

CONSOLIDATED FINANCIAL REPORT FOR THE THREE MONTHS PERIOD ENDED JUNE 30, 2007 (JPNGAAP)

Company Name: Square Enix Co., Ltd.

Code: 9684

 URL: <http://www.square-enix.com/>

Representative: Yoichi Wada, President and Representative Director

Contact: Yosuke Matsuda, Director and Executive Officer

Market: Tokyo Stock Exchange, First Section

Headquarters: Tokyo

1. Consolidated Financial Highlights (April 1, 2007 to June 30, 2007)

1) Consolidated Financial Results (Millions of yen, except percentages and per share data)

	Net Sales		Operating Income		Recurring Income		Net Income	
Three Months Ended	%		%		%		%	
June 30, 2007	33,749	(9.3)	4,335	59.5	5,308	115.4	2,739	208.3
June 30, 2006	37,196	229.8	2,717	629.9	2,464	438.2	888	1,573.1
Fiscal Year 2006	163,472		25,916		26,241		11,619	

	Earnings Per Share (basic)	Earnings Per Share (diluted)
Three Months Ended	Yen	Yen
June 30, 2007	24.78	24.68
June 30, 2006	8.04	8.00
Fiscal Year 2006	105.06	104.71

2) Consolidated Financial Position (Millions of yen, except percentages and per share data)

	Total Assets	Net Assets	Equity Ratio	Book Value Per Share
Three Months Ended			%	Yen
June 30, 2007	209,949	131,090	61.9	1,172.60
June 30, 2006	199,292	120,800	60.1	1,082.55
Fiscal Year 2006	215,679	130,639	60.0	1,168.91

3) Consolidated Statement of Cash Flows (Millions of yen)

	From Operating Activities	From Investing Activities	From Financing Activities	Closing Cash and Cash Equivalents
Three Months Ended				
June 30, 2007	1,523	(2,732)	(2,593)	96,561
June 30, 2006	9,122	(2,195)	(5,326)	76,841
Fiscal Year 2006	32,809	(5,671)	(2,912)	99,847

2. FY2007 Consolidated Forecasts (April 1, 2007 to March 31, 2008) (Millions of yen, except percentages)

	Net Sales		Operating Income		Recurring Income		Net Income		Earnings Per Share
First-half Year	%		%		%		%		yen
First-half Year	72,000	(5.2)	8,000	(12.7)	8,500	(9.6)	4,500	35.6	40.63
Full Year	162,500	(0.6)	21,000	(19.0)	20,000	(23.8)	12,000	3.3	108.34

Disclaimer

The forward-looking statements in this document are based upon the information currently available, and necessarily include elements that are not entirely predictable. Actual results may differ from the forward-looking statements in this document.

* Percentages in net sales, operating income, recurring income, and net income are percentage changes compared with the same period of the previous fiscal year.

A Summary of Consolidated Balance Sheet for Three Months Ended June 30, 2007

(Millions of yen / %)

Account	FY2006 Quarterly Results	FY2007 Quarterly Results	Change		(For Reference)
	(As of June 30, 2006)	(As of June 30, 2007)	Amount	Rate	Fiscal Year 2006
	Amount	Amount	Amount	Rate	Amount
(Assets)				%	
I Current assets					
1. Cash and deposits	76,846	96,566	19,719	25.7	99,852
2. Notes and accounts receivable	19,002	17,174	(1,827)	(9.6)	21,206
3. Securities	—	1,009	1,009	—	—
4. Inventories	5,899	5,971	72	1.2	4,188
5. Content production account	7,576	13,919	6,342	83.7	11,903
6. Deferred tax assets	6,785	3,844	(2,940)	(43.3)	5,634
7. Other current assets	4,711	4,633	(78)	(1.7)	4,656
Allowance for doubtful accounts	(922)	(544)	377	(41.0)	(832)
Total current assets	119,900	142,574	22,674	18.9	146,608
II Non-current assets					
1. Property and equipment	29,333	24,259	(5,074)	(17.3)	25,664
2. Intangible assets	24,968	21,245	(3,723)	(14.9)	21,657
3. Investments and other asset					
(1) Investment securities	1,169	468	(700)	(59.9)	455
(2) Long-term loans	172	176	3	2.2	176
(3) Rental deposits	17,170	14,348	(2,821)	(16.4)	14,198
(4) Construction corporation fund	2,078	1,699	(378)	(18.2)	1,886
(5) Claim in bankruptcy	2,114	2,862	747	35.4	—
(6) Deferred tax assets	6,407	5,059	(1,348)	(21.0)	4,939
(7) Other	590	594	3	0.7	541
Allowance for doubtful accounts	(4,613)	(3,339)	1,273	(27.6)	(5,515)
Total investments and other assets	25,089	21,869	(3,219)	(12.8)	21,748
Total non-current assets	79,391	67,374	(12,017)	(15.1)	69,071
Total assets	199,292	209,949	10,657	5.3	215,679
(Liabilities)					
I Current liabilities					
1. Notes and accounts payable	10,937	10,927	(10)	(0.1)	13,275
2. Other accounts payable	1,629	3,417	1,788	109.8	4,773
3. Accrued expenses	5,322	3,214	(2,108)	(39.6)	3,379
4. Accrued income taxes	954	681	(272)	(28.6)	994
5. Advance payments received	677	772	94	14.0	1,188
6. Deposits received	827	1,092	265	32.1	490
7. Reserve for bonuses	840	1,270	429	51.1	1,872
8. Allowance for sales returns	1,415	1,838	422	29.9	2,271
9. Allowance for losses due to closure of outlets	270	2,581	2,311	854.2	2,973
10. Other	2,332	519	(1,813)	(77.7)	1,185
Total current liabilities	25,207	26,316	1,108	4.4	32,404
II Non-current liabilities					
1. Corporate bond	50,000	50,000	—	0.0	50,000
2. Allowance for retirement benefits	2,887	2,096	(790)	(27.4)	2,169
3. Other	395	445	49	12.6	466
Total non-current liabilities	53,283	52,542	(740)	(1.4)	52,635
Total liabilities	78,491	78,858	367	0.5	85,040
(Net assets)					
I Shareholders' equity					
1. Common Stock	7,816	8,052	236	3.0	8,038
2. Capital surplus reserve	37,057	37,293	236	0.6	37,279
3. Retained earnings	74,937	84,285	9,348	12.5	84,315
4. Treasury stock	(514)	(549)	(35)	7.0	(540)
Total shareholders' equity	119,297	129,082	9,785	8.2	129,092
II Valuation and translation adjustment					
1. Unrealized gains on revaluation of other investment securities	365	(29)	(395)	(108.1)	(8)
2. Foreign currency translation adjustment	20	829	809	4,008.6	377
Total valuation and translation adjustments	385	799	413	107.2	368
III Minority interests in consolidated subsidiaries	1,117	1,208	91	8.1	1,178
Total net assets	120,800	131,090	10,289	8.5	130,639
Total liabilities and net assets	199,292	209,949	10,657	5.3	215,679

A Summary of Consolidated Statements of Income for Three Months Ended June 30, 2007

(Millions of yen / %)

Account	FY2006 Quarterly Results	FY2007 Quarterly Results	Change		(For Reference)
	(As of June 30, 2006)	(As of June 30, 2007)	Amount	Rate	Fiscal Year 2006
	Amount	Amount	Amount	Rate	Amount
I Net Sales	37,196	33,749	(3,447)	(9.3)	163,472
II Cost of sales	20,969	18,527	(2,442)	(11.6)	87,262
Gross profit	16,227	15,221	(1,005)	(6.2)	76,210
Reversal of allowance for sales returns	949	2,271	1,322	139.3	1,186
Provision for allowance for sales returns	1,415	1,838	422	29.9	2,271
Net gross profit	15,760	15,654	(106)	(0.7)	75,125
III Selling, general and administrative expenses	13,043	11,319	(1,723)	(13.2)	49,209
Operating income	2,717	4,335	1,617	59.5	25,916
IV Non-operating income	195	1,049	854	438.2	1,176
V Non-operating expenses	447	76	(371)	(82.9)	852
Recurring income	2,464	5,308	2,843	115.4	26,241
VI Extraordinary gain	57	501	443	765.6	3,778
VII Extraordinary loss	101	883	781	770.6	11,629
Income before income taxes and distribution of loss in partnership (tokumei-kumiai)	2,421	4,926	2,505	103.5	18,390
Distribution of loss in partnership (tokumei-kumiai)	5	0	(5)	(98.6)	16
Income before income taxes	2,415	4,926	2,511	104.0	18,374
Income taxes:	660	630	(30)	(4.6)	2,788
Current deferred	858	1,548	689	80.2	3,941
Minority interest in consolidated subsidiaries	7	8	1	23.4	24
Net income	888	2,739	1,850	208.3	11,619

A Summary of Consolidated Statements of Cash Flows for Three Months Ended June 30, 2007

(Millions of yen / %)

Account	FY2006 Quarterly Results	FY2007 Quarterly Results	(For Reference)
	(As of June 30, 2006)	(As of June 30, 2007)	Fiscal Year 2006
	Amount	Amount	Amount
I Cash flows from operating activities			
Income before income taxes	2,415	4,926	18,374
Depreciation and amortization	2,452	2,174	11,115
Increase in accounts receivable	13,874	4,551	11,090
(Increase) in inventories	(651)	(3,397)	(2,780)
(Decrease) increase in purchase liabilities	(702)	(2,595)	1,671
(Decrease) in accrued consumption taxes	(898)	(315)	(320)
Income taxes paid	(4,456)	(579)	(7,249)
Other	(2,910)	(3,241)	908
Net cash provided by operating activities	9,122	1,523	32,809
II Cash flows from investing activities			
Payments for acquiring property and equipment	(2,235)	(1,289)	(10,733)
Payments for acquiring intangible assets	(119)	(102)	(413)
Proceeds from return of guarantee money paid	333	245	1,113
Payments for provision of guarantee money paid	(61)	(479)	(398)
Payments for acquiring securities	—	(1,009)	—
Other	(112)	(97)	4,760
Net cash used in investing activities	(2,195)	(2,732)	(5,671)
III Cash flows from financing activities			
Payments for dividends	(1,774)	(2,610)	(3,314)
Proceeds from short-term loans	5,000	—	—
Payment for short-term loans	(5,000)	—	—
Payments for merger negotiation fees	(3,567)	—	—
Other	15	17	401
Net cash used provided by financing activities	(5,326)	(2,593)	(2,912)
IV Effect of exchange rate changes on cash and cash equivalents	(11)	515	356
V Net increase (decrease) in cash and cash equivalents	1,589	(3,286)	24,582
VI Cash and cash equivalents at beginning of period	75,252	99,847	75,252
VII Increase in cash and cash equivalents due to increase in consolidated subsidiaries	—	—	13
VIII Cash and cash equivalent at end of period	76,841	96,561	99,847

Segment Information

1. Consolidated Business Segment Information

FY2006 Quarterly Results (April 1, 2006 to June 30, 2006)								(Millions of yen)	
	Games (Offline)	Games (Online)	Mobile Phone Content	Publication	Amusement	Other	Total	Eliminations or Unallocated	Consolidated Total
Sales and operating income									
Net sales									
(1) Sales to outside customers	8,547	4,751	1,375	2,716	18,713	1,092	37,196	—	37,196
(2) Inter-segment sales	—	—	—	—	—	—	—	—	—
Total	8,547	4,751	1,375	2,716	18,713	1,092	37,196	—	37,196
Operating expenses	8,183	2,748	953	1,811	19,376	582	33,656	822	34,479
Operating income	363	2,003	422	904	(663)	510	3,540	(822)	2,717

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

2. Major products offered by each business segment

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

3. Unallocated operating expenses included in "Eliminations or Unallocated" totaled ¥822 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 allocable to specific business segments.

FY2007 Quarterly Results (April 1, 2007 to June 30, 2007)								(Millions of yen)	
	Games (Offline)	Games (Online)	Mobile Phone Content	Publication	Amusement	Other	Total	Eliminations or Unallocated	Consolidated Total
Sales and operating income									
Net sales									
(1) Sales to outside customers	9,416	2,778	1,802	2,222	16,718	811	33,749	—	33,749
(2) Inter-segment sales	—	—	0	—	167	99	268	(268)	—
Total	9,416	2,778	1,802	2,222	16,886	910	34,017	(268)	33,749
Operating expenses	6,967	1,134	1,517	1,510	16,483	982	28,595	818	29,413
Operating income	2,448	1,643	285	711	403	(71)	5,422	(1,086)	4,335

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

2. Major products offered by each business segment

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

3. Unallocated operating expenses included in "Eliminations or Unallocated" totaled ¥1,086 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 allocable to specific business segments.

2. Consolidated Geographic Segment Information

FY2006 Quarterly Results (April 1, 2006 to June 30, 2006)

(Millions of yen)

	Japan	North America	Europe	Asia	Total	Eliminations or Unallocated	Consolidated Total
Sales and operating income							
Net sales							
(1) Sales to outside customers	31,005	4,193	1,792	205	37,196	—	37,196
(2) Inter-segment sales	1,397	112	93	—	1,603	(1,603)	—
Total	32,402	4,305	1,885	205	38,800	(1,603)	37,196
Operating expenses	29,847	4,135	1,695	404	36,082	(1,603)	34,479
Operating income	2,555	170	190	(198)	2,717	—	2,717

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

FY2007 Quarterly Results (April 1, 2007 to June 30, 2007)

(Millions of yen)

	Japan	North America	Europe	Asia	Total	Eliminations or Unallocated	Consolidated Total
Sales and operating income							
Net sales							
(1) Sales to outside customers	28,501	2,567	2,499	181	33,749	—	33,749
(2) Inter-segment sales	1,483	4	66	7	1,562	(1,562)	—
Total	29,984	2,571	2,565	189	35,311	(1,562)	33,749
Operating expenses	26,491	1,951	2,203	329	30,976	(1,562)	29,413
Operating income	3,493	620	361	(140)	4,335	—	4,335

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