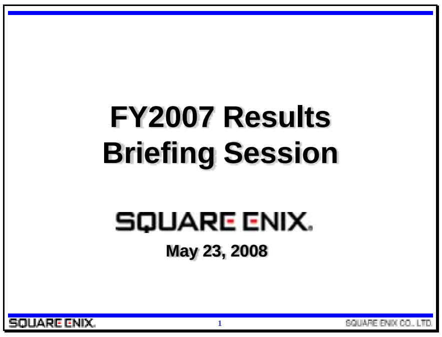
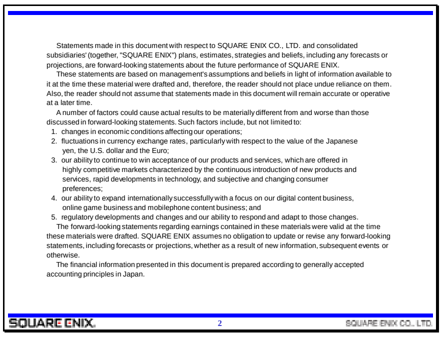
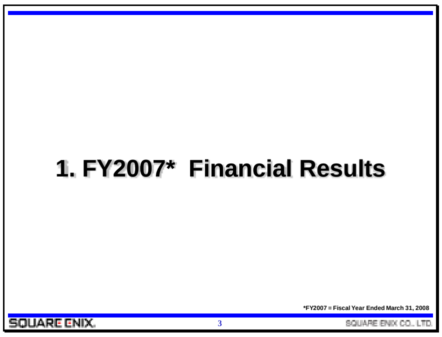
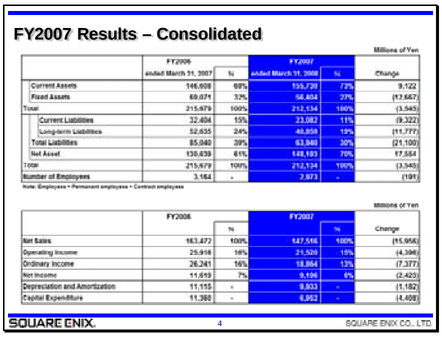


Please let me now begin our briefing on the results posted by Square Enix for the fiscal year ended March 31, 2008.





In today's presentation, I will first explain our financial results for fiscal year ended March 31, 2008 and the results forecast for fiscal year ending March 31, 2009. I will then report on TAITO Corporation ("TAITO"), which forms our Amusement segment. Finally, I will touch on how I perceive challenges ahead in managing the Company. So, let me begin with the financial results for fiscal year ended March 31, 2008.


FY2007 Results – Consolidated

Millions of Yen

	FY2006 ended March 31, 2007	%	FY2007 ended March 31, 2008	%	Change
Current Assets	146,608	68%	155,730	73%	9,122
Fixed Assets	69,071	32%	56,404	27%	(12,667)
Total	215,679	100%	212,134	100%	(3,545)
Current Liabilities	32,404	15%	23,082	11%	(9,322)
Long-term Liabilities	52,635	24%	40,858	19%	(11,777)
Total Liabilities	85,040	39%	63,940	30%	(21,100)
Net Asset	130,639	61%	148,193	70%	17,554
Total	215,679	100%	212,134	100%	(3,545)
Number of Employees	3,164	-	2,973	-	(191)

Note: Employees = Permanent employees + Contract employees

Millions of Yen

	FY2006	%	FY2007	%	Change
Net Sales	163,472	100%	147,516	100%	(15,956)
Operating Income	25,916	16%	21,520	15%	(4,396)
Ordinary Income	26,241	16%	18,864	13%	(7,377)
Net Income	11,619	7%	9,196	6%	(2,423)
Depreciation and Amortization	11,155	-	9,973	-	(1,182)
Capital Expenditure	11,360	-	6,952	-	(4,408)

Please take a look at the balance sheet first.

Total assets at the end of fiscal year ended March 31, 2008 stood at 212,134 million yen, remaining largely unchanged from the 215,679 million yen at the end of fiscal year ended March 31, 2007. Amusement equipment, which is included in fixed assets, was nearly halved, to 5,906 million yen at the end of fiscal year ended March 31, 2008, from 10,798 million yen at the end of the previous year. The reason for this is that we have been sequentially shifting to lease contracts. In fact, we do have more equipment than in the past to install in game arcades. In investment and other assets, a claim in bankruptcy of 5,065 million yen was recorded in the previous year, but this item was almost eliminated in fiscal year ended March 31, 2008. Deferred tax assets will be steadily eliminated as we generate profits.

In liabilities, the allowance for game arcade closings declined significantly as we have completed the closing procedure.

That concludes my explanation of the balance sheet. In summary, the major point in the results for fiscal year ended March 31, 2008 is that we have now almost eliminated what was recorded in fiscal year ended March 31, 2007 with the restructuring of TAITO.

Looking now at statements of income, while we took action for TAITO in fiscal year ended March 31, 2007, in fiscal year ended March 31, 2008 we undertook reforms primarily for the Games (offline) segment of SQUARE ENIX. More specifically, we wrote down content production by more than 3.0 billion yen as part of the cost of sales of 81,201 million yen. In addition, we posted a write-off of the content production account of 1,799 million yen as non-operating expenses. Combining cost of sales and non-operating expenses, we recorded a total of approximately 5.0 billion yen in relation to the Games (offline) segment, which we are currently in the process of reforming.
Note that I do not mean here that we are "restructuring" the Games segment, since what we are doing has nothing to do with human resources. What I mean by "reforming" is that we are reviewing what we have created to date and revisiting areas where we had overly optimistic projections.

Total selling, general and administrative expenses remained about the same in terms of both the amount and the ratio to net sales. I believe that this indicates that we have kept these expenses largely under control.

To summarize the balance sheet and statements of income, we took action to facilitate rapid improvements at TAITO in fiscal year ended March 31, 2007, and then proceeded with some bold measures for the Games (offline) segment of SQUARE ENIX in fiscal year ended March 31, 2008.

One item that had an impact on profit, other than those that were expected as described above, was the foreign exchange loss recorded under non-operating expenses. You may have heard about this from many other companies. We are no exception and recorded a foreign exchange loss of 1,858 million yen.

As for extraordinary items, we recorded a reversal of the allowance for game arcade closings as an extraordinary gain in fiscal year ended March 31, 2008. This reflects the fact that we happened to find a purchaser for the arcade-related assets that we wrote off in fiscal year ended March 31, 2007 based on the projection that we would not recoup anything from them.

Although cash flows also remained virtually unchanged, we posted a foreign exchange loss of 1,670 million yen in cash flows from operating activities. This means that the assessed value of cash we hold in foreign currencies was recorded. You will be able to see the foreign exchange affect on cash by looking at this item.

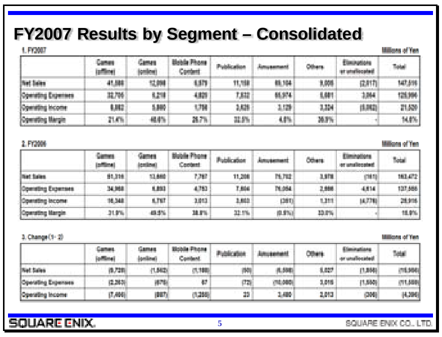
That completes my explanation of statements of income and cash flows.

Although we announced at the beginning of the period that operating income for fiscal year ended March 31, 2008 would be 21 billion yen, deep down I actually felt that we could do slightly better than this. However, since we recognized that we had not yet completely changed the direction for our future operations, we took some fairly bold reform measures for the Games (offline) segment. Although profits ended up at the amount we predicted at the beginning of the period, assumptions for the calculation were in fact very different from those that underpinned that prediction.

Note also that foreign exchange had an impact between operating income and recurring income.

Although I will explain a little later our plans for fiscal year ending March 31, 2009, our quantitative targets will remain effectively flat. We believe we may have to take some additional measures to succeed in the next phase of industry development.

Earnings release for fiscal year ended March 31, 2008 includes some descriptions on our shift to the holding company system. Needless to say, this is subject to approval by the general meeting of shareholders, but I would like to emphasize that the purpose of this initiative is to manage the Company more flexibly by shifting to a holding company system. We will place all of our operating companies under the holding company, which at present is unlikely to be involved in any specific business operations for the moment, as it will become a pure holding company.



FY2007 Results by Segment – Consolidated

1. FY2007 — Millions of Yen

	Games (offline)	Games (online)	Mobile Phone Content	Publication	Amusement	Others	Eliminations or unallocated	Total
Net Sales	41,588	12,098	6,579	11,158	69,104	9,005	(2,017)	147,516
Operating Expenses	32,706	6,218	4,820	7,532	65,974	5,681	3,064	125,996
Operating Income	8,882	5,880	1,758	3,626	3,129	3,324	(5,082)	21,520
Operating Margin	21.4%	48.6%	26.7%	32.5%	4.5%	36.9%	-	14.6%

2. FY2006 — Millions of Yen

	Games (offline)	Games (online)	Mobile Phone Content	Publication	Amusement	Others	Eliminations or unallocated	Total
Net Sales	51,316	13,660	7,767	11,206	75,702	3,978	(161)	163,472
Operating Expenses	34,968	6,893	4,753	7,604	76,054	2,666	4,614	137,555
Operating Income	16,348	6,767	3,013	3,603	(351)	1,311	(4,776)	25,916
Operating Margin	31.9%	49.5%	38.8%	32.1%	(0.5%)	33.0%	-	15.9%

3. Change (1 - 2) — Millions of Yen

	Games (offline)	Games (online)	Mobile Phone Content	Publication	Amusement	Others	Eliminations or unallocated	Total
Net Sales	(9,728)	(1,562)	(1,188)	(48)	(6,598)	5,027	(1,856)	(15,956)
Operating Expenses	(2,262)	(675)	67	(72)	(10,080)	3,015	(1,550)	(11,559)
Operating Income	(7,466)	(887)	(1,255)	23	3,480	2,013	(306)	(4,396)

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Let me now brief you on our results by business segment.

The Games (offline) segment has had a very tough time. We took some fairly radical action, driven by a strong sense of urgency, as we felt that to retain our competitiveness we needed to execute some very fundamental reforms. As for the prospects surrounding the release of *DRAGON QUEST IX*, I said a year ago that we had incorporated the release in the results for fiscal year ended March 31, 2008, but unfortunately we did not release it. Nevertheless, we achieved the projected figures through Company-wide efforts. We will announce the timing for the release and other details as soon as they are determined, and we will make every effort to release *DRAGON QUEST IX* in fiscal year ending March 31, 2009.

With respect to the Games (online) segment, we will be switching to the next generation of game titles any time now. Since we are still not sure whether we will be able to release successors to *FINAL FANTASY XI* and other major titles in fiscal year ending March 31, 2009, the figures do not assume such new releases. Meanwhile, we have already started sowing the seeds for titles in genres other than major MMORPG games. We have not yet incorporated these initiatives in the numbers, either. So the numbers here assume that nothing happens with titles other than *FINAL FANTASY XI*.

In the Mobile Phone Content segment, operating income declined to 1,758 million yen in fiscal year ended March 31, 2008, from 3,013 million yen in fiscal year ended March 31, 2007. There were some irregular factors in both results. In fiscal year ended March 31, 2007, as we set expiration dates for points of subscription-point service, latent profits that had accumulated were realized and produced a large number. However, the sustainable profitability at that time was approximately 2 billion yen.
Although this remained unchanged in fiscal year ended March 31, 2008, significant costs for the development of content linked to console game software were posted in the period. The Mobile Phone Content segment does not capitalize development costs, but expenses them each time they are generated, in contrast to console game software. We recorded only the costs without registering sales in fiscal year ended March 31, 2008, as we terminated development of some very extreme content, which were out of step with the times. As a result, this segment posted the operating income shown in the slide.

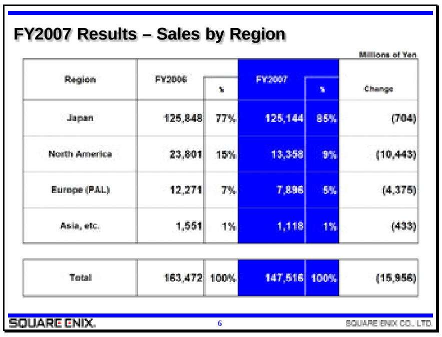
The Publication segment did very well. The segment has been producing hit content every year, and a number of animated comics are on the air even now. A virtuous circle has been established, in which serialized regular publications are turned into animated TV show and the investment is recouped by comics. Not only was the profit margin very high, but was inventory management stricter than it was in the past. Consequently, results in this business were very solid.

With respect to the Amusement segment, both the results of TAITO and the amortization of its goodwill are recorded in this segment, as I will explain later. In fiscal year ended March 31, 2008, this segment posted approximately 1.2 billion yen as amortization of goodwill, and this amount should be added back to the operating income of the Amusement segment to show the true capacity of TAITO. I believe that we will be able to increase this capacity to around 10 billion yen, by continuing to grow operations.

Finally, for the Others segment, although results improved rapidly, this is also the effect of incorporating TAITO to the Group. Currently, there are three arcade machines, which are planned by SQUARE ENIX and manufactured and distributed by TAITO, namely *DRAGON QUEST Monster Battleroad (“DQMBR”)*, *Yukyu no Sharin -Eternal Wheel-* and *LORD of VERMILION*, with this last product to be launched in June 2008.

Regarding the income generated by *DQMBR* in fiscal year ended March 31, 2008, income for SQUARE ENIX is recorded in the Others segment as currently there is no segment for *DQMBR*. Sales and operating income of *DQMBR* that were posted in the Others segment were approximately 4.5 billion yen and 2 billion yen, respectively. This means that the synergy of the acquisition of TAITO amounted to between 2.5 billion yen and 3 billion yen in terms of operating income for fiscal year ended March 31, 2008 alone.

As I described above, most of the segments are operating smoothly or indeed heading into a better direction, but the Games (offline) segment has not yet been completed the changes it needs to make. Please understand that we have chosen to act preemptively in restoring Games (offline) segment in 2007 and 2008, rather than leaving it unaddressed.



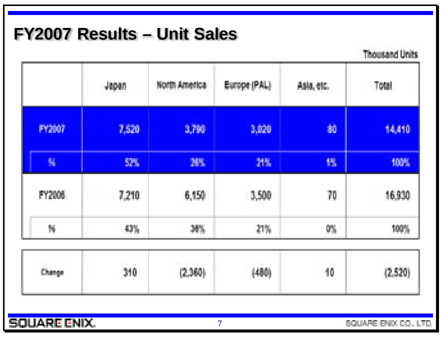
FY2007 Results – Sales by Region

Millions of Yen

Region	FY2006	%	FY2007	%	Change
Japan	125,848	77%	125,144	85%	(704)
North America	23,801	15%	13,358	9%	(10,443)
Europe (PAL)	12,271	7%	7,896	5%	(4,375)
Asia, etc.	1,551	1%	1,118	1%	(433)
Total	163,472	100%	147,516	100%	(15,956)

SQUARE ENIX 6 SQUARE ENIX CO., LTD.

This slide shows sales by region. Sales in Japan appear to be very substantial since almost all sales of the Amusement segment (TAITO) are in Japan.



FY2007 Results – Unit Sales

Thousand Units

	Japan	North America	Europe (PAL)	Asia, etc.	Total
FY2007	7,520	3,780	3,020	80	14,410
%	52%	26%	21%	1%	100%
FY2006	7,210	6,150	3,500	70	16,930
%	43%	36%	21%	0%	100%
Change	310	(2,360)	(480)	10	(2,520)

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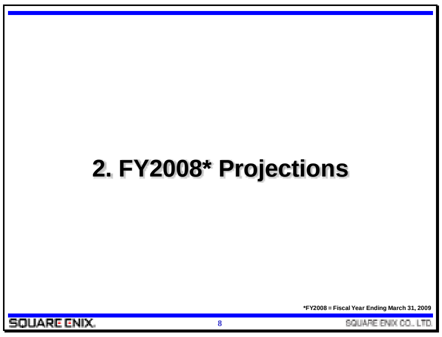
Looking at the sales of game software alone, approximately 50%, plus or minus 10%, is registered in Japan on a unit basis, while the balance is overseas. Our current challenge is how to change this proportion to a balance where the ratio for Japan is around 20% while the rest is overseas.

That concludes my report on the financial results for fiscal year ended March 31, 2008.

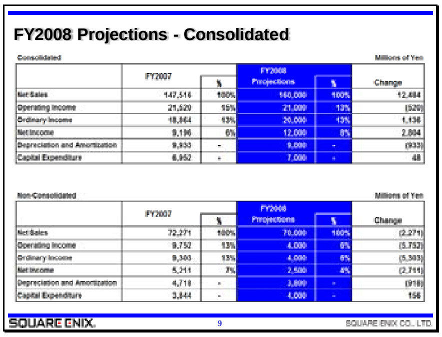


2. FY2008* Projections

*FY2008 = Fiscal Year Ending March 31, 2009

SQUARE ENIX. 8 SQUARE ENIX CO., LTD.

Let me now turn to our projections for fiscal year ending March 31, 2009.



FY2008 Projections - Consolidated

Consolidated — Millions of Yen

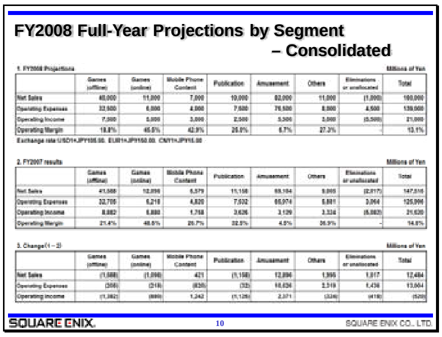
	FY2007	%	FY2008 Projections	%	Change
Net Sales	147,516	100%	160,000	100%	12,484
Operating Income	21,520	15%	21,000	13%	(520)
Ordinary Income	18,864	13%	20,000	13%	1,136
Net Income	9,196	6%	12,000	8%	2,804
Depreciation and Amortization	9,933	-	9,000	-	(933)
Capital Expenditure	6,952	-	7,000	-	48

Non-Consolidated — Millions of Yen

	FY2007	%	FY2008 Projections	%	Change
Net Sales	72,271	100%	70,000	100%	(2,271)
Operating Income	9,752	13%	4,000	6%	(5,752)
Ordinary Income	9,303	13%	4,000	6%	(5,303)
Net Income	5,211	7%	2,500	4%	(2,711)
Depreciation and Amortization	4,718	-	3,800	-	(918)
Capital Expenditure	3,844	-	4,000	-	156

SQUARE ENIX. 9 SQUARE ENIX CO., LTD.

As I mentioned earlier, I believe that we won't be able to compete in the next phase of industry evolution, unless we complete a comprehensive set of tasks in the current fiscal year. Although we are determined to achieve the quantitative targets we have set, we may have to take some additional measures for reform and make some further cost outlays. We have therefore deliberately kept our projections flat. Changes from the results in fiscal year ended March 31, 2008 are simple fractions for calculation purposes and are not significant.



FY2008 Full-Year Projections by Segment – Consolidated

1. FY2008 Projections — Millions of Yen

	Games (offline)	Games (online)	Mobile Phone Content	Publication	Amusement	Others	Eliminations or unallocated	Total
Net Sales	40,000	11,000	7,000	10,000	82,000	11,000	(1,000)	160,000
Operating Expenses	32,500	6,000	4,000	7,500	76,500	8,000	4,500	139,000
Operating Income	7,500	5,000	3,000	2,500	5,500	3,000	(5,500)	21,000
Operating Margin	18.8%	45.5%	42.9%	25.0%	6.7%	27.3%	-	13.1%

Exchange rate USD1=JPY105.00, EUR1=JPY160.00, CNY1=JPY15.00

2. FY2007 results — Millions of Yen

	Games (offline)	Games (online)	Mobile Phone Content	Publication	Amusement	Others	Eliminations or unallocated	Total
Net Sales	41,588	12,098	6,579	11,158	69,104	9,005	(2,017)	147,516
Operating Expenses	32,706	6,218	4,820	7,532	65,974	5,681	3,064	125,996
Operating Income	8,882	5,880	1,758	3,626	3,129	3,324	(5,082)	21,520
Operating Margin	21.4%	48.6%	26.7%	32.5%	4.5%	36.9%	-	14.6%

3. Change (1 − 2) — Millions of Yen

	Games (offline)	Games (online)	Mobile Phone Content	Publication	Amusement	Others	Eliminations or unallocated	Total
Net Sales	(1,588)	(1,098)	421	(1,158)	12,896	1,995	1,017	12,484
Operating Expenses	(206)	(218)	(820)	(32)	10,526	2,319	1,436	13,004
Operating Income	(1,382)	(880)	1,242	(1,126)	2,371	(324)	(418)	(520)

SQUARE ENIX. 10 SQUARE ENIX CO., LTD.

Speaking of the direction in which business segments are heading, we have weak numbers for the Games (offline) segment on purpose. This is because release schedules of titles has been carried forward several months in comparison with those we projected two years ago, as we wrote off a part of the content production account in fiscal year ended March 31, 2008.

The projections for the Mobile Phone Content segment are made on an ordinary basis.

For the Publication segment, frankly, we make conservative projections every time.

Regarding TAITO, we are seeking to establish a business that is able to generate operating income of 10 billion yen through fiscal year ending March 31, 2009 and 2010, and we project operating income of 5.5 billion yen for the Amusement segment as a transition to that target. Since the amortization of goodwill will top 1 billion yen in fiscal year ending March 31, 2009 and beyond, the target figure for TAITO is effectively 6 billion yen.

In the Others segment, our projections are derived from the status of DQMBR in the last year.

FY2008 Projections – Unit Sales

Thousand Units

	Japan	North America	Europe (PAL)	Asia, etc.	Total
FY2008 Projections	6,600	2,700	2,200		11,500
%	57%	23%	19%	0%	100%
FY2007	7,520	3,790	3,020	80	14,410
%	52%	26%	21%	1%	100%
Change	(920)	(1,090)	(820)	(80)	(2,910)

SQUARE ENIX. 11 SQUARE ENIX CO., LTD.

Unit sales projections are disclosed for reference purposes.

Six-Months Projections by Segment – Consolidated

1. Six-Months ending September 30, 2008 Projections — Millions of Yen

	Games (offline)	Games (online)	Mobile Phone Content	Publication	Amusement	Others	Elimination or unallocated	Total
Net Sales	13,000	5,000	3,500	5,000	38,000	6,000	(500)	70,000
Operating Expenses	14,200	2,500	2,300	4,000	36,500	4,000	2,500	66,000
Operating Income	(1,200)	2,500	1,200	1,000	1,500	2,000	(3,000)	4,000
Operating Margin	(9.2%)	50.0%	34.3%	20.0%	3.9%	33.3%	–	5.7%

Exchange rate: USD1=JPY105.00, EUR1=JPY150.00, CNY1=JPY15.00

2. Six-Months ended September 30, 2007 results — Millions of Yen

	Games (offline)	Games (online)	Mobile Phone Content	Publication	Amusement	Others	Elimination or unallocated	Total
Net Sales	20,448	5,413	3,589	5,210	34,520	3,696	(608)	72,271
Operating Expenses	16,300	2,549	2,926	3,534	33,170	2,362	1,673	62,518
Operating Income	4,147	2,864	663	1,676	1,349	1,334	(2,282)	9,752
Operating Margin	20.3%	52.9%	18.5%	32.2%	3.9%	36.1%	–	13.5%

3. Change (1 − 2) — Millions of Yen

	Games (offline)	Games (online)	Mobile Phone Content	Publication	Amusement	Others	Elimination or unallocated	Total
Net Sales	(7,448)	(413)	(89)	(210)	3,480	2,304	108	(2,271)
Operating Expenses	(2,100)	(49)	(626)	466	3,330	1,638	827	3,482
Operating Income	(5,347)	(364)	537	(676)	151	666	(718)	(5,752)

SQUARE ENIX. 12 SQUARE ENIX CO., LTD.

Six-month projections are also disclosed for your reference. As we make projections on an annual basis, six-month projections are not particularly meaningful for us.

3. Overview of Taito

SQUARE ENIX. 13 SQUARE ENIX CO., LTD.

Let me now move on to the explanation of TAITO.

Strategic Intent of the Taito Acquisition

- Revenue streams from amusement businesses
- Synergy with console game business
  - Game design
  - User interface
  - Physical point of contact with customers
- Financial stabilizer

SQUARE ENIX. 14 SQUARE ENIX CO., LTD.

If I may explain once again the reasons why we acquired TAITO, there are three strategic intents.

The first is to create revenue streams from the amusement businesses. In Japan, the arcade game market is larger than the console game market. In addition, a new entry into the hardware market is hardly possible in console games, but this is not the case in arcade games. In fact, the only midsize or larger game companies that were not involved in the arcade game business were the former ENIX and SQUARE, the predecessors of SQUARE ENIX, along with Koei, I believe. Other game companies have been involved in the arcade game business in one way or another. We are the latest player.

Also, although it is generally believed that there are no markets overseas, this is not true. In fact, overseas markets, particularly from Asia, have been coming back to life recently, and I believe there is still room for growth. So our belief that there is still room to grow in the arcade game market itself is the reason why we have the first strategic intent.

The second reason for the acquisition is to create synergy with the console game business. Many of the games of SQUARE ENIX are RPG oriented. The greatest feature of RPG is the time involved.

When console game machines were introduced, most game companies were already producing arcade games, so that transplanted them into console games. The exceptions were ENIX, SQUARE and Koei. These three companies were making PC games, which they then transferred to the console.

The major difference between these two groups is the way they handled the saved data. As makers of PC games, ENIX, SQUARE and Koei, were able to design games utilizing saved data. However, as we focused primarily on console games without any involvement in arcade games, our game design was somewhat distorted. This is inevitable if the operation is focused on either console or arcade.

Another difference is the interface. Since the controller, the input device for console games developed over 20 years ago, was very effective, the interface for input has not really evolved over the years. Also, although the output image has evolved from 2D to 3D, it is not fundamentally changed, in the sense that images are viewed on a flat panel.

Although we naturally expected that interfaces would diversify, only game console manufacturers have the ability to diversify input. Game console manufacturers can make controllers, but software markers cannot. Since output is made through television, only makers of TV sets can diversify output. However, if we make arcade machine games by ourselves and install them in our facilities, we will be able to trial initiatives to diversify both input and output.

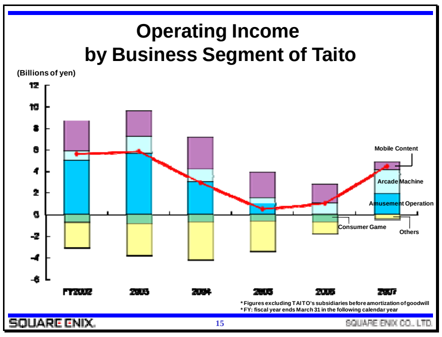
To summarize what I have explained, our aim was to produce chemical reactions in both the game design and interface.

With respect to the point of contact with customers, although SQUARE ENIX has to a very significant extent developed its understanding of virtual communities on the Internet through online games, we have no experience at all of what physical spaces are and what happens in live events. I was aware of these issues and thought that it would be difficult to have these experiences only with SQUARE ENIX.

As I will mention later, I expect the media and content market to converge, starting in 2010. If this assumption is correct, we must be prepared so as to be able to perform no matter what kinds of services and content will be provided to what media. I have felt that we will not be able to do anything in a panic. Rather, we needed to test in advance how the way we deal with customers will change the design of services and games as well as our business model. These are the factors behind our strategy of synergy with the console game business.

The third objective was to obtain a “financial stabilizer.” The console game software business does not generate cash until a product is released. In this respect, cash flows are similar to those in the construction industry. Since this is an extremely volatile business, I felt that we were at risk, unless we had a secure source of earnings, like a cash business. Since we are in an industry characterized by the fact that the larger the size of the company, the greater the risk of financial fluctuations, we needed to secure cash flows from other sources.

These are our objectives in the acquisition of the TAITO Group.



TAITO became a member of the SQUARE ENIX Group in fiscal year ended March 31, 2006. At that time, the performance of TAITO was in decline. So my first move was to identify areas of focus.

The red line graph shows the operating income of TAITO as a whole.
The histogram indicates operating income by business segment, and there are some negatives. We have eliminated these negatives. Consumer Games refer to console game software, and the reason why it had been negative was not that the development capability of TAITO was poor. What TAITO did was to purchase and sell titles that TAITO did not develop by itself, and this produced a large loss every year. In other words, they purchased sales by spending cash. We stopped this by leaving the development capabilities within TAITO and transferring all publisher functions to SQUARE ENIX. Although you can barely see it in the graph, the Consumer Games segment has improved to a slight positive.

The Others segment in yellow includes the manufacture of commercial karaoke and Pachinko and Slot machines. We sold the commercial karaoke business to another company and dissolved the Pachinko and Slot business in light of the unstable market conditions and low competitiveness. Incidentally, this chart also reflects head office expenses and unallocated expenses.

The next segment is the Amusement Operation. Since the profitability of this business plummeted, we have worked to rebuild it. First, since we needed to change the expense structure, we reviewed game arcades with a high rent. Given the fact that costs other than rent were not especially high, these arcades fell into a vicious circle, in which high rents meant low profitability, which prevented them from purchasing new machines, which reduced their appeal to customers, which lowered the motivation of their employees, which held down sales. In response, we vigorously renegotiated rents and closed arcades when we were unable to reduce the rents. This is the closures we dealt with financially in fiscal year ended March 31, 2007. We also replaced a significant percentage of machines, using lease contracts to hedge the financial risk.

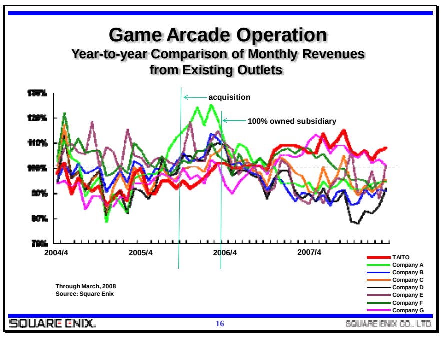
The Arcade Machine business has also been improving. The amusement market in Japan can be divided into two: the arcade machine market, which has a size of approximately 200 billion yen, and the amusement operation market, with a size of around 700 billion yen. Looking at these two markets, the weighting of arcade machines is growing rapidly.

This means that the amusement market has an industry structure in which the profits of game arcades are absorbed by machine manufactures and in which the barrier to entry is high because the degree of concentration on high-end arcade machines is extremely high. Given that the highest market share of any company in the amusement operation market is around 10%, machine manufacturers are gaining overwhelmingly strength. In addition, the games are becoming increasingly complicated and expensive. In light of the current challenges confronting arcade operators, we will with TAITO focus more on inexpensive and light games, in a direction that is completely the opposite to the trend just mentioned. I believe that if this strategy works well, it will contribute significantly to earnings.

The Mobile Content business is having a very tough time. Since the Mobile Content business of TAITO centered on music, it struggled when the mobile phone music market declined. At present, we are working on the switch-over by expanding the business without limiting the terminal only to mobile phones.

As I have already mentioned, we have been improving the operating efficiency of TAITO by focusing on selected businesses.

The Amusement Operation led the way, and the Arcade Machine has been gradually following suit. The Mobile Content business is now attenuating the problem. We aim to make TAITO a company that is able to consistently record operating income of more than 10 billion yen within two years.



This slide shows a year-to-year comparison of monthly revenues from existing outlets in the game arcade operation. The red line indicates TAITO. The year-to-year comparison of monthly revenues is no longer negative and remains the highest in the industry. However, as we are not opening large new outlets, the size is limited.

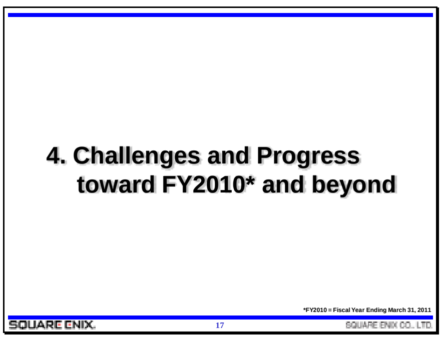
In the past, when revenues from existing outlets fell there was a strong incentive to open new outlets even with unfavorable conditions, to secure sales. Since the cost structure of the game arcade operation weakened after many years of operation with this manner, we now focus on bolstering revenues from existing outlets and maintaining a policy of not opening new outlets unless we carefully examine their earnings potential.

We also take into consideration the machine rental business and the franchise operation of outlets.

While the arcade video game industry has been very isolated, we plan to involve other industries by using the franchise and the rental operations as catalysts to activate the overall game arcade industry.

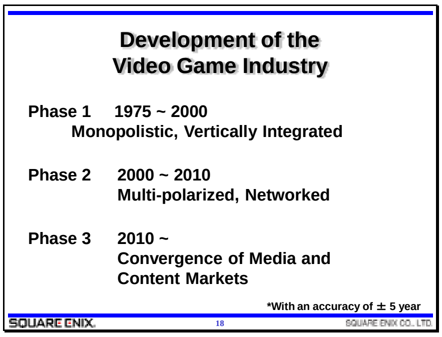
If we stay in the same industry for a long time, we won’t speak with people in other industries. So if times become tough, the situation is exacerbated because we don’t get an infusion of fresh talent. But looking at the game arcade industry from the standpoint of a layman like me, who came from another industry and business category, it appears to have much more room to grow. I believe that if we can invigorate the overall game arcade industry by involving other industries, then it will contribute to our earnings.

That concludes my explanation about TAITO and why its businesses remain very positive.



A short while ago, I said that we took and are taking fundamental reform of the Games (offline) segment in fiscal year ended March 31, 2008 and fiscal year ending March 31, 2009, and that we have taken some financial treatments to that end.

So let me conclude today by explaining what is urging us to do these things.



At present, I see the evolution of the video game industry as being in the third stage.

The ecosystem of the video game industry changes each time its developmental phase alters, and the business model also changes completely, depending on how we exist in these ecosystems. As a consequence, I am aware that we will make a major error if we assume that the environment will remain unchanged into the long term.

The first stage ran from around 1975 through 2000. This stage was characterized by monopoly and vertical integration. Basically, the console game is a model of vertical integration. If the individual characteristics for each game machine do not emerge despite vertical integration, the result is a monopolistic state, as we saw in the golden days of Nintendo and the best days of Sony.

The second stage was an era of diversification and networking. Although there may be some minor inaccuracies, these features became noticeable starting 2003. The companies which are enjoying strong earnings at present have succeeded in catching the waves of these changes.

In the first half of the second stage, diversification expanded the market. One of the dimensions where diversification progressed was geographic. Japan became a very small market relatively speaking. Conversely, huge markets emerged elsewhere in the world. Another dimension was generational. Since several decades have passed since games firstly appeared, and the generation of users has expanded significantly from children to adults. Although diversification occurred in a number of other dimensions, I think that those companies that produced results particularly in terms of region (overseas) and customer (innovation) are now enjoying strong earnings.

The major characteristic in the last half of the second stage was networking. I think that the points here are how to capture communities, how to incorporate networking in distribution, how to utilize download sales and how to use demos in promotion activities. This means that we do not compete for online games, but compete in networking.

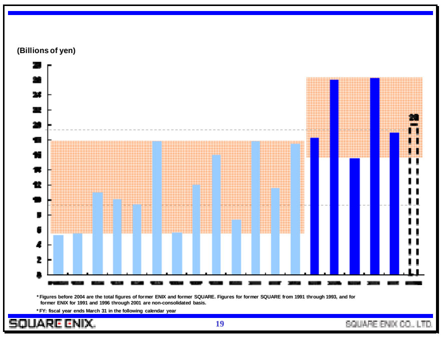
In the first half of the second stage, we had a very tough time in both development and sales. Although I thought that it might be a good idea to take a patient approach and withstand the hard times, we began taking drastic measures instead, thinking that it would be too late unless we shift direction in a major way.
This was because I thought the situation in the industry would undergo a further significant change in the third stage.

In the third stage, the media and content market, which encompasses film, TV, music, books, and live entertainment, will converge. Although there are many interpretations of this phenomenon—such as publishers becoming integrated across media and media becoming a set of equal choices from the customer's perspective with prices compared—one thing is certain: our work will not be limited to within the video game industry, and companies in other industries will become potential competitors.

Although the video game industry has changed markedly in the first and second stages, it is basically a self-contained industry. So we need to have made considerable progress by the time the change takes place. For example, the film industry has already experienced competition with other industries, as it has been penetrated by many players from other industries. However, the video game industry does not have this experience. I believe that this will have a greater impact than most in the video game industry now imagine, and some media companies are, in fact, acquiring game companies, as you may know.

My basic understanding is that we have to make meaningful change and the clock is ticking.

I don’t think that anybody knows for sure what exact form the media and content market will take when it has converged. I myself do not have a specific image, and neither do many others it seems. Like others, however, I have a rough picture of where the industry is heading. It is a bit like sailing the ocean with just compass and no map. In other words, since we don’t have a sense of distance, it is difficult to judge how much time we have for reforms and whether we should postpone them. My belief though is that we need to turn the ship around quickly.



When ENIX merged with SQUARE, I was often asked about what the synergy would be and the extent to which we would be able to reduce indirect costs. The bars in light blue show a simple aggregation of the recurring incomes of ENIX and SQUARE before the merger, while the bars in dark blue show the recurring income of SQUARE ENIX after the merger.

Recurring income in fiscal year ended March 31, 2008 was not good, yet it was better than the previous cycle.

This chart shows that the post-merger results are better than those before the merger across the board. This is because we anticipated changes to the ecosystem in the early second phase in 2003 and transformed the Company to be able to fit in these changes. That is why we have been able to benefit from the market growth.

At SQUARE, where I was the president, for example, all games were developed for the PlayStation. As a result, efficiency improved significantly, but we ended up in a situation where we didn’t know how to develop products for other platforms. We used the distribution network of Sony and did not have our own sales network, and as we were making products only for Sony, there was no need for us to spend money on our own distribution system.

After I became the president, however, I immediately understood that this would be a fatal defect if the industry becomes multi-polar in nature. So the first thing I did was to resume dealing with Nintendo. This was partly because we would be unable to understand the input unless we make products for handheld game machines. And if we were starting to make products for various platforms, a very basic requirement was our own distribution system. As ENIX sold its products through its own sales channels in Japan, we were able to benefit from its sales capabilities.

With respect to online games, SQUARE was oriented to global operation in Japan, the United States and Europe with typical MMORPG games, while ENIX marketed PC online games mainly in China. Although the Asian market and the Japan, U.S. and European markets are still quite different even now, at that point they were entirely unlike each other. Since it was expected that the major factors for changes in the operating environment would be networks themselves as an infrastructure in the second through third stages, we needed both.

The former SQUARE was not engaged in the mobile phone content business. And this could not be a viable strategy by the time of the year 2000. The merger with ENIX, which was a pioneer in the mobile phone content business, generated a good result overall as a result.

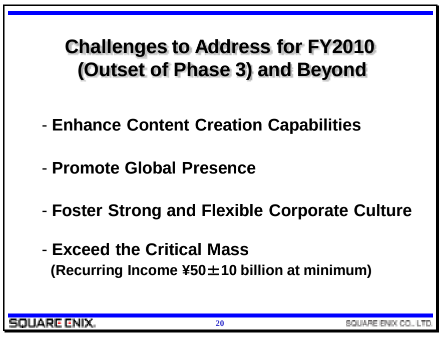
We were also able to diversify our operating bases and business lines through the merger. The key point in the joining of SQUARE and ENIX was to make them a different creature through diversification. In this respect, it is better that in-house production and outsourcing are also separated.

Although we were often told at that time that the merger wouldn’t generate anything new as both companies made similar RPG products, this was not true. We merged from the standpoint of how to respond to diversification and multi-polarization. If we had done this other way around, we would have been in trouble. The reason why some of our competitors doing well is that their business lines were already diversified from the beginning—they were generally engaged in arcade game machines. If their business lines are diversified, they basically have fundamental strength.

As both SQUARE and ENIX were extreme examples of single-product companies, the both lacked this strength. In order to get it, they needed the diversification. That describes our thinking of the merger.

As I mentioned earlier, although we completed our preparations in the early second stage, we were slow in addressing changes thereafter. Without the merger, however, I think I would not be here speaking to you today.

I assume that changes will happen on a much larger scale this time, and these changes will not be limited to the video game industry.



When the media and content markets converge, it will become critically important to have the ability to create original content. The creation of interactive content will become possible only if the format becomes digitalized and the infrastructure becomes networked. For now, only the video game industry produces true interactive content. In that sense, I believe that we have a fairly strong advantage over other industries in terms of our ability to create content, and I want to retain this advantage by any means.

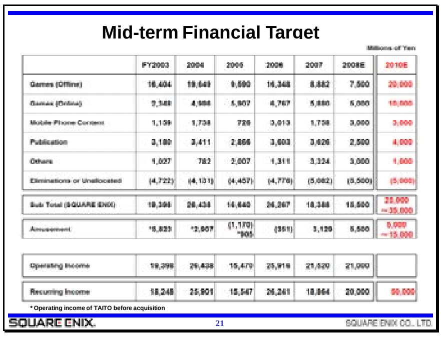
As for our ability to promote the global presence, we are still weak. And we also need a strong and flexible corporate culture to adapt to diversification.

Finally, we need to become a company with recurring income of 50 billion, plus or minus 10 billion yen, at least. Recurring income of 50 billion yen means that income before income taxes will be around 30 billion yen, which means a PER of about 30. In other words, our market capitalization has to be one trillion yen.

The purpose of the initiatives we took for game software was to deal with the first challenge of building our content creation capabilities. In other words, we addressed the problem that we were slow in changing game designs and the way we created games.

It is also linked to corporate culture. Since we had to pry open the culture of being reluctant to change, we applied shock therapy. Internally, I intend to push these challenges through more firmly, but we clearly need to address the two issues I have described, and we have been taking action to do so.

While we are fully committed to achieving the quantitative targets we have set, the major task of management is to do what needs to be done for the future.



Mid-term Financial Target

Millions of Yen

	FY2003	2004	2005	2006	2007	2008E	2010E
Games (Offline)	16,404	19,649	9,590	16,348	8,882	7,500	20,000
Games (Online)	2,348	4,986	5,907	6,767	5,880	5,000	10,000
Mobile Phone Content	1,159	1,738	729	3,013	1,738	3,000	3,000
Publication	3,180	3,411	2,866	3,603	3,626	2,500	4,000
Others	1,027	782	2,007	1,311	3,324	3,000	1,000
Eliminations or Unallocated	(4,722)	(4,131)	(4,457)	(4,776)	(5,082)	(5,500)	(5,000)
Sub Total (SQUARE ENIX)	19,398	26,438	16,640	26,267	18,388	15,500	25,000 ~35,000
Amusement	*5,823	*2,907	(1,170) *905	(351)	3,129	5,500	5,000 ~15,000
Operating Income	19,398	26,438	15,470	25,916	21,520	21,000	
Recurring Income	18,248	25,901	15,547	26,241	18,864	20,000	50,000

* Operating income of TAITO before acquisition

SQUARE ENIX 21 SQUARE ENIX CO., LTD.

This chart shows operating income and recurring income since the formation of SQUARE ENIX. If we achieve the 50 billion yen target, income by segment will be as shown in the chart. These figures assume that the present course of actions continue, although we could think of other strategies such as M&A, in addition to organic growth.

In terms of progress, I believe that the Amusement segment (TAITO) could earn as much as 10 billion yen in the current conditions. A sharp increase in income in the Others segment also reflects the effect of TAITO, which shows the synergy created that came when those members of SQUARE ENIX who planned consumer software took part in the planning of arcade games. At the moment, income of the Others segment exceeds the target by a large margin.

In the Publication segment, the target for fiscal year ending March 31, 2009 is conservative and is progressing steadily.

All we have to address are the Games (offline) and the Games (online) segments, where reforms are underway. It is dangerous to rely on past success and keep doing things as they are. It is important to change the culture. Up to last year, we, including myself, were unable to identify the essence of our capabilities. We have done this now, but we need to be careful since we have yet to produce outcomes.

In conclusion, the key point in the results for fiscal year ended March 31, 2008 is that we have a policy of rapidly completing the transformation of the Games (offline) segment so that we can fully prepared for the third stage of our industry.