

FY2006 First-Half Period Results Briefing Session

SQUARE ENIX

November 20, 2006

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Please allow me to begin the results briefing by SQUARE ENIX CO., LTD. ("Square Enix") for the first half of fiscal 2006, which ends March 2007.

I would like to inform you first that the strategies I described at the results briefing for the fiscal year ended March 2006 remain unchanged, and that overall we have made steady progress. Since I have explained our view of the business environment at the Tokyo Game Show, CEDEC and other occasions, I will not discuss the industry as a whole in today's presentation.

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 materials 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 date.

A number of factors could cause actual results to be materially different from and worse than those disclosed 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 mobile phone 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.

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1. FY2006* First-Half Period Financial Results

*FY2006 = Fiscal Year Ending March 31, 2007

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Results for the first-half period remained firm and in line with our expectations. Still, a solid performance does not necessarily translate into a rosy view of the future. Rather, it should be interpreted as reflecting our ability to institute strategies that respond to the changing environment I have previously described. Indeed, I would be grateful if you were to understand that our solid performance is making a significant contribution to our ability to deal with anticipated changes in the industry structure.

Although the current operating performance is very robust, we need to put in place structural reforms over the mid to long terms. We are at present taking steps such as changing the organization for product development. I believe that this will be a long-term initiative.

The current performance of TAITO Corporation ("TAITO") is not favorable, as the numbers indicate. I was appointed to the concurrent post of president of TAITO in July this year and have been spearheading the subsidiary since then. To make a fresh start from the next fiscal year, we plan to complete most of the financial measures by the end of the current fiscal year. This could further impact the results for the second half. In any case, I will be seeking to conclude the measures within the current fiscal year.

FY2006 First-Half Period Results - Consolidated

	As of September 30, 2005		As of March 31, 2006		As of September 30, 2006	
	Millions of Yen	%	Millions of Yen	%	Millions of Yen	%
Current Assets	106,843	67%	132,251	63%	136,024	65%
Non-current Assets	71,530	43%	81,097	38%	75,999	35%
Total	177,878	100%	213,348	100%	212,023	100%
Current Liabilities	63,739	36%	37,840	18%	36,782	17%
Non-current Liabilities	3,378	2%	53,384	25%	13,792	6%
Total Liabilities	67,117	38%	91,224	43%	50,574	24%
Minority Interest in Consolidated Subsidiaries	4,211	2%	4,120	2%	4,120	2%
Total Shareholder Equity/Net Assets	106,448	60%	120,999	57%	127,309	60%
Total	177,878	100%	213,348	100%	212,023	100%
Number of Employees	2,562		3,050		3,149	

The Company's consolidated balance sheet as of September 30, 2006 consolidates TAITO CORPORATION ("TAITO") balance sheet as of September 30, 2006.
*Minority interests in Consolidated Subsidiaries of ¥1,121 million is included in Net Asset

	April - September 2005		October 2005 - March 2006		April 2006 - September 2006	
	Millions of Yen	%	Millions of Yen	%	Millions of Yen	%
Net Sales	27,891	100%	97,382	100%	75,999	100%
Operating Income	2,484	9%	12,888	13%	9,169	12%
Non-recurring Income	2,739	10%	12,817	13%	9,100	12%
Net Income	2,262	8%	14,874	15%	8,119	11%
Depreciation and Amortization	830	3%	7,549	8%	5,247	7%
Capital Expenditure	561	2%	8,688	9%	8,814	12%

The Company's consolidated statement of income consolidates TAITO's statement of income from October 2005 to 2006.
Depreciation and amortization does not include amortization of goodwill.

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Let me now brief you on our results for the first half, following the presentation materials.

Please allow me to begin with balance sheet items.

First, looking at notes and accounts receivable over time, the figure has moved from 18,267 million yen to 33,215 million yen, and then to 23,013 million yen at the end of the first half of the current fiscal year. Most of this 23,013 million yen was accounted for by Square Enix, with approximately 9,000 million yen for TAITO. As usual, if major titles are released at the end of the fiscal year, the figure will change significantly.

The figure at the end of March 2006 was slightly larger, at 33,215 million yen, because titles such as *Kingdom Hearts II* were released in North America at the very end of the fiscal year. This 23,013 million yen posted during the first half was also attributable to the release of *Kingdom Hearts II* in Europe at the end of September. These are changes from the normal course of business and are not irregular.

Inventory remained virtually flat and is mostly related to components of TAITO. Since we did not stock in a large volume of inventory, the figure on the balance sheet did not change significantly.

The next item is a content production account. In this account, we post content production expenses of game software for game consoles. This was 16,173 million yen at the end of September 2005, 7,312 million yen at the end of March 2006, and 9,301 million yen at the end of the first half of the current fiscal year. The figure changed significantly from September 2005 to March 2006, as we recorded production expenses for major titles that were released in Japan, such as *Final Fantasy XII* and *Kingdom Hearts II*. From the end of March 2006 to the end of the first half of the current fiscal year, the figure did not change substantially, since the change was an ordinary increase reflecting progress in product development. The content production account is normally between 10.0 billion yen and 15.0 billion yen. Although it could increase further subject to the timing of product releases, the latest figure is approximately 9.0 billion yen.

To date, changes in these figures have been in the normal range, with little impact from developments in the operating environment or the integration of Square Enix and TAITO.

The next item is deferred tax assets. These are posted in both current assets and non-current assets, and I assume that it will be easier to follow if I explain the changes using the combined figure. The aggregate of deferred tax assets posted under current assets and non-current assets at the end of March 2006 was approximately 14.4 billion yen. It was approximately 10.2 billion yen at the end of the first half under review, representing a decline of about 4.0 billion yen. Looking at the breakdown of this 4.0 billion yen, the figure for the Square Enix Group excluding TAITO was approximately 3.0 billion yen. This is normal procedure when profit is recorded. The remaining 1.0 billion yen was for TAITO. This derived from a 1.0 billion yen reduction in deferred tax assets, from about 3.2 billion yen at the end of March 2006 to 2.3 billion yen at the end of the first half under review. This in turn reflects a reversal of deferred tax assets of 1.0 billion yen, as we revised down the business forecast for TAITO given its sluggish current performance.

Non-current assets related to amusement equipment showed a significant change. It was 47,133 million yen at the end of the first half under review, a decline of approximately 10.0 billion yen from the 57,176 million yen recorded at the end of September 2005 and 58,733 million yen at the end of March 2006. The fall is related to the divesture of the commercial karaoke machines business, as we have already announced.

The account title "consolidation adjustments account" under intangible assets was changed to "goodwill" from the first half of the current fiscal year. Because amortization costs of 1,093 million yen will arise annually with the consolidation of TAITO, goodwill should decline by half this amount for the half year. For the first half of the current fiscal year, it decreased approximately 2,400 million yen, from 23,446 million yen at the end of March 2006 to 21,043 million yen. This is because the reduction in goodwill related to the divesture of the commercial karaoke machines

business is included in the figure.

The next item I would like to explain is other accounts payable. This figure was 2,375 million yen at the end of September 2005, 6,509 million yen at the end of March 2006, and 10,609 million yen at the end of the first half of the current fiscal year. This last amount reflects the fact that at the end of this first half, we had yet to pay withholding tax of about 8,000 million yen that accrued when we took over TAITO. It is therefore a temporary increase.

The short-term borrowings of 40.0 billion yen that were posted at the end of September 2005 did not arise during the first half of the current fiscal year, although corporate bonds of 50.0 billion yen were recorded under non-current liabilities. This is because bridging loans from banks were repaid out of the proceeds of the corporate bond issue, making them simply a form of replacement finance.

The maturity of the corporate bonds is five years, and one year has passed since they were issued. Although the conversion price is currently 3,400 yen, it will be revised once a year to the higher of 3,400 yen (floor price) or 94% of the Volume Weighted Average Price (VWAP) for ten consecutive business days up to the third Friday (inclusive) in November. Square Enix as the issuer is able to change the floor only once until one month prior to the maturity date to 94% of the VWAP for the most recent 10 consecutive business days before the date of the revision. We could raise the floor if the share price at that time is very high, or reset the floor to a lower level if we think it better to pull it down for capital purposes.

In any case, the conversion price will edge up once a year to the higher of 3,400 yen or 94% of the VWAP for ten consecutive business days before the date of revision. Since the coupon is zero, this does not affect our earnings. In terms of equity, since the new conversion price is 3,400 yen, it does not have an impact on net assets this time, either.

As I explained, we have introduced some financial procedures in relation to the change of our structure, but there were few irregular items in our business. We will complete the provision for doubtful accounts related to TAITO and the reassessment of its assets by the end of this fiscal year.

As supplementary information, the presentation of net assets has been changed and described in two pages, but the contents remain the same. If I might explain, minority interest that was 4,211 million yen a year ago declined to 1,120 million yen at the end of March 2006 and 1,121 million yen at the end of the first half of the current fiscal year.

The reason why there is a difference of some 3,000 million yen between these figures is that minority shareholders of TAITO still existed as of the end of September 2005, since TAITO became a 100% subsidiary at the end of March 2006.

If I may make the point once again, it is possible that we will take further accounting action with respect to TAITO by the end of the fiscal year under review, as a result of reassessing its assets. We are currently doing with this subsidiary what we did at Square Enix a few years ago: getting back to basics and focusing on select businesses.

That concludes the explanation of balance sheet items.

Let me now turn to the description of profit and loss items.

First, allow me to apologize, the slide may be very difficult to see. Results for the first half ended September 2005 shown in the left column are figures for Square Enix only, while those for the first half of the current fiscal year in the middle are consolidated figures of TAITO and Square Enix. Results for the fiscal year ended

March 2006 shown in the right column are consolidated figures for one year for Square Enix and for the second half for TAITO. Looking at figures for the first half of the current fiscal year, net sales were 75,959 million yen and gross profit was 34,864 million yen.

If we break down these figures, consolidated sales excluding TAITO were approximately 37,800 million yen, and gross profit was about 22,700 million yen. The profit margin was approximately 60%.

For TAITO, consolidated sales were 38,100 million yen, and gross profit was 12,100 million yen. The profit margin was about 30%.

As for other items, we cannot make a comparison over time for selling, general and administrative expenses. So, looking at the figure for the first half of the current fiscal year, it is 25,257 million yen, of which approximately 12,800 million yen is for Square Enix, with about 11,700 million yen for TAITO. The remaining amount represents the amortization of goodwill, which includes non-TAITO amortizations.

If you compare this 12,800 million yen for Square Enix with 11,600 million yen for the first half ended September 2005 in the left column (a figure for Square Enix only), it looks as if it had increased by 1,200 million yen. We did not release many major titles in the first half ended September 2005, while more major titles were introduced in the first half of the current fiscal year. Therefore, variable costs such as advertising expense, packaging freight charge, and sales promotion expenses increased year on year. Other costs remained flat.

Looking at non-operating income and expenses and extraordinary gains and losses, a gain on the divestiture of business of 2,738 million yen was posted under extraordinary gains, while accelerated amortization of goodwill of 1,831 million yen was recorded under extraordinary losses. As explained in detail in the notes, these relate to the divestiture of the commercial karaoke machine business that is presented in the consolidated financial statements. When we acquired TAITO, we evaluated the corporate value taking this 1,831 million yen into account. Because of the divestiture of the commercial karaoke machines business, we amortized 1,831 million yen in one hit. As a result, the difference between the gain on the divestiture of business of 2,738 million yen and the accelerated amortization of goodwill of 1,831 million yen was the net extraordinary gain associated with the sale of the commercial karaoke machines business.

A provision for doubtful accounts of 1,588 million yen was also posted as an extraordinary loss. The first step in the measures we will take in relation to TAITO during the current fiscal year is recorded here.

As I mentioned at the previous results briefing session, the tax calculation is a little complicated. Consequently, income before income taxes and net income are not directly linked, as a large amount is included in deferred income taxes.

Since some media reports misinterpreted this figure as an extraordinary item, I would like to explain this point once again. Because we adjusted taxes following the change in our structure, income after taxes was significantly affected. Therefore, the above amount is neither an extraordinary item nor a non-operating item, but is rather recognized under deferred income taxes. I trust that I have managed to make this point clear.

The last element I would like to mention is the statement of cash flow, including depreciation and amortization and capital investment.

There are few items warranting particular attention in the statement of cash flow. The impairment loss of 4,426 million yen for the fiscal year ended March 2006 included the write-off of UIEVOLUTION, among other factors. This was an irregular item and did not occur in the current fiscal year. It is also unlikely that we will record a large impairment loss in the future. For the first half under review, we registered a

gain on the divestiture of business and accelerated amortization of goodwill in relation to the sale of the commercial karaoke machines business, as mentioned earlier. We also recorded the acquisition of property and equipment and intangible assets, and these correspond to our capital investment. For capital investment, cash flow in the earning release is recorded on a cash basis, based on what we have actually paid, while the figures in the slide include payables and are therefore closer to reality from our perspective. In the first half of the current fiscal year, we had planned to make further investments, for example in developing the environment for next-generation machines and purchasing high-end software. In the high-definition environment, for example, we would not only need to replace a large number of displays for development, but we would also have to upgrade our network backbone to exchange a large volume of data. As such, we thought that we would need to make a significant investment. In reality, however, since we are currently focusing on basic development, I believe that the amount of capital investment is likely to remain almost unchanged until around the end of the next year. When we revised the results forecast for the first half of the current fiscal year, I said that there were some “incomings and outgoings” between the first half and the second half. As far as the decline in depreciation expense is concerned, the second-half figure won’t be twice the first-half result, even if we didn’t post any depreciation expense in the first half. So, I believe that you should look at the figure on a full year basis.

In conclusion, although we expected to record a large capital investment in the first half, it turned out to be a relatively small number. As a result, the depreciation was not as much as we expected.

With regard to dividends, we posted approximately 2.2 billion yen for the first half by multiplying the year-end dividend of 20 yen for the fiscal year ended March 2006 by the number of shares issued and outstanding.

That concludes the explanation of cash flow.

1. First-half period ended September 30, 2006							
	Games (Offline)	Games (Online)	Mobile Phone Content	Publication	Amusement	Others	Eliminations or unallocated
Net Sales	16,146	7,670	2,907	6,426	38,144	2,815	75,968
Operating Expenses	14,874	4,387	2,224	3,661	38,472	1,124	65,742
Operating Income	1,272	3,283	683	2,765	39,672	1,691	10,226
Operating Margin	7.9%	43.1%	23.5%	43.0%	104.0%	60.1%	13.5%

2. First-half period ended September 30, 2005							
	Games (Offline)	Games (Online)	Mobile Phone Content	Publication	Amusement	Others	Eliminations or unallocated
Net Sales	8,997	6,329	2,219	4,471	—	4,892	27,891
Operating Expenses	8,648	4,287	1,832	3,640	—	2,832	24,000
Operating Income	349	2,042	387	831	—	2,060	3,891
Operating Margin	3.9%	32.3%	17.4%	18.6%	—	42.1%	13.9%

3. Change from the first-half period ended Sep. 30, 2005 to the first-half period ended Sep. 30, 2006							
	Games (Offline)	Games (Online)	Mobile Phone Content	Publication	Amusement	Others	Eliminations or unallocated
Net Sales	7,149	1,351	688	1,955	38,144	(2,080)	48,080
Operating Expenses	6,226	1,114	492	1,021	38,472	(1,708)	45,144
Operating Income	923	928	195	814	39,672	3,750	5,335
Operating Margin	10.3%	14.6%	8.8%	18.6%	104.0%	75.3%	18.9%

Let me now explain the results by segment.

In the Games (Offline) business, the major difference from the previous first half is the balance between Japan and overseas markets. Although we released major titles in Japan, the number in overseas markets is very different from the previous first half. So I believe that it would probably give you a better idea about the Games (Offline) business if you look at the difference in overseas markets.

Overseas, sales in North America jumped from 3,462 million yen for the previous first half to 10,419 million yen for this first half, thanks to the release of major titles.

In Europe, we switched from a sales license to in-house publishing and both sales and profit benefited. The major factor for the solid results in Europe was the launch of major titles just as the European business began working properly. Absolute profit changes when we make our own sales by switching to in-house publishing. It made us realize anew how important it is to be appropriate in the way we conduct our sales activities.

In Asia, sales for the first half of the current fiscal year were 664 million yen, compared with 1,759 million yen for the previous first half. We closed a joint venture that operated online games in China and made it a 100% subsidiary in the fiscal year ended March 2006. Accompanying this, income from the joint venture in preceding years emerged in the previous first half. Although the figure for the first half of the current fiscal year was not satisfactory, it shows comfortable progress with our current capabilities, and I would say that the results in the previous first half were

rather irregular.

In the Games (Online) segment, the performance is not bad, but we have frankly yet to succeed with our new challenges. In fact, it is a state of scrap and build behind the scenes allied with a process of trial and error.

In terms of business structure, the sale of package software have been accounting for roughly 20 to 30% of segment sales for the last eighteen months or two years, while the operation of online games has comprised 70 to 80%. Profits have been stable. Although a profit margin changes depending on the release timing of package software, an operating income margin has been around 40% with our current capability.

In the Mobile Phone Content segment, operations in Japan are finally standing on firm ground. Prior investments are producing real outcomes, and we look forward to growth going forward. Unfortunately, however, we are still finding our way to profit in overseas operations. Although I have been saying the same thing for the past year, we had yet to achieve results in the first half of the current fiscal year. So, our business in overseas markets was still getting on track in this first half, although the profit margin in this segment is improving, thanks to the better performance in Japan.

The Publication business is very healthy.

In the Amusement segment, all businesses of TAITO, including game centers and commercial game machines, are recorded. Sales in this segment were 38,144 million yen, on a par with the figure previously disclosed as sales of TAITO. However, this segment posted an operating loss of 328 million yen, while TAITO registered operating income of 371 million yen. The major factor in the difference of 700 million yen between the Amusement segment and TAITO is the amortization of goodwill. As I explained earlier, 1,093 million yen will be recorded annually in this segment from the next fiscal year as the amortization of goodwill. We need to make a significant improvement here, as TAITO alone posted a profit of 371 million yen in this first half, but effectively we do not make a loss here.

Finally in the Others segment, sales for the previous first half were fairly large, and a CG-animated film *FINAL FANTASY VII - Advent Children* made a significant contribution both in the previous first half and in this first half. The reason why the profit margin is high in this first half is that sales of overseas editions were recorded. This was also one of the factors in the revision of the business forecast we announced the other day. Since we license the sales in overseas market directly from Japan, production costs are mostly expensed when sales are recorded in Japan. Therefore, when we receive royalties, they directly become profit.

As I mentioned at the start, every business segment is moving ahead at a solid clip. We would be delighted if our ability to successfully launch new initiatives earned recognition.

FY2006 First-Half Period Results – Unit Sales

Title	Release Date	Platform	Forecast Units	Act. Units	Change
DRAGON QUEST: Young Heroes and the Mysterious Dungeon	April 2006	PS2	543	543	0
DRAGON QUEST & FINAL FANTASY in Super Street Fighter	May 2006	PS2	120	120	0
VALKYRIE PROFILE 2: SILVERIA	June 2006	PS2	450	450	0
FINAL FANTASY XI	August 2006	OS	840	840	0
FINAL FANTASY XI	—	PC, PS2, Xbox360	230	230	0
Ultimate mix	—	PS2, Xbox360	440	440	0
Others	—	—	310	310	0
JAPAN			2,900	2,900	0
VALKYRIE PROFILE: LEMNETH	July 2006	PS2	120	120	0
CRISIS OF CERBERUS: FINAL FANTASY mix	August 2006	PS2	240	240	0
Final Fantasy: All-Star Battle	September 2006	PS2	120	120	0
VALKYRIE PROFILE 2: SILVERIA	September 2006	PS2	140	140	0
FINAL FANTASY XI	—	PC, PS2, Xbox360	430	430	0
Others	—	—	390	390	0
Releasing KINGDOM HEARTS 2 overseas in North America	—	—	1,990	1,990	0
North America			6,110	6,110	0
DRAGON QUEST: The Journey of the Curious King	April 2006	PS2	210	210	0
KINGDOM HEARTS 2	September 2006	PS2	540	540	0
FINAL FANTASY XI	—	PC, Xbox360	100	100	0
Others	—	—	100	100	0
South China			1,040	1,040	0
Asia etc.			90	90	0
Total			8,970	8,970	0

The next topic is the actual result of unit sales for the first half of the fiscal year under review.

During a transitional period, we sell not only new titles, but also to a certain extent discounted and remade editions, because we need to generate funds using our back catalog. Some say that creativity will be lost if you rely on your back catalog, but this is not the case for Square Enix at all. Our basic strategy is to create new titles with solid support from our catalogs.

FY2006 First-Half Period Results – Sales by Region

Region	April - September 2005		April - September 2006		Change
	Millions of Yen	%	Millions of Yen	%	
Japan	21,493	79%	60,409	79%	38,916
North America	3,462	13%	10,419	14%	6,957
Europe (PAL)	375	1%	4,468	6%	4,091
Asia, etc.	1,759	7%	964	1%	(1,095)
Total	27,091	100%	75,959	100%	48,868

These figures are overseas sales, as I explained earlier.

These are the results for the first half of the current fiscal year.

2. FY2006* Projections

I would now like to turn to our full-year projections for the fiscal year ending March 2007.

FY2006 Projections – Consolidated

	FY2005		FY2006 projections		Change
	Millions of Yen	%	Millions of Yen	%	
Net Sales	124,473	100%	150,000	100%	25,527
Operating Income	15,470	12%	19,000	13%	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	-	11,400	-	2,981
Capital Expenditure	9,169	-	11,000	-	1,831

We have not changed our initial projections for the full year results.

The reason for this is that Square Enix plans to review its medium and long-term projections when it becomes possible to do so, and TAITO has not made any revision in its projections at this point, as it has to make a number of changes to its business so that it can make a fresh start from the next fiscal year.

FY2006 Projections – Unit Sales

Thousand Units

	Japan	North America	Europe (PAL)	Asia, etc.	Total
FY2006 Projections	5,000	5,400	2,600	50	13,050
%	38%	41%	20%	0%	100%
FY2005	7,860	3,510	820	40	12,230
%	64%	29%	7%	0%	100%
Change	(2,860)	1,890	1,780	10	820

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Unit sales also remain largely unchanged from the initial projection.



I believe that people have different views on the industry in terms of price earnings ratio.

Looking at phenomena such as the expansion of the user segment and the increase in the number of game terminals, I would say that the industry is following an acknowledged course. This is simply that what I have been talking about is rapidly taking place, and so these are not unexpected changes for us. Given that the user segment is expanding, I believe that new game creators will emerge and existing creators will generate new ideas. I expect that these trends will quickly broaden the market base. So I think that it would be more realistic to see the game industry as having plenty of potential markets. I myself think that way in managing the Company.

It will be very important to have a macro perspective of how to look at the industry as a whole, rather than looking at which title will be released when.

At this point, we have made no change in our response to the changing environment I have described. I think that we need to make a change when our take on what is happening in the industry proves wrong or when we become financially unable to act against these changes.

In summary, the key point in today's presentation is that we are currently making steady progress with our operations.