

**SQUARE ENIX**

January 27, 2005

**CONSOLIDATED FINANCIAL REPORT**  
**for Nine Months Ended December 31, 2004**

Company Name: SQUARE ENIX CO., LTD.

Code: 9684

(URL <http://www.square-enix.co.jp/>)

Representative: Yoichi Wada, President and Representative Director

Contact: Yosuke Matsuda, Director and Executive Officer

Market: Tokyo Stock Exchange, First Section

Headquarters: Tokyo

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**1. Notes to Providing the Quarterly Financial Statements**

The simple method for 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 FY2004 Nine Months Ended December 31, 2004****(1) Consolidated Financial Highlights**

(in millions of yen except percentages and per share data)

	Net Sales	Operating Income	Recurring Income	Net Income
Nine Months Ended	%	%	%	%
Dec. 31, 2004	60,931 ( 49.7)	25,859 (159.0)	25,795 (190.2)	13,298 (150.5)
Dec. 31, 2003	40,771 ( - )	9,984 ( - )	8,888 ( - )	5,309 ( - )
Fiscal Year 2003	63,202 ( - )	19,398 ( - )	18,248 ( - )	10,993 ( - )

	Earnings Per Share (basic)	Earnings Per Share (diluted)
Nine Months Ended		
Dec. 31, 2004	120.81	119.78
Dec. 31, 2003		
Fiscal Year 2003	100.04	99.76

Note: 1. Percentages in Net Sales, Operating Income, Recurring Income, and Net Income are the percent change vs. the corresponding nine months in the previous fiscal year ended December 31, 2003.

2. Since the merger of ENIX CORPORATION and SQUARE CO., LTD. took place on April 1, 2003, there are no prior figures for fiscal year 2003 to compare with.

**[ Notes Regarding the Consolidated Financial Highlights ]**

During the nine months (April 1, 2004 – December 31, 2004) results of the Company's consolidated group, in Games (Offline) segment, "DragonQuest VIII –Sora to Umi to Daichi to Norowareshi Himegimi", was released in November 2004 and now is the first PS2 title in Japan achieving over 3 million unit shipment (3,590 thousand units in Japan as of Dec. 31, 2004). In addition, the sales of "Kingdom Hearts Chain of Memories" for GBA (360 thousand units in Japan, and 580 thousand units in North America), "STAR OCEAN ~ Till the End of Time" for PS2 (360 thousand units in North America, and 110 thousand units in Europe), and "DragonQuest & FINAL FANTASY in Itadaki Street Special" (260 thousand units in Japan) have been successful. In other business segments have contributed to the results as well; among others, "FINAL FANTASY XI: Chains of Promathia", an expansion

version of "FINAL FANTASY XI", in Games (Online) segment, operation of portal web sites of "DragonQuest" and "FINAL FANTASY" in Mobile Phone Content segment, and comics and game strategy books in Publication segment.

Consequently, Net Sales totaled ¥60 billion (49.7% up from the corresponding nine months period in the previous fiscal year), Operating Income was ¥25 billion (159.0% up), Recurring Income was ¥25 billion, and Net Income amounted to ¥13 billion.

**(2) Consolidated Financial Position**

(in millions of yen except percentages and per share data)

	Total Assets	Total Shareholders' Equity	Ratio of Shareholders' Equity	Shareholders' Equity Per Share
Nine Months Ended			%	
Dec. 31, 2004	130,326	106,998	82.1	971.81
Dec. 31, 2003	-	-	-	-
Fiscal Year 2003	110,633	96,700	87.4	878.85

**[ Consolidated Statement of Cash Flows ]**

	From Operating Activities	From Investing Activities	From Financing Activities	Closing Cash and Cash Equivalents
Nine Months Ended				
Dec. 31, 2004	15,787	919	(3,091)	72,486
Dec. 31, 2003	-	-	-	-
Fiscal Year 2003	14,139	(10,579)	(6,739)	58,676

**[ Notes Regarding the Consolidated Financial Position ]**

Cash and cash equivalents at the end of this period were ¥72 billion.

The cash flows status and the explanation are as follows.

**Cash Flows from Operating Activities**

In addition to ¥ 25 billion of income before taxes, increase in content production account and accounts receivable, and the income taxes payments resulted in the cash and cash equivalents provided by operating activities to be ¥15 billion.

**Cash Flows from Investing Activities**

Primarily due to proceeds from maturity of government bond and payments for acquiring property, plant and equipment, the cash and cash equivalents provided by investing activities amounted to ¥0.9 billion.

**Cash Flows from Financing Activities**

The cash and cash equivalents used in financing activities were ¥3 billion primarily resulting from dividend payments for the previous fiscal year, and from interim dividend payments for the first six months of this fiscal year.

### 3. FY2004 Forecasts – Consolidated and Non-Consolidated

#### FY 2004 Consolidated Forecasts (April 1, 2004 – March 31, 2005)

(in millions of yen)

	Net Sales	Recurring Income	Net Income
FY2004	73,000	26,500	13,500

(Reference) Earnings per share (basic) forecasts (FY2004) 122.61 yen

#### [ Notes to the Forecasts ]

Due to improved operating performance through nine months ended December 31, 2004, the Company has revised its consolidated forecasts announced on November 18, 2004 from ¥25 billion of Recurring Income to ¥26 billion.

Revision to Non-Consolidated forecasts is as follows.

#### FY 2004 Non-Consolidated Forecasts (April 1, 2004 – March 31, 2005)

(in millions of yen)

	Net Sales	Recurring Income	Net Income
FY2004	63,000	25,000	13,000

(Reference) Earnings per share (basic) forecasts (FY2004) 118.07 yen

Due to improved operating performance through nine months ended December 31, 2004, the Company has revised its non-consolidated forecasts announced on November 18, 2004 from ¥62 billion of Net Sales to ¥63 billion and from ¥23 billion of Recurring Income to ¥25 billion.

The above forecasts are based on information available at the time these material were prepared. A number of indefinite factors are inherent in, and could cause actual results to be materially different from these forecasts.

#### ■ Attachment

A summary of Consolidated Balance Sheet, Consolidated Statements of Income, Consolidated Statements of Cash Flows, and Segment Information.

**A Summary of Consolidated Balance Sheet for Nine Months Ended December 31, 2004**

(Millions of Yen / %)

Account	FY2004 Quarterly Results	FY2003 Quarterly Results	Change		(For Reference)
	(As of Dec. 31, 2004)	(As of Dec. 31, 2003)	Amount	Rate	Fiscal Year 2003
	Amount	Amount	Amount	Rate	Amount
(Assets)					
I Current Assets					
1. Cash and deposits	72,486	-	-	-	58,676
2. Notes and accounts receivable	14,980	-	-	-	12,046
3. Inventories	1,483	-	-	-	809
4. Content production account	15,927	-	-	-	10,128
5. Deferred tax assets	2,024	-	-	-	1,850
6. Other current assets	926	-	-	-	1,157
Allowance for doubtful accounts	(419)	-	-	-	(227)
Total current assets	107,408	-	-	-	84,441
II Fixed Assets					
1. Property, plant and equipment	8,929	-	-	-	9,087
2. Intangible assets	6,342	-	-	-	7,550
3. Investments and other asset					
(1) Investment securities	1,483	-	-	-	3,516
(2) Rental deposits	2,863	-	-	-	2,864
(3) Deferred tax assets	2,579	-	-	-	2,665
(4) Other	718	-	-	-	507
Total investments and other assets	7,645	-	-	-	9,554
Total fixed assets	22,918	-	-	-	26,192
Total assets	130,326	-	-	-	110,633
(Liabilities)					
I Current liabilities					
1. Notes and accounts payable	2,822	-	-	-	3,205
2. Other accounts payable	1,321	-	-	-	1,020
3. Accrued expenses	1,330	-	-	-	1,551
4. Accrued income taxes	11,096	-	-	-	1,313
5. Advanced payments received	552	-	-	-	354
6. Reserve for bonuses	338	-	-	-	1,239
7. Allowance for sales returns	1,309	-	-	-	1,569
8. Other	2,699	-	-	-	1,931
Total current liabilities	21,471	-	-	-	12,185
II Fixed liabilities					
1. Accrued pension cost	1,117	-	-	-	978
2. Other	137	-	-	-	174
Total fixed liabilities	1,254	-	-	-	1,152
Total liabilities	22,725	-	-	-	13,338
(Minority interests)					
Minority interests in consolidated subsidiaries	601	-	-	-	594
(Shareholders' equity)					
I Common stock	7,278	-	-	-	7,154
II Capital surplus reserve	36,518	-	-	-	36,393
III Retained earnings	63,928	-	-	-	53,931
IV Unrealized gain on revaluation of marketable securities	490	-	-	-	363
V Foreign currency translation adjustment	(851)	-	-	-	(898)
VI Treasury stock	(365)	-	-	-	(245)
Total shareholders' equity	106,998	-	-	-	96,700
Total liabilities, minority interests and shareholders' equity	130,326	-	-	-	110,633

**A Summary of Consolidated Statements of Income for Nine Months Ended December 31, 2004**

(Millions of Yen / %)

Account	FY2004 Quarterly Results	FY2003 Quarterly Results	Change		(For Reference)
	(As of Dec. 31, 2004)	(As of Dec. 31, 2003)			Fiscal Year 2003
	Amount	Amount	Amount	Rate	Amount
I Net Sales	60,931	40,711	20,219	49.7	63,202
II Cost of sales	19,156	15,076	4,080	27.1	22,084
Gross profit	41,774	25,634	16,139	63.0	41,117
Reversal of allowance for sales returns and price protection	1,569	1,420	149	10.5	1,420
Provision for allowance for sales return and price protection	1,309	2,194	(885)	(40)	1,569
Net gross profit	42,034	24,860	17,174	69.1	40,968
III Selling, general and administrative expenses	16,175	14,876	1,298	8.7	21,569
Operating income	25,859	9,984	15,875	159.0	19,398
IV Non-operating income	404	307	97	31.5	440
V Non-operating expenses	468	1,403	(934)	(67)	1,590
Recurring income	25,795	8,888	16,906	190.2	18,248
VI Extraordinary gain	7	310	(302)	(97)	300
VII Extraordinary loss	265	314	(48)	(16)	907
Income before income taxes and distribution of loss in partnership (Tokumei-kumiai)	25,537	8,885	16,652	187.4	17,640
Distribution of loss in partnership	19	14	5	34.2	24
Income before income taxes	25,517	8,870	16,647	187.7	17,616
Current taxes	12,372	2,726	9,646	353.8	3,600
Deferred taxes	(192)	654	(846)	(129)	2,962
Minority interest in earnings of consolidated subsidiaries	39	180	(141)	(78)	59
Net income	13,298	5,309	7,989	150.5	10,993

**A Summary of Consolidated Statements of Cash Flows for Nine Months Ended December 31, 2004**

(Millions of Yen / %)

Account	FY2004 Quarterly Results	FY2003 Quarterly Results	(For Reference)
	(As of Dec. 31, 2004)	(As of Dec. 31, 2003)	Fiscal Year 2003
	Amount	Amount	Amount
I Cash flows from operating activities			
Income before income taxes	25,517	-	17,616
Depreciation and amortization	1,314	-	1,974
Decrease (increase) in account receivable	(3,011)	-	4,852
Increase (decrease) in inventories	(6,433)	-	(6,745)
Increase (decrease) in purchase liabilities	(399)	-	(507)
Increase (decrease) in accounts payable	196	-	(2,005)
Increase (decrease) in accrued expenses	(240)	-	160
Increase (decrease) in deposits received	197	-	(26)
Income taxes paid	(2,487)	-	(4,794)
Other	1,132	-	3,613
Net cash provided by operating activities	15,787	-	14,139
II Cash flows from investing activities			
Payments for acquiring property, plant and equipment	(912)	-	(2,709)
Payments for acquiring intangible assets	(176)	-	(416)
Proceeds from sales of investment securities	2,001	-	-
Payments for acquisition of shares in affiliates	(27)	-	(6,461)
Proceeds from sales of shares in affiliates	-	-	423
Proceeds from return of guarantee money paid	75	-	407
Payments for provision of guarantee money paid	(71)	-	(1,843)
Other	29	-	20
Net cash provided by investing activities	919	-	(10,579)
III Cash flows from financing activities			
Payments for dividends	(3,212)	-	(1,955)
Other	121	-	(4,783)
Net cash used in financing activities	(3,091)	-	(6,739)
IV Effect of exchange rate changes on cash and cash equivalents	194	-	(984)
V Net (decrease) increase in cash and cash equivalents	13,809	-	(4,164)
VI Cash and cash equivalent at beginning of year	58,676	-	39,847
VII Increase in cash and cash equivalent due to merger	-	-	22,632
Increase in cash and cash equivalent due to increase in consolidated subsidiaries	-	-	484
IX Decrease in cash and cash equivalent due to decrease in consolidated subsidiaries	-	-	(123)
Cash and cash equivalent at period end	72,486	-	58,676

**Segment Information**

## [Business Segment Information]

Fiscal Year 2004 Nine Months Results (April 1, 2004 – December 31, 2005) (in millions of yen)

	Games (Offline)	Games (Online)	Mobile Phone Content	Publication	Others	Total	Eliminations or unallocated	Consolidated Total
Net Sales	37,407	10,595	3,113	7,698	2,115	60,931	-	60,931
Operating Expenses	17,471	6,150	2,111	5,332	1,503	32,570	2,501	35,071
Operating Income	19,936	4,445	1,001	2,365	612	28,360	(2,501)	25,859

Fiscal Year 2003 Nine Months Results (April 1, 2004 – December 31, 2005) (in millions of yen)

	Games (Offline)	Games (Online)	Mobile Phone Content	Publication	Others	Total	Eliminations or unallocated	Consolidated Total
Net Sales	22,371	7,019	1,898	6,552	2,868	40,711	-	40,711
Operating Expenses	14,844	4,972	1,102	4,444	1,975	27,338	3,388	30,727
Operating Income	7,527	2,046	796	2,108	893	13,372	(3,388)	9,984

## [Geographic Segment Information]

Fiscal Year 2004 Nine Months Results (April 1, 2004 – December 31, 2005) (in millions of yen)

	Japan	North America	Europe	Asia	Total	Eliminations or unallocated	Consolidated Total
Net Sales	53,203	9,588	680	614	64,086	(3,155)	60,931
Operating Expenses	28,988	7,929	701	608	38,226	(3,155)	35,071
Operating Income	24,215	1,659	(21)	5	25,859	-	25,859

Fiscal Year 2003 Nine Months Results (April 1, 2004 – December 31, 2005) (in millions of yen)

	Japan	North America	Europe	Asia	Total	Eliminations or unallocated	Consolidated Total
Net Sales	-	-	-	-	-	-	-
Operating Expenses	-	-	-	-	-	-	-
Operating Income	-	-	-	-	-	-	-