Please let me now begin our briefing on the results posted by Square Enix Holdings Co., Ltd. (“SQUARE ENIX”) for the first half of the fiscal year ending March 31, 2009.

If you look at the summary of the consolidated results of the first half in this slide, you will notice that the overall structure remains almost unchanged from September 30, 2007 to September 30, 2008. The number of employees was 3,275 as of September 30, 2007 and 2,973 as of March 31, 2008. The main reason for the decline was a reduction of more than 200 employees in the operating workforce for online games in China, associated with the business realignment we conducted there. The number of employees increased by around 40 people from the end of March 2008 to the end of September 2008, and this was mainly because we hired key part-time employees as junior employees in certain regions for the operation of TAITO Corporation’s (“TAITO”) game arcades. The effective number of employees, including part-time workers, remained unchanged during this six-month period.

Let me explain the financial statements in a little more detail. The item that showed a visible change in the balance sheet was the content production account, which has risen with the increase of major titles currently created by in-house teams.
Other than this, there were few changes.
The balance of warrant bonds stayed at 37 billion yen, as the exercise of warrants did not progress, given the current market conditions.

With respect to statements of income, net sales were 72.2 billion yen in the first half of the previous fiscal year but 67.9 billion yen in the first half of the current fiscal year.
The cost-of-sales ratio and gross profit margin were almost unchanged, with the former moving from 55.0% to 54.7% and the latter from 45.0% to 45.3%. The ratio of selling, general and administrative expenses also remained largely the same, and the operating margin changed only 0.3%.
Although we try not to change these ratios too much as we operate a range of businesses to leverage our integrated and balanced power as a company, these ratios were not necessarily at favorable levels, and we believe this situation reflects the fact that high-margin businesses did not contribute to profits.

While we expensed a portion of the content production account as cost of sales and non-operating expenses in the previous fiscal year for the purpose of changing the game development environment, we recorded very little valuation losses of the content production account in the first half under review.
In the Consolidated Financial Results for the First-Half Period Ended September 30, 2008, there is a note named “Application of the accounting standards for measurement of inventories.” These standards applied to the valuation of inventories of TAITO. What we had recorded as non-operating expenses was posted as a cost of sales in the current fiscal year. Most of a 406 million yen effect of this change was a result of this accounting.
In non-operating income and expenses, a foreign exchange loss of 265 million yen was posted in the first half. In comparison with the first half of the previous fiscal year when we made several accounting procedures, the amount has been much smaller in the period under review.
With respect to extraordinary gains and losses, extraordinary gains related to the allowance for doubtful accounts and legal proceedings were recorded in TAITO. These were the reversal of allowances which had been booked, because the causes for the provision were properly resolved.
While we recorded a reversal of allowance for game arcade closings in the first half of the previous fiscal year, I think that the first half of the current fiscal year will probably be the last time we make reversals of this kind.
Although there was the loss on disposal of property and equipment posted as an extraordinary loss, this is an item that constantly arises.

Let me now brief you on our results by business segment.
The Games (offline) segment had an operating margin of about 20%, as major titles were not released. This was very different from our target. I believe that the effect of the reform that I have been describing will appear starting the next fiscal year.
In the Games (online) segment, although net sales declined from 5.4 billion yen to 5.3 billion yen, operating income rose from 2.8 billion yen to 2.9 billion yen. As a result, the operating margin improved. This was because some of the seeds we had been sowing began to bud, as demonstrated by the contribution of license income from titles whose operation we had commissioned to other companies, in addition to the solid in-house operation of our flagship FINAL FANTASY XI.

The Mobile Phone Content segment also enjoyed rising profits. This is not only because of the reform of cost structures we have carried out, more importantly it is attributable to services we have provided to our customers in various formats, one of which made a solid contribution to income. More specifically, we distributed to mobile phones the subsequent scenarios of the wholly remade version of FINAL FANTASY IV, which had made a contribution in the Games (Offline) segment. Dividing the subsequent scenarios into several chapters, we did not charge for the introductory chapter but charged for each of the remaining chapters. We started this service in February, and the number of paid downloads has reached 2 million. This has become a successful example of how to generate additional income while customer loyalty remains very high.

The Publication segment also did very well. Despite the difficult environment, net sales reached a record high in the first half. Although there had been times in the past when this segment had depended on high-margin game strategy books, no game strategy books of major game titles were released in the first half under review. Generating a profit without relying on game strategy books had been a challenge for this segment, but thanks to the contribution of comics it managed to achieve record sales. When we have a promising comic, we make it into an animation. After posting an investment in the animation production committee as an expense, the operating margin reached the level shown in the slide. With the upward trend now fairly evident, we are able to target an operating margin of 25 to 30%.

For the Amusement segment, since the amortization of goodwill amounted to 547 million yen in the first half, we need to evaluate the performance after adding back the amortization. However, this segment faced a very difficult situation.

Although we record the results of all businesses of TAITO Group in the Amusement segment, the performance is subject to business conditions at game arcades, because 70 to 80% of the businesses of TAITO are related to the operation of game arcades, commercial game machines supplied to game arcades, and the acquisition of prizes provided in game machines in game arcades. The remaining segment operations consist of the content business for mobile phones and the console game software business. Since the Amusement segment is structured such that 70 to 80% of operating resources are influenced by the economic situation in the game arcade operation, it had difficulty achieving the target, despite its best efforts. However, as we had anticipated that TAITO would face this operating environment when it joined the SQUARE ENIX Group, over the last two years we have been building a franchise operation and bolstering the rental business. The first franchise outlet opened recently. We have received great feedback, and I believe that this approach will contribute to profits when it starts to grow from the next fiscal year. The share of income in the industry generally is also a problem. The share of income has been increasingly
weighted in favor of manufacturers, and this is severely squeezing the operators. As both an operator and a manufacturer, we recently announced a new series of arcade machines called *No-Ko Game*, based on the concept of creating a light game that is inexpensive, easy to change in terms of layout, and easy for first-time customers to play with. I believe that we will be able to launch new titles like this as early as the end of the current fiscal year. Despite these new developments, the Amusement segment registered a decline in net sales and profits.

Finally, I would like to look at the Others segment. As we record the operating results of TAITO in the Amusement segment, we primarily post the performance of arcade game machines created by SQUARE ENIX and merchandizing in the Others segment. This segment recorded sales of nearly 4 billion yen from *LORD of VERMILION* in this first half, and *DRAGON QUEST Monster Battleroad* also made a contribution of 1.6 to 1.7 billion yen. Merchandising also made a good showing, rising to approximately 1.2 billion yen.

The performance of arcade machines did not show a large fall for the Group as a whole. Rather, it is moving in a better direction. We are considering a strategy of focusing on different points such as the *No-Ko Game* I mentioned earlier.

Let me now turn to sales by region. Almost all sales of TAITO are in Japan, and TAITO sales are almost on a par with those of SQUARE ENIX. Therefore, nearly half of the net sales of SQUARE ENIX are automatically recorded in Japan. However, as Japan also had a large weighting in SQUARE ENIX in the first half under review, Japan has a high number for the entire Group.

This slide shows unit sales of game software in the first half.
Outline of Results Briefing by SQUARE ENIX HOLDINGS held on November 7, 2008

Here we see unit sales of game software during their life time, including those in and before the previous year. Sales of CRISIS CORE -FINAL FANTASY VII- are close to two million units.

The key to performing competitively in the global market is how many titles selling more than two million units worldwide we have. The benchmark is not one million units, but two million units. What then creates support is how many titles selling one million units and selling 500 thousand units we have.

This slide shows changes in the operating margins of the Games (online) segment and the Mobile Phone Content segment.

The yellow line, which indicates the operating margin of the Games (online) segment, has been consistently rising. Components of the business have been changing somewhat, but the margin has been following an upward trend.

Since an operating margin of more than 50% is a truly impressive number, it is difficult to rise from there, as might be expected. However, I assume that you can see that the business structure has been consistently improving.

The operating margin of the Mobile Phone Content segment has also remained high.

Let me now talk about the Publication segment.

Sales in the first half reached a record high. Operating income in the first half was 1,735 million yen, which is slightly lower than the 1,767 million yen in the fiscal year ended March 2007 and the 1,752 million yen in the fiscal year ended March 2005. This was mainly because the ratio of game strategy books was high and there was only limited investment in animation in the fiscal years ended March 2007 and 2005. In the first half of the current fiscal year, high growth in sales of comics for SOUL EATER, NABARI NO OU, and SEKIREI, which came on air as animated TV show in the first half, made a contribution. Comics of KUROSHITSUJI also performed very well and contributed, and its animated TV show also started in October.

The reason why the Publication segment has been consistently strong is that it has a good business rhythm, with hit titles appearing every six months.

Although there is a philosophical argument about whether entertainment is susceptible to the economic situation, the state of the overall industry and how each company performs are totally different stories. It is irresponsible for a company to blame its poor performance on external factors. If the performance of a company deteriorates, it is the responsibility of its management.

I think that we need to redouble our efforts.
The next topic is the game arcade operation of TAITO. The business climate was severe. However, we continue to rank number one in terms of a year-on-year comparison of monthly revenues from existing outlets. They perform extremely well, but conditions are very difficult. While we will focus on franchise and rental operations, we need to work more comprehensively on cost cutting at the same time, given the recent operating environment.

The Others segment includes amusement equipment of SQUARE ENIX, as I mentioned earlier. DRAGON QUEST Monster Battleroad, an arcade kids card game which costs 100 yen to play and to get a collectible card, launched in July last year, and has been doing very well, with cumulative unit sales of the card reached 100 million in July this year. I think that it is a fairly big hit, given sales of 100 million cards in a year.

The full-year projections for the fiscal year ending March 31, 2009 remain unchanged from the figures we announced previously.
From October 1, we have adopted the holding company system, which was recently approved at the general meeting of shareholders. A challenge going forward will be how best to take advantage of this system. At present, it does not have any real significance, as we have simply rearranged our organization structure.

A promising entity as a growth engine is a casual portal operator, SMILE-LAB, although it has not yet been consolidated. We launched its service recently and it has been earning a very good reputation with our customers. Although SMILE-LAB has not yet been consolidated as it is still a small company in its start-up phase, it has the potential to become a rising star.

SG Lab has also become able to gain traction with its serious games to a large degree and works to make a big leap forward by creating a few more midrange products and titles.