

**SQUARE ENIX**

July 28, 2005

CONSOLIDATED FINANCIAL REPORT
for Three Months Ended June 30, 2005

Company Name: Square Enix Co., L td. Market: Tokyo Stock Exchange, First Section
 Code: 9684 Headquarters: Tokyo
 URL: <http://www.square-enix.com/>
 Representative: Yoichi Wada, President and Representative Director
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1. Notes to Providing the Quarterly Financial Statements

Application of simplified accounting method: N/A
 Change of significant accounting policy since the previous fiscal year: N/A
 Change in scope of consolidation and application of the equity method: N/A

2. Consolidated Financial Report for FY2005 Three Months Ended June 30, 2005**(1) Consolidated Financial Highlights**

(Millions of yen except percentages and per share data)

	Net Sales		Operating Income		Recurring Income		Net Income	
Three Months Ended	%		%		%		%	
June 30, 2005	11,278	(6.3)	372	(89.4)	458	(87.8)	53	(97.1)
June 30, 2004	12,042	47.5	3,510	430.3	3,756	608.8	1,834	1,115.2
Fiscal Year 2004	73,864		26,438		25,901		14,932	

	Earnings Per Share (Basic)	Earnings Per Share (Diluted)
Three Months Ended	Yen	Yen
June 30, 2005	0.48	0.48
June 30, 2004	16.67	16.57
Fiscal Year 2004	135.63	134.46

Note: Percentages in net sales, operating income, recurring income, and net income are the percent change compared with the corresponding three months in the previous fiscal year ended June 30, 2004.

[Notes Regarding the Consolidated Financial Highlights]

The net sales, operating income, recurring income, and net income amounted to ¥11,278 million (down 6.3% from the same quarter of the previous fiscal year), ¥372 million (down 89.4%), ¥458 million (down 87.8%), and ¥53 million (down 97.1%), respectively, for the first quarter (April 1, 2005 – June 30, 2005, the “First Quarter”) results of the Company’s consolidated group. Quarterly results are considerably affected by title release schedule during the period.

As a portal point system has increasingly become important to the Mobile Phone Content segment in the First Quarter, a certain amount of unused points is recognized as unearned revenue to match revenues and cost more appropriately. In addition, an impairment loss on land is recognized. As a result of these factors, an extraordinary loss amounted to ¥517 million.

Games (Offline)

During the First Quarter, offline game titles such as “ROMANCING SAGA Minstrel Song,” “HANJUKU HERO 4 7 Hanjuku Heroes,” and “DRAG ON DRAGOON 2 love red, ambivalence black” were released for the PlayStation2 platform in Japan.

Net sales of this segment totaled ¥4,437 million (up 4.7%), and an operating loss amounted to ¥1,074 million (down 204.4%).

Games (Online)

Two online gaming services, “FRONT MISSION ONLINE” and “EVERQUEST II,” were launched during the First Quarter. As no subscription fees for these services were charged in the midst of a charge-free period, revenues from these services are preceded by operating costs in the First Quarter. Consequently, net sales of this segment totaled ¥2,962 million (down 5.0%), and operating income was ¥1,149 million (down 30.9%).

Mobile Phone Content

The Company plans, develops and provides content such as ring tones, wallpapers, game and portals for mobile phones. Net sales of this segment amounted to ¥1,138 million (up 27.7%), and operating income was ¥396 million (up 67.0%).

Publication

The Company publishes and distributes comic magazines, serial comics and game strategy books. Net sales of this segment totaled ¥1,881 million (down 35.0%), and operating income amounted to ¥445 million (down 62.9%).

Other

Other segment covers the planning, production, distribution and licensing of derivative products of Square Enix titles. Net sales of this segment amounted to ¥859 million (down 4.6%), and operating income was ¥387 million (down 3.7%).

(2) Consolidated Financial Position

(Millions of yen except percentages and per share data)

	Total Assets	Total Shareholders' Equity	Ratio of Shareholders' Equity	Shareholders' Equity Per Share
Three Months Ended			%	Yen
June 30, 2005	116,327	103,701	89.1	936.63
June 30, 2004	108,752	96,730	88.9	878.80
Fiscal Year 2004	131,695	108,933	82.7	988.19

[Consolidated Statement of Cash Flows]

(Millions of yen except percentages and per share data)

	From Operating Activities	From Investing Activities	From Financing Activities	Closing Cash and Cash Equivalents
Three Months Ended				
June 30, 2005	(12,265)	(304)	(4,257)	64,563
June 30, 2004	2,095	1,976	(2,053)	60,796
Fiscal Year 2004	24,873	574	(2,907)	81,243

[Notes Regarding the Consolidated Financial Position]

Cash and cash equivalents at the end of the First Quarter were ¥64,563 million.

The cash flows status and contributing factors are as follows.

Cash flows from operating activities

Loss before income taxes of ¥60 million, increase in content production account, and payment of income taxes resulted in a net use of cash of ¥12,265 million.

Cash flows from investing activities

Primarily due to acquiring property, plant and equipment as well as intangible assets, the total amount of cash flow from investing activities was a net use of cash of ¥304 million.

Cash flows from financing activities

The cash and cash equivalents used in financing activities were ¥4,257 million primarily resulting from dividend payments for the previous fiscal year.

3. FY2005 Forecasts – Consolidated and Non-Consolidated

There is no revision to the Company's consolidated and non-consolidated forecasts.

■ **Attachments**

Quarterly Consolidated Balance Sheet (summarized), Quarterly Consolidated Statements of Income (summarized), Quarterly Consolidated Statements of Cash Flows (summarized), and Segment Information.

A Summary of Consolidated Balance Sheet for Three Months Ended June 30, 2005

(Millions of yen / %)

Account	FY2005 Quarterly Results	FY2004 Quarterly Results	Change		(For Reference)
	(As of June 30, 2005)	(As of June 30, 2004)			Fiscal Year 2004
	Amount	Amount	Amount	Rate	Amount
(Assets)					
I Current assets					
1. Cash and deposits	64,563	60,796	3,767	6.2	81,243
2. Notes and accounts receivable	7,848	7,808	40	0.5	7,670
3. Inventories	1,449	859	589	68.6	1,112
4. Content production account	16,321	12,786	3,535	27.7	15,510
5. Deferred tax assets	3,364	1,686	1,677	99.4	3,440
6. Other current assets	2,146	1,310	836	63.8	1,337
Allowance for doubtful accounts	(252)	(277)	24	(9.0)	(262)
Total current assets	95,442	84,971	10,471	12.3	110,053
II Fixed Assets					
1. Property, plant and equipment	8,588	8,930	(342)	(3.8)	8,918
2. Intangible assets	5,758	7,293	(1,535)	(21.1)	6,096
3. Investments and other asset					
(1) Investment securities	1,109	1,719	(609)	(35.5)	1,295
(2) Long-term loans	7	10	(3)	(33.7)	9
(3) Rental deposits	2,898	2,836	61	2.2	2,863
(4) Deferred tax assets	1,887	2,524	(636)	(25.2)	1,768
(5) Other	634	465	168	36.2	689
Total investments and other assets	6,538	7,557	(1,019)	(13.5)	6,626
Total fixed assets	20,884	23,781	(2,897)	(12.2)	21,641
Total assets	116,327	108,752	7,574	7.0	131,695
(Liabilities)					
I Current liabilities					
1. Notes and accounts payable	2,046	1,619	426	26.3	2,241
2. Other accounts payable	2,151	988	1,163	117.7	1,190
3. Accrued expenses	1,156	920	235	25.6	1,662
4. Accrued income taxes	194	1,803	(1,608)	(89.2)	9,994
5. Advance payments received	809	348	460	132.0	896
6. Deposits received	574	832	(258)	(31.0)	385
7. Reserve for bonuses	763	972	(209)	(21.6)	1,021
8. Allowance for sales returns	1,228	1,463	(234)	(16.1)	1,316
9. Other	1,713	1,294	418	32.3	2,080
Total current liabilities	10,637	10,244	392	3.8	20,790
II Fixed liabilities					
1. Accrued pension cost	1,142	1,023	119	11.7	1,173
2. Other	150	115	35	30.5	139
Total fixed liabilities	1,293	1,138	154	13.6	1,313
Total liabilities	11,930	11,383	547	4.8	22,103
(Minority interests)					
Minority interests in consolidated subsidiaries	694	639	55	8.7	658
(Shareholders' equity)					
I Common stock	7,589	7,217	372	5.2	7,433
II Capital surplus reserve	36,829	36,457	372	1.0	36,673
III Retained earnings	60,103	53,559	6,543	12.2	65,561
Unrealized gain on revaluation					
IV of marketable securities	363	519	(156)	(30.2)	472
Foreign currency translation					
V adjustment	(731)	(734)	3	(0.4)	(807)
VI Treasury stock	(453)	(289)	(163)	56.3	(401)
Total shareholders' equity	103,701	96,730	6,971	7.2	108,933
Total liabilities, minority interests and shareholders' equity	116,327	108,752	7,574	7.0	131,695

A Summary of Consolidated Statements of Income for Three Months Ended June 30, 2005

(Millions of yen / %)

Account	FY2005 Quarterly Results	FY2004 Quarterly Results	Change		(For Reference)
	(As of June 30, 2005)	(As of June 30, 2004)			Fiscal Year 2004
	Amount	Amount	Amount	Rate	Amount
I Net Sales	11,278	12,042	(764)	(6.3)	73,864
II Cost of sales	5,048	3,713	1,335	36.0	25,703
Gross profit	6,230	8,329	(2,099)	(25.2)	48,161
Reversal of allowance for sales returns and price protection	1,316	1,569	(253)	(16.1)	1,569
Provision for allowance for sales return and price protection	1,228	1,463	(234)	(16.1)	1,316
Net gross profit	6,317	8,435	(2,117)	(25.1)	48,414
III Selling, general and administrative expenses	5,945	4,924	1,020	20.7	21,975
Operating income	372	3,510	(3,138)	(89.4)	26,438
IV Non-operating income	85	277	(191)	(69.1)	542
V Non-operating expenses	0	31	(31)	(99.9)	1,080
Recurring income	458	3,756	(3,298)	(87.8)	25,901
VI Extraordinary gain	8	11	(3)	(30.3)	118
VII Extraordinary loss	517	37	480	1268.9	443
Income before income taxes and distribution of loss in partnership (<i>Tokumei-kumiai</i>)	(51)	3,730	(3,782)	(101.4)	25,576
Distribution of loss in partnership	9	2	6	317.4	20
Income before income taxes	(60)	3,728	(3,788)	(101.6)	25,556
Income taxes:	(373)	1,632	(2,005)	(122.9)	11,267
Current deferred	231	213	18	8.7	(760)
Minority interest in consolidated subsidiaries	27	47	(20)	(42.8)	116
Net income	53	1,834	(1,781)	(97.1)	14,932

A Summary of Consolidated Statements of Cash Flows for Three Months Ended June 30, 2005

(Millions of yen / %)

Account	FY2005 Quarterly Results	FY2004 Quarterly Results	(For Reference)
	(As of June 30, 2005)	(As of June 30, 2004)	Fiscal Year 2004
	Amount	Amount	Amount
I Cash flows from operating activities			
Income before income taxes	(60)	3,728	25,556
Depreciation and amortization	403	742	1,814
Decrease (increase) in accounts receivable	(127)	4,283	4,319
Increase (decrease) in inventories	(1,134)	(2,700)	(5,618)
Increase (decrease) in purchase liabilities	(227)	(1,617)	(953)
Increase (decrease) in accrued consumption taxes	(920)	23	614
Income taxes paid	(9,630)	(1,050)	(2,768)
Other	(568)	(1,312)	1,908
Net cash provided by operating activities	(12,265)	2,095	24,873
II Cash flows from investing activities			
Payments for acquiring property, plant and equipment	(189)	(173)	(1,318)
Payments for acquiring intangible assets	(84)	(42)	(362)
Proceeds from sales of investment securities	-	2,000	2,000
Payments for acquisition of shares in affiliates	-	-	(27)
Proceeds from return of guarantee money paid	9	32	104
Payments for provision of guarantee money paid	(44)	(3)	(101)
Other	5	163	280
Net cash provided by investing activities	(304)	1,976	574
III Cash flows from financing activities			
Payments for dividends	(4,515)	(1,997)	(3,300)
Other	257	(55)	392
Net cash provided by financing activities	(4,257)	(2,053)	(2,907)
IV Effect of exchange rate changes on cash and cash equivalents	146	100	27
V Net (decrease) increase in cash and cash equivalents	(16,680)	2,119	22,567
VI Cash and cash equivalents at beginning of period	81,243	58,676	58,676
VII Cash and cash equivalent at period end	64,563	60,796	81,243

Segment Information

1. Consolidated Business Segment Information

FY2004 Quarterly Results (April 1, 2004 to June 30, 2004)

(Millions of yen)

	Games (Offline)	Games (Online)	Mobile Phone Content	Publication	Other	Total	Eliminations or Unallocated	Consolidated Total
Sales and operating income								
Net sales								
(1) Sales to outside customers	4,238	3,118	891	2,894	900	12,042	-	12,042
(2) Intersegment sales	-	-	-	-	-	-	-	-
Total	4,238	3,118	891	2,894	900	12,042	-	12,042
Operating expenses	3,208	1,454	653	1,692	498	7,507	1,024	8,532
Operating income	1,029	1,663	237	1,202	402	4,535	(1,024)	3,510

Notes: 1. The classification of business segments is made according to the types of products and services.

2. Major products offered by each business segment

Segment	Major Products
Games (Offline)	Games
Games (Online)	Online games
Mobile Phone Content	Content for mobile phones
Publication	Magazine comics, serial comics, game-related books
Other	Derivative products such as character merchandise, school for game designers

3. Unallocated operating expenses included in "Eliminations or Unallocated" totaled ¥1,024 million. These expenses are related to administrative departments, such as accounting and general affairs, of the Company, which provide services and operational support that are not allocable to specific business segments.

FY2005 Quarterly Results (April 1, 2005 to June 30, 2005)

(Millions of yen)

	Games (Offline)	Games (Online)	Mobile Phone Content	Publication	Other	Total	Eliminations or Unallocated	Consolidated Total
Sales and operating income								
Net sales								
(1) Sales to outside customers	4,437	2,962	1,138	1,881	859	11,278	-	11,278
(2) Intersegment sales	-	-	-	-	-	-	-	-
Total	4,437	2,962	1,138	1,881	859	11,278	-	11,278
Operating expenses	5,511	1,812	741	1,435	471	9,973	933	10,906
Operating income	(1,074)	1,149	396	445	387	1,305	(933)	372

Notes: 1. The classification of business segments is made according to the types of products and services.

2. Major products offered by each business segment

Segment	Major Products
Games (Offline)	Games
Games (Online)	Online games
Mobile Phone Content	Content for mobile phones
Publication	Magazine comics, serial comics, game-related books
Other	Derivative products such as character merchandise, school for game designers

3. Unallocated operating expenses included in "Eliminations or Unallocated" totaled ¥933 million. These expenses are related to administrative departments, such as accounting and general affairs, of the Company, which provide services and operational support that are not allocable to specific business segments.

2. Consolidated Geographic Segment Information

FY2004 Quarterly Results (April 1, 2004 to June 30, 2004)

(Millions of yen)

	Japan	North America	Europe	Asia	Total	Eliminations or Unallocated	Consolidated Total
Sales and operating income							
Net sales							
(1) Sales to outside customers	9,334	2,399	37	270	12,042	-	12,042
(2) Intersegment sales	685	72	93	-	851	(851)	-
Total	10,019	2,472	131	270	12,894	(851)	12,042
Operating expenses	6,627	2,421	120	213	9,383	(851)	8,532
Operating income (loss)	3,392	50	11	57	3,510	-	3,510

Notes: 1. The classification of geographic segments is made according to geographical distances.

2. Main countries included in each segment:

(1)North America.....the United States of America

(2)Europe.....United Kingdom

(3)Asia.....China

3. There are no unallocated operating expenses included in "Eliminations or Unallocated."

FY2005 Quarterly Results (April 1, 2005 to June 30, 2005)

(Millions of yen)

	Japan	North America	Europe	Asia	Total	Eliminations or Unallocated	Consolidated Total
Sales and operating income							
Net sales							
(1) Sales to outside customers	9,572	1,367	125	214	11,278	-	11,278
(2) Intersegment sales	388	233	46	1	668	(668)	-
Total	9,960	1,600	171	215	11,947	(668)	11,278
Operating expenses	9,422	1,791	147	214	11,574	(668)	10,906
Operating income	537	(190)	24	0	372	-	372

Notes: 1. The classification of geographic segments is made according to geographical distances.

2. Main countries included in each segment:

(1)North America.....the United States of America

(2)Europe.....United Kingdom

(3)Asia.....China

3. There are no unallocated operating expenses included in "Eliminations or Unallocated."