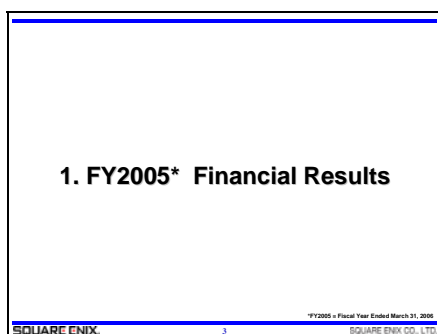
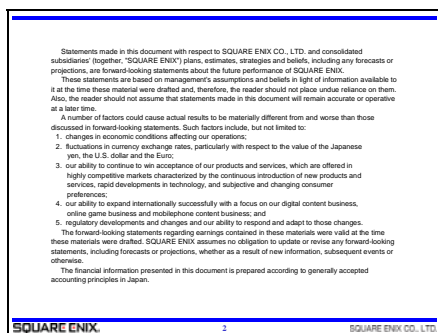
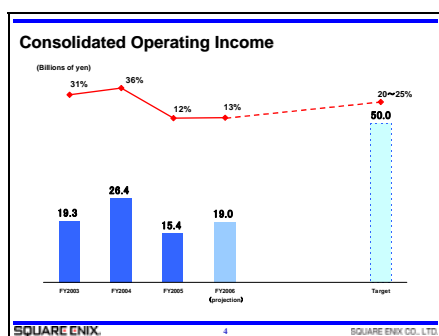




We will now begin the briefing on the results of SQUARE ENIX CO., LTD., for fiscal 2005, ended March 31, 2006.



I will give explanation on 1) financial results for fiscal 2005 ended March 2006, 2) projections for fiscal 2006 ending March 2007, and 3) our business strategy.



Please refer to the historical consolidated operating incomes.

This fiscal 2006 is the fourth year after SQUARE ENIX CO., LTD. (“the Company”) was established in fiscal 2003 following the merger of former ENIX CORPORATION and SQUARE CO., LTD.

When compared with the sum of operating incomes of the former companies, we have been successively breaking a record of operating income with ¥19.3 billion for fiscal 2003 and ¥26.4 billion for fiscal 2004. However, we closed fiscal 2005 with ¥15.4 billion.

At the time of the merger, I stated that we would see the sign of the transformation in the industry in fiscal 2005, and it would become apparent in fiscal 2006. I also stated that it is important for us to have various strategic options during such transition period.

We are trying to figure out how to transform our company to adapt to the new business environment with the goal to achieve operating income of ¥50 billion.

In fiscal 2005, our basic strategy was to develop the new business initiatives to adapt to the new business environment, hoping they will bear fruits from fiscal 2005 through 2007, while continuously expanding existing businesses. However, we ended up with the operating income of ¥15.4 billion as the domestic market being in more adverse condition than we had anticipated, and the new businesses still being only potential.

First, I would like to outline the financial results for fiscal 2005.

Next, I will explain our business projection for fiscal 2006.

We will continue developing new business initiatives and increasing our strategic options to achieve the transformation of our businesses. However, revenues from these initiatives are not included in the fiscal year 2006 projection since it is uncertain when they will begin contributing to profit.

Finally, I would like to explain our business strategy from a different perspective. It may seem that I have been discussing different things every time, but our strategy have been consistent. It is the same thing from different perspectives.

**FY2005 Results - Consolidated**

	FY2005 (ended March 31, 2005)		FY2006 (ended March 31, 2006)		Change
	¥	%	¥	%	¥
Current Assets	110,093	84%	132,251	77,475	42%
Non-current Assets	21,641	16%	81,097	63,859	38%
Total Assets	131,696	100%	213,348	78,333	60%
Current Liabilities	20,790	16%	17,340	86,116	18%
Long-term Liabilities	1,313	1%	53,304	3,004	25%
Total Liabilities	22,103	17%	70,654	33,320	52%
Shareholders' Equity	109,593	83%	142,694	72,018	65%
Total Shareholders' Equity	109,593	83%	142,694	33,100	30%
Total	131,696	100%	213,348	82,654	63%
Number of Employees	1,662	-	3,056	1,181	71%

Millions of Yen

Non-Employee + Personnel expenses + Contract expenses

	FY2005		FY2006		Change
	¥	%	¥	%	¥
Net Sales	73,864	100%	124,473	41,069	100%
Operating Income	26,438	36%	19,070	17,070	25%
Ordinary Income	25,391	34%	15,247	6,956	27%
Net Income	14,932	20%	17,072	11,335	14%
Depreciation and Amortization	1,914	-	3,431	1,517	56%
Capital Expenditure	1,523	-	9,169	6,646	7,243

Depreciation and amortization does not include amortization of goodwill

SQUARE ENIX  
5  
SQUARE ENIX CO., LTD.

These tables outline the consolidated financial results for fiscal 2005.

The balance sheet as of March 31, 2006 consolidates both balance sheets as of March 31, 2006 of SQUARE ENIX and TAITO CORPORATION (TAITO). The statement of income consolidates SQUARE ENIX's full-year statement of income, and TAITO's second-half-year.

The changes from the preceding year are shown in the column at the right end. To make the contribution of TAITO clear, TAITO's balance sheet as of March 31, 2006 and statement of income for fiscal 2005 are shown in the (※) column.

If the above figure differed greatly from the change from the preceding year, SQUARE ENIX would be the primary factor of the change, and if the above figure did not differ much from the change, TAITO would be the primary factor of the change. The note \*\*, the accounting process following the consolidation of TAITO, links to the tax provisions that I will explain later.

(Please turn to page 10 of the earning release for the consolidated statements of income.)

For this fiscal year, we evaluated assets strictly and made balance sheet tight to prepare for changes in the environment and our business model.

Current asset mainly comprises of content production account. It decreased by ¥8.1 billion from ¥15.5 billion for fiscal 2004 to ¥7.3 billion for fiscal 2005 due to the expense of SQUARE ENIX's development cost of game software. Development costs of titles are capitalized when their development processes begin officially, and then the capitalized costs are expensed at the time of the initial release. In addition to big titles such as “FINAL FANTASY XII” and “KINGDOM HEARTS II,” new titles were released every month during fiscal 2005. This resulted in the decrease of content production account by ¥8.1 billion, and the same amount recognized in the statement of income. Normally, content production account is at ¥7-10 billion level.

Next is goodwill included in intangible non-current asset. It increased by ¥18.5 billion from ¥4.9 billion for fiscal 2004 to ¥23.4 billion for fiscal 2005. ¥4.9 billion for fiscal 2004, most of which represents the goodwill of UIEVOLUTION. As a result of charging impairment loss on goodwill including that of other affiliate companies, goodwill of UIEVOLUTION decreased to ¥0. Goodwill of TAITO is newly added for fiscal 2005.

Please turn to page 24 of the earning release. “\*6 Impairment Loss” shows a breakdown of impairment losses included in the statement of income for fiscal 2005. Goodwill of UIEVOLUTION was to be amortized over five years, and the business itself has been quite successful for the last three years since the acquisition. However, as it is unrealistic to recoup the outstanding goodwill over coming two years, the goodwill is removed from the consolidated adjustment account, and an impairment loss is recognized.

Meanwhile, goodwill of TAITO is amortized over 20 years as we will operate it as a separate entity.

Allowance for doubtful account of ¥4.7 billion is recorded for fiscal 2005. The account, which is included in TAITO’s balance sheet as of September 31, 2005, appears on the consolidated balance sheet, and does not affect the statement of income.

The main points on the asset side are; content production account decreased in comparison with that of preceding year to return to the normal level, and that impairment loss was incurred following the reevaluation of goodwill. Both of these factors have effects upon the statement of income. In addition, allowance for doubtful account increased due to conservative evaluation of asset.

On the liability side, as in page 11 of the earning release, major change in intangible liability is made by recording warrant bond of ¥50 billion.

In the equity part, retained earnings have been steadily accumulated by current profit.

Please turn the page back to page 5 of the slide. Minority interest of ¥1.1 billion as of March 31, 2006 is not related to TAITO. As becoming a wholly-owned subsidiary of the Company as of March 31, 2006, it has no contribution to minority interest.

This concludes the explanation on Balance Sheet.

The numbers of employees of SQUARE ENIX and TAITO have not been changed much from those of preceding year.

Next, please look at the statement of income, the lower column of the slide in conjunction with page 12 of earning release.

Please look at net sales, cost of sales and gross profit. For fiscal 2004, net sales, gross profit and gross profit margin were ¥73.8 billion, ¥48.1 billion and 65.2% respectively. For fiscal 2005, they were ¥122.4 billion, ¥56.3 billion and 45.3%. The gross profit margin dropped by 20 points from fiscal 2004. The breakdown of the accounts are; ¥83.5 billion, ¥44.4 billion and 53% for SQUARE ENIX, and ¥41 billion, ¥12 billion and 29% for TAITO.

Gross profit margin of SQUARE ENIX decreased from 65.2% to 53%. This is due to the decline in the unit price of game software packages and the failure of small- and middle-sized game titles. Decrease in the sales from packaged software, being with high marginal profit rate, hit directly the operating profit. In addition, charge of content production account of ¥8 billion to cost of sales resulted in the drop in the income margin.

In fiscal 2006 and early 2007, game titles will shift to those for hand-held consoles, either new or ported. Thus, the income margin will not make remarkable improvement. Consequently, we need to make it up with the other businesses.

We consider that TAITO has a room for improvement.

We made strict assessment for the statement of income as well as for the balance sheet, as stated above. Reevaluation of Games (Offline) segment affected cost of sales, selling, general and administration expenses and non-operating expenses of a little less than ¥3 billion in total.

In particular, the Company performed a write-off decreasing expected sales and profit of new titles to be released in and after fiscal 2006, and then charged the amount of write-off to the cost.

The cost incurred to during a testing period, during which we decide whether to develop the game software, is recognized as selling, general and administration expenses. We decided to abandon development of some game titles during the testing period as a result of more strict evaluation based on market condition. A loss on write-off of such game software is posted as selling, general and administration expenses of a billion and several millions of yen.

For those titles that we decided to abandon in the process of development, we posted these as a loss of write-off of content development account as non-operating expenses.

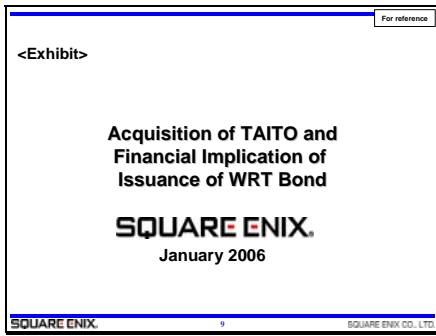
Putting the above three factors all together, additional cost of 2.5 to 3 billion yen incurred. This is a result of paying due attention to the current market condition as well as trying to have a healthy balance sheet.

Advertising expenses increased from ¥5.3 billion for fiscal 2004 to ¥7.4 billion. Mainly due to SQUARE ENIX's factor, number of released titles increased considerably for fiscal 2005. We, however, will make efforts to deploy more cost effective advertisement this fiscal year.

Gain on sales of investing securities of ¥1.3 billion is posted as extraordinary gain on page 13 of the earning release, which is due to gain on sale of shares in MAG GARDEN in the first-half year. A loss on disposal of inventories of ¥1.6 billion is posted as extraordinary loss as well as an impairment loss as stated above.

I will give explanation on deferred income taxes of minus ¥9 billion in a while.

Regarding depreciation and capital expenditure, as renewal of equipment for packaged software, online games and others will be necessary this year, capital expenditure will increase slightly more than that of past years.



I would like to give detail of the deferred income taxes mentioned above.

As I explained when we announced a revision to the financial forecast for fiscal 2005, tax effect accounting standards are applied to such structural reorganization, and deferred tax assets (deferred income taxes) are recognized.

In conjunction with page 9 to 14 of earning release and the material “Acquisition of TAITO and Financial Implication of Issuance of WRT Bond,” which we posted on our IR website in January 2006, I would like to briefly review this issue to demonstrate that our explanation has been consistent since the issuance of the bond.

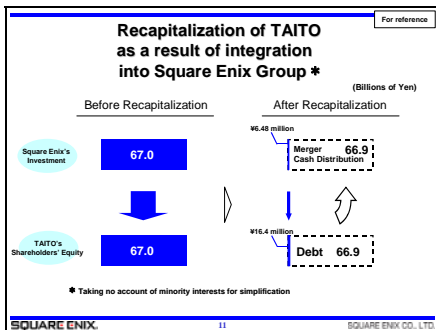
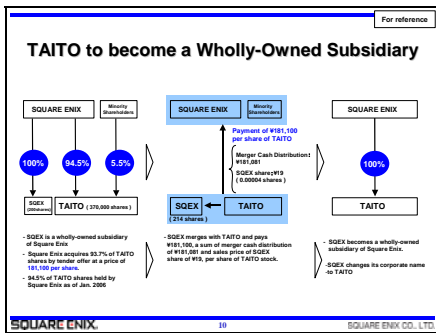
We initially planned to enter into a cash-for-share exchange arrangement, in accordance with the Law on Special Measures for Industrial Revitalization before the tender offer, because it was uncertain how many shares would be tendered. However, we eventually acquired 94.5% of TAITO’s shares as the result of the tender offer, and we decided to make TAITO a wholly-owned subsidiary by merging TAITO into SQEX, Inc. (“SQEX”), a wholly-owned subsidiary of Square Enix from view points of procedural promptness.

Acquisition of TAITO as a subsidiary is essentially a leveraged buy-out (“LBO”). We issued the WRT bond as a debt financing vehicle. We decided to take such approach to put pressure on the management to be serious about the return on investment through the leverage.

TAITO’s shareholders’ equity was ¥67 billion before recapitalization, and then it was transferred to debt of payment for TAITO’s shares and merger cash distribution due to the merger into SQEX, a wholly-owned subsidiary. As a result, TAITO’s shareholders’ equity decreased and the composition of balance sheet became assets and liabilities with high leverage. On the other hand, since the merger between SQEX and TAITO is considered to be a unqualified merger, merger cash distribution to be paid to SQUARE ENIX by new TAITO became a deemed dividends, and it is excluded from gross revenue.

Please turn to page 29 of earning release.

You will notice that return on deferred income taxes is posted due to permanent differences excluded from gross revenue of minus 209.88% such are dividends earned. We therefore may expect some return on corporate tax adjustment account.

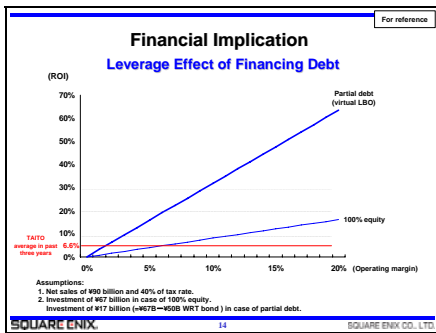
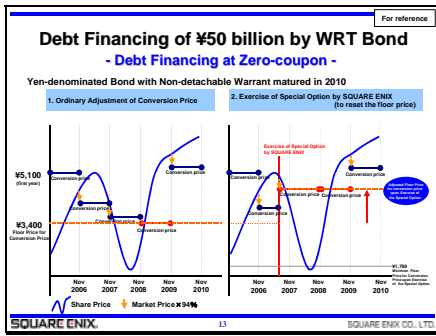


Because of its high amount, we disclosed this after careful examination and consent by our independent auditor.

We have marked the record net income by applying the said tax effect accounting.

As matter of management of TAITO, we wish to keep it to be highly-levered through recapitalization. As a result, there is the tax effect accounting in accordance with the tax system.

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



**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	46,814	16,720	5,887	9,742	41,989	6,967	-	134,473
Operating Expenses	36,261	9,812	4,341	6,875	42,240	4,840	4,487	108,056
Operating Income	9,990	6,907	1,546	2,867	(1,170)	2,007	(4,487)	16,417
Operating Margin	21.3%	41.3%	26.3%	29.4%	(2.8%)	28.8%	-	12.2%

2 FY2004		Millions of Yen						
	Games (Offline)	Games (Online)	Mobile Phone Content	Publication	AM	Others	Eliminations or unallocated	Total
Net Sales	47,844	13,382	4,857	10,963	-	2,649	-	79,695
Operating Expenses	32,291	6,090	3,810	7,440	-	1,090	4,191	47,402
Operating Income	15,549	7,292	1,047	3,523	-	1,559	(4,191)	32,293
Operating Margin	32.5%	54.5%	21.6%	31.8%	-	58.5%	-	40.5%

3 Change(1) (2)		Millions of Yen						
	Games (Offline)	Games (Online)	Mobile Phone Content	Publication	AM	Others	Eliminations or unallocated	Total
Net Sales	2,972	1,987	610	(1,171)	41,989	4,398	-	50,605
Operating Expenses	4,221	3,800	1,832	3,915	42,240	3,343	328	49,079
Operating Income	(1,249)	(1,813)	(1,222)	(844)	(1,170)	1,228	(328)	(12,968)

SQUARE ENIX 6 SQUARE ENIX CO., LTD.

Next, I would like to take a look at each business segment.

While facing decline in unit price and unit sales for Games (Offline) segment, sales of major titles were in line with our projections. However, small- and middle-sized titles put pressure on profit.

For Game (Online), while we expected faster expansion of sales result, but made stable progress.

Mobile Phone Content segment still requires investment for the future. Fruits from the investments are expected to begin contribution in fiscal 2006.

Sales from Publication segment proceeded stably between ¥5 billion to ¥6 billion in former ENIX era. Currently, the business has become stable generating revenues of ¥8 billion to ¥10 billion constantly.

Sales from TAITO's all business segments are included in the results of the AM segment. The Company's statement of income consolidates TAITO's sales only for the second-half of fiscal 2005, and the result ended with operating loss. The Company currently participates directly in the management of TAITO in order to move forward with reforms such as streamlining sales force and others, and reevaluation of assets.

**FY2005 Results – Sales by Region**

Millions of Yen

Region	FY2004		FY2005		Change
		%	¥	%	
Japan	99,092	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>

SQUARE ENIX 7 SQUARE ENIX CO., LTD.

Next is overseas sales.

**FY2005 Results – Unit Sales**

Thousand Units

	Japan	North America	Europe (PAL)	Asia, etc.	Total
<b>FY2005</b>	<b>7,850</b>	<b>3,510</b>	<b>820</b>	<b>40</b>	<b>12,230</b>
%	64%	29%	7%	0%	100%
<b>FY2004</b>	<b>6,300</b>	<b>3,760</b>	<b>920</b>	<b>70</b>	<b>11,050</b>
%	57%	34%	8%	1%	100%
<b>Change</b>	<b>1,550</b>	<b>(250)</b>	<b>(100)</b>	<b>(30)</b>	<b>1,180</b>

SQUARE ENIX 8 SQUARE ENIX CO., LTD.

Next is the unit sales.

As unit price and profitability differ depending on a title both in Japan and overseas, the unit sales does not simply associate with financial results.

This concludes our report on financial results for fiscal 2005.

**2. FY2006\* Projections**

\*FY2006 = Fiscal Year Ended March 31, 2007

SQUARE ENIX 15 SQUARE ENIX CO., LTD.

I would now like to outline our business projection for fiscal 2006, ending March 31, 2007.

FY2006 Projections – Consolidated					
FY2005		FY2006 Projections		Change	
	Millions of Yen		Millions of Yen		Millions of Yen
Net Sales	124,473	100%	150,000	100%	25,527
Operating Income	15,470	12%	17,000	11%	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					
FY2005		FY2006 Projections		Change	
	Millions of Yen		Millions of Yen		Millions of Yen
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	9%	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.

SQUARE ENIX. 16. SQUARE ENIX CO., LTD.

We are projecting consolidated net sales of ¥150 billion and operating income of ¥19 billion. Operating income of ¥19 billion is on a par with that of the first year of SQUARE ENIX after its establishment, and operating margin slightly exceeds that of fiscal 2005.

These projections are based on the assumption that market condition will not make improvement during the transitional period before all new generation game consoles come out to the market, and our new business initiatives for future growth are not reflected in the projections.

FY2006 Full-Year Projections by Segment – Consolidated									
1. FY2006									
	Games (Offline)	Games (Online)	Mobile Phone Content	Publication	AM	Others	Eliminations or unallocated	Total	Change
Net Sales	43,000	14,000	8,200	8,800	73,000	3,000	-	160,000	35,527
Operating Expenses	33,000	8,000	6,400	6,500	70,000	2,000	4,300	131,200	3,530
Operating Income	10,000	6,000	1,800	2,300	3,000	1,000	(4,300)	28,800	3,453
Operating Margin	23.3%	42.9%	22.0%	26.1%	3.9%	33.3%	-	18.0%	12.7%

2. FY2005 results									
	Games (Offline)	Games (Online)	Mobile Phone Content	Publication	AM	Others	Eliminations or unallocated	Total	Change
Net Sales	48,914	15,720	6,207	9,742	41,068	6,867	-	128,418	(25,527)
Operating Expenses	36,258	9,812	4,341	6,874	42,347	4,849	4,487	104,968	(3,530)
Operating Income	12,656	5,908	1,866	2,868	(1,279)	2,018	(4,487)	23,650	(3,453)
Operating Margin	25.9%	37.5%	30.1%	29.4%	(3.1%)	29.6%	-	18.4%	(12.7%)

3. Change (1) - (2)									
	Games (Offline)	Games (Online)	Mobile Phone Content	Publication	AM	Others	Eliminations or unallocated	Total	Change
Net Sales	(5,914)	(1,720)	(2,007)	(942)	(31,068)	(3,867)	-	(42,618)	(25,527)
Operating Expenses	(3,258)	(3,904)	(2,541)	(3,572)	(23,068)	(2,831)	(4,487)	(40,682)	(3,530)
Operating Income	412	89	1,574	(604)	3,373	(1,007)	(187)	(18,968)	(3,453)

Exchange rate: USD1=JPY110.00, EUR1=JPY136.00, CNH1=JPY113.00

SQUARE ENIX. 17. SQUARE ENIX CO., LTD.

Next are projections of each business segment upon consolidated basis.

We will make steady efforts to reinforce Games (Offline) segment this year.

Regarding our sales efforts, we will expand “SQUARE ENIX CORNER,” which we are currently operating mainly in Tokyo area, to all around Japan taking advantage of TAITO’s countrywide sales forces. “SQUARE ENIX CORNER” is operated as a kind of a store inside a store, and the system is expected to be effective especially when a market is in adverse condition.

Our efforts toward sales of value-priced titles have started to take off. We release our original value-priced title series named “ULTIMATE HITS” with the same package design across all game consoles, and such approach has resulted in the sales of those titles over a billion Yen.

Regarding projection of unit sales for fiscal 2006, we schedule “KINGDOM HEARTS II” for release in Europe and “FINAL FANTASY XII” for North America and Europe, and in Japan, we plan to release titles mainly for handheld consoles and those of small- and middle-size.

In addition, Games (Online) and Mobile Phone Content segment will continue their current pace, and we expect a slight increase in sales for Publication segment.

For AM segment (TAITO), we plan net sales of ¥73 billion and operating income of ¥2.2 billion. A point is how to improve the profitability. The change for this segment will likely affect the results of the Company the most significantly among all segments.

We expect Others segment will be at a normal level in fiscal 2006 while it made strong growth in fiscal 2005 owing to “FINAL FANTASY VII ADVENT CHILDREN,” a CG animated film, recording top sales in Japan.

Consequently, we are currently aiming at net sales of ¥150 billion and operating income of ¥19 billion.

FY2006 First-Half Period Projections by Segment – Consolidated									
1. FY2006 First-Half Period									
	Games (Offline)	Games (Online)	Mobile Phone Content	Publication	AM	Others	Eliminations or unallocated	Total	Change
Net Sales	14,800	7,700	3,800	4,300	38,500	1,900	-	69,100	10,909
Operating Expenses	12,000	4,000	2,900	3,000	36,100	1,200	3,200	58,700	2,816
Operating Income	2,800	3,700	900	1,300	2,400	700	(3,200)	10,400	2,470
Operating Margin	18.9%	48.1%	23.7%	30.0%	6.3%	36.3%	-	15.1%	7.9%

2. FY2005 First-Half Period results									
	Games (Offline)	Games (Online)	Mobile Phone Content	Publication	AM	Others	Eliminations or unallocated	Total	Change
Net Sales	16,807	6,500	2,213	4,671	-	4,883	-	33,074	(40,909)
Operating Expenses	9,448	4,287	1,833	3,400	-	5,530	1,942	26,438	(2,816)
Operating Income	7,359	2,213	379	1,271	-	(1,942)	6,636	(2,470)	
Operating Margin	43.8%	34.1%	17.2%	27.2%	-	(15.3%)	(24.8%)	20.0%	(7.9%)

3. Change (1) - (2)									
	Games (Offline)	Games (Online)	Mobile Phone Content	Publication	AM	Others	Eliminations or unallocated	Total	Change
Net Sales	(2,007)	1,197	1,587	(371)	38,500	(3,983)	-	(36,614)	40,909
Operating Expenses	(2,859)	(1,074)	(1,063)	(1,129)	36,100	(3,330)	286	(36,086)	(2,816)
Operating Income	2,742	89	1,584	400	400	(2,283)	(2,188)	(30,980)	(2,470)

Exchange rate: USD1=JPY110.00, EUR1=JPY136.00, CNH1=JPY113.00

SQUARE ENIX. 18. SQUARE ENIX CO., LTD.

This shows projections for the interim period by business segment.



**FY2006 Projections – Unit Sales** Thousand Units

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

SQUARE ENIX 19 SQUARE ENIX CO., LTD.

Next is the projection of unit sales of game software.

You will see that sales will shift from the domestic market to North America and European markets.

Please pay attention to the composition rather than the unit count.

Our operations in North America and Europe started to get off at last, and “DRAGON QUEST VIII” recorded strong sales in the United States in the preceding fiscal year, and was sold almost over 600 thousand units in Europe after its release in April 2006. The number of 600 thousand for the first shipment is significant in that we are allowed to release value-priced version of a title under the name of Platinum once sales of the title exceeds 600 thousand units. Our overseas operations have started to get on the right track.

### 3. Business Strategy

SQUARE ENIX 20 SQUARE ENIX CO., LTD.

Now I would like to outline our business strategy.

We must transform our business and reform our revenue/profit structure during the course of achieving target operating income of ¥50 billion from current ¥19 billion. However, we fell into an interval due to slow new business development and faster downturn of business environment.

We are still unsure whether we get out of the interval during this fiscal year, but I would like to present you how we are going to cope with the difficult situation.

Andy Grove, a co-founder of Intel, whom I respect, stated, “Let chaos reign, then rein in chaos.” He called a midpoint of chaos “Valley of Death” or the most severe period, and we still are in this stage.

The stock market generally recognizes the future potential of a company and rewards with high PER even before it delivers profits in the “let chaos reign” stage. Looking at the market, it seems like there is no clear answer or winner yet.

“Letting chaos reign” is to have more strategic options. “Reining in chaos” is to concentrate resources into a promising opportunity when it becomes clear. I think it is most important to develop good strategic options in effective way at this point of time.

**Basic Strategy to be .....**

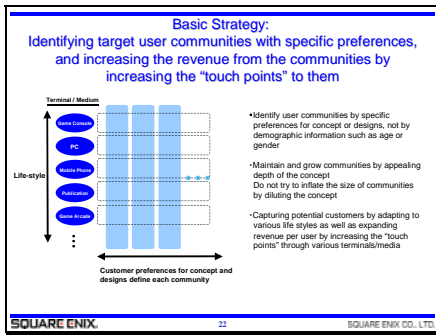
**Community Management Company  
serving customers with content  
of the world's highest quality**

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Our motto is to be “the community management company serving customers with content of the world’s highest quality.”

We develop content, certainly our main focus is game, to serve customer. When we say “community management,” it does not only indicate community management for online games. We call “a group of users with the same preferences” a “community,” and we serve such groups of users.

A word, “community management,” is sometimes used in the narrow sense as a game master in MMORPGs (Massively Multiplayer Online Role Playing Games), however, we use the word to mean organized services to be provided for a group of customers sharing the same preferences or a “community.”



The concept of the game we develop serves as the core of such community. Our strategy is centered on how to expand revenues from such concept.

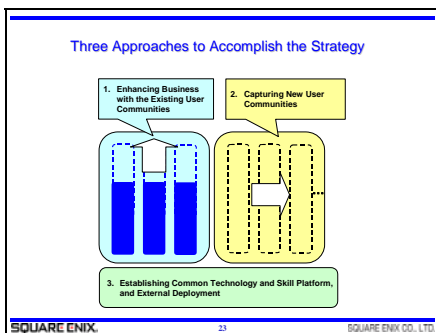
Our basic strategy is to identify target user communities with specific preferences and to increase the revenue from the communities by increasing the “touch points” to them.

Since we identify a community by specific preferences, each user in a community has various life-styles. For that reason, we must be prepared to capture a community extensively by offering content to match any life-styles. This is what we call “expanding the outlets,” and it does not necessarily mean expanding shares as we expand outlets.

A value-chain, including recognition of a market for an industry and business customs, is usually categorized by terminal and media, and our business segments must be disclosed by the same categories. Therefore, the vertical axis on this slide is categorized by terminals and media, i.e. game console, PC, mobile phone, publication and game arcade.

User preferences for the concept and designs define each community, and an individual belongs to several communities. To capture such user and community relations, we categorize our business in different axis, the horizontal (X) axis, for our actual operations. We identify a user community by their inclination to or preference for the concept or designs of our content, but not by demographic information such as age or gender.

Former SQUARE and former ENIX had been developing original content with concepts having strong appeal, and we are seeking further development of such strength.



We have three approaches to accomplish the strategy.

1. Enhancing business with the existing user communities;
2. Capturing new user communities; and
3. Establishing common technology and skill platform. This is to enable us to serve any lifestyles. Because it is very costly to port content to different device and media, it is important to establish common technology platform. .

I would like to give detail of each approach.

**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 lifestyle of existing customers through multi-media/ terminals deployment

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**Capturing Potential Demands**

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

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1. Enhancing business with the existing user communities

The point of this approach is that development of content for various media and terminals by deploying Polymorphic Content increasing touch points with users. We are expecting two outcomes from this approach.

First outcome is an increase in ARPU (average revenue per user).

Pursuing increase in ARPU by providing our customers with more content/services fitting with diversified aspects of lifestyle of existing customers through multi-media/terminals deployment.

For example, even a big fan of “DRAGON QUEST” would not purchase the same “DRAGON QUEST” software twice. However, we can increase ARPU for the customer by offering mobile phone version of “DRAGON QUEST” at a subscription fee of ¥500 per month and related publications.

A business model of increasing ARPU works better in the network environment. We pursue to increase sales per customer not by raising price of a product, but by providing a customer more content.

Second outcome is capturing potential demands.

If a customer who used to play “FINAL FANTASY VII” when he/she was a student, has no time to buy a new game console and play games after he/she started working, he/she would never buy a sequel to the game. However, a CG animated film, “ADVENT CHILDREN,” let such users experience the world of FINAL FANTASY VII just in two hours, even if he/she does not have PlayStation2.

Given the fact that each user has unique lifestyle within a community, nobody purchases content if it that does not match his/her lifestyle. One, who in fact belongs to a community, does not become our customer if we do not have our product that matches his/her life-style. In other words, they join a fan club if we offer them, but there is nothing to buy in the club. This approach is how to capture such potential demands in the communities.

**Compilation of FINAL FANTASY VII**

Market of over ¥50 billion

**FABULA NOVA CRYSTALLIS FINAL FANTASY XIII**

Market of over ¥100 billion

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We developed experimental project of “Compilation of FINAL FANTASY VII” with content deployment in various devices and media.

We released a game for mobile phone “BEFORE CRISIS FINAL FANTASY VII,” a story of six years before “FINAL FANTASY VII” reaching over 100 thousand subscribers. We lately also announced development of a PSP game “CRISIS CORE.”

“DIRGE OF CERBERUS,” a PlayStation2 game depicting the world three years after “FINAL FANTASY VII,” shipped over 500 thousand units. Taking place two years after “FINAL FANTASY VII,” “FINAL FANTASY VII ADVENT CHILDREN” recorded top sales in Japan and the United States, and its sales is at the top level in all DVD sales for films that has never been showcased in theaters. Release of “ADVENT CHILDREN” not only stimulated the sales of strategy guide books of “FINAL FANTASY VII,” but also had a spillover effect on its derivative products such as publications, character goods and sound track CDs

“FINAL FANTASY VII” itself was a killer-title of PlayStation generating revenues of over ¥30-40 billion, and the derivative products of the title again led to additional revenues of over ¥10 billion in the past two to three years.

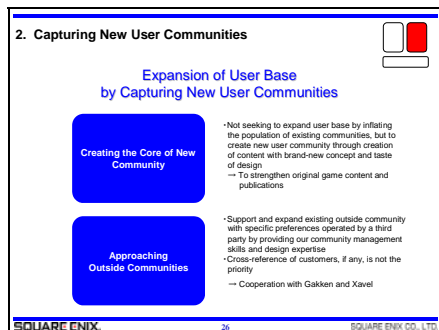
Having “FINAL FANTASY VII” as a successful experimental model, we have been formulating a plan of “FINAL FANTASY FABULA NOVA CRYSTALLIS” for the last few years. Each title of the project shares the same concept of a myth that has been created for this project, will be developed by inspiration of each creator to gather threads of a “story of new crystal.” We made announcement at E3 to release two titles for PlayStation3 and one for mobile phone in this project, and we will continue to develop more content as a part of the project. We will be able to deliver the derivative products of such titles and such products will have multiplier effect on each other, and this is what we should coordinate these movements effectively.

It has been eight to nine years since “FINAL FANTASY VII” was released. It is a ten year business when we establish the strong community.

Such concept works only for strong titles such as “FINAL FANTASY,” “DRAGON QUEST” and “KINGDOM HEARTS”.

We apply such concept only to content with strong appeal to avoid unnecessary risks, and will make every effort to generate profit out of the community through extensive deployment of such strong content.

This concludes the explanation of enhancing business with existing user communities.



## 2. Capturing new user communities

We will expand our user base by capturing new communities, not by inflating the population of existing communities.

For example, we never add any mature elements to content for children just to attract adult users.

Even a strong community may corrupt, if its core users turn their back. We will rather solidify the community to generate profit from the community for the long time period without diluting it.

We need to create new communities or approach to existing outside communities in order to expand the size of market and business.

We will create new community through new content development. We continue to put emphasis on original game development, strengthening the development of concept and plot of the game. For publications, we will continue to strengthen new original content development following the success of "FULLMETAL ALCHEMIST" title.

We will also approach the existing outside communities. We will partner with the companies with the strong communities to increase the business from the community by providing value-added to their communities.

For example, the alliances with GAKKEN and Xavel through establishment of joint-venture companies are made based on an idea that we provide them with our community management skills to enhance the business in their communities, and then share the revenues.

What this means is that we do not expect to sell our content in such communities, and that we should never use FINAL FANTASY characters for the communities, since such characters tend to change the nature of the communities.

This is the exact opposite approach of placing shares above everything in a fragmented environment.



## 3. Establishing common technology and skill platform

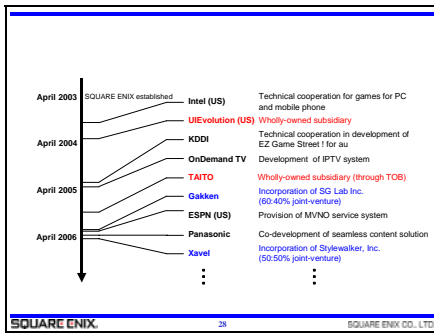
Because we must develop content on many devices and medium in order to match various lifestyles, it is important to have technologies and skills that cut across device and media. We plan to develop such cross platform technologies such as middleware internally, and also plan to offer them to the third parties.

We have been developing content and platform using UIENGINE, a middleware developed by UIEVOLUTION, which we acquired three years ago. We already have a proven track record with OnDemand TV and KDDI on EZ Game Street. In addition, the successes of those projects have led to the partnership with Panasonic.

We will also need to promote the usage of game development tools and middleware.

We have some thoughts on what we can offer in terms of customer management and cross platform offering from a view point how to make the community comfortable for members to keep staying.

Our strategy is to expand our businesses through making continuous profit from communities, for which we provide our content focusing on games and publications.



In the end, I would like to outline the recent history of the announcements we made regarding partnerships.

We have made and been negotiating numbers of partnerships in the recent years. They are all in line with the strategy I have explained to you. Red characters represent acquisition as a wholly-owned subsidiary, and blue ones indicate establishment of joint-venture.

SQUARE ENIX was established in April 2003 through the merger.

The purpose of the merger was to start preparation for the fundamental change in industrial structure, which is led by the transition of game industry in 2005 and 2006, as I stated at the time of announcement of merger three and half year ago.

We started the cooperation with Intel to explore the potential of the common technology platform recognizing CPUs as a core of cross-platform functionality.

We acquired UIEVOLUTION in order to accelerate technical collaboration between two companies.

We provided a backbone for au EZ Game Street for KDDI.

We are playing background role to design user-interface for OnDemand TV.

The more we get into the network, the more communication between real and virtual becomes important, and having location outlets has become increasingly imperative for our business. We acquired and made TAITO a wholly-owned subsidiary to obtain such operation know-how.

Physical feelings and communication are two major themes of game no matter whether for home use or for business use. Given these themes, having real locations enhances our development capabilities.

A location as a relay station connecting real and virtual worlds has a significant role. Locations are not necessarily limited to the existing game arcades. We think that such market potential of real locations are unlimited, as demonstrated by emerge of the trading card game in shopping malls.

We established SG Lab Inc., a joint-venture with GAKKEN. The alliance was made to facilitate deployment of serious games with the key concept of developing games as a new media.

In terms of developing communities, we may be able to identify a core of such communities in "KAGAKU" and "GAKUSHU," my old-time favorite publications of GAKKEN.

UIEVOLUTION provided ESPN with the solution for their MVNO (Mobile Virtual Network Operator) service.

As part of co-development project with Panasonic for seamless content solution, we are providing Panasonic with technical cooperation in development of the UniPhier chip, and developing middleware engine.

Bill Gates himself talked at recent E3 about the concept of "Live Anywhere," next stage of Xbox and Vista. This concept is the same as that of deployment of cross-platform as we have always been mentioning about.

We believe that TV itself plays extremely important role in the process of complete deployment of cross-platform content, not just what to attach to TV.

Alliance with Xavel is an example of approaching existing outside communities. I suppose it would be enjoyable for users if they could change clothes of an avatar, exchange comments about the outfits with peer users, and get advice from professionals over mobile phone.

We will provide our skills by increasing image resolutions, and enabling avatars wear clothes one over another.

We seek to make business by realizing community's demands by utilizing our technologies, and enhancing the community experience, and not by using FINAL FANTASY characters or by selling our merchandise in the community. This is an example of approaching existing outside communities.

We will continue such deployments as mentioned above. If we wish to correspond to fundamental environmental transformation responsively, we have to accomplish our strategy by employing various tactics such as alliance, acquisition and joint-venture, not only by our own.

