

**CONSOLIDATED FINANCIAL REPORT**  
**for the Nine-Month Period Ended December 31, 2006**

Company Name: SQUARE ENIX CO., LTD.	Market: Tokyo Stock Exchange, First Section
Code: 9684	Headquarters: Tokyo
URL: <a href="http://www.square-enix.com/">http://www.square-enix.com/</a>	
Representative: Yoichi Wada, President and Representative Director	
Contact: Yosuke Matsuda, Director	

1. Notes to Providing the Quarterly Financial Statements

- 1) The simple method for accounting method: N/A
- 2) Change of significant accounting policies since the previous fiscal year: N/A
- 3) Change in scope of consolidation and application of the equity method:  
Consolidated (added) 1 ( SQUARE ENIX OF AMERICA HOLDINGS, INC. )

2. Consolidated Financial Report for the Nine-Month Period Ended December 31, 2006

(1) Consolidated Financial Highlights

(Millions of yen except percentages and per share data)

	Net Sales		Operating Income		Recurring Income		Net Income	
Nine Months Ended	%		%		%		%	
December 31, 2006	123,035	78.3	19,656	210.3	20,228	191.6	9,095	111.9
December 31, 2005	68,994	13.2	6,334	(75.5)	6,936	(73.1)	4,291	(67.7)
Fiscal Year Ended March 31, 2006	124,473		15,470		15,547		17,076	

	Earnings Per Share (Basic)	Earnings Per Share (Diluted)
Nine Months Ended	Yen	Yen
December 31, 2006	82.26	81.88
December 31, 2005	38.88	38.57
Fiscal Year Ended March 31, 2006	154.65	153.44

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

[ Notes Regarding the Consolidated Financial Highlights ]

The net sales, operating income, recurring income, and net income amounted to ¥123,035 million (up 78.3% from the same period of the previous fiscal year), ¥19,656 million (up 210.3%), ¥20,228 million (up 191.6%), and ¥9,095 million (up 111.9%), respectively, for the nine-month period (April 1, 2006 to December 31, 2006) results of the consolidated group of SQUARE ENIX CO., LTD. (the "Company").

Such quarterly results as this nine-month period are considerably affected by the title release schedule.

## Games (Offline)

The Company plans, develops and distributes games for game consoles (including handheld game machines). The Company also handles localization of games developed and distributed in Japan to distribute in North America through SQUARE ENIX, INC., a wholly-owned subsidiary of the Company. While distribution in Europe and Asia was handled by leading publishers through license arrangements until the previous fiscal year, the Company began self-publishing in Europe through SQUARE ENIX LTD., a wholly-owned subsidiary of the Company, from this period under review.

During this period under review (April 1, 2006 – December 31, 2006), the Company released “FINAL FANTASY XII” (1,660 thousand units in North America as of December 31, 2006), “KINGDOM HEARTS II” (690 thousand units in Europe, *ditto*), “ValkyrieProfile 2 Silmeria” (420 thousand units in Japan and 160 thousand units in North America, *ditto*), “DIRGE OF CERBERUS -FINAL FANTASY VII-” (450 thousand units in North America and 250 thousand units in Europe, *ditto*), “DRAGON QUEST: The Journey of the Cursed King” (450 thousand units in Europe, *ditto*) for PlayStation2, and “FINAL FANTASY III” (950 thousand units in Japan and 340 thousand units in North America, *ditto*) and “DRAGON QUEST MONSTERS - Joker” (910 thousand units in Japan, *ditto*) for Nintendo DS. In addition, value-priced titles achieved strong sales in both Japan and overseas.

Consequently, net sales of the Games (Offline) segment totaled ¥40,298 million (up 90.1% from the same period in the previous fiscal year), and operating income amounted to ¥13,824 million.

## Games (Online)

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

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

Consequently, net sales of the Games (Online) segment totaled ¥10,568 million (up 9.8%, *ditto*), and operating income was ¥4,998 million (up 33.4%, *ditto*).

## Mobile Phone Content

The Company plans, develops and provides content for mobile phones, and provides wide range of mobile content services including ring tones, wallpapers, game and portals. Led by such portal services as “DRAGON QUEST” and “FINAL FANTASY,” the service lineup leveraged the Company’s strength in original content.

Consequently, net sales of the Mobile Phone Content segment were to ¥4,396 million (up 20.1%, *ditto*), and operating income amounted to ¥724 million (down 1.7%, *ditto*).

## Publication

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

The Company publishes game-related books including comic magazines, comic books, and game strategy books.

In this period under review, the Company published monthly magazines “SHONEN GANGAN,” “GANGAN POWERED,” “G Fantasy,” “GANGAN WING” and “YOUNG GANGAN,” as well as comic collections taken from regular monthly magazine serials and various game strategy guide books. In addition, the Company published a major game strategy book for “FINAL FANTASY XII,” which was released in March 2006 in Japan.

Consequently, net sales of the Publications segment totaled ¥8,135 million (up 16.7%, *ditto*), and operating income was ¥2,555 million (up 41.5%, *ditto*).

## Amusement

This segment includes results from all the businesses of the TAITO Group, which was included in the Company’s scope of consolidation from the end of September 2005, and goodwill amortization incurred from consolidation of TAITO Group. TAITO Group’s operating results are included in the Company’s consolidated statement of income from October 2005.

During this period under review, the Company divested commercial karaoke machines business in July as part of efforts to promote more cost effective operations and proceed with drastic restoration in business structure. However, amusement operation business, a major operation in this segment, was unsuccessful to offset unfavorable results of commercial karaoke machines and home game software businesses.

Consequently, net sales of the Amusement segment amounted to ¥56,369 million (up 168.6% from the three months period results: October to December 2005), and operating loss totaled ¥754 million.

## Others

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

During this period under review, a CG-animated film "FINAL FANTASY VII: Advent Children," which was released in the same period of the previous fiscal year and achieved remarkable hits in Japan, was released in North America, and has been recording brisk sales more than those in Japan. The licensing income is included in this segment.

Consequently, sales in the Others segment amounted to ¥3,267 million (down 50.1 %, *ditto*), and operating income totaled ¥1,297 million (down 39.5%, *ditto*).

(2) Consolidated Financial Position

(Millions of yen except percentages and per share data)

	Total Assets	Total Shareholders' Equity	Ratio of Shareholders' Equity	Shareholders' Equity Per Share
Nine Months Ended			%	Yen
December 31, 2006	208,498	128,141	60.9	1,150.70
December 31, 2005	192,247	108,049	56.2	977.73
Fiscal Year 2005	213,348	120,993	56.7	1,094.50

[ Consolidated Statement of Cash Flows ]

(Millions of yen)

	From Operating Activities	From Investing Activities	From Financing Activities	Closing Cash and Cash Equivalents
Nine Months Ended				
December 31, 2006	18,070	(3,135)	(2,993)	87,546
December 31, 2005	(10,074)	(56,828)	44,159	59,030
Fiscal Year 2005	9,174	(60,039)	44,153	75,252

[ Notes Regarding the Consolidated Financial Position ]

Cash and cash equivalents at the end of this period were ¥87,546 million.

The cash flow status and contributing factors are as follows.

1) Cash flows from operating activities

Income before income taxes amounted to ¥18,792 million, and net cash provided by operating activities totaled ¥18,070 million, mainly due to recovery of accounts receivable and payments for corporate taxes.

2) Cash flows from investing activities

Net cash used in investing activities totaled ¥3,135 million, mainly due to payments for acquiring non-current assets, and income from divesting TAITO's commercial karaoke machines business.

3) Cash flows from financing activities

Net cash used in financing activities amounted to ¥2,993 million, mainly due to payment of dividend.

3. FY2007 Forecasts – Consolidated and Non-consolidated

Consolidated forecasts (April 1, 2006 to March 31, 2007)

(Millions of yen)

	Net sales	Recurring income	Net income
FY 2007	160,000	22,000	11,000

(Reference) Earnings per share (basic) forecasts for FY2007; 99.69 yen

Non-consolidated forecasts (April 1, 2006 to March 31, 2007)

		(Millions of yen)	
	Net sales	Recurring income	Net income
FY 2007	59,000	16,000	10,000

(Reference) Earnings per share (basic) forecasts for FY2007; 90.63 yen

[ Notes Regarding FY2007 Forecasts ]

The Company achieved favorable results in Games (Offline), Games (Online), Mobile Phone Content, Publishing and Others segments, and consolidated and non-consolidated forecasts are projected to exceed the figures previously announced.

The Company is conducting a drastic restoration in the Amusement segment to improve operating results in and after the next fiscal year while planning to complete most of the financial measures by the end of the current fiscal year.

Consequently, consolidated forecast for net income has been unchanged due to expected financial measures in the Amusement segment while net sales and recurring income have been making favorable progresses.

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.

■ Attachments

Quarterly Consolidated Balance Sheet (summary),  
Quarterly Consolidated Statements of Income (summary),  
Quarterly Consolidated Statements of Cash Flows, and  
Segment Information.

**A Summary of Consolidated Balance Sheet for Nine Months Ended December 31, 2006**

(Millions of yen)

Account	FY2006 Quarterly Results	FY2005 Quarterly Results	Change		(For Reference)
	(As of December 31, 2006)	(As of December 31, 2005)	Amount	Rate	Fiscal Year 2005
	Amount	Amount	Amount	Rate	Amount
(Assets)				%	
I Current assets					
1. Cash and deposits	87,551	59,035	28,516	48.3	75,257
2. Notes and accounts receivable	28,107	27,245	862	3.2	33,215
3. Inventories	5,825	6,866	(1,041)	(15.2)	5,489
4. Content production account	10,271	14,545	(4,274)	(29.4)	7,312
5. Deferred tax assets	2,142	2,174	(31)	(1.4)	7,877
6. Other current assets	3,389	5,548	(2,158)	(38.9)	3,968
Allowance for doubtful accounts	(434)	(639)	205	(32.1)	(868)
Total current assets	136,854	114,776	22,077	19.2	132,251
II Non-current assets					
1. Property and equipment	27,069	31,225	(4,155)	(13.3)	29,995
2. Intangible assets	22,141	22,231	(89)	(0.4)	25,389
3. Investments and other asset					
(1) Investment securities	1,085	1,443	(357)	(24.8)	1,459
(2) Long-term loans	174	10	163	—	173
(3) Rental deposits	16,962	17,873	(911)	(5.1)	17,361
(4) Construction cooperation fund	1,913	2,186	(272)	12.5	2,158
(5) Claim in bankruptcy	2,210	2,292	(81)	(3.6)	2,240
(6) Deferred tax assets	5,259	3,251	2,008	61.8	6,523
(7) Other	583	1,247	(663)	(53.2)	533
Allowance for doubtful accounts	(5,756)	(4,291)	(1,465)	34.2	(4,738)
Total investments and other assets	22,432	24,013	(1,580)	(6.6)	25,712
Total non-current assets	71,644	77,470	(5,826)	(7.5)	81,097
Total assets	208,498	192,247	16,250	8.5	213,348
(Liabilities)					
I Current liabilities					
1. Notes and accounts payable	11,007	12,763	(1,756)	(13.8)	12,124
2. Other accounts payable	2,387	2,308	78	3.4	6,509
3. Accrued expenses	4,877	5,744	(866)	(15.1)	6,413
4. Accrued income taxes	1,785	790	994	125.8	4,848
5. Advance payments received	1,027	930	96	10.4	991
6. Deposits received	793	697	95	13.8	421
7. Reserve for bonuses	755	923	(167)	(18.2)	2,648
8. Allowance for sales returns	1,869	1,199	669	55.8	1,186
9. Allowance for losses due to closure of outlets	223	139	84	60.7	292
10. Other	2,619	1,502	1,116	74.3	2,405
Total current liabilities	27,346	27,000	345	1.3	37,840
II Non-current liabilities					
1. Corporate bond	50,000	50,000	—	—	50,000
2. Allowance for retirement benefits	2,590	3,103	(512)	(16.5)	3,001
3. Other	420	376	43	11.7	392
Total non-current liabilities	53,011	53,480	(468)	(0.9)	53,394
Total liabilities	80,357	80,481	(123)	(0.2)	91,234
(Minority interests)					
Minority interests in consolidated subsidiaries	—	3,717	—	—	1,120
(Shareholders' equity)					
I Common stock	—	7,757	—	—	7,803
II Capital surplus reserve	—	36,998	—	—	37,044
III Retained earnings	—	63,236	—	—	76,022
IV Unrealized gain on revaluation of marketable securities	—	552	—	—	531
V Foreign currency translation adjustment	—	(7)	—	—	97
VI Treasury stock	—	(489)	—	—	(506)
Total shareholders' equity	—	108,049	—	—	120,993
Total liabilities, minority interests and shareholders' equity	—	192,247	—	—	213,348
Net assets					
I Shareholders' equity					
1. Common stock	7,937	—	—	—	—
2. Capital surplus reserve	37,178	—	—	—	—
3. Retained earnings	81,790	—	—	—	—
4. Treasury stock	(528)	—	—	—	—
Total shareholders' equity	126,379	—	—	—	—
II Valuation and translation adjustment					
1. Unrealized gain on revaluation of other investment securities	210	—	—	—	—
2. Foreign currency translation adjustment	382	—	—	—	—
Total valuation and translation adjustment	592	—	—	—	—
III Minority interests in consolidated subsidiaries	1,169	—	—	—	—
Total net assets	128,141	—	—	—	—
Total liabilities and net assets	208,498	—	—	—	—

**A Summary of Consolidated Statements of Income for Nine Months Ended December 31, 2006**

(Millions of yen)

Account	FY2006 Quarterly Results	FY2005 Quarterly Results	Change		(For Reference)
	(As of December 31, 2006)	(As of December 31, 2005)			Fiscal Year 2005
	Amount	Amount	Amount	Rate	Amount
I Net Sales	123,035	68,994	54,040	78.3	124,473
II Cost of sales	64,780	37,902	26,878	70.9	68,105
Gross profit	58,254	31,091	27,162	87.4	56,367
Reversal of allowance for sales returns and price protection	1,186	1,316	(129)	(9.8)	1,316
Provision for allowance for sales return and price protection	1,869	1,199	669	55.8	1,186
Net gross profit	57,572	31,208	26,363	84.5	56,497
III Selling, general and administrative expenses	37,916	24,873	13,042	52.4	41,026
Operating income	19,656	6,334	13,321	210.3	15,470
IV Non-operating income	979	845	133	15.7	1,046
V Non-operating expenses	406	244	162	66.4	968
Recurring income	20,228	6,936	13,292	191.6	15,547
VI Extraordinary gain	2,990	1,359	1,630	120.0	1,361
VII Extraordinary loss	4,410	1,150	3,260	283.4	7,878
Income before income taxes and distribution of loss in partnership ( <i>tokumei-kumiai</i> )	18,808	7,145	11,662	163.2	9,031
Distribution of loss in partnership	15	31	(16)	(52.3)	40
Income before income taxes	18,792	7,113	11,679	164.2	8,990
Corporate, resident and enterprise taxes	3,556	917	2,638	287.5	1,835
Refunded income taxes	(117)	(906)	788	(87.0)	(912)
Deferred income taxes	6,231	2,541	3,690	145.2	(9,039)
Minority interest in consolidated subsidiaries	26	269	(242)	(90.0)	31
Net income	9,095	4,291	4,803	111.9	17,076

**A Summary of Consolidated Statements of Cash Flows for Nine Months Ended December 31, 2006**

(Millions of yen)

Account	FY2006 Quarterly Results	FY2005 Quarterly Results	(For Reference)
	(As of December 31, 2006)	(As of December 31, 2005)	Fiscal Year 2005
	Amount	Amount	Amount
I Cash flows from operating activities			
Income before income taxes	18,792	7,113	8,990
Depreciation and amortization	8,120	3,964	8,419
Decrease (increase) in accounts receivable	4,075	(10,577)	(16,330)
Increase (decrease) in inventories	(3,401)	343	9,140
Increase (decrease) in purchase liabilities	(324)	2,661	1,797
Increase (decrease) in accrued consumption taxes	(604)	(657)	102
Increase (decrease) in other current assets	269	(1,462)	57
Increase (decrease) in other non-current assets	1,188	(291)	358
Increase (decrease) in other current liabilities	(4,432)	(983)	391
Income taxes paid	(5,686)	(9,333)	(10,054)
Other	73	(852)	6,300
Net cash provided by operating activities	18,070	(10,074)	9,174
II Cash flows from investing activities			
Payments for acquiring property, plant and equipment	(8,226)	(4,662)	(8,258)
Payments for acquiring intangible assets	(299)	(218)	(340)
Proceeds from sales of investment securities	—	1,504	1,504
Proceeds from divesting business	4,645	—	—
Payments for acquisition of shares in affiliates	(63)	—	(53,747)
Payments for acquisition of shares in consolidated subsidiary	—	(53,752)	—
Proceeds from return of guarantee money paid	948	504	1,160
Payments for provision of guarantee money paid	(325)	(174)	(234)
Other	185	(29)	(122)
Net cash provided by investing activities	(3,135)	(56,828)	(60,039)
III Cash flows from financing activities			
Payments for dividends	(3,237)	(6,398)	(6,617)
Proceeds from short-term loans	—	—	40,000
Payment of short-term loans	—	—	(40,000)
Proceeds from issuance of corporate bonds	—	50,000	50,000
Payments for dividends for minority interests	—	—	—
Other	243	558	771
Net cash provided by financing activities	(2,993)	44,159	44,153
IV Effect of exchange rate changes on cash and cash equivalents	339	529	719
V Net (decrease) increase in cash and cash equivalents	12,281	(22,213)	(5,991)
VI Cash and cash equivalents at beginning of period	75,252	81,243	81,243
VII Increase in cash and cash equivalents due to increase in consolidated subsidiaries	13	—	—
VIII Cash and cash equivalent at period end	87,546	59,030	75,252

## Segment Information

### 1. Consolidated Business Segment Information

FY2005 Quarterly Results (April 1, 2005 to December 31, 2005)								(Millions of yen)	
	Games (Offline)	Games (Online)	Mobile Phone Content	Publication	AM	Other	Total	Eliminations or Unallocated	Consolidated Total
Sales and operating income									
Net sales									
(1) Sales to outside customers	21,199	9,623	3,659	6,968	20,988	6,554	68,994	—	68,994
(2) Intersegment sales	—	—	—	—	—	—	—	—	—
Total	21,199	9,623	3,659	6,968	20,988	6,554	68,994	-	68,994
Operating expenses	20,225	5,877	2,922	5,162	21,223	4,408	59,820	2,839	62,659
Operating income	974	3,746	736	1,805	(234)	2,145	9,174	(2,839)	6,334

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 the businesses of the TAITO Group including Amusement operation and Rental, Sales of Goods and Merchandise and Content Services
Other	Derivative products such as character merchandise, school for game designers

3. Unallocated operating expenses included in "Eliminations or Unallocated" totaled ¥2,839 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

FY2006 Quarterly Results (April 1, 2006 to December 31, 2006)								(Millions of yen)	
	Games (Offline)	Games (Online)	Mobile Phone Content	Publication	AM	Other	Total	Eliminations or Unallocated	Consolidated Total
Sales and operating income									
Net sales									
(1) Sales to outside customers	40,298	10,568	4,396	8,135	56,369	3,267	123,035	—	123,035
(2) Intersegment sales	—	—	—	—	—	—	—	—	—
Total	40,298	10,568	4,396	8,135	56,369	3,267	123,035	—	123,035
Operating expenses	26,473	5,570	3,671	5,580	57,123	1,970	100,390	2,989	103,379
Operating income	13,824	4,998	724	2,555	(754)	1,297	22,645	(2,989)	19,656

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
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Amusement	All the businesses of the TAITO Group including Amusement operation and Rental, Sales of Goods and Merchandise and Content Services
Other	Derivative products such as character merchandise, school for game designers

3. Unallocated operating expenses included in "Eliminations or Unallocated" totaled ¥2,989 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

## 2. Consolidated Geographic Segment Information

FY2005 Quarterly Results (April 1, 2005 to December 31, 2005)

(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	59,729	7,132	311	1,821	68,994	—	68,994
(2) Intersegment sales	2,013	406	287	—	2,707	(2,707)	—
Total	61,742	7,539	598	1,821	71,701	(2,707)	68,994
Operating expenses	56,816	6,893	498	1,159	65,367	(2,707)	62,659
Operating income	4,926	645	100	662	6,334	—	6,334

- 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, South Korea
  3. There are no unallocated operating expenses included in "Eliminations or Unallocated."

FY2006 Quarterly Results (April 1, 2006 to December 31, 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	95,552	20,698	6,022	762	123,035	—	123,035
(2) Intersegment sales	7,672	638	256	8	8,575	(8,575)	—
Total	103,224	21,336	6,279	771	131,610	(8,575)	123,035
Operating expenses	89,378	15,827	5,461	1,287	111,954	(8,575)	103,379
Operating income	13,845	5,509	817	(516)	19,656	—	19,656

- 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, South Korea
  3. There are no unallocated operating expenses included in "Eliminations or Unallocated."