARE U.S.A., INC. and Kusanagi Inc. (an affiliated company). These companies have been 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 an immaterial effect on the Company's financial performance and 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 Years of Consolidated Subsidiaries

Previous fiscal year (April 1, 2002 to March 31, 2003)

ENIX

The fiscal year of consolidated subsidiary ENIX AMERICA INC. ends December 31. In the preparation of consolidated financial statements, a December 31 fiscal year-end for ENIX AMERICA INC. was used. However, in the event a major transaction took place between the period December 31 and the consolidated balance date of March 31, necessary adjustments have been made to the consolidated financial statements.

SQUARE

The fiscal years of consolidated subsidiary SQUARE PICTURES, INC. and consolidated partnership FF Film Partners end December 31. In the preparation of consolidated financial statements, a December 31 fiscal year-end for SQUARE PICTURES, INC. and FF Film Partners was used. However, in the event a major transaction took place between the period December 31 and the consolidated balance date of March 31, necessary adjustments have been made to the consolidated financial statements.

Fiscal year under review (April 1, 2003 to March 31, 2004)

The Company

The fiscal years of consolidated subsidiaries SQUARE ENIX WEBSTAR NETWORK TECHNOLOGY (BEIJING) CO., LTD., SQUARE PICTURES, INC. and consolidated partnership FF Film Partners end December 31. In the preparation of consolidated financial statements, a December 31 fiscal year-end for SQUARE ENIX WEBSTAR NETWORK TECHNOLOGY (BEIJING) CO., LTD., SQUARE PICTURES, INC. and FF Film Partners was used. However, in the event a major transaction took place between the period December 31 and the consolidated balance date of March 31, necessary adjustments have been made to the consolidated financial statements.

4. Summary of Significant Accounting Policies

(1) Standards and valuation methods for major assets

Previous fiscal year (April 1, 2002 to March 31, 2003)

ENIX

(a) Investments securities

Held-to-maturity securities:

Amortized cost method, amortized on a straight-line basis

Other investments 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

Other investments securities, securities for which fair values are unavailable:

Stated at cost, determined by the moving-average method

(b) Inventories

Manufactured goods:

Stated at cost, determined by the monthly average method

Merchandise:

Stated at cost, determined by the monthly average method

Unfinished goods:

Stated at cost determined by the monthly average method

Supplies:

Stated at the last purchase price

SQUARE

(a) Investments securities

Held-to-maturity securities:

—

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 average method

Other investments securities, securities for which fair values are unavailable:

Stated at cost determined by the average method

(b) Inventories

Manufactured goods:

Stated at the lower of cost or market, determined by the moving-average method

Merchandise:

Stated at the lower of cost or market, determined by the moving-average method. Merchandise held by SQUARE SOFT, INC. and SQUARE ELECTRONIC ARTS L.L.C. are stated at the lower of cost or market determined by the first-in first-out method

Content production account:

Stated at cost

Supplies:

Principally stated at cost, determined by the moving-average method

Fiscal year under review (April 1, 2003 to March 31, 2004)

The Company

(a) Investments 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

Other investment securities, securities for which fair value 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

Supplies:

Stated at the last purchase price

(2) Method for depreciation and amortizion of major assets

Previous fiscal year (April 1, 2002 to March 31, 2003)

ENIX

(a) Property, plant and equipment

Property, plant and equipment are depreciated using the declining-balance method. Assets with a purchase price equal to or more than ¥100,000 and less than ¥200,000 are depreciated on a straight-line basis over a period of three years. Estimated useful lives of major assets is as follows:

Buildings	50 years
Machinery and equipment	4-6 years

(b) Intangible assets

In-house software is amortized by the straight-line method based on an estimated useful life of five years.

SQUARE

(a) Property, plant and equipment

Property, plant and equipment are depreciated using the declining-balance method. Estimated useful lives of major assets is as follows:

Buildings and structures	3-18 years
Machinery and equipment	3-20 years

(b) Intangible assets

In-house software used by SQUARE and its domestic consolidated subsidiaries is amortized by the straight-line method based on an estimated useful life of five years. For all other intangible fixed assets, trademarks are amortized by the straight-line method based on an estimated useful life of ten years, and goodwill is amortized by the straight-line method over a period of five years.

Fiscal year under review (April 1, 2003 to March 31, 2004)

The Company

(a) Property, plant and equipment

Property, plant and equipment owned by the Company and its domestic consolidated subsidiaries are depreciated using the declining-balance method. Estimated useful lives of major assets is as follows:

Buildings and structures	3-50 years
Machinery and equipment	3-20 years

(Change in accounting policy)

Previously, assets with a purchase price equal to or more than ¥100,000 and less than ¥200,000 were depreciated on a straight-line basis over a period of three years. In order to unify the accounting policy as a result of the merger and to further strengthen the financial position, from the fiscal year under review, assets acquired 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 profit, and income before income taxes for the previous fiscal year is considered immaterial.

(b) Intangible assets

In-house software used by the Company and its domestic consolidated subsidiaries is amortized by the straight-line method based on an estimated useful life of five years. For all other intangible fixed assets, trademarks are amortized by the straight-line method based on an estimated useful life of ten years, and goodwill is amortized by the straight-line method over a period of five years.

(3) Accounting for allowances and reserves

Previous fiscal year (April 1, 2002 to March 31, 2003)

ENIX

(a) Allowance for doubtful accounts

An allowance for doubtful accounts is provided 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 is provided for payments to employees of ENIX and its domestic 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

To cover projected employees' retirement benefits of ENIX and its domestic consolidated subsidiaries, an allowance is provided at an estimated amount that would be required to be paid if all eligible employees voluntarily terminated their employment as of the end of the fiscal year projected at the beginning of each fiscal year.

(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.

(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.

(f) —

SQUARE

(a) Allowance for doubtful accounts

An allowance for doubtful accounts provides for possible losses arising from default on accounts and loans 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 provides for payments to employees of SQUARE and its consolidated subsidiaries at the amount expected to be paid in respects of the calculation period ended on the balance sheet date.

(c) Allowance for retirement benefits

To cover projected employees' retirement benefits of SQUARE and its domestic consolidated subsidiaries, SQUARE provides an estimated amount of benefit obligation to cover projected retirement benefit obligations for employees at the balance sheet date.

(d) Allowance for sales returns

An allowance is provided for losses due to the return of game software, at an estimated amount of future losses assessed by each game title and historic experience.

(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.

As of March 31, 2003, SQUARE ceased to operate as a going concern due to merger with Enix. As a result, the amount and date payable as retirement benefits to employees and directors of SQUARE was fixed and recorded as other accounts payable as of the balance sheet date (Refer 5. Accounting Procedures 1. Consolidated Financial Statements-Subsequent Events)

(f) Reserve for relocation-related costs

A reserve is provided for costs due to the head office relocation, at an estimated amount as of the balance sheet date.

Fiscal year under review (April 1, 2003 to March 31, 2004)

The Company

(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 provides 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 the fiscal year, which is based on the estimated present value of the projected benefit obligation. Unrecognized actuarial diffences are fully amortized in the next year in which they arise. In addition, the domestic consolidated subsidiaries provide for the reserve for retirement benefits by 100 percent of such benefits that the subsidiaries would be required to pay under the lump-sum retirement plan if all eligible employees voluntarily terminated their employement at the balance sheet date.

(Additional information)

Until the previous fiscal year, the Company had provided for the reserve for retirement benefits by 100 percent of such benefits that the Company would be required to pay if all eligible employees voluntarily terminated their employement 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 as mentioned above. As a result of this change, retirement expense increased by ¥437 million, and recurring profit and income before income taxes each decreased by ¥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 employee numbers to over 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 by ¥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 the current 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.

(f) —

(4) Translation of foreign currency transactions and accounts

Previous fiscal year (April 1, 2002 to March 31, 2003)

ENIX

All monetary assets and liabilities of the Company and its domestic consolidated subsidiaries denominated in foreign currencies are translated into yen at the year-end rate. The resulting translation gains or losses are charged or credited to income. Overseas subsidiaries are translated into yen at the year-end rate. The resulting translation adjustments are recorded in shareholders' equity as "Foreign Currency translation adjustment".

SQUARE

All monetary assets and liabilities of the Company and its domestic consolidated subsidiaries denominated in foreign currencies are translated as of 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 date at the year-end rate and all income and expense accounts are translated at average rates for their respective periods. The resulting translation adjustments are recorded in shareholders' equity as "Foreign Currency translation adjustment".

Fiscal year under review (April 1, 2003 to March 31, 2004)

The Company

All monetary assets and liabilities of the Company and its domestic consolidated subsidiaries denominated in foreign currencies are translated as of 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 date at the year-end rate and all income and expense accounts are translated at average rates for their respective periods. The resulting translation adjustments are recorded in minority interests in consolidated subsidiaries and in shareholders' equity as "Foreign Currency translation adjustment".

(5) Accounting for leases

Previous fiscal year (April 1, 2002 to March 31, 2003)

ENIX

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

SQUARE

—

Fiscal year under review (April 1, 2003 to March 31, 2004)

The Company

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

(6) Accounting for deferred assets

Previous fiscal year (April 1, 2002 to March 31, 2003)

ENIX

(a) Common share issuance expenses
Costs associated with the issuance of common shares are expensed as incurred.

SQUARE

—

Fiscal year under review (April 1, 2003 to March 31, 2004)

The Company

(a) Common share issuance expenses
Costs associated with the issuance of common shares are expensed as incurred.

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

Previous fiscal year (April 1, 2002 to March 31, 2003)

ENIX

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

(b) —

(c) Accounting standard for treasury stock and reversal of legal reserves
Effective from the year ended March 31, 2003, Enix adopted the Statement of Financial Accounting Standards No. 1 “Accounting for Treasury Stock and Reversal of Capital and Legal Reserves” issued by the Accounting Standards Board of Japan. There was no impact on income from the adoption of this standard.
Effective from the fiscal year ended March 31, 2003, ENIX adopted the new Japanese regulation for the presentation of shareholders’ equity. The consolidated balance sheet and consolidated statement of shareholders’ equity has been prepared in accordance with the new regulations.

(d) Per share information
Effective from the fiscsal year ended March 31, 2003, ENIX adopted the Statement of Financial Accounting Standards No. 2 “Financial Accounting Standards for Earnings per Share” and the Financial Accounting Standards Implementation Guidance No. 4 “Implementation Guidance for Accounting Standards for Earnings per Share” issued by the Accounting Standards Board of Japan. If the previous standard had been applied to per share information of fiscal 2003, consistently, there was no impact.

SQUARE

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

(b) Accounting standards of overseas subsidiaries
The accounts and records of overseas subsidiaries are maintained in comformity with accounting principles and practices generally accepted in their respective countries.

(c) Accounting standard for treasury stock and reversal of legal reserves
(Change in accounting policy)
Effective from the fiscal year ended March 31, 2003, SQUARE adopted the Statement of Financial Accounting Standards No. 1 “Accounting for Treasury Stock and Reversal of Capital and Legal Reserves” issued by the Accounting Standards Board of Japan. There was no impact on income from the adoption of this standard.
Effective from the fiscal year ended March 31, 2003, SQUARE adopted the new Japanese regulation for the presentation of shareholders’ equity. The consolidated balance sheet and consolidated statement of shareholders’ equity has been prepared in accordance with the new regulations.

(d) Per share information
(Change in accounting policy)
Effective from the fiscsal year ended March 31, 2003, SQUARE adopted the Statement of Financial Accounting Standards No. 2 “Financial Accounting Standards for Earnings per Share” and the Financial Accounting Standards Implementation Guidance No. 4 “Implementation Guidance for Accounting Standards for Earnings per Share” issued by the Accounting Standards Board of Japan. The adoption had no impact to the consolidated financial statements for the fiscal year ended March 31, 2003.

Fiscal year under review (April 1, 2003 to March 31, 2004)

The Company

(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 comformity with accounting principles and practices generally accepted in their respective countries.

(c) —

(d) —

5. Valuation of Assets and Liabilities of Consolidated Subsidiaries

Previous fiscal year (April 1, 2002 to March 31, 2003)

ENIX

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

SQUARE

All assets and liabilities of consolidated subsidiaries are revalued on acquisition

Fiscal year under review (April 1, 2003 to March 31, 2004)

The Company

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

6. Amortization of Goodwill

Previous fiscal year (April 1, 2002 to March 31, 2003)

ENIX

The excess of cost over the underlying net assets ("Goodwill") is charged to income as immaterial.

SQUARE

Goodwill is charged to income.

Fiscal year under review (April 1, 2003 to March 31, 2004)

The Company

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

7. Appropriation of Retained Earnings

Previous fiscal year (April 1, 2002 to March 31, 2003)

ENIX

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

SQUARE

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

Fiscal year under review (April 1, 2003 to March 31, 2004)

The Company

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

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

Previous fiscal year (April 1, 2002 to March 31, 2003)

ENIX

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.

SQUARE

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.

Fiscal year under review (April 1, 2003 to March 31, 2004)

The Company

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.

Reclassifications

Previous fiscal year (April 1, 2002 to March 31, 2003)

ENIX

—

SQUARE

(Statements of cash flows)

Cash flows from operating activities:

"Increase (decrease) in accounts payable- other", which was included in "Other" in the previous year, is presented separately in the current year as the amount became material. In addition, "Foreign exchange gain (loss)", which was presented separately in the previous year, is included in "Other" as the amount became immaterial.

In the previous year, "Increase (decrease) in accounts payable-other" included in "Other" was ¥535 million. In the current year, "Foreign exchange gain (loss)" included in "Other" was ¥61 million.

Cash flows from financing activities:

"Payments for partnership distributions", which was included in "Other" in the previous year, is presented separately in the current year as the amount became material. In addition, "Repayments of long-term debt", which was presented separately in the previous year, is included in "Other" as the amount became immaterial.

In the previous year, "Payments for partnership distributions" included in "Other" was ¥151 million. In the current year, "Repayments of long-term debt" included in "Other" was ¥22 million.

Fiscal year under review (April 1, 2003 to March 31, 2004)

The Company

—

Additional Information

Previous fiscal year (April 1, 2002 to March 31, 2003)

ENIX

—

SQUARE

—

Fiscal year under review (April 1, 2003 to March 31, 2004)

The Company

(Accounting treatment for costs related to the planning and development of game contents paid to third party)

Until the year ended March 31, 2003, the Company had expensed the costs related to the planning and development of game contents when paid to third party. Effective from the year ended March 31, 2004, as a result of an effort 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 year ended March 31, 2004, "Content production account" includes such capitalized costs in the amount of ¥3,763 million.

(Accounting for business combination)

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

Details of post-merger assets and liabilities are provided in the following pages.

* SQUARE Assets and Liabilities Transferred due to Merger

Category	Amount Millions of Yen
ASSETS	
Current Assets	36,490
Cash and deposits	16,931
Accounts receivable-trade	11,438
Finishedgoods	45
Merchandise	11
Contents production account	3,402
Suppliers	77
Prepaid expenses	375
Accounts receivable-other	483
Income tax 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
Machinery and equipment	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

Category	Amount Millions of Yen
LIABILITIES	
Current liabilities	13,489
Accounts payable-trade	1,717
Current portion of long-term debt	22
Accounts payable—other	2,808
Payable 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 relocation-related costs	1,074
Other current liabilities	3
Long-term 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

Previous fiscal year (April 1, 2002 to March 31, 2003)

ENIX

1. Investment in non-cosolidated subsidiaries and affiliates ¥1,257 million
2. Number of shares of common stock outstanding 58,778,325 shares
3. Number of shares of treasury stock 36,716 shares
4. —
5. —
6. —

SQUARE

1. Investment in non-consolidated subsidiaries and affiliates
   Investment securities ¥ 726 million
   Investments and other assets ¥ 29 million
2. Number of shares of common stock outstanding 60,192,791 shares
   Number of shares of treasury stock 4,025 shares
3. —
4. Accounting for consumption tax
   Accrued consumption tax is included in other current liabilities
5. Contingent liabilities for guarantees
   (1) SQUARE has issued a joint-and-several guarantee for transactions undertaken by affiliated company Digicube Co., Ltd., listed on the Hercules market of Osaka Securities Exchange, with 7-Eleven Japan Co., Ltd. As of March 31, 2003 there were no claims made under the subject guarantee.
   (2) SQUARE has issued a revolving guarantee to a maximum limit of U.S.$15 million on behalf of a consolidated subsidiary SQUARE ELECTRONICS ARTS L.L.C. in favor of SONY COMPUTER ENTERTAINMENT AMERICA INC. As of March 31, 2003 there were no claims made under the subject guarantee.
6. Overdraft Agreement and Commitment Line of Credit
   SQUARE and a consolidated subsidiary SQUARE EUROPE LTD. has contracted overdraft and line of credit with four of its principal bankers. Under the agreement the four principal bankers will provide SQUARE and SQUARE EUROPE LTD. with an overdraft limit and a commitment line of credit to assist both companies in their working capital needs. There was no balance outstanding under the overdraft account or the commitment line of credit.
   Limit of overdraft and commitment line of credit ¥24,389 million (including 3 million euro)

Fiscal year under review (April 1, 2003 to March 31, 2004)

The Company

1. Investment in non-consolidated subsidiaries and affiliates
   Investment securities ¥ 341 million
   Investments and other assets ¥ 4 million
2. Number of shares of common stock outstanding 110,130,418 shares
3. Number of shares of treasury stock 99,539 shares
4. —
5. Contingent liabilities for guarantees
   (1) —
   (2) The Company has issued a revolving guarantee to a maximum limit of U.S.$15 million on behalf of a consolidated subsidiary SQUARE ELECTRONICS ARTS L.L.C. in favor of SONY COMPUTER ENTERTAINMENT AMERICA INC. As of March 31, 2004 the liability outstanding under the guarantee was U.S.$ 432,000 (¥45 million).

Notes to Consolidated Statements of Income

Previous fiscal year (April 1, 2002 to March 31, 2003)

ENIX

1. —
2. Selling, general and administrative expenses and Cost of sales include research and development cost of ¥3,407 million.
3. —
4. —
5. Loss on disposal of property and equipment
   Machinery and equipment ¥45 million
6. Loss on investment securities is due to the significant decline in market prices of marketable securities.

SQUARE

1. Breakdown of major selling, general and administrative expenses and research and development cost:

	Millions of Yen
Advertising and promotional expenses	2,850
Commission	3,536
Accrual for bonusesAllowance for reserve for bonus	87
Retirement benefit expenses	30
Depreciation and amortization	690
Research and development cost	4,184

Breakdown of research and development cost by major components:

	Millions of Yen
Salaries	1,919
Reserve for bonuses	162
Retirement benefit expense	42
Repairs and maintenance	80
Rent expenses	332
Depreciation and amortization	289

Research and development cost is reported as a single account comprised of various components.

2. —

3. Breakdown of gain on sales of property and equipment:

	Millions of Yen
Machinery and equipment	4

4. Breakdown of loss on sale of property and equipment:

	Millions of Yen
Buildings and structures	0
Machinery and equipment	67
Total	67

5. Breakdown of loss on disposal of property and equipment:

	Millions of Yen
Buildings and structures	33
Machinery and equipment	34
Other	40
Total	107

6. —

Fiscal year under review (April 1, 2003 to March 31, 2004)

The Company

1. —

2. Selling, general and administrative expenses included research and development cost of ¥7 million.

3. —

4. Breakdown of loss on sale of property and equipment

	Millions of Yen
Machinery and equipment	123

5. Breakdown of loss on disposal of property and equipment

	Millions of Yen
Machinery and equipment	159
Software	39
Total	198

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

Note to Consolidated Statements of Cash Flows

Previous fiscal year (April 1, 2002 to March 31, 2003)

ENIX

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

	Millions of Yen
Cash and deposits	39,847
Cash and cash equivalents	39,847

2. —

SQUARE

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

	Millions of Yen
Cash and deposits	23,219
Cash and cash equivalents	23,219

2. Breakdown of the major assets and liabilities transferred from newly acquired company (Quest Co.).

	Millions of Yen
Fixed assets	300
Total assets	300

Fiscal year under review (April 1, 2003 to March 31, 2004)

The Company

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

	Millions of Yen
Cash and deposits	58,676
Cash and cash equivalents	58,676

2. —

Lease Transactions

Previous fiscal year (April 1, 2002 to March 31, 2003)

ENIX

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
Machinery and equipment	90	30	59
Total	90	30	59

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

2. Ending balance of future lease payments

	Millions of Yen
Payment due within one year	18
Payments due after one year	41
Total	59

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 payments includes the interest portion.

3. Lease payment and depreciation

	Millions of Yen
Lease payment	18
Depreciation expense	18

4. Method of calculation for depreciation

Straight-line method over the useful life with no residual value is used to calculate depreciation.

SQUARE

—

Fiscal year under review (April 1, 2003 to March 31, 2004)

The Company

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
Machinery and equipment	90	48	41
Total	90	48	41

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

2. Ending balance of future lease payment

	Millions of Yen
Payment due within one year	16
Payments due after one year	24
Total	41

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

	Millions of Yen
Lease expenses payment	18
Depreciation expense	18

4. Method of calculation for depreciation

Straight-line method over the useful life with no residual value is used to calculate depreciation.

Securities

Previous fiscal year (April 1, 2002 to March 31, 2003)

ENIX

1. Held-to-maturity securities with market value

		Millions of Yen		
		March 31, 2003		
	Type	Book value	Market value	Unrealized gain (loss)
Securities with market value exceeding book value	(1) Government bonds	2,001	2,001	0
	Sub-total	2,001	2,001	0
Total		2,001	2,001	0

2. Other investment securities with market value

Type		Millions of Yen March 31, 2003 Acquisition cost	Book value	Unrealized gain (loss)
Securities with book value exceeding acquisition cost	(1) Stocks	15	55	39
	(2) Bonds			
	①Government, municipal bonds, etc.	—	—	—
	②Corporate bonds	—	—	—
	③Other	—	—	—
	(3) Others	—	—	—
	Sub-total	15	55	39
Securities with acquisition cost exceeding book value	(1) Stocks	34	34	(0)
	(2) Bonds			
	①Government, municipal bonds, etc.	—	—	—
	②Corporate bonds	—	—	—
	③Other	—	—	—
	(3) Others	—	—	—
	Sub-total	34	34	(0)
Total		49	89	39

Note: An impairment loss of ¥100 million was incurred in the fiscal year ended March 31, 2003, in connection with the Company's other marketable securities with market value. Impairment loss on securities is charged to income when the market price at the end of the fiscal year falls not 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 such factors as the significance and amount of securities and the potential for recovery.

3. Information regarding other investment securities sold during the fiscal year ended March 31, 2003

Millions of Yen

Proceeds from sale	Total gain from sale	Total loss from sale
120	0	—

4. Investment securities whose fair values are not readily determinable as of March 31, 2003

	Millions of Yen March 31, 2003 Book value
(1) Other marketable securities	
Unlisted securities (excluding OTC securities)	326
(2) Investment in affiliates	1,257

5. Redemption schedule of securities with a maturity date or those to be held to maturity

Millions of Yen

	Within 1 year	Over 1 year within 5 years	Over 5 years within 10 years	Over 10 years
1. Bonds				
(1) Government bonds	—	2,001	—	—
Total	—	2,001	—	—

SQUARE

1. Other investment securities with market value

Millions of Yen

	Acquisition cost	Book value	Unrealized gain (loss)
Securities with book value exceeding acquisition cost			
①Stocks	687	1,063	375
②Bonds	—	—	—
Government, municipal bonds, etc.	—	—	—
Corporate bonds	—	—	—
Other	—	—	—
③Others	—	—	—
Sub-total	687	1,063	375
Securities with acquisition cost exceeding book value			
①Stocks	1	1	(0)
②Bonds	—	—	—
Government, municipal bonds, etc.	—	—	—
Corporate bonds	—	—	—
Other	—	—	—
③Others	—	—	—
Sub-total	1	1	(0)
Total	688	1,064	375

Note: An impairment loss of ¥493 million was incurred in the fiscal year ended March 31, 2003. Impairment loss on securities is charged to income when the market price at the end of the fiscal year falls not less than 50% of the acquisition cost.

2. Information regarding other investment securities sold during the fiscal year ended March 31, 2003

Millions of Yen

Proceeds from sale	Total gain from sale	Total loss from sale
240	228	—

3. Marketable securities whose fair values are not readily determinable as of March 31, 2003

Other marketable securities

Unlisted securities (excluding OTC securities) ¥69 million

Note: An impairment loss of ¥112 million was incurred in the fiscal year ended March 31, 2003. Impairment loss on securities is charged to income when the market price at the end of the fiscal year falls not less than 50% of the acquisition cost.

4. Redemption schedule of other marketable securities with a maturity date or those to be held to maturity as of March 31, 2003
Not applicable

Fiscal year under review (April 1, 2003 to March 31, 2004)

The Company

1. Marketable securities held for trading purposes
None

2. Held-to-maturity securities with market value

		Millions of Yen		
		March 31, 2004		
Type		Book value	Market value	Unrealized gain (loss)
Securities with market value exceeding book value	(1) Government bonds	2,000	2,000	0
	Sub-total	2,000	2,000	0
Total	2,000	2,000	0	

3. Other investment securities with market value

		Millions of Yen		
		March 31, 2003		
Type		Acquisition cost	Book value	Unrealized gain (loss)
Securities with book value exceeding acquisition cost	(1) Stocks	179	797	617
	(2) Bonds			
	①Government, municipal bonds, etc.	—	—	—
	②Corporate bonds	—	—	—
	③Other	—	—	—
	(3) Others	—	—	—
	Sub-total	179	797	617
Securities with acquisition cost exceeding book value	(1) Stocks	76	71	(4)
	(2) Bonds			
	①Government, municipal bonds, etc.	—	—	—
	②Corporate bonds	—	—	—
	③Other	—	—	—
	(3) Others	—	—	—
	Sub-total	76	71	(4)
Total		256	869	613

Note: An impairment loss of ¥222 million was incurred in the fiscal year ended March 31, 2004, in connection with the Company's other marketable securities with market value. Impairment loss on securities is charged to income when the market price at the end of the fiscal year falls not 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 such factors as the significance and amount of securities and the potential for recovery.

4. Information regarding other investment securities sold during the fiscal year ended March31, 2004

		Millions of Yen
Proceeds from sale	Total gain from sale	Total loss from sale
156	59	84

5. Marketable securities whose fair values are not readily determinable as of March 31, 2004

	Millions of Yen
	March 31, 2004
	Book value
(1) Other marketable securities	
Unlisted securities (excluding OTC securities)	165

6. Redemption schedule of other marketable securities with a maturity date or those to be held to maturity
None

Derivative Transactions

Previous fiscal year (April 1, 2002 to March 31, 2003)

ENIX

The ENIX Group does not engage in derivative transactions.

SQUARE

The SQUARE Group does not engage in derivative transactions.

Fiscal year under review (April 1, 2003 to March 31, 2004)

The Company

The Square Enix Group does not engage in derivative transactions.

Retirement Benefits

Previous fiscal year (April 1, 2002 to March 31, 2003)

ENIX

1. Overview of retirement benefit plan applied

Until the fiscal year ended March 31, 2002, ENIX had a defined benefit plan comprising of a tax qualified pension plan and a lump-sum retirement payment plan. ENIX's domestic consolidated subsidiaries applied a lump-sum retirement payment plan for the corresponding period. In the fiscal year ended March 31, 2003, ENIX terminated its tax qualified pension plan and applied a lump-sum payment plan only in line with its domestic consolidated subsidiaries. In addition, ENIX and its domestic consolidated subsidiaries applied the conventional method in the calculation of retirement benefit obligation as described in, "4. Summary of Significant Accouting Policies", "(3) Accounting for allowances and reserves".

2. Retirement benefit obligation

	Millions of Yen
	As of March 31, 2003
A. Projected benefit obligation	(100)
B. Fair value of plan assets	—
C. Unfunded projected benefit obligation (A+B)	(100)
D. Unrecognized transition amount	—
E. Unrecognized actuarial difference	—
F. Unrecognized prior service cost	—
G. Net balance sheet amount (C+D+E+F)	(100)
H. Prepaid pension cost	—
I. Allowance for retirement benefits (G-H)	(100)

3. Retirement benefit expenses

	Millions of Yen
	Year ended March 31, 2003
A. Service cost	23
B. Retirement benefit expenses	23

SQUARE

1. Overview of retirement benefit plan applied

SQUARE and its domestic consolidated subsidiaries applied a lump-sum retirement payment plan with regard to its retirement benefit obligation. Previously, SQUARE and its domestic consolidated subsidiaries applied a lump-sum retirement payment plan and tax qualified pension plan. On March 31, 2002, SQUARE and its domestic consolidated subsidiaries terminated its tax qualified pension plan and pension trust agreement. In addition, certain of SQUARE's overseas subsidiaries maintain defined contribution retirement pension plans.

2. Retirement benefit obligation

	Millions of Yen
	March 31, 2003
Retirement benefit obligation	301
Fair value of plan assets	—
Unrecognized transition amount	—
Allowance for retirement benefits	301

3. Retirement benefit expenses

	Millions of Yen
	Year ended March 31, 2003
Service cost	72
Amortization of transition amount	—
Loss on termination	—
Retirement benefit expenses	72

Fiscal year under review (April 1, 2003 to March 31, 2004)

The Company

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. Its 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
	March 31, 2004
Retirement benefit obligation	988
Unrecognized actuarial difference	(10)
Allowance for retirement benefits	978

3. Retirement benefit expenses

	Millions of Yen
	Year ended March 31, 2004
Service cost	602
Interest cost	12
Retirement benefit expenses	615

Service cost includes a deficit of ¥388 million due to the change in calculation of retirement benefit obligation from the conventional method to the basic method.

4. Assumptions 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

Income Taxes

ENIX

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

	Millions of Yen
Deferred tax assets	
①Current assets	
Enterprise tax payable	279
Non-deductible portion of reserve for bonuses	27
Office tax payable	3
Product development costs	597
Non-deductible portion of allowance for doubtful accounts	0
Accrued expenses	33
Total	941
②Non-current assets	
Non-deductible portion of allowance for retirement benefits	33
Allowance for directors' retirement benefits	55
Non-deductible depreciation expense of property, plant and equipment	0

Product development costs	550
Non-deductible portion of amortization expense of software	8
Offset to deferred tax liabilities (non-current)	(15)
Total	632
Total deferred tax assets	1,573

Deferred tax liabilities	
Non-current liabilities	
Net unrealized gains on available-for-sale securities	(15)
Offset to deferred tax assets (non-current)	15
Total deferred tax liabilities	—
Net deferred tax assets (liabilities)	1,573

2. Reconciliation between statutory tax rate and effective tax rate

Statutory tax rate	42.05%
Retainage tax	1.77
Permanent differences (e.g., entertainment expenses)	0.19
Taxation on per capita basis for residents tax	0.23
Reduction in year-end deferred tax assets due to change in tax rates	0.54
Other	0.27
Effective tax rate	45.05

3. According to the amendment of the local tax law on March 31, 2003, the effective statutory tax rate was changed primarily from 42.05% to 40.50% for the calculation of deferred tax assets and liabilities for temporary differences that are expected to reverse in the year beginning April 1, 2004 and thereafter. As a result, deferred tax assets, net of deferred tax liabilities, decreased by ¥25 million, deferred income taxes increased by ¥26 million, and unrealized gain on revaluation of securities increased by ¥0 million.

SQUARE

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

	Millions of Yen
Deferred tax assets (current)	
Allowance for sales returns	641
Accrued bonuses, reserve for bonuses	989
Inventories	21
Tax effect on unrealized profit for inventories	28
Prepaid expenses	108
Allowance for relocation-related costs	451
Loss carried forward	699
Non-deductible portion of foreign tax	192
Other	145
Total	3,278
Deferred tax liabilities (current)	
Tax effect on retained earnings of investments in affiliates	(246)
Other	(20)
Total	(266)
Net deferred tax assets (current)	3,011
Deferred tax assets (non-current)	
Investment securities	381
Inventories	252
Depreciation expenses	833
Retirement benefit expenses	122
R&D expenses	580
Allowance for doubtful accounts	1,070
Others	117
Valuation allowance	(557)
Total	2,800
Deferred tax liabilities (non-current)	
Net unrealized gains on available-for-sale securities	(152)
Total	(152)
Net Deferred tax assets (non-current)	2,648

2. Reconciliation between statutory tax rate and effective tax rate

Statutory tax rate (Adjustments)	42.05%
Permanent differences excluded from nontaxable expenses (e.g., entertainment expenses)	0.32%
Permanent differences excluded from gross revenue (e.g., dividends received etc.)	(0.62%)
Increase/decrease in valuation allowance	(103.94%)
Prior year adjustment of net unrealized gains on available-for-sale securities	(1.13%)
Taxation on per capita basis for residents tax	0.10%
Reduction in year-end deferred tax assets due to change in tax rates	(1.37%)
Minority interest in LLC and partnership	(3.11%)
Adjustments in revenue recognition due to consolidation	1.35%
Adjustments in unrealized profits due to consolidation	5.16%
Difference in tax rate with the parent company	(1.64%)
Other	0.04%
Effective tax rate	(62.79%)

3. According to the amendment of the local tax law at March 31,2003, the effective statutory tax rate was changed to 40.50% for the calculation of deferred tax assets and liabilities for temporary differences that are expected to reverse in the year beginning April 1, 2004 and thereafter. As a result, deferred tax assets, net of deferred tax liabilities, decreased by ¥120 million, deferred income taxes increased by ¥125 million, and unrealized gain on revaluation of securities increased by ¥5 million.

Fiscal year under review (April 1, 2003 to March 31, 2004)

The Company

1. Principal deferred tax assets and liabilities were as follows:

	Millions of Yen
Deferred tax assets	
①Current assets	
Enterprise tax payable	115
Office tax payable	18
Accrued bonuses, allowances for bonuses to employees	500
Advances paid	252
Accrued expenses	309
Allowance for sales returns	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
②Non-current assets	
Non-deductible portion of allowance for retirement benefits	392
Allowance for directors'retirement benefits	53
Non-deductible depreciation expense of property, plant and equipment	684
Advances paid	552
Tax effect on deficit of subsidiaries	666
Loss on investments in securities	472
Other	91
Offset to deferred tax liabilities (non-current)	(249)
Total	2,665
Total deferred tax assets	4,515
Deferred tax liabilities	
Non-current liabilities	
Net unrealized gains on available-for-sale securities	(249)
Offset to deferred tax assets (non-current fixed)	249
Total deferred tax liabilities	—
Net deferred tax assets (liabilities)	4,515

2. Reconciliation between statutory tax rate and effective tax Statutory tax rate

Statutory tax rate	42.05%
Permanent differences excluded from nontaxable expenses (e.g., entertainment expenses)	0.18%
Permanent differences excluded from gross revenue (e.g., dividends received)	(0.18%)
Increase/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 of 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%

3. —

Segment Information

1. Business segment information

Previous fiscal year (April 1, 2002 to March 31, 2003)

ENIX

	Millions of Yen					
	Computer software business	Publication business	Other businesses	Total	Eliminations or unallocated	Consolidated total
I. Sales and operating income						
Sales						
(1) Sales to outside customers	13,804	5,548	2,523	21,877	—	21,877
(2) Intersegment sales	—	—	—	—	—	—
Total	13,804	5,548	2,523	21,877	—	21,877
Operating expenses	10,337	4,528	1,373	16,240	1,033	17,274
Operating income (loss)	3,467	1,020	1,149	5,637	(1,033)	4,603
II. Assets, depreciation, and capital expenditures						
Assets	6,490	2,984	880	10,355	47,109	57,465
Depreciation	296	8	44	349	36	386
Capital expenditures	178	2	74	255	45	301

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

Business segment	Major products
Computer software business	Family computer game softwares, communication personal computer softwares, Mobile phone contents
Publication business	Comic magazines and books, computer game guidebooks, etc.
Other businesses	Products featuring characters from games and animated movies, stationeries, toys and games, royalty income, schools for computer game engineers

3. Unallocated operating expenses included in the “eliminations or unallocated” column totaled ¥1,033 million. These expenses are related to administrative departments, such as accounting and general affairs, of the Company, which provide services and operational support that are not allocatable to specific business segments.
4. Unallocated assets included in the “eliminations or unallocated” column amounted to ¥47,109 million. These assets consist primarily of cash, deposits, marketable securities, and assets related to administrative departments.

SQUARE

	Millions of Yen					
	Computer game business	Game-related businesses	Other businesses	Total	Eliminations or unallocated	Consolidated total
I. Sales and operating income						
Sales						
(1) Sales to outside customers	37,094	1,704	1,487	40,286	—	40,286
(2) Intersegment sales	—	—	—	—	—	—
Total	37,094	1,704	1,487	40,286	—	40,286
Operating expenses	26,855	663	174	27,693	(1)	27,692
Operating income (loss)	10,239	1,041	1,312	12,593	1	12,594
II. Assets, depreciation, and capital expenditures						
Assets	53,188	158	1,007	54,354	(0)	54,354
Depreciation	1,632	1	1	1,635	—	1,635
Capital expenditures	1,325	—	0	1,326	—	1,326

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

Business segment	Principal products
Computer game business	Computer game softwares, online games
Game-related businesses	Computer game CDs, computer game strategy books, computer game-related goods
Other businesses	Videogram business

3. There are no unallocated operating expenses included in the “eliminations or unallocated” column.
4. There are no assets included in the “eliminations or unallocated” column.

Fiscal year under review (April 1, 2003 to March 31, 2004)

The Company

	Millions of Yen							
	Game [Offline] business	Game [Online] business	Mobilephone Content business	Publication business	Others business	Total	Eliminations or unallocated	Consolidated total
I. Sales and operating income								
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 (loss)	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

Business segment	Principal products
Game [Offline] business	Offline Computer games
Game [Online] business	Online computer games
Mobilephone Content business	Mobilephone contents
Publication business	Comic magazines, books, and related products
Others business	Character goods secondary work, schools for computer game engineers

3. Unallocated operating expenses included in the “eliminations or unallocated” column totaled ¥4,722 million. These expenses are related to the administrative department of the Company.
4. Unallocated assets included in the “eliminations or unallocated” column amounted to ¥18,523 million. These assets are primarily related to the administrative department of the Company. In the previous years, the Company has included 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, Mobilephone 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 its accounting policy for depreciation method of property, plant 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 expantion of its business as a result of merger with SQUARE. The main changes are that the computer software business has been divided into the Games (Offline) business, Games (Online) business, and Mobilephone 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 reality 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:

	Games [Offline] business	Games [Online] business	Mobilephone Content business	Publication business	Others business	Total	Eliminations or unallocated	Consolidated total
	Millions of Yen							
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
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

Geographic Segment Information

Previous fiscal year (April 1, 2002 to March 31, 2003)

ENIX

Geographic segment information is not required to be disclosed because over 90 percent of total sales and assets relate only to the domestic segment.

SQUARE

	Japan	North America	Europe	Total	Eliminations or unallocated	Consolidated total
	Millions of Yen					
I. Sales and operating income						
Sales						
(1) Sales to outside customers	29,752	10,335	198	40,286	—	40,286
(2) Intersegment sales	2,908	246	394	3,549	(3,549)	—
Total	32,661	10,581	592	43,836	(3,549)	40,286
Operating expenses	22,273	8,435	533	31,241	(3,549)	27,692
Operating income (loss)	10,388	2,146	59	12,594	—	12,594
II. Assets	48,244	6,024	780	55,049	(695)	54,354

Notes:

1. The classification of geographic area segments is made according to the geographical distances.
2. Main countries included in each segment:
   (1) North America United States of America
   (2) Europe United Kingdom
3. There are no unallocated operating expenses included in the “eliminations or unallocated” column.
4. There are no assets included in the “eliminations or unallocated” column.

Fiscal year under review (April 1, 2003 to March 31, 2004)

The Company

	Japan	North America	Europe	Asia	Total	Eliminations or unallocated	Consolidated total
	Millions of Yen						
I. Sales and operating income							
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 area segments is made according to the geographical distances.
2. Main countries included in each segment:
   (1) North America United States of America
   (2) Europe United Kingdom
   (3) Asia China
3. There are no unallocated operating expenses included in the "eliminations or unallocated" column.
4. There are no assets included in the "eliminations or unallocated" column.
5. As explained in "Summary of Significant Accounting Policies used in the Preparation of Consolidated Financial Statements," the Company changed its accounting policy for depreciation method of property, plant and equipment. However, this change did not have a material impact.

Overseas Sales

Previous fiscal year (April 1, 2002 to March 31, 2003)

ENIX

As total overseas sales constituted less than 10% of consolidated net sales, information relating to overseas sales has been omitted.

SQUARE

	Millions of Yen			
	North America	Europe	Others	Total
I. Overseas sales	11,587	2,695	142	14,425
II. Consolidated sales	—	—	—	40,286
III. Percentage of overseas sales to consolidated sales (%)	28.8	6.7	0.3	35.8

Notes:

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

Fiscal year under review (April 1, 2003 to March 31, 2004)

The Company

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

Related Party Transactions

Previous fiscal year (April 1, 2002 to March 31, 2003)

ENIX

Directors and major individual shareholders

Millions of Yen

Relationship	Name	Address	Capital or investment	Business or occupation	Shares owned (%)	Details of Relationship: Concurrent post of directors	Details of Relationship: Business relationship	Transaction	Transaction amount	Name of account	Balance at year-end
Companies that more than half of voting rights are held by directors or their close relatives(including its subsidiaries)	Armer Project Co., Ltd.	Meguro Ward, Tokyo	3	Software planning and development	—	1 Director	Commitment of software planning and development	Payment of royalties for software planning and development	378	Accounts payable	449

Conditions of transaction and policy for determining the conditions:

Notes:

1. The conditions are subject to the general transaction terms and market prices.
2. Consumption taxes are excluded from the transaction amount, and included in the balance at year-end.

SQUARE

(1) Parent Company, major corporate shareholders, etc.

Millions of Yen

Relationship	Name	Address	Capital or investment	Business or occupation	Shares owned (%)	Details of Relationship: Concurrent post of directors	Details of Relationship: Business relationship	Transaction	Transaction amount	Name of account	Balance at year-end
Major shareholders (companies, other)	SONY Computer Entertainment Inc.	Minato Ward, Tokyo	1,933	Computer game business	18.6	—	Sale of SQUARE's products,out-source of product production (product procurement) procurement of development equipment	Product sales	14,788	Accounts receivable	6,365
								Product procurement	2,697	Accrued revenue	30
										Accounts payable	969
								Equipment procurement	14	Accounts payable, other	18
								Other	135		

1. Transaction amounts are exclusive of consumption tax. Balance as of the period-end is inclusive of consumption tax
2. Transaction conditions and underlying principles:
   In connection product sales and procurement, equipment procurement and other transaction, SQUARE considers prices provided by SONY Computer Entertainment Inc. as well as prices applicable to general market and third-party transactions.

(2) Directors and major individual shareholders

Relationship	Name	Address	Capital or investment	Business or occupation	Shares owned (%)	Relationship: Concurent post of directors	Relationship: Business relationship	Transaction	Transaction amount of (number of shares)	Number of account	Balance at year-end (number of shares)
Director	Yoichi Wada	—	—	SQUARE representative director	0.0	—	—	Note 1	200,000	—	230,000 (30,000)
Director	Hisashi Suzuki	—	—	SQUARE director	0.2	—	—	Note 1	40,000	—	90,000 (50,000)
Director	Kenichi Ohmae	—	—	SQUARE director	—	—	—	Note 1	10,000	—	30,000 (20,000)
Director	Makoto Naruke	—	—	SQUARE director	0.0	—	—	Note 1	40,000	—	60,000 (20,000)
Director	Takatoshi Matsumoto	—	—	SQUARE director	—	—	—	Note 1	10,000	—	20,000 (10,000)

Notes:
1. SQUARE has granted stock acquisition rights in accordance with Articles 280-20 and 280-21 of the Commercial Code of Japan.
2. Figures in parentheses in balance as of the period-end represent the number of stock acquition rights granted in accordance with Article 280-19 of the Commercial Code of Japan prior to its revision.

Fiscal year under review (April 1, 2003 to March 31, 2004)

The Company

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

Per Share Information

Previous fiscal year (April 1, 2002 to March 31, 2003)

ENIX

Net assets per share	¥845.18
Net income per share	¥ 41.18
Diluted net income per share	

Diluted net income per share information has been omitted, as there are no shares with a dilutive effect. Effective from the fiscal year ended March 31, 2003, net income per share will be calculated in accordance with the Statement of Financial Accounting Standards No. 2 “Financial Accounting Standards for Earnings per Share” and the Financial Accounting Standards Implementation Guidance No. 4 “Implementation Guidance for Accounting Standards for Earnings per Share” issued by the Accounting Standards Board of Japan.. There was no impact on per share data for the fiscal year ended March 31, 2003 using previous period’s accounting method.

SQUARE

Net assets per share	¥626.78
Net income per share	¥233.83
Diluted net income per share	

Diluted net income per share information has been omitted, as there are no shares with a dilutive effect.

(Change in accounting policy)

As described in, "4. Summary of Significant Accounting Policies", "(7) Additional accounting policies used to prepare consolidated financial statements" SQUARE has adopted the "Financial Accounting Standard for Earnings per Share" effective from the fiscal year ended March 31, 2003.

Fiscal year under review (April 1, 2003 to March 31, 2004)

The Company

Net assets per share	¥878.85
Net income per share	¥100.04
Diluted net income per share	¥ 99.76

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

Previous fiscal year (April 1, 2002 to March 31, 2003)

ENIX

Net income per share	
Net income	¥2,419 million
Net income unavailable to common shareholders	
Net income available to common shareholders	¥2,419 million
Average number of shares of common stock outstanding during the fiscal year (thousands of shares)	58,750
Adjustments to net income used to calculate diluted net income per share	
Adjustments to net income	
Increase in the number of common shares (thousands of shares)	—
(of which new shares with acquisition rights)	—
Number of latent shares with no dilution excluded from the calculation of diluted net income per share	
Resolution of the Annual General Meeting of Shareholders held on June 21, 2002	
Stock options	
New shares with acquisition rights	3,045
Resolution of the Annual General Meeting of Shareholders held on June 22, 2003	
New shares with acquisition rights	182,900

SQUARE

Net income per share	
Net income	¥14,074 million
Net income unavailable to common shareholders	
Net income available to common shareholders	¥14,074 million
Average number of shares of common stock outstanding during the fiscal year (thousands of shares)	60,194
Adjustments to net income used to calculate diluted net income per share	
Adjustments to net income	
Increase in the number of common shares (thousands of shares)	—
(of which new shares with acquisition rights)	—

Number of latent shares with no dilution excluded from the calculation of diluted net income per share:
2nd series and 1st series of new shares with warrants (number of new shares with acquisition rights: 3,000,000)

Fiscal year under review (April 1, 2003 to March 31, 2004)

The Company	
Net income per share	
Net income	¥10,993 million
Net income unavailable to common shareholders	
Net income available to common shareholders	¥10,993 million
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	
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.

Subsequent Events

Previous fiscal year (April 1, 2002 to March 31, 2003)

ENIX

Merger with SQUARE.

A merger agreement between ENIX and SQUARE, and amendments thereto, was approved at each company's extraordinary shareholders' meeting held on February 13, 2003. The merger between the two companies was completed on April 1, 2003, and a new company, SQUARE ENIX was formed.
Principal items relating to the merger is provided as follows:

(1) On April 1, 2003, ENIX issued 51,167,293 shares, which were allocated to SQUARE shareholders of record (including beneficiary shareholders) as of March 31, 2003 at a ratio of 0.85 to 1.
(2) In line with the merger, ENIX reported increases in the balance of capital surplus reserve retained earnings, unrealized gain on evaluation of securities, and treasury stock of ¥26,792 million, ¥10,004 million, ¥223 million, and ¥8 million, respectively. As a result, the balance of capital surplus, profit reserve, other reserves, unrealized gain on revaluation of securities, and treasury stock, stood at ¥36,175 million, ¥885 million, ¥42,222 million, 246 million, and ¥(92) million, respectively.
(3) ENIX will pay an amount due to the merger of ¥69 per share, in lieu of a dividend for the period April 1, 2002 to March 31, 2003, to shareholders of record and registered pledges as of March 31, 2003 of SQUARE without delay after its annual general meeting of shareholders.
(4) Details of assets and liabilities inherited from SQUARE as a result of the merger are as follows:

Category	Amount Millions of Yen
ASSETS	
Current Assets	36,490
Cash and deposits	16,931
Accounts receivable	11,438
Manufactured goods	45
Merchandise	11
Contents production account	3,402
Supplies	77
Prepaid expenses	375
Accounts receivable—other	483
Accrued tax	537
Deferred tax assets	2,980
Other current assets	217
Allowance for doubtful accounts	(10)
Fixed assets	14,370
Property, plant and equipment	3,759
Buildings and structures	621
Machinery and equipment	2,663
Land	421
Construction work in progress	53
Intangible assets	1,027
Goodwill	250
Trademarks	45
Telephone subscription rights	6
Software	636
Software production account	88
Investments and other assets	9,584
Investment securities	1,345
Shares in subsidiary companies	3,376
Long-term loans receivable	4
Long-term prepaid expenses	5
Investment in partnerships	560
Leasehold deposits	590
Deferred tax assets	3,383
Other investments	316
Allowance for doubtful accounts	(0)
Total assets	50,860

Category	Amount Millions of Yen
LIABILITIES	
Current liabilities	13,489
Accounts payable	1,717
Current portion long-term debt	22
Accounts payable—other	2,808
Payable 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 return	893
Reserve for relocation-related costs	1,074
Other current liabilities	3
Long-term liabilities	359
Long-term debt	18
Long-term deposits received	39
Reserve for retirement benefits	301
Total Liabilities	13,848
Net worth	37,012

Note: Amounts less than one million yen have been omitted.

(5) The following individuals were appointed as directors and auditors of the Company subsequent to the merger:

Directors:

Yoichi Wada, Hisashi Suzuki, Makoto Naruke

Auditors:

Hiroshi Nakamura, Toshio Maekawa, Tamotsu Iba, Kenichi Yahagi

Directors and auditors of the Company and their respective positions at the Company as of April 1, 2003 were as follows:

Position within the Company	Name
Chairman and representative director	Yasuhiro Fukushima
President and representative director	Yoichi Wada
Executive Vice President and representative director	Keiji Honda
Director	Yukinobu Chida
Director	Hisashi Suzuki
Director	Makoto Naruke
Standing auditor	Hiroshi Nakamura
Auditor	Toshio Maekawa
Auditor	Tamotsu Iba
Auditor	Kenichi Yahagi

1. Makoto Naruke is an external director appointed to the Company in accordance with Article 188.2 of the Commercial Code of Japan
2. Tamotsu Iba and Kenichi Yahagi are external auditors as stipulated in Article 18.1 of the Law Concerning Exceptional Measures to the Commercial law with respect to Auditing, etc., of Corporations

SQUARE

Merger with ENIX

A merger agreement between SQUARE and ENIX was approved at each company's extraordinary shareholders' meeting held on February 13, 2003. The merger between the two companies was completed on April 1, 2003, and a new company, SQUARE ENIX was formed. ENIX acquired all assets, assumed all liabilities and obligations of the two companies.

Matters related to the merger of the two companies were duly reported at the ordinary shareholders' meeting of the Company held on June 21, 2003.

Fiscal year under review (April 1, 2003 to March 31, 2004)

The Company

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Supplementary Information

Corporate Bonds

Debt

	Millions of Yen			
Classification	Balance as of the end of the previous fiscal year	Balance as of the end of the fiscal year under review	Interest rate (%)	Maturity
Short-term loans payable	—	—	—	—
Current portion of long-term debt	—	18	2.125	January 1, 2005
Long-term debt, less current portion	—	—	—	—
Other interest-bearing debt	—	—	—	—
Total	—	18	—	—

Other

There were no other items 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
	2004	2003 (Unaudited)	2004
ASSETS			
Current assets			
Cash and cash equivalents	¥ 58,675	¥39,847	$ 555,161
Accounts and notes receivable,			
less allowance for doubtful accounts of 227 and 9, respectively	11,819	5,018	111,828
Inventories	809	411	7,660
Software development costs	12,507	—	118,340
Prepaid expenses and others current assets	1,163	113	10,995
Deferred income taxes	1,922	1,013	18,185
Total current assets	86,895	46,402	822,169
Property and equipment, net	9,085	5,188	85,965
Intangible assets, net	76,474	119	723,575
Investment securities	3,516	3,674	33,274
Lease deposits	2,864	—	27,103
Other assets	515	1,440	4,848
Deferred income taxes	2,699	657	25,537
Total assets	¥182,048	¥57,480	$1,722,471
LIABILITIES and STOCKHOLDERS' EQUITY			
Current liabilities			
Accounts and notes payable :			
Trade	¥ 3,200	¥ 2,019	$ 30,278
Other	1,020	763	9,652
Current portion of long-term debt	18	—	174
Advance received	696	—	6,594
Income taxes payable	1,313	3,168	12,425
Accrued bonus	1,239	87	11,730
Reserve for sales return and price protection	1,569	213	14,851
Accrued expenses and other current liabilities	3,397	1,258	32,119
Deferred income taxes	1,142	—	10,805
Total current liabilities	13,594	7,508	128,628
Accrued pension costs	1,035	154	9,799
Other long-term liabilities	178	146	1,654
Deferred income taxes	14,380	—	136,058
Total liabilities	29,187	7,808	276,139
Minority interest in consolidated subsidiaries	594	162	5,621
Commitments and contingencies			
Stockholders' equity			
Common stock :	7,154	6,940	67,694
No par value. Authorized 300,000,000 shares, issued and outstanding 110,030,879 and 58,741,609 shares, respectively.			
Additional paid-in capital	110,404	9,383	1,044,609
Retained earnings	35,583	33,206	336,673
Accumulated other comprehensive (loss) income	(637)	66	(6,024)
Treasury stock, at cost, 99,500 and 36,700 shares, respectively	(237)	(85)	(2,241)
Total stockholders' equity	152,267	49,510	1,440,711
Total liabilities and stockholders' equity	¥182,048	¥57,480	$1,722,471

The accompanying notes are an integral part of these statements.

Consolidated Statements of Income (U.S. GAAP)

SQUARE ENIX CO., LTD. and Consolidated Subsidiaries
For the years ended March 31

	Millions of Yen		Thousands of U.S. Dollars
	2004	2003 (Unaudited)	2004
Net sales	**¥63,095**	¥21,883	$596,991
Cost of sales	**28,991**	12,345	274,309
Gross profit	**34,104**	9,538	322,682
Selling, general and administartive expenses	**24,622**	5,142	232,968
Income from operations	**9,482**	4,396	89,714
Other income (expenses):			
Interest income	**67**	1	636
Interest expenses	**(7)**	(2)	(73)
Losses on sale of property and equipment	**(124)**	—	(1,170)
Losses on disposal of property and equipment	**(749)**	(46)	(7,077)
Write-down of investment securities	**(375)**	(100)	(3,552)
Foreign currency exchange losses	**(788)**	—	(7,457)
Other income (expenses), net	**102**	(4)	966
Income before income taxes	**7,608**	4,245	71,987
Income taxes:			
Current	**3,600**	3,162	34,065
Deferred	**(1,168)**	(1,240)	(11,052)
	2,432	1,922	23,013
Income before minority interest and equity in loss of affiliated company	**5,176**	2,323	48,974
Minority interest in earnings of consolidated subsidiaries	**(61)**	(27)	(572)
Equity in loss of affiliated company	**(760)**	—	(7,197)
Net income	**¥ 4,355**	¥ 2,296	$ 41,205

Per share data :	Yen		U.S. Dollars
Net income - basic	**¥39.58**	39.06	$0.37
- diluted	**37.99**	38.57	0.36
Cash dividends	**¥30.00**	25.00	$0.28

The accompanying notes are an integral part of these statements.

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

SQUARE ENIX CO., LTD. and Consolidated Subsidiaries
For the years ended march 31

Millions of Yen (except number of shares)

	Common Stock: Shares	Common Stock: Amount	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income	Treasury Stock, at cost	Total Stockholders' Equity
Balance at March 31, 2002	58,778,325	¥6,940	¥9,383	¥32,398	¥70	¥(38)	¥48,753
Purchase of treasury stock	(36,716)					(47)	(47)
Dividends declared				(1,468)			(1,468)
Unrealized gains on available-for-sale securities					13		13
Foreign currency translation adjustments					(17)		(17)
SFAS87 transition obligation				(20)			(20)
Net income				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**

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

	Common Stock: Shares	Common Stock: Amount	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income	Treasury Stock, at cost	Total Stockholders' Equity
Issuance of common stock to effect business combination	51,167,293	$ —	$ 953,798	$ —	$ —	$ —	$ 953,798
Dividends declared				(18,724)			(18,724)
Purchase of treasury stock	(88,221)					(1,996)	(1,996)
Reissuance of treasury stock	25,398					558	558
Exercise of stock option	184,800	2,024	2,024				4,048
Unrealized gains on available-for-sale securities					2,800		2,800
Foreign currency translation adjustments					(9,452)		(9,452)
Net income				41,205			41,205
Balance at March 31, 2004	**110,030,879**	**$67,694**	**$1,044,609**	**$336,673**	**$(6,024)**	**$(2,241)**	**$1,440,711**

The accompanying notes are an integral part of these statements.

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

SQUARE ENIX CO., LTD. and Consolidated Subsidiaries
For the years ended March 31

	Millions of Yen		Thousands of U.S. Dollars
	2004	2003 (Unaudited)	2004
Cash flows from operating activities:			
Net income	¥ 4,355	¥ 2,296	$ 41,205
Adjustment to reconcile net income to net cash provided by operating activities:			
Deferred income taxes	(673)	(1,230)	(6,368)
Depreciation and amortization	5,406	386	51,150
Amortization and write-off of capitalized software developments costs	12,723	—	120,385
Write-down of investment securities	375	100	3,552
Losses on sale of property and equipment	124	—	1,170
Losses on disposal of property and equipment	749	46	7,077
Minority interest in earnings of consolidated subsidiaries	61	27	577
Equity in loss of affiliated company	760	—	7,191
Changes in assets and liabilities, net of effects of acquisitions:			
Accounts and notes receivable	4,849	(50)	45,879
Accrued pension costs	200	20	1,892
Inventories	(437)	115	(4,135)
Software development costs	(12,226)	—	(115,674)
Accounts and notes payable	(507)	681	(4,797)
Other assets	555	(460)	5,251
Other liabilities	(916)	1,217	(8,667)
Other	(1,261)	44	(11,929)
Net cash provided by operating activities	14,137	3,192	133,759
Cash flows from investing activities:			
Purchases of property and equipment	(2,709)	(215)	(25,632)
Purchases of intangible assets	(416)	(79)	(3,936)
Purchases of investment securities	—	(2,002)	—
Proceeds from sale of investment securities	—	120	—
Purchases of investment in affiliated company	—	(795)	—
Proceeds from sale of investment in affiliated company	423	4	4,002
Refund of lease deposits	407	3	3,851
Payment of lease deposits	(1,843)	(771)	(17,438)
Cash acquired in business acquisitions (net of cash used)	12,095	—	114,438
Other	292	(2)	2,764
Net cash provided by (used in) investing activities	8,249	(3,737)	78,049
Cash flows from financing activities:			
Repayment of short—term borrowings	(1,000)	(361)	(9,462)
Purchases of treasury stock	(147)	(47)	(1,391)
Dividends paid	(2,574)	(1,468)	(24,354)
Other	1,147	—	10,853
Net cash used in financing activities	(2,574)	(1,876)	(24,354)
Effect of exchange rate changes on cash and cash equivalents	(984)	(11)	(9,310)
Net increase (decrease) in cash and cash equivalents	18,828	(2,432)	178,144
Cash and cash equivalents at beginning of year	¥39,847	¥42,279	$377,017
Cash and cash equivalents at end of year	¥58,675	¥39,847	$555,161
Supplemental data :			
Cash paid during the year for-			
Income taxes	¥ 4,794	¥ 2,446	$ 45,359
Interest	¥ 11	¥ 2	$ 104

The accompanying notes are an integral part of these 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 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 Game: 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 offers contents 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, 2004, the Company had ten consolidated subsidiaries, one consortium and three non-consolidated subsidiaries. Three subsidiaries were established in Japan, five in the United States, the United Kingdom, and 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., a Taiwan based video game publisher, in which the Company holds a 60% interest stake. The venture has been concentrated on the provision of online game services for CROSS GATE in China since its incorporation.

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, 2004 of ¥105.69 to $1.00 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 with 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 significantly 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, 2004 and 2003, the receivable balances from the Company's five largest customers amounted to approximately 40.4% and 60.7% of the Company's net receivable balance, respectively. For the years ended March 31, 2004 and 2003, the Company's five largest customers accounted for 21.6% and 30.2% 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 instruments purchased with original maturities of three months or less to be cash equivalents.

Fair Value of Financial Instruments

The carrying amount of cash and cash equivalents, accounts receivable, accounts payable, accrued expenses and short term borrowings approximates 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. Change in assumption 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, 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 a certain video game software. Capitalized software development costs on the accompanying consolidated balance sheets includes the payment to the outside independent contactor as well as costs associated with internal development of the video game product. 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 of 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 ¥545 million and ¥350 million for the year ended March 31, 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 ¥ 5,119 million and ¥1,288 million for the year ended March 31, 2004 and 2003, respectively.

Line of Credit

As of March 31, 2004, the Company had an unused line of credit with a bank in the amount of ¥ 24,500 million at various rates expiring in 2005. No guarantee is provided for such line-of-credit.

Recently Issued Accounting Pronouncements

In June 2002, the Financial Accounting Standards Board ("FASB") issued SFAS No.146, "Accounting for Costs Associated with Exit or Disposal Activities". SFAS No.146 addresses financial accounting and reporting for costs associated with exit or disposal activities and nullifies Emerging Issues Task Force ("EITF") Issue No.94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (Including Certain Costs Incurred in a Restructuring)". This statement requires recognition of a liability for a cost associated with an exit or disposal activity when the liability is incurred, as opposed to when the entity commits to an exit plan under EITF No.94-3. The provision of this Statement is effective for exit or disposal activities that are initiated after December 31, 2002, with early application encouraged. The adoption of SFAS No.146 has not had a material effect on the Company's consolidated financial statements.

In 2002, the FASB issued SFAS No.132, which was revised in December 2003 ("SFAS No.132R"), "Employer's Disclosure about Pensions and Other Postretirement Benefits". SFAS No.132R revises and prescribes employer's disclosures about pension plans and other postretirement benefit plans; It does not change the measurement or recognition of those plans. SFAS No.132R retains the disclosure requirements contained in the original SFAS No.132. It also requires additional disclosers about the assets, obligations, cash flows and net periodic benefit cost of defined benefit pension plans and other postretirement benefit plans.

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.

In June 2002, 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 487,400 shares of common stock. In addition, 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. As of March 31, 2004 and 2003, the plans had outstanding stock options for an aggregate of 3,262,645 and 487,400 shares of the Company's common stock, respectively.

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

	Number of shares (In thousands)	Weighted Average Exercise Price
Options outstanding - April 1, 2002	357.7	¥2,215.15
Granted - exercise price equal to fair value	312.5	2,313.00
Granted - exercise less than fair value	—	—
Exercised	—	—
Forfeited	182.8	2,543.48
Options outstanding - March 31,2003	487.4	¥2,374.92
Increase in option as a result of the merger with SQUARE on April 1, 2003	3,330.895	3,084.84
Granted - exercise price equal to fair value	—	—
Granted - exercise price equal to fair value	—	—
Exercise less than fair value	184.8	2,313.00
Forfeited	370.85	2,984.04
Options outstanding - March 31, 2004	3,262.645	¥3,001.17

At March 31, 2004 and 2003, the number of options exercisable was 719,038 and 185,945, respectively, and their related weighted average exercise prices were ¥3,001.17 and ¥2,374.92, 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 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 (Except share data) Years Ended March 31,		Thousands of U.S. Dollars (Except share data)
	2004	2003	2004
Net income :			
As reported	¥4,355	¥2,296	$41,205
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards	—	45	—
Pro forma net income	¥4,355	¥2,251	$41,205
Earnings per share:			
As reported - Basic	¥39.58	¥39.06	$0.37
Pro forma - Basic	—	38.28	—
As reported - Diluted	¥37.99	¥38.57	$0.36
Pro forma - Diluted	—	37.80	—

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 ¥146.27 for the year ended March 31, 2003. The following weighted average assumptions for 2003 were used to value grants: expected volatility of 44.65 percent; risk-free interest rate of 0.029 percent; and expected holding period of 0.68 years.

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 gain (loss) 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.

4. BUSINESS COMBINATIONS

Acquisition of SQUARE

On April 1st, 2003, the Company acquired entire 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 contents 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 has been 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 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 ¥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 off-line 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 $58million. The purpose of acquisition was to acquire core technology that could provide the Company with more flexibility to produce digital contents for various type of platform, by way of which, the Company expects to enhance its cutting edge under rapidly changing internet circumstances. This transaction has been accounted for as a purchase 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 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 1st, 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 year ended March 31, 2004 is not presented as it would not differ materially from reported results.

	The year ended March 31, 2003 Millions of Yen (Except 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 impairment loss on its investment in DigiCube in the amount of ¥760 million. Whereas the bankruptcy proceeding is in progress as of March 31, 2004, 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.

6. INVENTORIES

As of March 31, 2004 and 2003, inventories consist of:

	Millions of Yen		Thousands of U.S. Dollars
	2004	2003	2004
Finished goods and merchandise	¥668	—	$6,325
Finished goods	—	¥242	—
Merchandise	—	97	—
Work in progress	81	53	774
Other supplies	60	19	561
Total	¥809	¥411	$7,660

7. SOFTWARE DEVELOPMENT COSTS

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

	Millions of Yen Years Ended March 31,		Thousands of U.S. Dollars
	2004	2003	2004
Beginning balance	—	—	—
Acquired from Square	¥13,004	—	$123,050
Increased during the year	12,226	—	115,679
Amortization	(12,660)	—	(119,791)
Written off	(63)	—	(598)
Ending balance	¥12,507	—	$118,340

8. PROPERTY AND EQUIPMENT

As of March 31,2004 and 2003, property and equipment consist of:

	Millions of Yen		Thousands of U.S. Dollars
	2004	2003	2004
Buildings	¥3,445	¥2,121	$32,595
Machinery and equipment	8,445	1,673	79,923
Land	3,813	3,392	36,077
Other	9	10	66
Total	¥15,712	¥7,196	$148,661
(Less accumulated depreciation)	(6,627)	(2,008)	(62,696)
Net book value	¥9,085	¥5,188	$85,965

Depreciation expenses for the year ended March 31, 2004 and 2003 were ¥1,631 million and ¥342 million, respectively.

9. INTANGIBLE ASSETS

As of March 31, 2004 and 2003, intangible assets consist of:

	Millions of Yen		Thousands of U.S. Dollars
	2004	2003	2004
Software	¥2,837	¥236	$26,846
Patent and trademark	10,380	—	98,218
Online game	12,850	—	121,582
License agreement for related goods	9,710	—	91,872
Existing game	2,940	—	27,817
Existing technologies	2,853	—	26,995
Other intangible assets	1,411	3	13,356
(Less: accumulated amortization)	(5,462)	(120)	(51,686)
Net book value	¥37,519	¥119	$355,000
Goodwill	¥38,955	—	$368,575
Total	¥76,474	¥119	$723,575

Expected amortization expenses for the years ended March 31, 2004 and 2003 were ¥3,775 million and ¥44 million, 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
2005	¥2,575	$24,370
2006	2,343	22,169
2007	1,851	17,522
2008	1,696	16,051
2009	1,594	15,087
2010 and thereafter	7,430	70,278
	¥17,489	$165,477

10. INVESTMENT SECURITIES

As of March 31, 2004 and 2003, investment securities consist of:

	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

	Thousands of U.S. Dollars			
	2004			
	Cost	Unrealized gain	Unrealized loss	Fair value
Marketable equity securities	$5,176	$5,799	—	$10,975
Other equity securities	3,358	—	—	3,358
Treasury bond	18,941	—	—	18,941
Total	$27,475	$5,799	—	$33,274

	Millions of Yen			
	2003			
	Cost	Unrealized gain	Unrealized loss	Fair value
Marketable equity securities	¥50	¥39	—	¥89
Other equity securities	1,583	—	—	1,583
Treasury bond	2,002	—	—	2,002
Total	¥3,635	¥39	—	¥3,674

11. ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES

Accrued expenses and other current liabilities as of March 31st, 2004 and 2003 consist of:

	Millions of Yen		Thousands of U.S. Dollars
	2004	2003	2004
Consumption taxes payable	¥408	¥111	$3,862
Unearned revenue	807	—	7,636
Deposit receipt	354	282	3,353
Accrued paid absence	257	90	2,436
Accrued expenses and other	1,571	775	14,832
Total	¥3,397	¥1,258	$32,119

12. COMMITMENTS AND CONTINGENCIES

Certain subsidiaries lease office space under non-cancelable operating leases that expire in 2005. Future minimum rental payments required under non-cancelable terms of more than one year are as follows:

March 31,	Millions of Yen	Thousands of U.S. Dollars
2005	¥50	$475
2006	46	442
2007	15	144
Total minimum lease payments	¥111	$1,061

Rent expense is recognized on a straight-line basis over the lease periods. Rent expense under these operating leases was approximately ¥79 million for the year ended March 31, 2004.

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 entering into the Company on and after April 1st, 2003, the current basic rate pay is applicable to the basis of benefit. The Company adopted SFAS No.87 "Employers' Accounting for Pensions" for its domestic defined benefit plans effective April 1st, 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 year 2004 and 2003 consist of the following:

	Millions of Yen Years ended March 31		Thousands of U.S. Dollars
	2004	2003	2004
Service cost	¥227	¥21	$2,150
Interest cost	8	1	76
Amortization of SFAS No.87 transition obligation	2	2	25
Net periodic pension cost	¥237	¥24	$2,251

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

	Millions of Yen		Thousands of U.S. Dollars
	2004	2003	2004
Change in benefit obligation:			
Benefit obligation at beginning of year	¥199	¥162	$1,886
Service cost	227	21	2,150
Interest cost	8	1	76
Benefit obligation transferred from			

acquired company	675	—	6,392
Acturial (gain) loss	(94)	19	(890)
Benefit paid	(32)	(4)	(306)
Benefit obligation at end of year	¥983	¥199	$9,308
Funded status	(983)	(199)	(9,308)
Unrecognized actuarial loss	(76)	19	(719)
Unrecognized FAS87 transition obligation	24	26	228
Net amount recognized	¥(1,035)	¥(154)	$(9,799)
Amount recognized in the balance sheet is:			
Accrued pension costs	(1,035)	(154)	(9,799)
Net amount recognized	¥(1,035)	¥(154)	$(9,799)
Accumulated benefit obligation at end of year	¥513	¥141	$4,8566
Actuarial assumption:			
Discount rate	1.611%	0.930%	1.611%
Assumed rate of increase in compensation level	4.370%	2.730%	4.370%

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

	Millions of Yen	Thousands of U.S. Dollars
Year ending March 31,		
2005	¥65	$623
2006	70	669
2007	72	688
2008	71	674
2009	67	635
2010-2014	248	2,354

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 formulae for calculation of retirement benefits, pursuant to which, the benefits are calculated based on a certaion 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 formulae until the benefits are approved by the shareholders for payment. The balance of ¥110 million and ¥136 million in 2004 and 2003, respectively, is presented as "other long-term liabilities" in the consolidated balance sheets. Charges to income for the directors' and corporate auditors' retirement plans were ¥6 million and ¥7 million in 2004 and 2003, respectively.

14. INCOME TAXES

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

	Millions of Yen Years Ended March 31		Thousands of U.S. Dollars
	2004	2003	2004
Domestic	¥4,577	¥4,290	$43,309
Foreign	3,031	(45)	28,678
Total	¥7,608	¥4,245	$71,987

Income tax expense is as follows:

	Millions of Yen Years Ended March 31		Thousands of U.S. Dollars
	2004	2003	2004
Current:	¥3,600	¥3,162	$34,065
Domestic	1,723	3,162	16,302
Foreign	1,877	—	17,763
Deferred:	¥(1,168)	¥(1,240)	$(11,052)
Domestic	(1,234)	(1,240)	(11,678)
Foreign	66	—	626
Total	¥2,432	¥1,922	$23,013

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	
	2004	2003
Statutory tax rate (%)	42.05	42.05
Tax rate difference from foreign consolidated affiliates	(2.29)	—
Effect of tax rate change	(0.22)	0.57
Accumulated earnings tax	—	1.86
Investment tax credit	(2.19)	—
Reversal of valuation allowance on deferred tax assets	(3.50)	—
Others	(1.88)	0.81
Income tax expense (%)	31.97	45.29

The components of the deferred tax assets and liabilities as of March 31, 2004 and 2003 consists of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2004	2003	2004
Deferred tax assets:			
Software development costs	—	¥1,147	—
Accrued paid absence	¥108	72	$1,025
Accrued pension costs	416	58	3,942
Income tax payable	115	—	1,089
Prepaid expenses	205	—	1,941

Accrued bonus	500	27	4,773
Reserve for sales return and price protection	553	—	5,237
Accrued expense and other	381	371	3,608
Investment securities	472	8	4,475
Investment tax credit	118	—	1,126
Net operating loss carryforward in consolidated subsidiary	666	—	6,307
Other	34	2	253
Gross deferred tax assets	3,568	1,685	33,776
Deferred tax liabilities:			
Software development costs	¥453	—	$4,291
Fixed assets	13,767	—	130,264
Valuation gain on investment securities	249	15	2,362
Gross deferred tax liabilities	14,469	15	136,917
Net deferred tax (liabilities) assets	¥(10,901)	¥1,670	$(103,141)

On April 1, 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, 2004, the U.S. subsidiary has NOLs and research and development credits for federal income tax purposes of approximately $16.3 million and $0.3 million, respectively expiring beginning in 2017. 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 ¥5,128 million and ¥4,547 million for the years ended March 31, 2004 and 2003, 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 1, 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 shall 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 sheet 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, 2004 and 2003 is as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2004	2003	2004
Foreign currency translation adjustments:			
Balance, beginning of year	¥43	¥59	$408
Aggregate adjustment for the year resulting from translation of foreign currency financial statements	(999)	(16)	(9,459)
Balance, end of year	¥(956)	¥43	$(9,051)
Net unrealized gains on available-for-sale securities::			
Balance, beginning of year	¥23	¥10	$221
Net increase	296	13	2,805
Balance, end of year	¥319	¥23	$3,026
Total accumulated other comprehensive income::			
Balance, beginning of year	¥66	¥69	$630
Adjustments for the year	(703)	(3)	(6,654)
Balance, end of year	¥(637)	¥66	$(6,024)

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

			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

2004	Thousands of U.S. Dollars		
Foreign currency translation adjustments	$(9,469)	—	$(9,460)
Net unrealized gain (loss) on available-for-sale securities:			
Unrealized gain (loss) arising during the year	5,102	2,075	3,027
Less: reclassification for gain (loss) included in net income	(372)	(150)	(222)
Net unrealized gain (loss)	$4,730	$1,925	$2,805

2003	Millions of Yen		
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
	2004	2003	2004
Net income	¥4,355	¥2,296	$42,205
Effect of dilutive securities:			
Stock option	—	—	—
Diluted net income	¥4,355	¥2,296	$42,205
Weighted-average common shares outstanding	110,030,879	58,750,427	110,030,879
Dilutive effect of:			
Stock option	4,609,207	750,756	4,609,207
Diluted common shares outstanding	114,640,086	59,501,183	114,640,086
Earnings per share:			
Basic	¥39.58	¥39.06	$0.37
Diluted	¥37.99	¥38.57	$0.36

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.

	Millions of Yen For the years ended March 31		Thousands of U.S. Dollars
Sales	2004	2003	2004
Games	¥37,988	¥11,912	$359,428
Online games	8,924	942	84,435
Mobilephone content	2,793	1,656	26,426
Publication	9,671	5,920	91,503
Others	3,826	1,447	36,202
Corporate and Elimination	—	—	—
Total	¥63,202	¥21,877	$597,994
U.S.GAAP adjustments	(107)	6	(1,012)
Consolidated	¥63,095	¥21,883	$596,991

	Millions of Yen For the years ended March 31		Thousands of U.S. Dollars
Operating expenses	2004	2003	2004
Games	¥21,583	¥8,278	$204,210
Online games	6,575	1,309	62,210
Mobilephone content	1,633	872	15,450
Publication	6,491	4,582	61,415
Others	2,799	1,200	26,465
Corporate and Elimination	4,722	1,033	44,677
Total	¥43,803	¥17,274	$414,447
U.S.GAAP adjustments	9,811	213	92,828
Consolidated	¥53,613	¥17,487	$507,275

	Millions of Yen For the years ended March 31		Thousands of U.S. Dollars
Operating income (loss)	2004	2003	2004
Games	¥16,404	¥3,634	$155,208
Online games	2,348	(366)	22,215
Mobilephone content	1,159	784	10,966
Publication	3,180	1,337	30,087
Others	1,029	247	9,737
Corporate and Elimination	(4,722)	(1,033)	(44,677)

Total	¥19,398	¥4,603	$183,536
U.S.GAAP adjustments	(9,916)	(208)	(93,821)
Consolidated	¥9,482	¥4,396	$89,715

	Millions of Yen For the years ended March 31		Thousands of U.S. Dollars
Depreciation and amortization	2004	2003	2004
Games	¥870	¥207	$8,231
Online games	742	69	7,020
Mobilephone content	17	20	160
Publication	12	8	113
Others	94	46	892
Corporate and Elimination	239	36	2,261
Total	¥1,974	¥386	$18,677
U.S.GAAP adjustments	3,432	—	32,472
Consolidated	¥5,406	¥386	$51,149

	Millions of Yen For the years ended March 31		Thousands of U.S. Dollars
Capital expenditures	2004	2003	2004
Games	¥175	¥94	$1,655
Online games	384	59	3,633
Mobilephone content	12	25	113
Publication	0	3	11
Others	—	74	—
Corporate and Elimination	1,976	46	18,696
Total	¥2,548	¥301	$24,108
U.S.GAAP adjustments	—	—	—
Consolidated	¥2,548	¥301	$24,108

	Millions of Yen For the years ended March 31		Thousands of U.S. Dollars
Assets	2004	2003	2004
Games	¥55,104	¥5,302	$521,373
Online games	14,215	700	134,497
Mobilephone content	2,583	580	24,439
Publication	14,225	3,094	134,591
Others	5,983	676	56,611
Corporate and Elimination	18,523	47,113	175,257
Total	¥110,633	¥57,465	$1,046,768
U.S.GAAP adjustments	71,415	15	675,703
Consolidated	¥182,048	¥57,480	$1,722,471

Geographic information

The Company's chief decision maker also regularly reviewed 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.

	Millions of Yen For the years ended March 31		Thousands of U.S. Dollars
Sales from external customers	2004	2003	2004
Japan	¥49,354	¥21,368	$466,969
North America	12,981	509	122,821
Europe	148	—	1,400
Asia excluding Japan	719	—	6,804
Corporate and Elimination	—	—	—
Total	¥63,202	¥21,877	$597,994
U.S.GAAP adjustments	(107)	6	(112)
Consolidated	¥63,095	¥21,883	$596,981

	Millions of Yen For the years ended March 31		Thousands of U.S. Dollars
Inter segment sales	2004	2003	2004
Japan	¥3,718	—	$35,178
North America	389	—	3,680
Europe	279	—	2,639
Asia excluding Japan	0	—	11
Corporate and Elimination	(4,386)	—	(41,508)
Total	—	—	—
U.S.GAAP adjustments	—	—	—
Consolidated	—	—	—

	Millions of Yen For the years ended March 31		Thousands of U.S. Dollars
Total sales	2004	2003	2004
Japan	¥53,073	¥21,368	$502,157
North America	13,371	509	126,511
Europe	428	—	4,049
Asia excluding Japan	717	—	6,783
Corporate and Elimination	(4,387)	—	(41,506)
Total	¥63,202	¥21,877	$597,994
U.S.GAAP adjustments	(107)	6	(1,012)
Consolidated	¥63,095	¥21,883	$596,981

	Millions of Yen For the years ended March 31		Thousands of U.S. Dollars
Operating expenses	2004	2003	2004
Japan	¥36,880	¥16,729	$348,945
North America	10,178	545	96,300
Europe	336	—	3,179
Asia excluding Japan	796	—	7,531
Corporate and Elimination	(4,387)	—	(41,508)
Total	¥43,803	¥17,274	$414,447
U.S.GAAP adjustments	9,811	213	92,828
Consolidated	¥53,613	¥17,487	$507,275

	Millions of Yen For the years ended March 31		Thousands of U.S. Dollars
Operating income	2004	2003	2004
Japan	¥16,192	¥4,639	$153,202
North America	3,192	(36)	30,201
Europe	91	—	861
Asia excluding Japan	(77)	—	(728)
Corporate and Elimination	—	—	—
Total	¥19,398	¥4,603	$183,536

U.S.GAAP adjustments	(9,916)	(208)	(93,821)
Consolidated	¥9,482	¥4,396	$89,715

	Millions of Yen For the years ended March 31		Thousands of U.S. Dollars
Assets	2004	2003	2004
Japan	¥96,547	¥57,262	$913,492
North America	12,106	203	114,542
Europe	772	—	7,304
Asia excluding Japan	1,208	—	11,430
Corporate and Elimination	—	—	—
Total	¥110,633	¥57,465	$1,046,768
U.S.GAAP adjustments	71,415	15	675,703
Consolidated	¥182,048	¥57,480	$1,722,471

The Company had sales to five customers, which represented 21.6 % and 30.2% of total net sales in the years ended March 31, 2004 and 2003, respectively.

18. RELATED PARTY TRANSACTION

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

	Millions of Yen As of March 31		Thousands of U.S. Dollars
	2004	2003	2004
Accounts payable to Armor Project Co., Ltd.	—	¥449	—

	Millions of Yen Years ended March 31		Thousands of U.S. Dollars
	2004	2003	2004
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 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, 2004 was held on June 19, 2004 in Tokyo. In the meeting, the year-end cash dividend in the total amount of ¥2,200 million was proposed by the management of the Company and approved by the stockholders.

Report of Independent Auditors

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 sheet 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, 2004, and the results of their operations and their cash flows for the year 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 audit. We conducted our audit of these statements in accordance with auditing standards generally accepted in the United States of America, which 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 audit provides a reasonable basis for our opinion.

ChuoAoyama PricewaterhouseCoopers

July 7, 2004

Corporate Data

Company Profile (As of March 31, 2004)

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:	¥7,154,614,000
Number of employees:	1,412 (Consolidated) 1,137 (SQUARE ENIX)

Note: Number of employees does not include temporary staff.

SQUARE ENIX GROUP (As of July 1st, 2004)

Company Name	Established	Fiscal Year-End	Common Stock	Shareholding	Principal Lines of Business
Consolidated Subsidiaries					
[Japan]					
The Gamedesigners Studio, Inc.	June 1999	March	¥10 million	49.0%	Planning, development, and sale of games
Community Engine Co., Ltd.	May 2000	March	¥25 million	84.3%	Network application, development, and sale of middleware
DIGITAL ENTERTAINMENT ACADEMY	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 in North America
UIEVOLUTION, INC.	August 2000	March	US$39,082	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 in Europe
[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	68.1%	Network application, development, and sale of middleware
[Partnership]					
FF Film Partners	March 1998	December	—	92.2%	Licensing and management of movies and derivative products

*Changed the company name as of July 1st, 2004.

Investor Information

Share Information (As of Mar. 31, 2004)

Number of shares issued: 110,130,418
Number of shareholders: 41,972

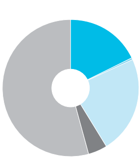
Principal Shareholders (As of Mar. 31, 2004)

Rank	Shareholder	Investment in SQUARE ENIX (Thousands of Shares)	(%)
1	Yasuhiro Fukushima	24,185	21.96
2	Masashi Miyamoto	16,522	15.00
3	Fukushima Planning Co., Ltd.	9,763	8.86
4	Sony Computer Entertainment Inc.	9,520	8.64
5	Japan Trustee Services Bank, Ltd. (Trust Account)	7,670	6.96
6	The Master Trust Bank of Japan, Ltd. (Trust Account)	4,740	4.30
7	S System Co., Ltd.	2,978	2.70
8	Sunpia Co., Ltd.	1,441	1.30
9	Michiko Fukushima	1,243	1.12
10	The Shikoku Bank, Ltd.	1,033	0.93

Shareholders Memo (As of Mar. 31, 2004)

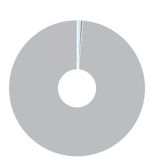
- Fiscal year-end:
  March 31
- Annual general meeting of shareholders:
  June
- Number of shares authorized:
  300,000,000
- Public announcements:
  Nihon Keizai Shimbun
  (circulated in the Tokyo Metropolitan area)
- Trading unit:
  100 shares
- Listed on:
  The First Section of the Tokyo Stock Exchange
- 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)

Number of Shares Owned (Thousands of shares) (As of Mar. 31, 2004)



Financial Institutions	19,225	(17.46%)
Securities Companies	486	(0.44%)
Other Companies	25,023	(22.72%)
Foreign Companies and Individuals	4,914	(4.46%)
Individuals and Other	60,481	(54.92%)
Total	110,130	(100.00%)

Number of Shareholders (As of Mar. 31, 2004)



Financial Institutions	55	(0.13%)
Securities Companies	29	(0.07%)
Other Companies	235	(0.56%)
Foreign Companies and Individuals	175	(0.42%)
Individuals and Other	41,478	(98.82%)
Total	41,972	(100.00%)