
FY2004 Results Briefing Session

SQUARE ENIX®

May 24, 2005

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.

1. FY2004* Financial Results

*FY2004 = Fiscal Year Ended March 31, 2005

FY2004 Results – Consolidated

Millions of Yen

	FY2003		FY2004		Change
		%		%	
Current Assets	84,441	76%	110,053	84%	25,612
Fixed Assets	26,192	24%	21,641	16%	(4,551)
Total	110,633	100%	131,695	100%	21,062
Current Liabilities	12,185	11%	20,790	16%	8,605
Long-term Liabilities	1,152	1%	1,313	1%	161
Total Liabilities	13,338	12%	22,103	17%	8,765
Minority Interests in Consolidated Subsidiaries	594	1%	658	0%	64
Total Shareholders' Equity	96,700	87%	108,933	83%	12,233
Total	110,633	100%	131,695	100%	21,062
Number of Employees	1,412	-	1,662	-	250

Note: Employees = Permanent employees + Contract employees

Millions of Yen

	FY2003		FY2004		Change
		%		%	
Net Sales	63,202	100%	73,864	100%	10,662
Operating Income	19,398	31%	26,438	36%	7,040
Ordinary Income	18,248	29%	25,901	35%	7,653
Net Income	10,993	17%	14,932	20%	3,939
Depreciation and Amortization	1,974	-	3,050	-	1,076
Capital Expenditure	2,704	-	1,523	-	(1,181)

Depreciation and amortization for FY2004 includes amortization of goodwill associated with the acquisition of UIEvolution, Inc.

FY2004 Results by Segment – Consolidated

①FY2004

Millions of Yen

	Games (offline)	Games (online)	Mobile Phone Content	Publication	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%

②FY2003

Millions of Yen

	Games (offline)	Games (online)	Mobile Phone Content	Publication	Others	Eliminations or unallocated	Total
Net Sales	37,988	8,924	2,793	9,671	3,824		63,202
Operating Expenses	21,583	6,575	1,633	6,491	2,797	4,722	43,803
Operating Income	16,404	2,348	1,159	3,180	1,027	(4,722)	19,398
Operating Margin	43.2%	26.3%	41.5%	32.9%	26.9%		30.7%

③Change (① – ②)

Millions of Yen

	Games (offline)	Games (online)	Mobile Phone Content	Publication	Others	Eliminations or unallocated	Total
Net Sales	3,956	4,929	1,764	1,188	(1,175)		10,662
Operating Expenses	712	2,291	1,185	957	(931)	(591)	3,623
Operating Income	3,245	2,638	579	231	(245)	591	7,040

FY2004 Results – Sales by Region

Millions of Yen

Region	FY2003		FY2004		Change
		%		%	
Japan	44,491	70%	59,092	80%	14,601
North America	15,618	25%	12,295	17%	(3,323)
Europe (PAL)	2,121	3%	1,298	2%	(823)
Asia, etc.	972	2%	1,179	2%	207
Total	63,202	100%	73,864	100%	10,662

FY2004 Results – Unit Sales

Thousand Units

	Japan	North America	Europe (PAL)	Asia, etc.	Total
FY2004	6,300	3,760	920	70	11,050
%	57%	34%	8%	1%	100%
FY2003	4,930	5,850	2,740	100	13,620
%	36%	43%	20%	1%	100%
Change	1,370	(2,090)	(1,820)	(30)	(2,570)

FY2004 Results – Non-Consolidated

Millions of Yen

	FY2003		FY2004		Change
		%		%	
Current Assets	80,435	77%	103,276	83%	22,841
Fixed Assets	24,188	23%	20,828	17%	(3,360)
Total	104,623	100%	124,105	100%	19,482
Current Liabilities	9,338	9%	17,888	14%	8,550
Long-term Liabilities	1,147	1%	1,307	1%	160
Total Liabilities	10,486	10%	19,195	15%	8,709
Total Shareholders' Equity	94,137	90%	104,909	85%	10,772
Total	104,623	100%	124,105	100%	19,482
Number of Employees	1,137	-	1,291	-	154

Note: Employees = Permanent employees + Contract employees

Millions of Yen

	FY2003		FY2004		Change
		%		%	
Net Sales	51,429	100%	63,950	100%	12,521
Operating Income	15,991	31%	24,080	38%	8,089
Ordinary Income	15,618	30%	23,533	37%	7,915
Net Income	9,342	18%	13,562	21%	4,220
Depreciation and Amortization	1,809	-	1,657	-	(152)
Capital Expenditure	2,548	-	1,338	-	(1,210)

2. FY2005* Projections

*FY2005 = Fiscal Year Ended March 31, 2006

FY2005 Projections – Consolidated/Non-Consolidated

Consolidated

Millions of Yen

	FY2004		FY2005		Change
		%		%	
Net Sales	73,864	100%	90,000	100%	16,136
Operating Income	26,438	36%	27,000	30%	562
Ordinary Income	25,901	35%	27,000	30%	1,099
Net Income	14,932	20%	15,500	17%	568
Depreciation and Amortization	3,050 *	-	3,100 *	-	50
Capital Expenditure	1,523	-	2,600	-	1,077

*Including amortization of goodwill associated with the acquisition of UIEvolution, Inc.

Non-Consolidated

Millions of Yen

	FY2004		FY2005		Change
		%		%	
Net Sales	63,950	100%	75,000	100%	11,050
Operating Income	24,080	38%	21,000	28%	(3,080)
Ordinary Income	23,533	37%	21,000	28%	(2,533)
Net Income	13,562	21%	12,000	16%	(1,562)
Depreciation and Amortization	1,657	-	2,200	-	543
Capital Expenditure	1,338	-	2,300	-	962

FY2005 Projections by Segment (Consolidated)

①FY2005

Millions of Yen

	Games (offline)	Games (online)	Mobile Phone Content	Publication	Others	Eliminations or unallocated	Total
Net Sales	50,600	18,000	9,300	7,500	4,600		90,000
Operating Expenses	32,100	11,000	6,800	6,000	3,200	3,900	63,000
Operating Income	18,500	7,000	2,500	1,500	1,400	(3,900)	27,000
Operating Margin	36.6%	38.9%	26.9%	20.0%	30.4%		30.0%

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

②FY2004 results

Millions of Yen

	Games (offline)	Games (online)	Mobile Phone Content	Publication	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%

③Change (① - ②)

Millions of Yen

	Games (offline)	Games (online)	Mobile Phone Content	Publication	Others	Eliminations or unallocated	Total
Net Sales	8,656	4,147	4,743	(3,359)	1,951		16,136
Operating Expenses	9,805	2,134	3,982	(1,448)	1,334	(231)	15,574
Operating Income	(1,149)	2,014	762	(1,911)	618	231	562

FY2005 Interim Projections – Consolidated/Non-Consolidated

Consolidated

Millions of Yen

	FY2004 First Half		FY2005 Interim Projections		Change
		%		%	
Net Sales	24,395	100%	26,000	100%	1,605
Operating Income	5,952	12%	2,000	8%	(3,952)
Ordinary Income	6,133	10%	2,000	8%	(4,133)
Net Income	3,133	6%	800	3%	(2,333)
Depreciation and Amortization	1,484 *	-	1,500 *	-	16
Capital Expenditure	733	-	2,000	-	1,267

*Including amortization of goodwill associated with the acquisition of UIEvolution, Inc.

Non-Consolidated

Millions of Yen

	FY2004 First Half		FY2005 Interim Projections		Change
		%		%	
Net Sales	19,170	100%	23,000	100%	3,830
Operating Income	4,711	25%	2,100	9%	(2,611)
Ordinary Income	4,878	25%	2,100	9%	(2,778)
Net Income	2,758	14%	1,200	5%	(1,558)
Depreciation and Amortization	779	-	1,000	-	221
Capital Expenditure	679	-	1,800	-	1,121

FY2005 Interim Projections by Segment

①FY2005 Interim projections

Millions of Yen

	Games (offline)	Games (online)	Mobile Phone Content	Publication	Others	Eliminations or unallocated	Total
Net Sales	10,500	5,900	3,000	3,800	2,800		26,000
Operating Expenses	10,000	3,700	2,700	3,300	2,300	2,000	24,000
Operating Income	500	2,200	300	500	500	(2,000)	2,000
Operating Margin	4.8%	37.3%	10.0%	13.2%	17.9%	—	7.7%

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

②FY2004 Interim results

Millions of Yen

	Games (offline)	Games (online)	Mobile Phone Content	Publication	Others	Eliminations or unallocated	Total
Net Sales	8,099	7,684	1,977	5,157	1,476		24,395
Operating Expenses	6,548	4,421	1,343	3,405	1,106	1,606	18,432
Operating Income	1,551	3,263	634	1,752	370	(1,606)	5,963
Operating Margin	19.2%	42.5%	32.1%	34.0%	25.1%	—	24.4%

③Change (① - ②)

Millions of Yen

	Games (offline)	Games (online)	Mobile Phone Content	Publication	Others	Eliminations or unallocated	Total
Net Sales	2,401	(1,784)	1,023	(1,357)	1,324		1,605
Operating Expenses	3,452	(721)	1,357	(105)	1,194	394	5,568
Operating Income	(1,051)	(1,063)	(334)	(1,252)	130	(394)	(3,963)

FY2005 Projections – Unit Sales

Thousand Units

	Japan	North America	Europe (PAL)	Asia, etc.	Total
FY2005 Projections	8,500	4,100	400		13,000
%	65%	32%	3%	0%	100%
FY2004	6,300	3,760	920	70	11,050
%	57%	34%	8%	1%	100%
Change	2,200	340	(520)	(70)	1,950

Basic Policy on Profit Appropriation

**Reserving Retained Earnings for
Investment in Future Growth**

**Continuous and Stable
Dividend Payout**

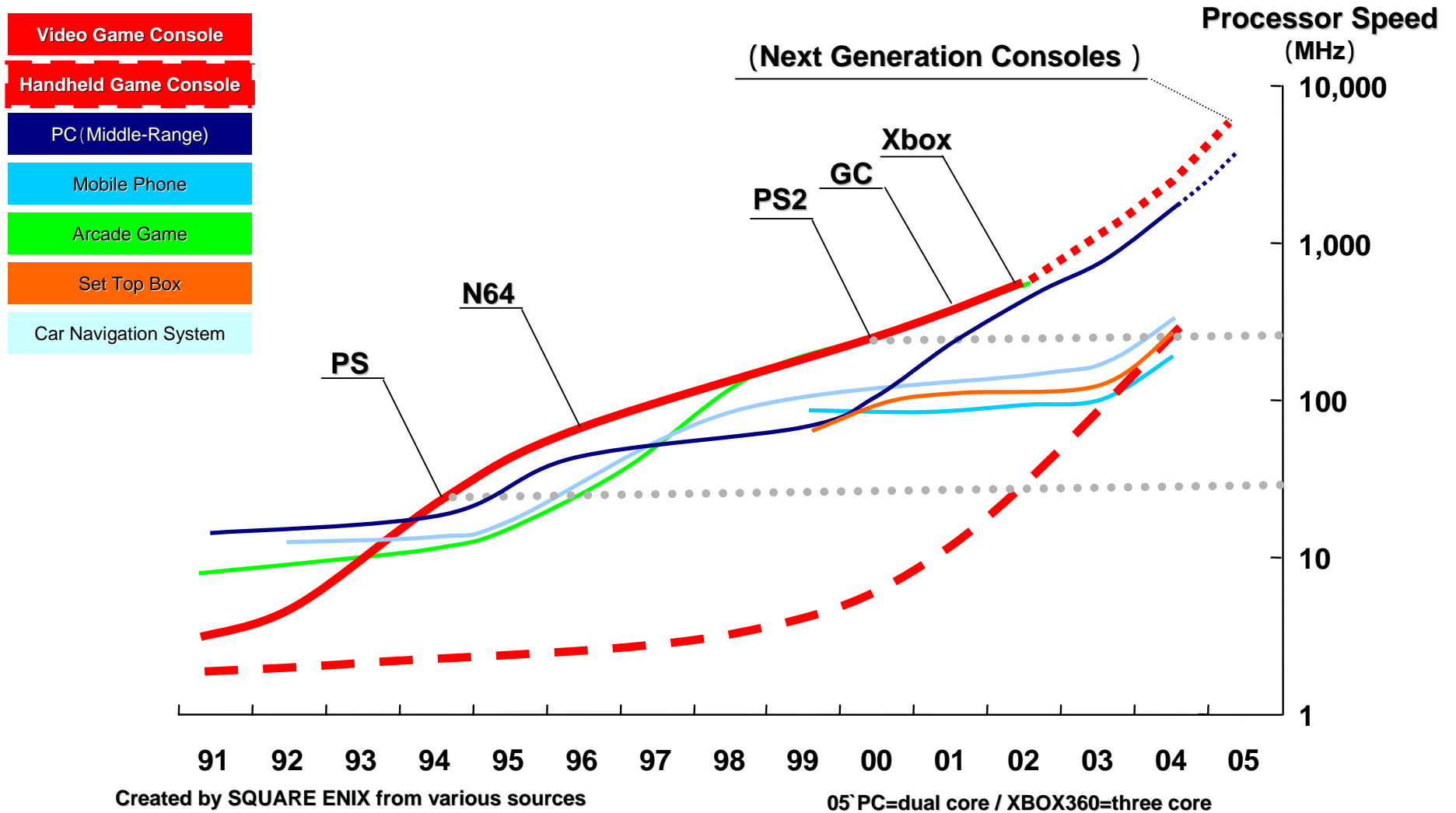
**Return to Shareholders including Dividend
Increase and Stock Buyback**

3. Our Vision

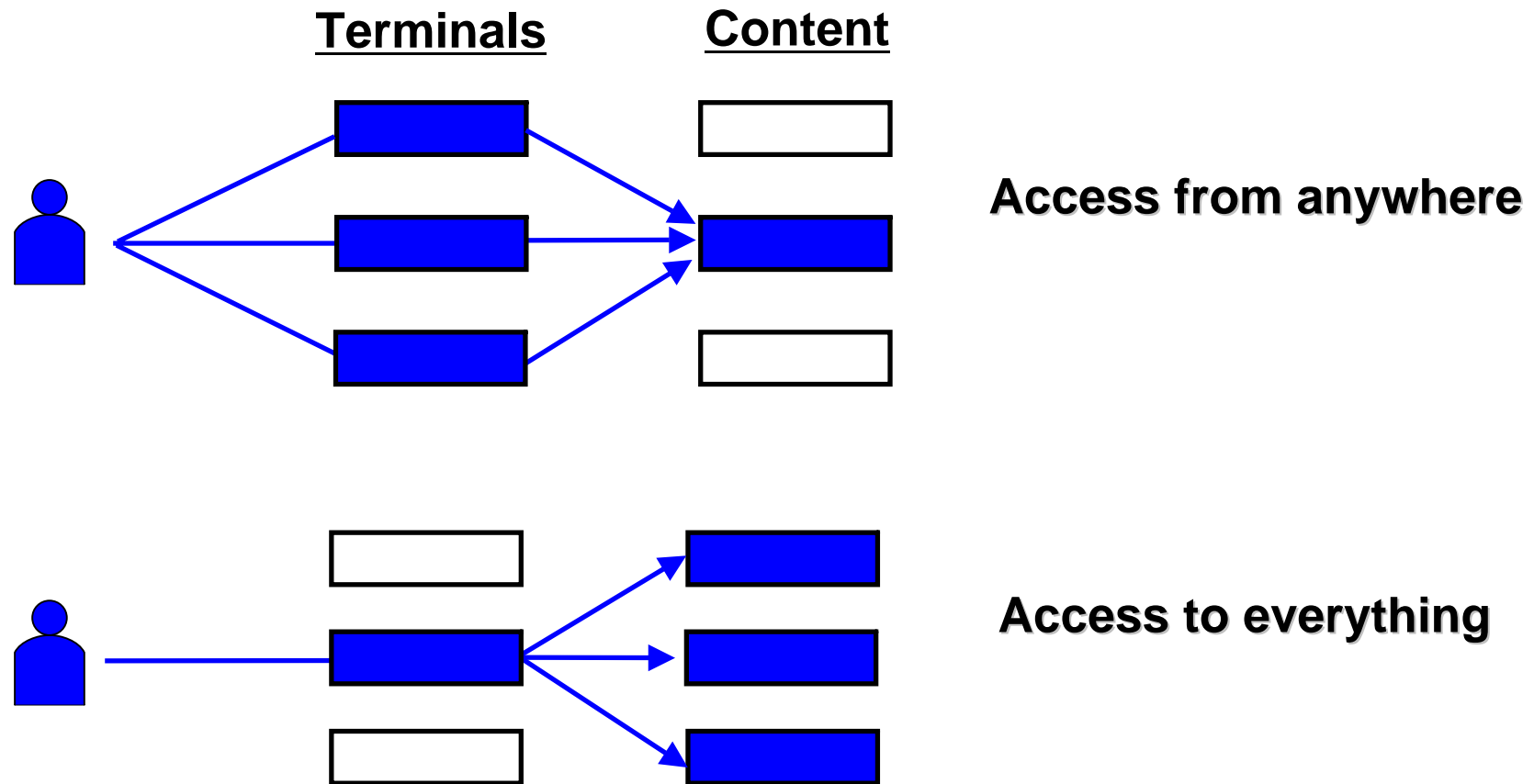
– Cross-Platform Strategy –

Progress of Terminals

~ Taking CPU Power as an Example ~

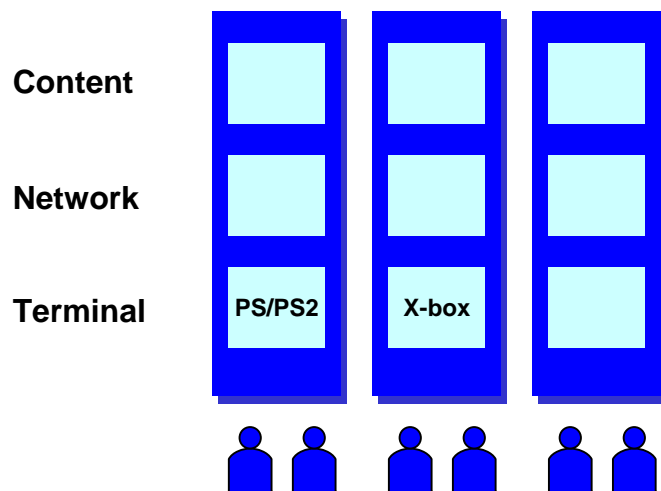


Everything plays Games: Advanced terminal technology changes the way users access content



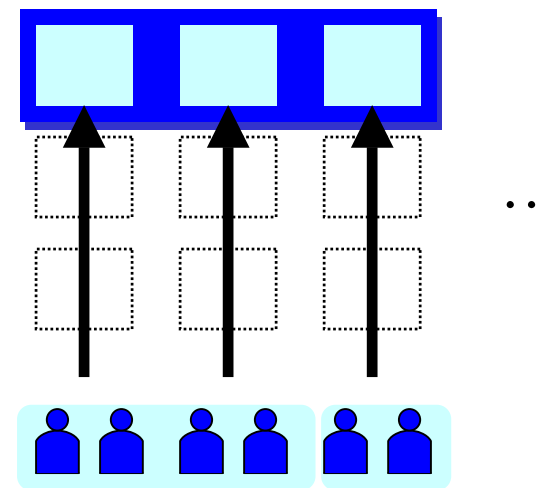
New entertainment will transform the industry architecture

Now



- Vertically integrated by terminal type
- Close relationship with console maker is important
- Product out oriented mindset

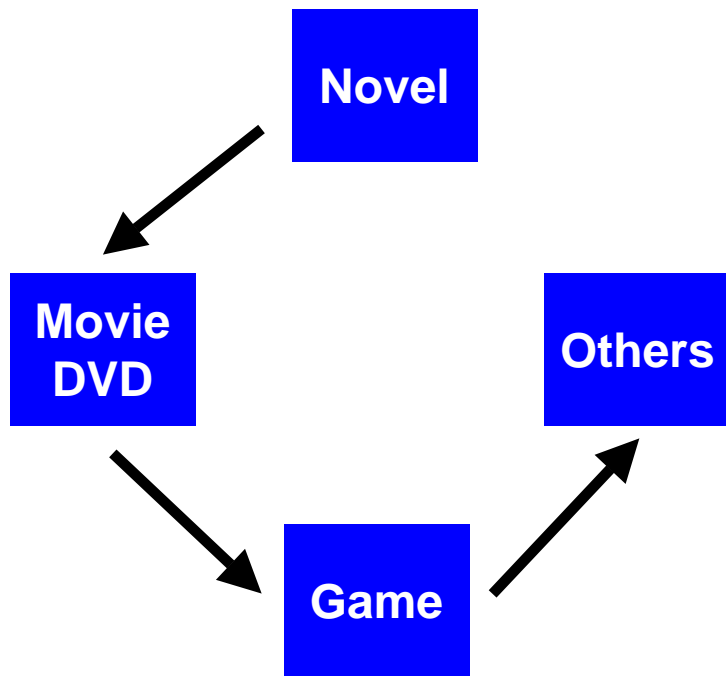
Future



- Open network will break the vertical integration. Close relationship with platform technology holders become important
- Terminal and network differences will become less important. Customer ownership shifts to content provider
- Community management conforming to customers' needs become key factor for success

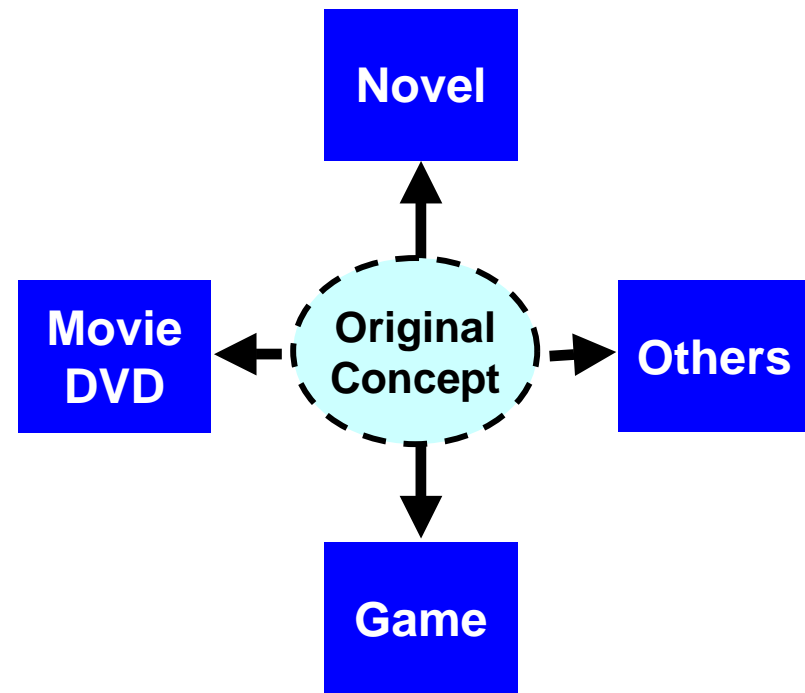
Deploy “Polymorphic Content”

Traditional Model of Secondary Use of Content



- The secondary content is a mere porting of the original to a different format
- Number of customers decreases as the content is deployed in different formats sequentially

“Polymorphic Content”



- Original concept created at higher abstract level can be a “polymorphic” content.
- Content makers with interactive design capabilities, which is the most scalable but difficult, have competitive advantage.

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