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# **FY2005 Results Briefing Session**

**SQUARE ENIX®**

**May 24, 2006**

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Statements made in this document with respect to SQUARE ENIX CO., LTD. and consolidated subsidiaries' (together, "SQUARE ENIX") plans, estimates, strategies and beliefs, including any forecasts or projections, are forward-looking statements about the future performance of SQUARE ENIX.

These statements are based on management's assumptions and beliefs in light of information available to it at the time these material were drafted and, therefore, the reader should not place undue reliance on them. Also, the reader should not assume that statements made in this document will remain accurate or operative at a later time.

A number of factors could cause actual results to be materially different from and worse than those discussed in forward-looking statements. Such factors include, but not limited to:

1. changes in economic conditions affecting our operations;
2. fluctuations in currency exchange rates, particularly with respect to the value of the Japanese yen, the U.S. dollar and the Euro;
3. our ability to continue to win acceptance of our products and services, which are offered in highly competitive markets characterized by the continuous introduction of new products and services, rapid developments in technology, and subjective and changing consumer preferences;
4. our ability to expand internationally successfully with a focus on our digital content business, online game business and mobilephone content business; and
5. regulatory developments and changes and our ability to respond and adapt to those changes.

The forward-looking statements regarding earnings contained in these materials were valid at the time these materials were drafted. SQUARE ENIX assumes no obligation to update or revise any forward-looking statements, including forecasts or projections, whether as a result of new information, subsequent events or otherwise.

The financial information presented in this document is prepared according to generally accepted accounting principles in Japan.

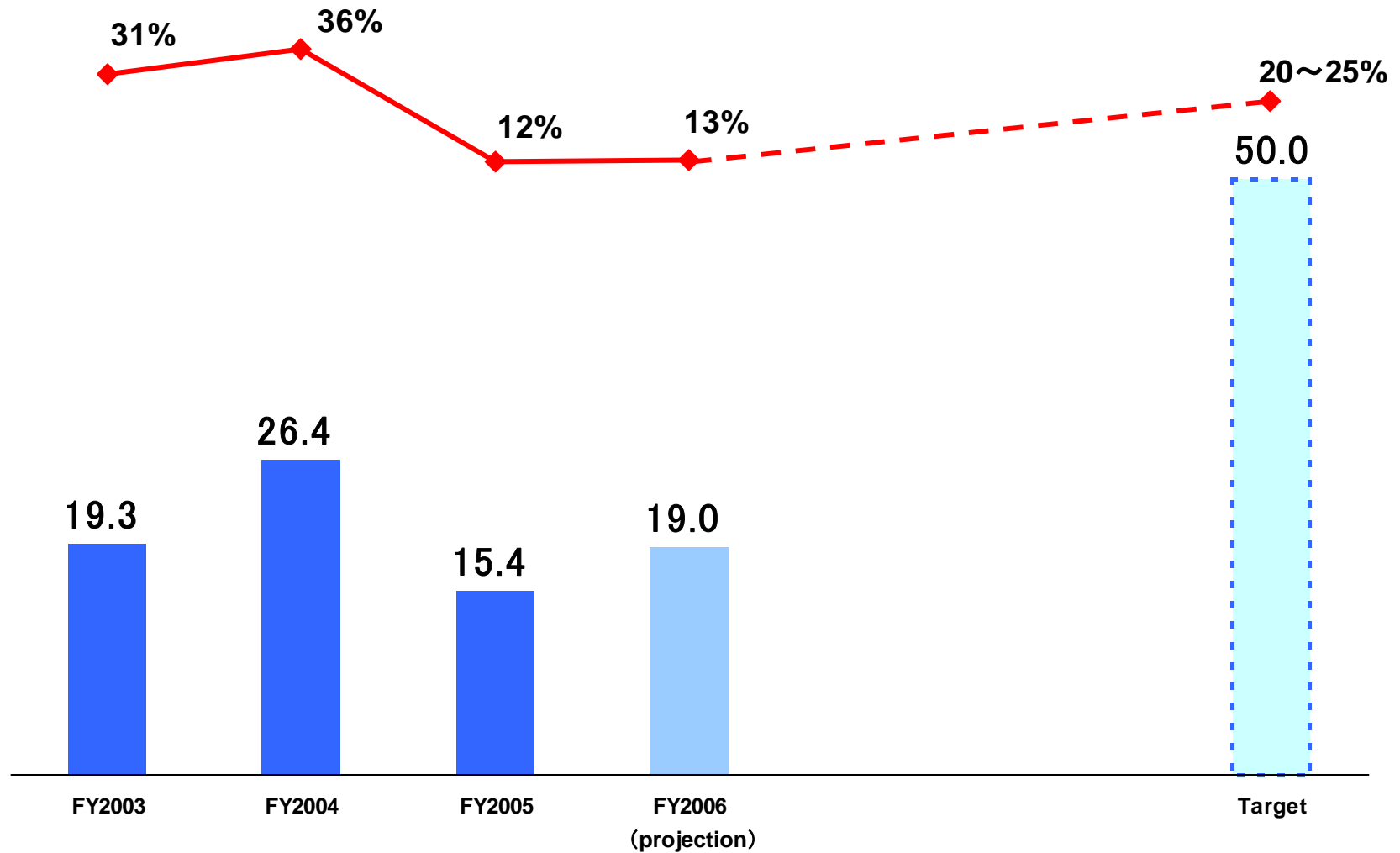
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# 1. FY2005\* Financial Results

\*FY2005 = Fiscal Year Ended March 31, 2006

# Consolidated Operating Income

(Billions of yen)



# FY2005 Results - Consolidated

Millions of Yen

	FY2004(ended March 31,2005)		FY2005(ended March 31,2006)			Change
		%		※	%	
Current Assets	110,053	84%	132,251	27,475	62%	22,197
Non-current Assets	21,641	16%	81,097	63,859	38%	59,456**
<b>Total</b>	<b>131,695</b>	<b>100%</b>	<b>213,348</b>	<b>91,335</b>	<b>100%</b>	<b>81,653</b>
Current Liabilities	20,790	16%	37,840	86,318	18%	17,050**
Long-term Liabilities	1,313	1%	53,394	3,004	25%	52,080
<b>Total Liabilities</b>	<b>22,103</b>	<b>17%</b>	<b>91,234</b>	<b>89,322</b>	<b>43%</b>	<b>69,131</b>
Minority Interests in Consolidated Subsidiaries	658	0%	1,120	35	1%	462
<b>Total Shareholders' Equity</b>	<b>108,933</b>	<b>83%</b>	<b>120,993</b>	<b>-</b>	<b>57%</b>	<b>12,060</b>
<b>Total</b>	<b>131,695</b>	<b>100%</b>	<b>213,348</b>	<b>-</b>	<b>100%</b>	<b>81,653</b>
Number of Employees	1,662	-	3,050	1,181	-	1,388

Note: Employees = Permanent employees + Contract employees

\* Results of Taito group

\*\* Non-current asset of Taito group includes ¥27.232 million of goodwill and ¥66,999 million of merger cash distribution.

Millions of Yen

	FY2004		FY2005			Change
		%		※	%	
Net Sales	73,864	100%	124,473	41,069	100%	50,608
Operating Income	26,438	36%	15,470	(788)	12%	(10,968)
Ordinary Income	25,901	35%	15,547	(965)	12%	(10,353)
Net Income	14,932	20%	17,076	(1,395)	14%	2,144
Depreciation and Amortization	1,814	-	8,419	6,364	-	6,605
Capital Expenditure	1,523	-	9,169	6,521	-	7,646

Depreciation and amortization does not include amortization of goodwill

# FY2005 Results by Segment - Consolidated

## 1. FY2005

Millions of Yen

	Games (offline)	Games (online)	Mobile Phone Content	Publication	AM	Others	Eliminations or unallocated	Total
Net Sales	45,916	15,720	5,067	9,742	41,069	6,957		124,473
Operating Expenses	36,326	9,812	4,341	6,875	42,240	4,949	4,457	109,003
Operating Income	9,590	5,907	726	2,866	(1,170)	2,007	(4,457)	15,470
Operating Margin	20.9%	37.6%	14.3%	29.4%	(2.8%)	28.8%	-	12.4%

## 2. FY2004

Millions of Yen

	Games (offline)	Games (online)	Mobile Phone Content	Publication	AM	Others	Eliminations or unallocated	Total
Net Sales	41,944	13,853	4,557	10,859	-	2,649		73,864
Operating Expenses	22,295	8,866	2,818	7,448	-	1,866	4,131	47,426
Operating Income	19,649	4,986	1,738	3,411	-	782	(4,131)	26,438
Operating Margin	46.8%	36.0%	38.1%	31.4%	-	29.5%	-	35.8%

## 3. Change (1- 2)

Millions of Yen

	Games (offline)	Games (online)	Mobile Phone Content	Publication	AM	Others	Eliminations or unallocated	Total
Net Sales	3,972	1,867	510	(1,117)	41,069	4,308		50,609
Operating Expenses	14,031	946	1,523	(573)	42,240	3,083	326	61,577
Operating Income	(10,059)	921	(1,012)	(545)	(1,170)	1,225	(326)	(10,968)

## FY2005 Results – Sales by Region

Millions of Yen

Region	FY2004		FY2005		Change
		%		%	
Japan	59,092	80%	104,433	84%	45,341
North America	12,295	17%	15,635	13%	3,340
Europe (PAL)	1,298	2%	1,378	1%	80
Asia, etc.	1,179	2%	3,025	2%	1,846
<b>Total</b>	<b>73,864</b>	<b>100%</b>	<b>124,473</b>	<b>100%</b>	<b>50,609</b>

## FY2005 Results – Unit Sales

Thousand Units

	Japan	North America	Europe (PAL)	Asia, etc.	Total
<b>FY2005</b>	<b>7,860</b>	<b>3,510</b>	<b>820</b>	<b>40</b>	<b>12,230</b>
<b>%</b>	<b>64%</b>	<b>29%</b>	<b>7%</b>	<b>0%</b>	<b>100%</b>
<b>FY2004</b>	<b>6,300</b>	<b>3,760</b>	<b>920</b>	<b>70</b>	<b>11,050</b>
<b>%</b>	<b>57%</b>	<b>34%</b>	<b>8%</b>	<b>1%</b>	<b>100%</b>
<b>Change</b>	<b>1,560</b>	<b>(250)</b>	<b>(100)</b>	<b>(30)</b>	<b>1,180</b>



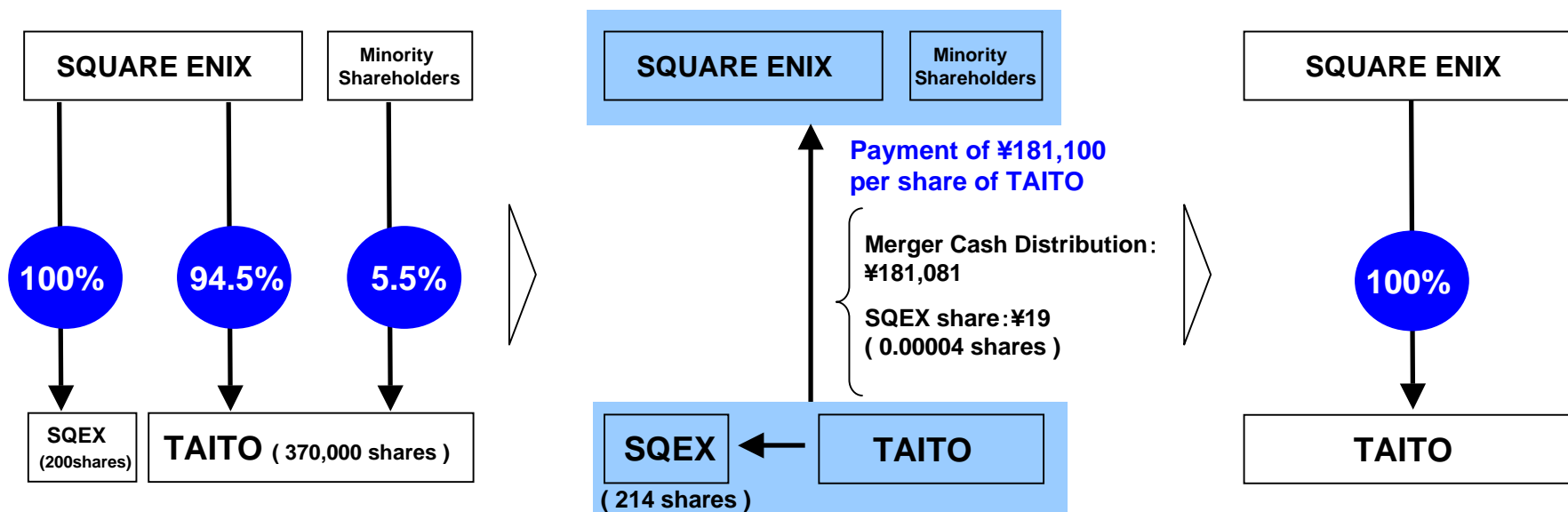
<Exhibit>

# Acquisition of TAITO and Financial Implication of Issuance of WRT Bond

**SQUARE ENIX®**

January 2006

# TAITO to become a Wholly-Owned Subsidiary



- SQEX is a wholly-owned subsidiary of Square Enix
- Square Enix acquires 93.7% of TAITO shares by tender offer at a price of **181,100 per share**.
- 94.5% of TAITO shares held by Square Enix as of Jan. 2006

- SQEX merges with TAITO and pays **¥181,100**, a sum of merger cash distribution of **¥181,081** and sales price of SQEX share of **¥19**, per share of TAITO stock.

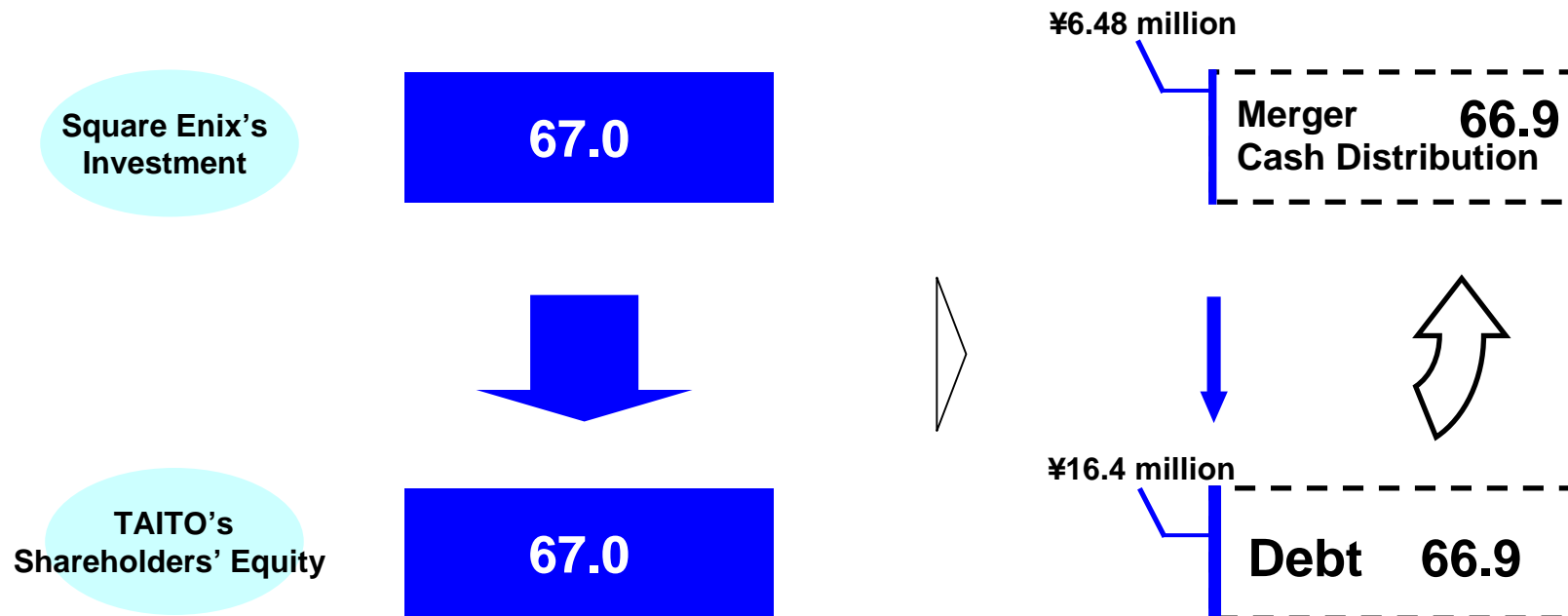
- SQEX becomes a wholly-owned subsidiary of Square Enix.
- SQEX changes its corporate name to TAITO

# Recapitalization of TAITO as a result of integration into Square Enix Group \*

(Billions of Yen)

Before Recapitalization

After Recapitalization



\* Taking no account of minority interests for simplification

**Debt on TAITO's Balance Sheet  
after the Recapitalization  
virtually equals to the WRT Bond  
Issued by Square Enix**

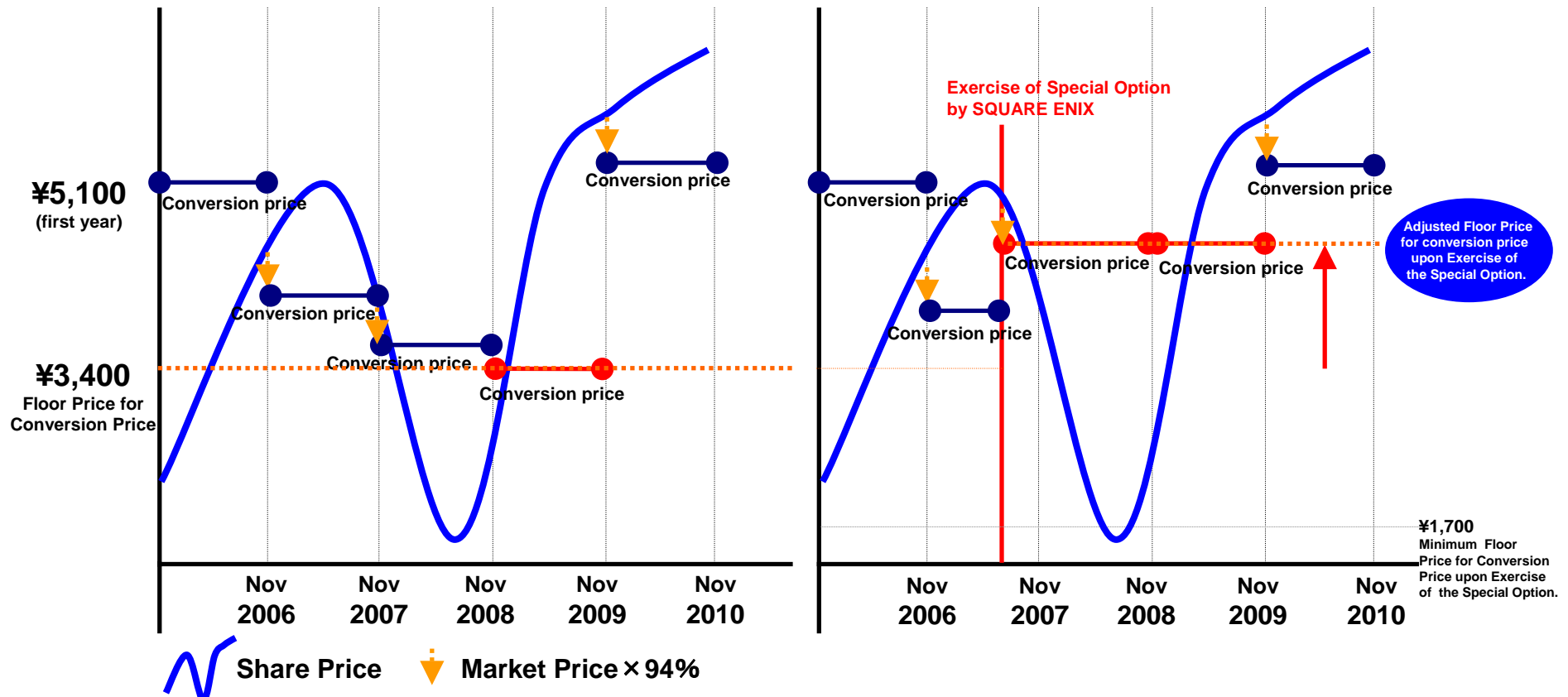
# Debt Financing of ¥50 billion by WRT Bond

## - Debt Financing at Zero-coupon -

Yen-denominated Bond with Non-detachable Warrant matured in 2010

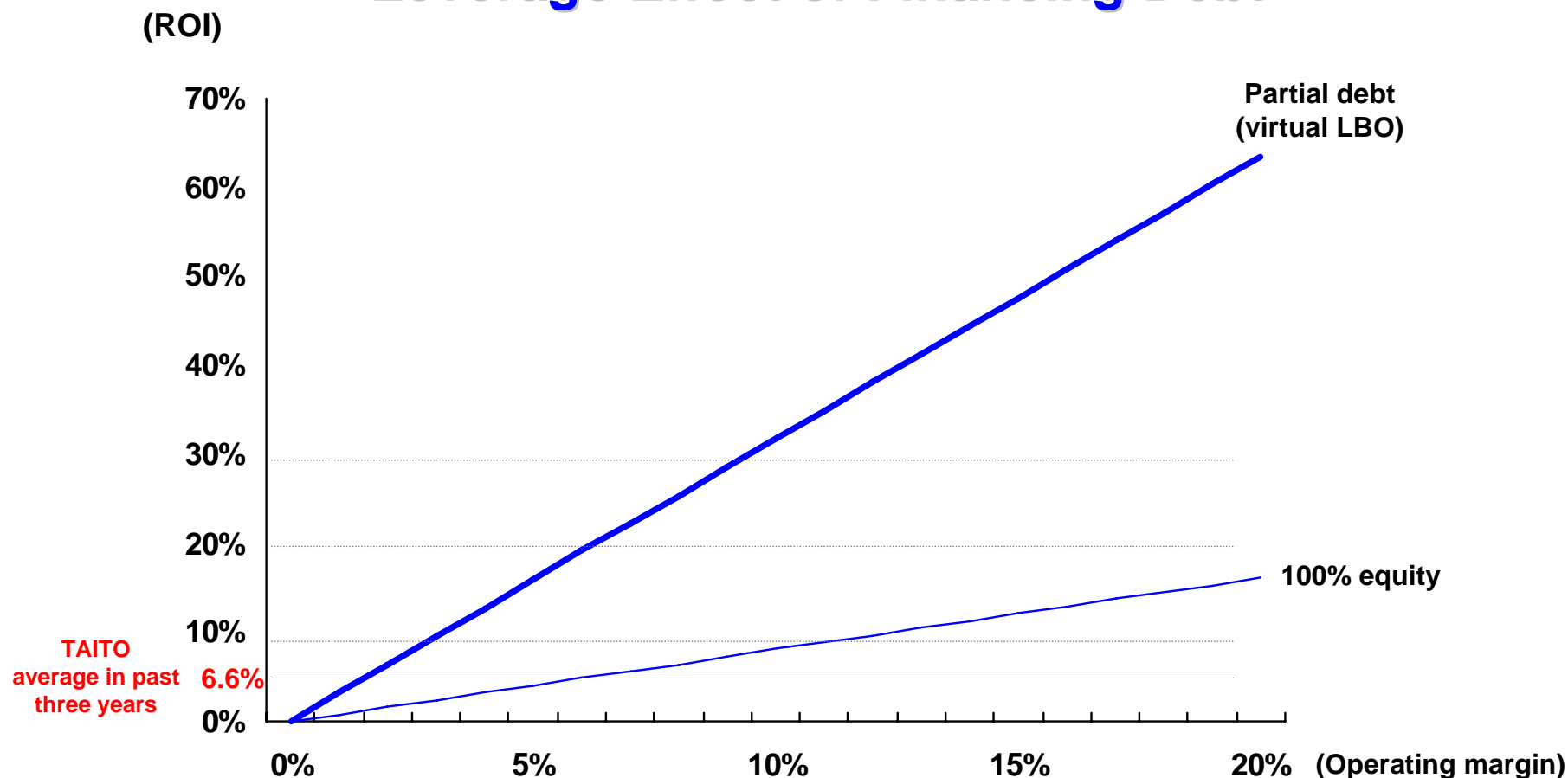
### 1. Ordinary Adjustment of Conversion Price

### 2. Exercise of Special Option by SQUARE ENIX (to reset the floor price)



# Financial Implication

## Leverage Effect of Financing Debt



### Assumptions:

1. Net sales of ¥90 billion and 40% of tax rate.
2. Investment of ¥67 billion in case of 100% equity.  
Investment of ¥17 billion (=¥67B - ¥50B WRT bond) in case of partial debt.

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## 2. FY2006\* Projections

\*FY2006 = Fiscal Year Ended March 31, 2007

# FY2006 Projections – Consolidated

FY2006

Millions of Yen

	FY2005		FY2006 Prrojections		Change
		%		%	
Net Sales	124,473	100%	150,000	100%	25,527
Operating Income	15,470	12%	19,000	13%	3,530
Ordinary Income	15,547	12%	19,000	13%	3,453
Net Income	17,076	14%	11,000	7%	(6,076)
Depreciation and Amortization	8,419	-	12,000	-	3,581
Capital Expenditure	9,169	-	12,000	-	2,831

First-Half Period

Millions of Yen

	FY2005		FY2006 Prrojections		Change
		%		%	
Net Sales	27,091	100%	68,000	100%	40,909
Operating Income	2,484	9%	5,300	8%	2,816
Ordinary Income	2,730	10%	5,200	8%	2,470
Net Income	2,202	8%	3,000	4%	798
Depreciation and Amortization	850	-	5,400	-	4,550
Capital Expenditure	561	-	6,500	-	5,939

Depreciation and amortization does not include amortization of goodwill



# FY2006 Full-Year Projections by Segment – Consolidated

1. FY2006

Millions of Yen

	Games (offline)	Games (online)	Mobile Phone Content	Publication	AM	Others	Eliminations or unallocated	Total
Net Sales	43,000	14,000	8,200	8,800	73,000	3,000	-	150,000
Operating Expenses	33,000	8,000	6,400	6,500	70,800	2,000	4,300	131,000
Operating Income	10,000	6,000	1,800	2,300	2,200	1,000	(4,300)	19,000
Operating Margin	23.3%	42.9%	22.0%	26.1%	3.0%	33.3%	-	12.7%

Exchange rate: USD1=JPY110.00, EUR1=JPY135.00, CNY1=JPY13.00

2. FY2005 results

Millions of Yen

	Games (offline)	Games (online)	Mobile Phone Content	Publication	AM	Others	Eliminations or unallocated	Total
Net Sales	45,916	15,720	5,067	9,742	41,069	6,957	-	124,473
Operating Expenses	36,326	9,812	4,341	6,875	42,240	4,949	4,457	109,003
Operating Income	9,590	5,907	726	2,866	(1,170)	2,007	(4,457)	15,470
Operating Margin	20.9%	37.6%	14.3%	29.4%	(2.8%)	28.8%	-	12.4%

3. Change (1 – 2)

Millions of Yen

	Games (offline)	Games (online)	Mobile Phone Content	Publication	AM	Others	Eliminations or unallocated	Total
Net Sales	(2,916)	(1,720)	3,133	(942)	31,931	(3,957)	-	25,527
Operating Expenses	(3,326)	(1,812)	2,059	(375)	28,560	(2,949)	(157)	21,997
Operating Income	410	93	1,074	(566)	3,370	(1,007)	157	3,530

# FY2006 First-Half Period Projections by Segment – Consolidated

## 1. FY2006 First-Half Period

Millions of Yen

	Games (offline)	Games (online)	Mobile Phone Content	Publication	AM	Others	Eliminations or unallocated	Total
Net Sales	14,500	7,700	3,600	4,900	35,500	1,800		68,000
Operating Expenses	12,600	5,000	3,100	3,500	35,100	1,200	2,200	62,700
Operating Income	1,900	2,700	500	1,400	400	600	(2,200)	5,300
Operating Margin	13.1%	35.1%	13.9%	28.6%	1.1%	33.3%	–	7.8%

Exchange rate: USD1=JPY105.00, EUR1=JPY135.00, CNY1=JPY13.00

## 2. FY2005 First-Half Period results

Millions of Yen

	Games (offline)	Games (online)	Mobile Phone Content	Publication	AM	Others	Eliminations or unallocated	Total
Net Sales	8,607	6,928	2,219	4,471	–	4,863	–	27,091
Operating Expenses	9,449	4,297	1,903	3,480	–	3,532	1,942	24,606
Operating Income	(842)	2,631	316	991	–	1,330	(1,942)	2,484
Operating Margin	(9.8%)	38.0%	14.2%	22.2%	–	27.3%	–	9.2%

## 3. Change (1 – 2)

Millions of Yen

	Games (offline)	Games (online)	Mobile Phone Content	Publication	AM	Others	Eliminations or unallocated	Total
Net Sales	5,893	772	1,381	429	35,500	(3,063)		40,909
Operating Expenses	3,151	703	1,197	20	35,100	(2,332)	258	38,094
Operating Income	2,742	69	184	409	400	(730)	(258)	2,816

## FY2006 Projections – Unit Sales

Thousand Units

	Japan	North America	Europe (PAL)	Asia, etc.	Total
<b>FY2006 Projections</b>	<b>5,000</b>	<b>5,400</b>	<b>2,600</b>		<b>13,000</b>
<b>%</b>	<b>38%</b>	<b>42%</b>	<b>20%</b>	<b>0%</b>	<b>100%</b>
<b>FY2005</b>	<b>7,860</b>	<b>3,510</b>	<b>820</b>	<b>40</b>	<b>12,230</b>
<b>%</b>	<b>64%</b>	<b>29%</b>	<b>7%</b>	<b>0%</b>	<b>100%</b>
<b>Change</b>	<b>(2,860)</b>	<b>1,890</b>	<b>1,780</b>	<b>(40)</b>	<b>770</b>

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# 3. Business Strategy

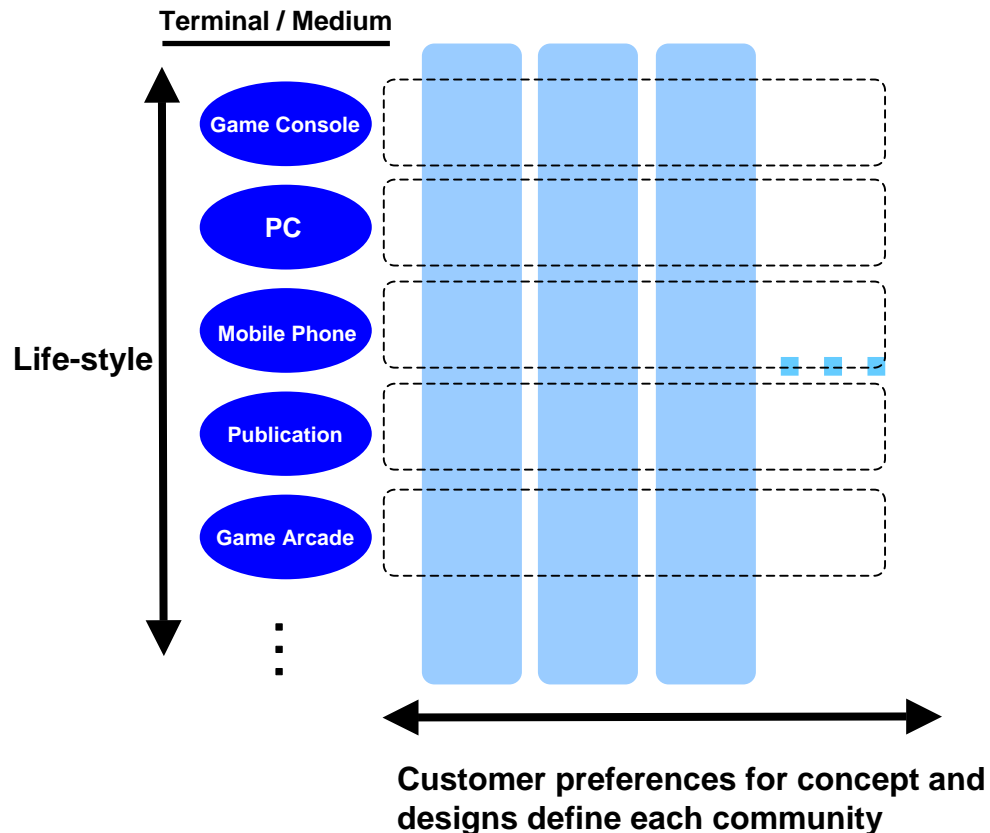
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## Basic Strategy to be .....

**Community Management Company  
serving customers with content  
of the world's highest quality**

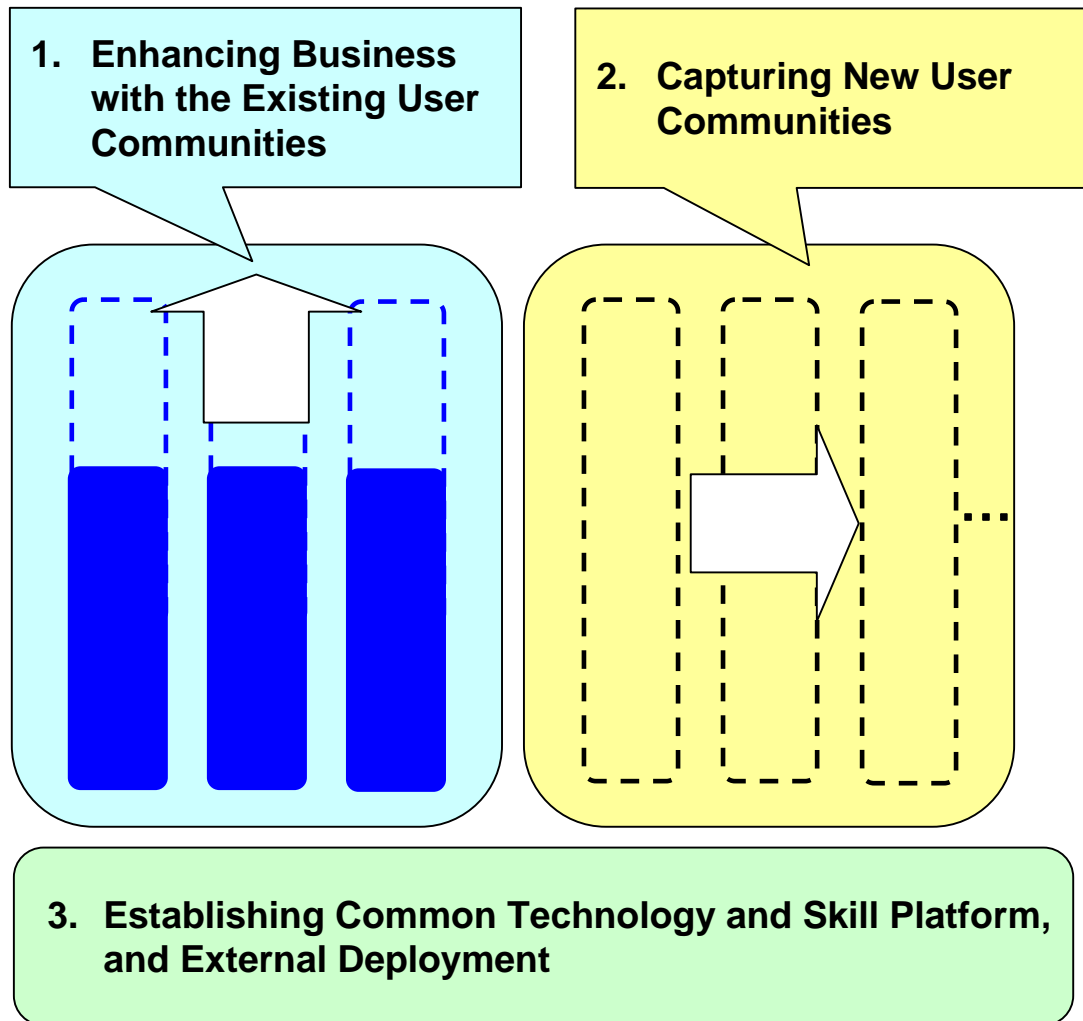
## Basic Strategy:

Identifying target user communities with specific preferences, and increasing the revenue from the communities by increasing the “touch points” to them

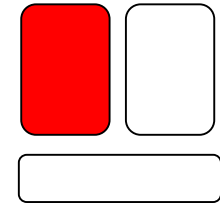


- Identify user communities by specific preferences for concept or designs, not by demographic information such as age or gender
- Maintain and grow communities by appealing depth of the concept  
Do not try to inflate the size of communities by diluting the concept
- Capturing potential customers by adapting to various life styles as well as expanding revenue per user by increasing the “touch points” through various terminals/media

## Three Approaches to Accomplish the Strategy



# 1. Enhancing Business with the Existing User Communities



## Increasing Touch Points with Users by Deploying Polymorphic Content

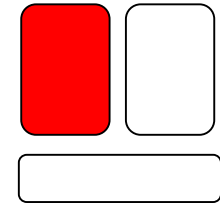
**Increase in ARPU  
(Average Revenue Per User)**

- Increase ARPU (average revenue per user) by providing content/services matching with diversified aspects of life-style of existing customers through multi-media/ terminals deployment

**Capturing Potential Demands**

- Capturing former-users and dormant users who like the concept or designs, but are kept away because of the time constraint





## Compilation of FINAL FANTASY VII



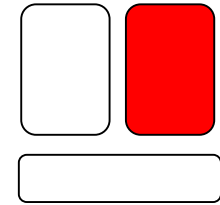
**Market of over ¥50 billion**

## FABULA NOVA CRYSTALLIS FINAL FANTASY XIII



**Market of over ¥100 billion**

## 2. Capturing New User Communities



### Expansion of User Base by Capturing New User Communities

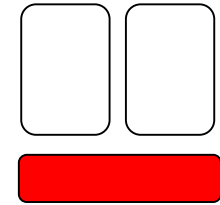
#### Creating the Core of New Community

- Not seeking to expand user base by inflating the population of existing communities, but to create new user community through creation of content with brand-new concept and taste of design
  - To strengthen original game content and publications

#### Approaching Outside Communities

- Support and expand existing outside community with specific preferences operated by a third party by providing our community management skills and design expertise
- Cross-reference of customers, if any, is not the priority
  - Cooperation with Gakken and Xavel

### 3. Establishing Common Technology and Skill Platform and External Deployment



#### Development and Sales of Middleware for Cross-platform Deployment

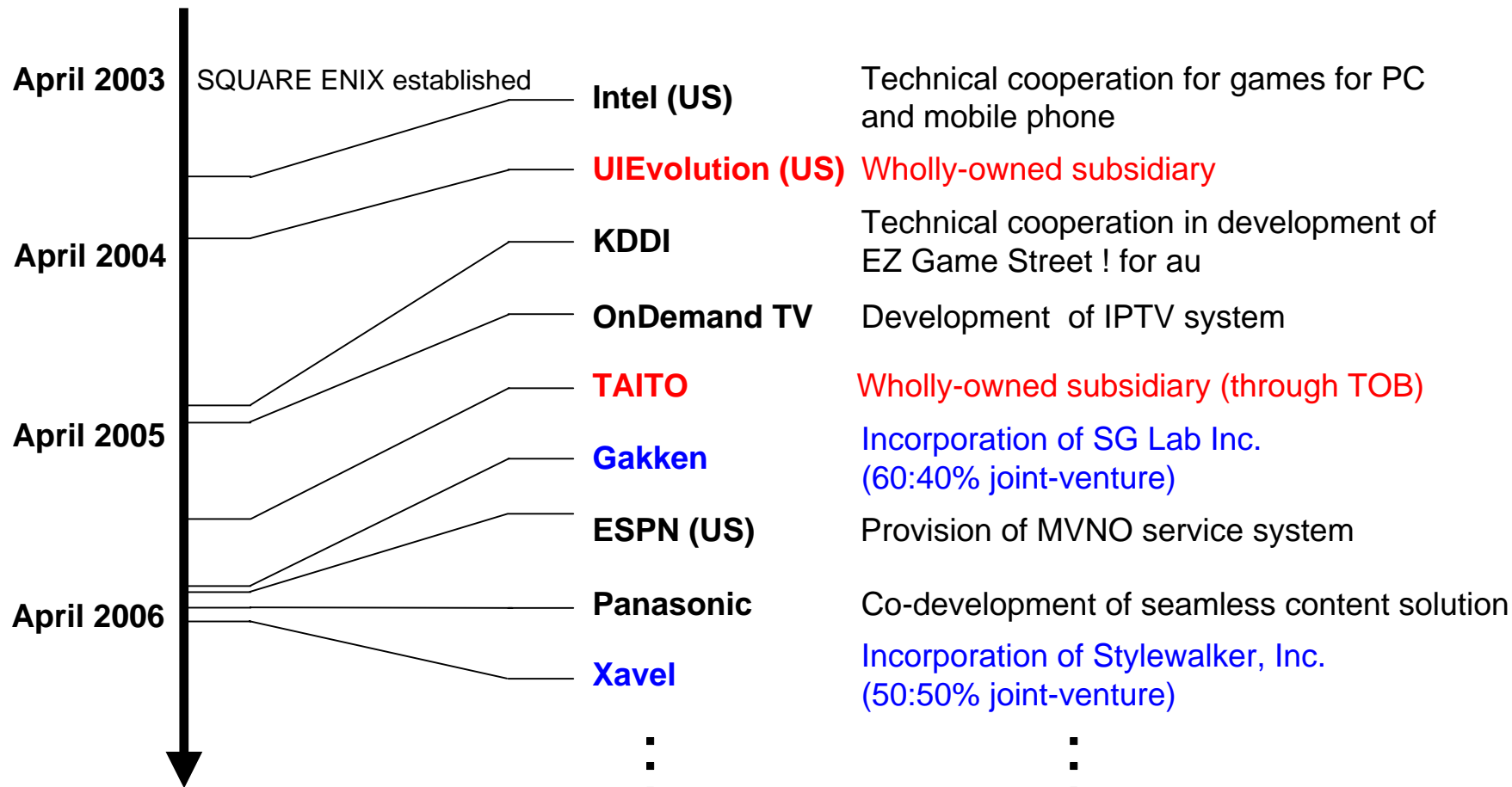
- Development of content and platform using UIEngine  
Examples; OnDemand TV, Ez Game Street,
- Co-development of seamless content solution with Panasonic

#### Promotion of Use of Game Development Tools and Middleware

- Promotion of use of game development tools and middleware to make development process for next-generation game console more efficient, and to provide better environment in which a broader range of creators can join game development
- Promoting in-house engine development, as well as encouraging use of outside-developed tools, if necessary

#### Providing Customer Management Platform

- Establish customer management platform, such as a point system to identify customer needs of each user community
- Develop new billing platform that can accommodate new functions such as item charge, charge by time of usage and in-game advertisement to approach new user communities



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# FY2005 Results Briefing Session

**SQUARE ENIX®**

**May 24, 2006**

[Corrections]  
FY2005 results of Depreciation and  
Amortization and Capital Expenditure on  
pages 5 and 16 were corrected on June 13,  
2006.

[Updated] 06/23/2006