ANNUAL REPORT 2008

SQUARE ENIX

Corporate Philosophy

To spread happiness across the globe by providing unforgettable experiences
This philosophy represents our company's mission and the beliefs for which we stand.

Each of our customers has his or her own definition of happiness.
Square Enix provides high-quality content, services, and products to help those customers create their own wonderful, unforgettable experiences, thereby allowing them to discover a happiness all their own.

Management Guidelines

These guidelines reflect the foundation of principles upon which our corporate philosophy stands, and serve as a standard of value for the Group and its members. We shall strive to achieve our corporate goals while closely considering the following:

1. Professionalism
We shall exhibit a high degree of professionalism, ensuring optimum results in the workplace. We shall display initiative, make continued efforts to further develop our expertise, and remain sincere and steadfast in the pursuit of our goals, while ultimately aspiring to forge a corporate culture disciplined by the pride we hold in our work.

2. Creativity and Innovation
To attain and maintain new standards of value, there are questions we must ask ourselves: Is this creative? Is this innovative?
Mediocre dedication can only result in mediocre achievements. Simply being content with the status quo can only lead to a collapse into oblivion. To prevent this from occurring and to avoid complacency, we must continue asking ourselves the aforementioned questions.

3. Harmony
Everything in the world interacts to form a massive system. Nothing can stand alone.
Everything functions with an inevitable accord to reason. It is vital to gain a proper understanding of the constantly changing tides, and to take advantage of these variations instead of struggling against them. We shall continue to work towards harmony and serve as an integral part of this ever-fluctuating system.

In order to achieve ideal performance levels, we as individuals, shall aim for a mutual respect amongst our coworkers, remain conscious of the duties assigned us, and place an emphasis on teamwork.
As a corporate organization, we shall work diligently to maintain an optimal balance culminating in the ultimate satisfaction of all our stakeholders, including customers, shareholders, counterparties, and employees.
As a business entity, we shall contemplate what functions we are to perform within the realm of industry, while acting in a manner that ensures the mutual harmony and benefit of all parties within it.
Finally, as a member of society, we shall comply with laws and regulation while fulfilling our civic obligations, including community involvement and environmental conservation.

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Disclaimer Regarding Forward-Looking Statements

Statements in this annual report with respect to the current plans, estimates, strategy, and beliefs of SQUARE ENIX CO., LTD., and consolidated subsidiaries [collectively "SQUARE ENIX"] include both historical facts and forward-looking statements concerning the future performance of SQUARE ENIX.

Such information is based on management's assumptions and beliefs in light of the information currently available and, therefore, involve risks and uncertainties. Actual results may differ materially from those anticipated in these statements due to the influence of a number of important factors.

Such factors include but are not limited to: [1] general economic conditions in Japan and foreign countries, in particular levels of consumer spending; [2] fluctuations in exchange rates, in particular the exchange rate of the Japanese yen in relation to the U.S. dollar, the euro and others, which SQUARE ENIX uses extensively in its overseas business; [3] the continuous introduction of new products, and rapid technical innovation in the digital entertainment industry; and [4] SQUARE ENIX's ability to continue developing products and services accepted by consumers in the intensely competitive market, which is heavily influenced by subjective and quickly changing consumer preferences.

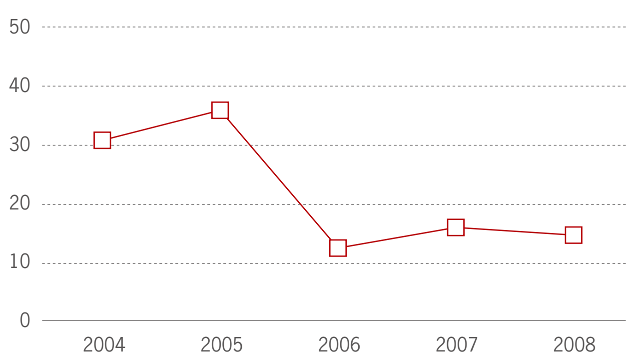
Financial Highlights

SQUARE ENIX CO., LTD. and Consolidated Subsidiaries
Years Ended March 31

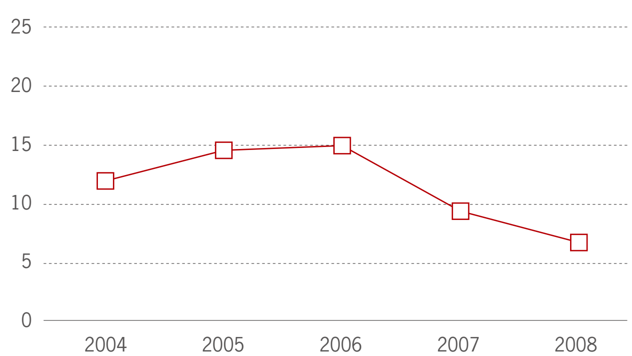
					Millions of Yen	Thousand of U.S. Dollars
	2004	2005	2006	2007	2008	2008
For the Year						
Net sales	¥ 63,202	¥ 73,864	¥ 124,473	¥ 163,472	¥ 147,516	$ 1,472,369
Operating income	19,398	26,438	15,470	25,916	21,520	214,794
Net income	10,993	14,932	17,076	11,619	9,196	91,788
At year-end						
Total assets	¥110,633	¥131,695	¥ 213,348	¥ 215,679	¥ 212,134	$ 2,117,324
Total equity	96,700	108,933	120,993	129,461	147,034	1,467,559
					Yen	U.S. Dollars
Per Share of Common Stock						
Net income	¥ 100.04	¥ 135.63	¥ 154.65	¥ 105.06	¥ 81.85	$ 0.82
Total equity	878.85	988.19	1,094.50	1,168.91	1,280.50	12.78
					%	
Key Ratios						
Operating income margin	30.7%	35.8%	12.4%	15.9%	14.6%	
Return on equity	11.9	14.5	14.9	9.3	6.7	
Equity ratio	87.4	82.7	56.7	60.0	69.3	

Notes: 1. For the convenience of readers, amounts in U.S. dollars have been translated using the currency exchange rates at March 31, 2008 of ¥100.19=US$1.
2. Total equity = Common stock + Capital surplus + Retained earnings + Treasury stock + Valuation and translation adjustments

Operating Income Margin



Return on Equity



Notes: 1. Return on equity = Net income / Average equity
2. Return on equity for fiscal 2004 has been calculated using the simple addition of the former Enix and the former Square's equity as of the end of the previous period.

Network is the Game. Everything plays Games.

Yoichi Wada
President and Representative
Director

To Our Shareholders

I am grateful to our shareholders for the opportunity to present the Company's annual report for the fiscal year ended March 31, 2008.

In the fiscal year under review, on a consolidated basis, net sales declined 9.8% to ¥147,516 million. Operating income decreased 17.0% to ¥21,520 million, and recurring income declined 28.1% to ¥18,864 million. Net income amounted to ¥9,196 million, a 20.9% decrease compared with the previous fiscal year. As a result, the recurring income margin was 12.8%, and return on equity (ROE) stood at 6.7%.

The Company's dividend policy is to maintain an optimal balance between performance-linked payouts and stable returns to shareholders. In line with this policy, we have set dividends for the fiscal year ended March 31, 2008 at ¥30 per share, resulting in a consolidated payout ratio of 36.7%.

We were unable to surpass the recurring income we achieved in the previous fiscal year.

Five years have now passed since the merger that led to the formation of SQUARE ENIX. After reviewing the progress made during this period, we intend to refine and reaffirm our strategies for the future.

Fiscal year ended March 31, 2008: Earnings Remain within Current Range

In April 2003, Square Co., Ltd., and Enix Corporation carried out a merger in order to be better prepared for the coming industry reorganization. Since its formation, the Company has successfully raised recurring income from its previous range of ¥5–¥18 billion to a new range of ¥15–¥27 billion (see Figure 1 on page 05). The synergies created between Square and Enix have acted to bolster the earning potential of the merged Company, and have built a foundation to take us to the next stage of growth.

We have embarked on an array of initiatives to further increase the Company's earning potential to ¥50 billion; however, we were unfortunately not able to make significant headway towards this target in the fiscal year ended March 31, 2008.

Results of the Company's First Five Years: Nearly All Business Segments on a Growth Track

To shape a basic business structure, management should first focus on sales growth, while following with a focus on earnings enhancement. To verify the effectiveness of our growth strategies, it is worthwhile to look at the compound annual growth rate (CAGR) of sales for each business segment. The Games (Offline) segment generated sales of ¥45.7 billion in the fiscal year ended March 31, 2003 (simple total of the corresponding segment sales of the pre-merged companies), while in the fiscal year ended March 31, 2008, the corresponding figure was ¥41.6 billion. With a CAGR of -1.9%, we can see that this segment has fallen back to its starting point. This alludes to issues that must be addressed in both product development and marketing, which I will discuss later. Meanwhile, all of our other business segments have exhibited robust growth over this five-year period. The Games (Online) segment has achieved a 23.8% CAGR, with sales moving from ¥4.2 billion to ¥12.1 billion. The segment has also built a good balance among the three key regions of Japan, North America, and Europe, while exhibiting an extremely strong operating income margin of 48.6% in the fiscal year ended March 31, 2008. In a very short time this segment has become one of our core businesses. At present, the segment's reliance on our flagship massively multiplayer online role-playing game (MMORPG) is considerable; however, we see progress in our nurturing of different types of products and services, including casual online games. We are also starting to experiment with a range of new earnings models, such as per-item-based charging. These developments have enabled continuous growth in the Games (Online) segment.

In the Mobile Phone Content segment, we have expanded sales from ¥1.7 billion to ¥6.6 billion, a CAGR of 31.1%. Not only has the segment grown greatly, but it has achieved a high operating income margin of 26.7% in the fiscal year under review. However, a key issue for the Mobile Phone Content segment is its over-dependence on the Japanese market. In developing overseas markets, we will not rely excessively on independent ventures, but work with strong partners in each region to accelerate business development.

In the Publication segment, sales recorded a CAGR of 11.7%, moving from ¥6.4 billion to ¥11.2 billion over the five-year period. The operating income ratio stood at 32.5% in the fiscal year ended March 31, 2008. This rate of sales growth and profit margin are both exceptional when viewed within Japan's publishing industry.

Our cross-media strategy involving magazines, anime, and comics is producing effective results. However, our unrivaled strength lies in the harmonious teamwork between authors and our editorial staff, as well as our business stance emphasizing early-stage investment in prospective talent and content. Thanks to these strengths, we have produced a constant stream of hit titles each year in this unpredictable business, leading to a very healthy pattern of business development.

The Others segment comprises the sum of our merchandising business and the arcade game machine business of SQUARE ENIX (excluding TAITO). Sales have risen from ¥4.2 billion to ¥9.0 billion over five years, resulting in a CAGR of 16.4%, while exhibiting a robust operating income margin of 36.9% in the fiscal year ended March 31, 2008. The merchandising business has provided steady growth, and we have also made a sound start in the development of overseas businesses, so we anticipate significant progress in the near future. In the fiscal year under review, arcade game machines, including "DRAGON QUEST Monster Battleroad," made a significant contribution to sales. By bringing TAITO into the Group, we have been able to utilize SQUARE ENIX's renowned game development capabilities to bolster the arcade game business, thus reaping valuable synergies.

The Amusement segment is comprised of all the former TAITO Group businesses to date. As TAITO was integrated into the Group in September 2005, it falls outside the calculations covering our business portfolio at the time SQUARE ENIX was formed. Consequently the whole of sales in this segment, ¥69.1 billion in the fiscal year ended March 31, 2008, contribute to growth in sales of the Group. Substantial improvement in profits by the Amusement segment is of particular note. In the fiscal year ended March 31, 2006, the initial year in which TAITO joined the Group, the segment recorded an operating loss of ¥0.7 billion (before amortization of goodwill). However, by the

fiscal year ended March 31, 2007, we had turned this around, achieving an operating income of ¥1.0 billion (ditto). In the fiscal year under review, operating income reached ¥4.4 billion (ditto). Seizing on this momentum, we plan to expand this segment to a level of ¥10 billion.

As can be seen from this summary, over the past five years all businesses outside of Games (Offline) have performed to a respectable level, although there are still a number of outstanding issues to be dealt with. Next, I will take a closer look at the challenges we are facing in the Games (Offline) segment and outline some of the key strategies we have formulated to deal with these issues.

Challenges in the Games (Offline) Business

The game software we create is primarily centered on role-playing games (RPGs), and one of the features of our products is our unrelenting pursuit of the highest possible quality standards. This quality-focused culture is something in which we take great pride, and we intend to maintain this approach. Contrarily, if this focus on quality becomes too extreme, it can turn into a form of stubbornness, which can sometimes lead to situations where an organization becomes unable to respond appropriately to changes in its operating environment. Our track record shows that we have created works of unrivaled quality by specializing in the development of games for the leading game console of the time, thus enabling us to fully capitalize on the capabilities of that particular platform. Furthermore, to efficiently develop major RPG titles, we were the first in the industry to adopt a development system based on functional labor division. However, the success of this approach eventually became the yoke around our necks.

Diversity is the keyword describing the current business environment. First and foremost, we have to deliver our games on multiple platforms and in various languages. Furthermore, we have to cater to consumer tastes that are becoming increasingly diverse. Our previous experience with focusing on a single console has slowed our progress constructing a multi-platform strategy. In addition, our game development system has become too segmented to allow us to maintain a comprehensive view of a project while preserving organization mobility. Such factors have hindered our progress toward development in multiple languages and genre diversification.

In "FINAL FANTASY XI," we have achieved multi-platform, simultaneous worldwide release almost every year for the past four years, proving that there are no significant problems in terms of technical capabilities. As I have explained, the issues are primarily related to culture rather than capabilities. Failure to fully recognize the importance of this problem is something for which I take personal responsibility, and am committed to remedying.

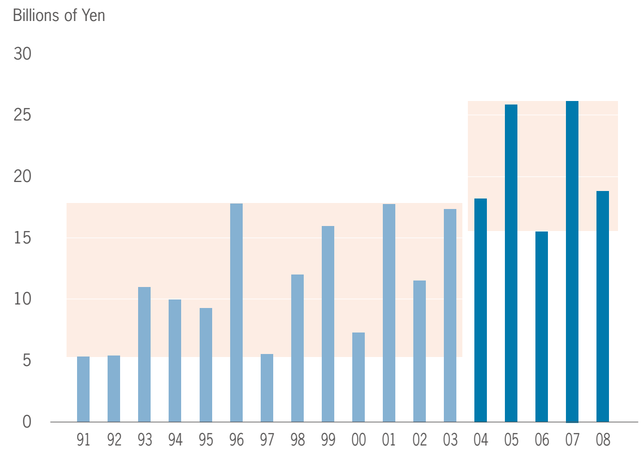
We are substantially revamping our formerly pursued management policy, and from the fiscal year ended March 31, 2008, embarked on a thorough transformation of strategies. Accompanying this was the implementation of the reorganization of several game development lines. This led to losses during the fiscal year under review totaling ¥4.8 billion, comprising a ¥3.0 billion valuation loss within cost of sales and a ¥1.8 billion loss on write-offs of content production accounts within non-operating expenses.

My honest opinion is that this transformation process will continue until the fiscal period ending March 31, 2009, to be fully effective, but I am confident we are making solid progress. I believe we can successfully regain our position as one of the world's preeminent game developers.

There are also issues apart from those related to internal game development. Although we are a publisher, until now we have not sold titles developed by other companies. While we have a strong sales force Japan, our sales and marketing organizations in North America and Europe have not been fully equipped for this task. Consequently, we have not been able to embark on a truly global publishing strategy. Although belated, we have recently completed a reinforcement of our organization, allowing us to begin the publishing of other companies' titles.

(Figure 1)

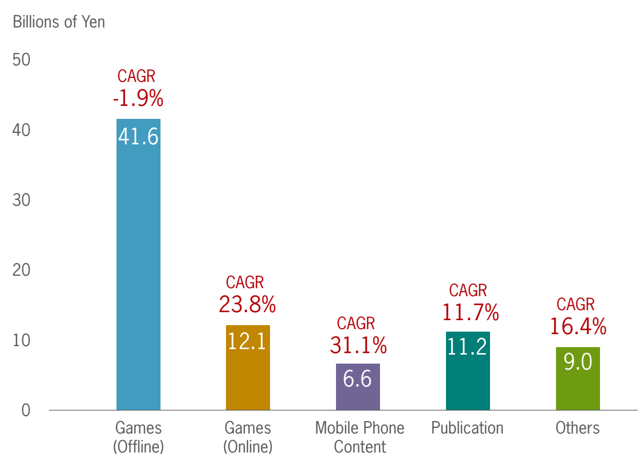
Consolidated Recurring Income



2008 = Fiscal year ended March 31, 2008
Until 2003, figures shown are the simple sum of the two premerger companies' results. For 1991–1993, results for the former Square Co., Ltd., are on a non-consolidated basis. For 1991 and 1996–2001, results for the former Enix Corporation are on a non-consolidated basis.

(Figure 2)

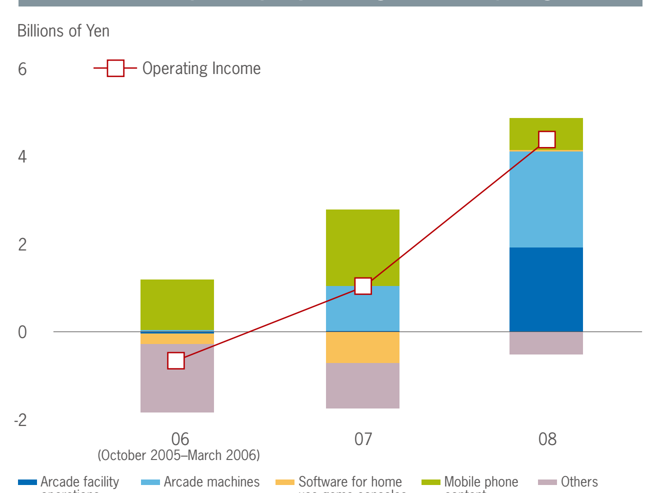
Net Sales by Business Segment and CAGR



Compound Annual Growth Rate (CAGR)= CAGR of net sales over the period from the fiscal year ended March 31, 2003 (the simple sum of premerger companies' results immediately prior to merger) to fiscal year ended March 31, 2008

(Figure 3)

Amusement (TAITO): Operating Income by Segment



TAITO Corporation was made a consolidated subsidiary at the end of September 2005.
Figures shown are prior to deduction of amortization of goodwill. 2008 = Fiscal year ended March 31, 2008

Despite there being no particularly high barriers to entry, we have no track record in this field. However, I view this as an opportunity to enhance the performance of the entire Company, and fully believe we are capable and seasoned enough to successfully launch this venture.

With regard to game development projects with external studios, we have heretofore only pursued this strategy within Japan. Hereafter, we intend to add game development functions to our North American and European operations, and aggressively commission overseas development projects where deemed appropriate.

Evolutional Stages of the Video Game Industry

In my view, evolution of the video game industry can be perceived as moving through three distinct stages, and I believe that execution of the optimal business strategy at each stage is the core task for management.

Stage I: The era of hardware manufacturers

(Industry Conception to the early-2000s)

The appearance of game consoles led to the birth of a completely new form of entertainment—video games. At the time, since there was no general-purpose hardware with interactive graphics capabilities available for consumers, video games could only be played on specialized game consoles. Video game console makers produced and marketed consoles, while also developing and selling their own software. To enhance network externalities, console makers also sourced game software from third-party developers, with a large proportion of these third-party games being fed through the console maker's own distribution network. Hence it would be fair to call this industry ecosystem based on a completely vertically integrated business model "the video game console industry."

Since hardware during this phase was not yet able to satisfy user expectations, enhancing console functional capabilities was the number one priority. All console makers worked vigorously to bolster the processing capacity of their game consoles, while failing to adopt differentiation strategies such as the incorporation of unique attributes. This is illustrated by the fact that competition among console makers often focused on central processing unit (CPU) performance, such as was displayed in the "32-bit war," and it is my view that competition during that phase was unidirectional. The vertically integrated business model inevitably resulted in a winner-take-all scenario in the console market where competitive parameters remained very limited.

Consequently, for third-party game software developers, the most efficient strategy was to supply software only for the most successful console manufacturer and to depend on the manufacturer for marketing and all other operations beyond game development. The main strategic choice for game software developers was whether to adopt a high risk–high return strategy by completely relying on the dominant console maker, or alternatively, a moderate risk–moderate return strategy by retaining room for discretion.

The former Square excessively adapted to the prevailing environment. A corporate culture resistant to changes was created by a lack of self-awareness of the fact that its success was built on an extremely rare set of market circumstances and depended on a very unusual strategy. This is the ultimate reason why the reforms we are currently working on are taking a long period to implement.

Stage II: The era of publishers

(Mid-2000s to early-2010s)

Around 2000, the popularity of video games spread through most of the world and the following trends emerged:

- Variation in the timing of product permeation as well as varying regional trends at the time games became popular led to the formation of diverse user preferences among these regions. These can be thought of as "geological layers" within the game world.
- Since hardware performance capabilities in most consoles had generally reached the level expected by users, makers could finally focus on differentiation strategies related to other product attributes.
- Games could now be enjoyed on platforms other than specialized game consoles, including generic PCs and mobile phones.
- Since a broad array of devices became network capable, a completely vertically integrated business model based on hardware alone began to lose its viability.

The era dominated by hardware manufacturers was already drawing to a close as the environment that gave rise to a dominant console platform no longer prevailed. In the meantime, however, the game-playing population continued to expand briskly, and computer games became recognized globally as an important entertainment genre. This marked the beginning of the "video game industry" as it is perceived today.

Software developers were no longer able to rely on the ecosystem provided by a single platform manufacturer. Survival now depended on the software developer's own ability to exert influence on markets stretching around the globe.

From a game development perspective, to reach the largest audience possible, creating games in a multi-platform, multi-lingual format is now an essential element for competing in this era. From a marketing perspective, software developers need to build their own robust global distribution network.

I have already covered how we lagged in the first half of this era, as well as how we recovered lost ground. However, we are now entering the second half of this stage of the industry's development.

At this point, we must not only successfully make the transformation outlined above, but also execute a strategy in which network factors are given even more importance. Fortunately, at present within the game industry a clear verdict has yet to emerge. In this light, we see this juncture a valuable opportunity for SQUARE ENIX.

Stage III: The era of media and content market convergence

(From the mid-2010s)

In this era, the media and content industries will converge, dissolving the boundaries between such industries as movies, music, and games, as well as making the borders between countries obsolete. Right now, in addition to maximizing current earnings by adapting to the environment of Stage II, we must strive to fully prepare for Stage III of the industry's development.

Competition in Stage III will not be limited to the Video Game Industry

I see three material change drivers leading the industry towards Stage III. The first of these is the evolution of telecommunication technology. It is now becoming feasible to sustain the transfer of large volumes of data at speeds and scales that were previously unattainable. This means that digital content is no longer tied to physical media, and that the boundaries separating various types of content—primarily owing to physical differences between media and distribution channels—are disappearing.

The second change driver is the evolution of hardware. High-performance, multi-functional devices make it possible to process any type of content on any digital format.

The third driver is the emergence of a "network culture." The first two drivers help free content from physical limitations, while the third driver fuses content through communication and cooperation among users. Communities will emerge through the unifying force of user preferences alone, rather than content categories utilized in the past.

We do not yet clearly know what kind of industry ecosystem will emerge in this new era. What is clear though, is that massive-scale competition will affect the entire media and content industries. In such a scenario, our competitors will cease to be limited to other video game companies. If we are complacent, we may end up at the bottom rung of the industry providing only a very limited number of functions.

To become a major player in such an era, it will be vital to achieve at least top-five status within the video game industry. I also believe the following capabilities will be essential.

The first essential capability is internally-developed intellectual property. If markets converge, even if a company holds rights in a particular medium there is no way to respond to the new market paradigm. Second, it will be essential to build direct links with customer communities. No matter what kind of era emerges, there will be enduring value in customer communities united by customer preferences. Third, the Company must develop new types of human resources. In the new era, relationships will not be built in accordance with the old hierarchical structure but with a new network-oriented structure.

It is extremely difficult to maintain continuous growth of a business enterprise through changes of the times.

While working to maintain and enhance current earnings, we must not delay these preparations for the next stage of the industry's development. To maximize revenues and profits, it is necessary to design the overall organization of the Company. However, there is always the chance that this design may not work in the next era. Changing times can be said to resemble phase transitions in physics. Until we reach the critical point, we do not notice the changes. However, during this time, change is steadily taking place, and then one day, all of a sudden, everything changes completely.

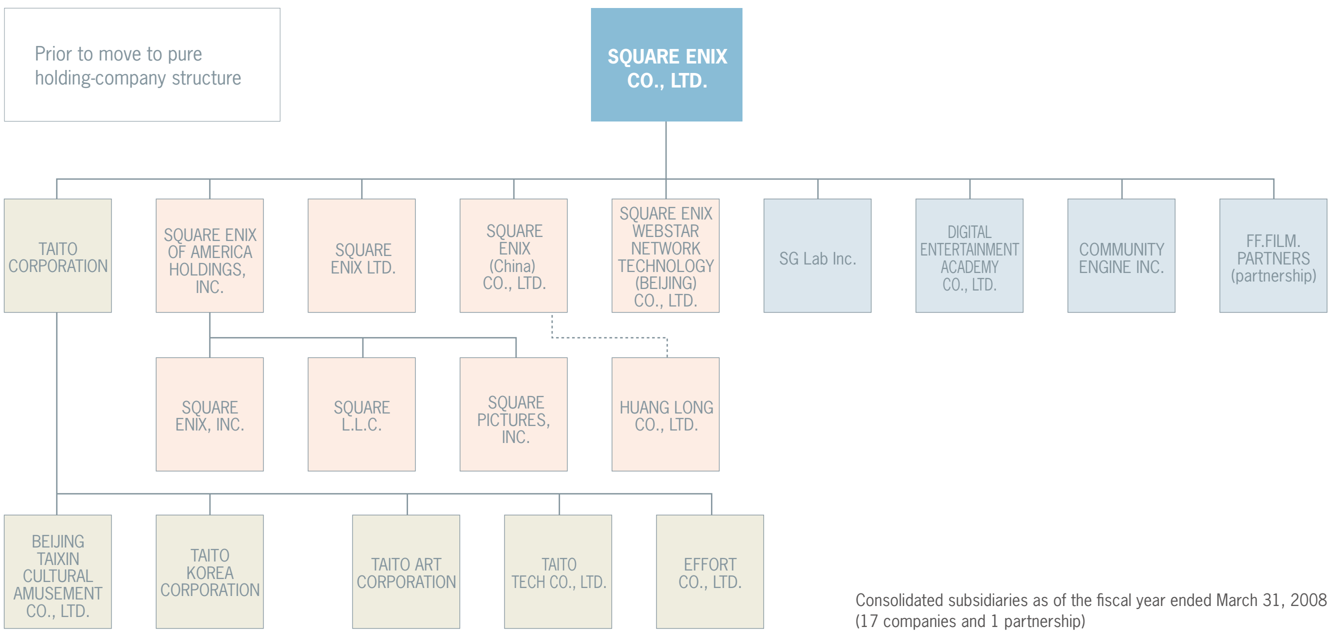
I believe that continuous growth is the key mission for management.

We are absolutely committed to achieving our long-term missions. In these endeavors, I look forward to your ongoing support.

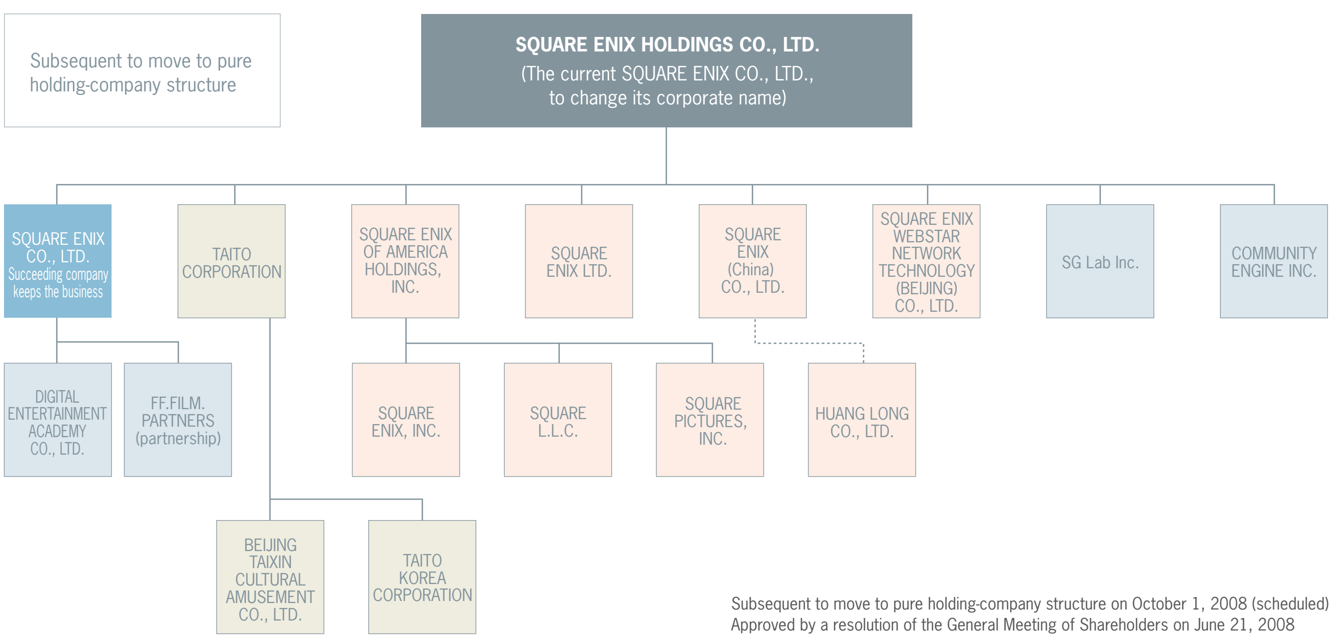
July 2008

Yoichi Wada
President and Representative Director
SQUARE ENIX CO., LTD.

Holding Company System Implementation



Consolidated subsidiaries as of the fiscal year ended March 31, 2008
(17 companies and 1 partnership)



Subsequent to move to pure holding-company structure on October 1, 2008 (scheduled)
Approved by a resolution of the General Meeting of Shareholders on June 21, 2008

General Overview

The Group's operations are classified into six business segments—Games (Offline), Games (Online), Mobile Phone Content, Amusement, Publication and Others. In each business segment, the Group strives to reinforce its business base and enhance its earnings potential. The Group has been pursuing research and development (R&D) in core technology areas, with particular emphasis on network-related businesses, and aims to apply network technologies to its products and services.

In fiscal 2007, ended March 31, 2008, on a consolidated basis, net sales declined 9.8%, to ¥147,516 million. Operating income decreased 17.0%, to ¥21,520 million, and recurring income declined 28.1%, to ¥18,864 million. Net income amounted to ¥9,196 million, a 20.9% decrease compared with the previous fiscal year.

Overview by Business Segment

Games (Offline)

The Company plans, develops and distributes games for game consoles (including handheld game machines) and personal computers (PCs). The Company also handles localization of games developed and distributed in Japan, which are distributed overseas principally by two wholly owned subsidiaries of the Company. In North America, distribution is handled by SQUARE ENIX, INC., and in Europe and other regions that use the PAL video format, through SQUARE ENIX LTD.

During the fiscal year under review, the Company released a number of titles for Nintendo DS, including "DRAGON QUEST IV" (1.15 million units in Japan as of March 31, 2008; hereafter references to units sold are as of that date), "FINAL FANTASY IV" (590 thousand units in Japan), "FINAL FANTASY XII: REVENANT WINGS" (540 thousand units in Japan, 220 thousand units in North America and 280 thousand units in Europe), "Itadaki Street DS" (430 thousand units in Japan), "FINAL FANTASY CRYSTAL CHRONICLES: Ring of Fates" (380 thousand units in Japan, 160 thousand units in North America and 150 thousand units in Europe) and "FINAL FANTASY III" (480 thousand units in Europe). The Company also released "CRISIS CORE—FINAL FANTASY VII—" (800 thousand units in Japan and 450 thousand units in North America) for PlayStation Portable ("PSP") and "DRAGON QUEST SWORDS: The Masked Queen and the Tower of Mirrors" (490 thousand units in Japan and 110 thousand units in North America) for Wii.

Business Segment Information (Fiscal year ended March 31, 2008) (Millions of yen)

	Games (Offline)	Games (Online)	Mobile Phone Content	Publication	Amusement	Others	Elimination or Unallocated	Consolidated Total
Net sales	41,588	12,098	6,579	11,158	69,104	9,005	(2,017)	147,516
Operating income	8,882	5,880	1,758	3,626	3,129	3,324	(5,082)	21,520
Operating income margin	21.4%	48.6%	26.7%	32.5%	4.5%	36.9%	—	14.6%

As a result, sales in the Games (Offline) segment totaled ¥41,588 million, a decrease of 19.0% compared with the previous fiscal year, and operating income amounted to ¥8,882 million, a decline of 45.7%.

Games (Online)

The Company plans, develops, distributes and operates network-compliant online games. The Company operates "FINAL FANTASY XI" ("FFXI"), a massive multi-player online role-playing game (MMORPG) with approximately 500,000 paying subscribers, and released a new expansion pack "FINAL FANTASY XI: WINGS OF THE GODDESS" in November 2007 in Japan, North America and Europe.

Sales in the Games (Online) segment totaled ¥12,098 million, a decrease of 11.4% compared with the previous fiscal year, and operating income amounted to ¥5,880 million, a decline of 13.1%.

Mobile Phone Content

The Company plans, develops and provides content for mobile phones, and provides a wide range of mobile content services, including ringtones, wallpapers, games and portals. Led by such portal services as "DRAGON QUEST" and "FINAL FANTASY," the service lineup leverages the Company's strength in original content.

Sales in the Mobile Phone Content segment totaled ¥6,579 million, a decrease of 15.3% compared with the previous fiscal year, and operating income amounted to ¥1,758 million, a decline of 41.6%.

Consolidated Sales by Geographic Segment (Fiscal year ended March 31, 2008) (Millions of yen)

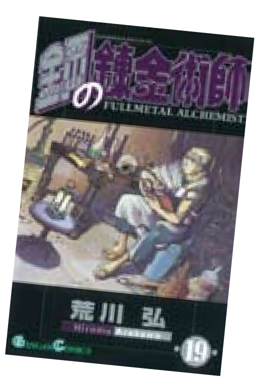
	Japan	North America	Europe	Asia	Total
Consolidated net sales	125,144	13,358	7,896	1,118	147,516
Percentage of share	84.8%	9.1%	5.4%	0.8%	100.0%

Publication

The Company publishes comic magazines, comic books and game-related books, including game strategy books.

In the fiscal year under review, the Company published the monthly magazines “SHONEN GANGAN,” “G Fantasy,” “GANGAN WING” and weekly magazine “YOUNG GANGAN,” as well as comic collections taken from regular magazine serials and various game strategy guide books.

Sales in the Publication segment totaled ¥11,158 million, a decline of 0.4% compared with the previous fiscal year, and operating income amounted to ¥3,626 million, an increase of 0.6%.



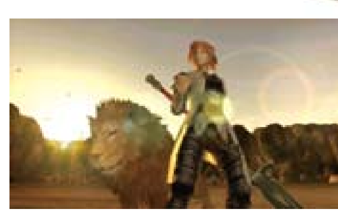
Amusement

This segment comprises all businesses of the TAITO Group, along with amortization of goodwill relating to the consolidation of the TAITO Group.

In the fiscal year under review, this segment achieved a significant recovery in profitability, driven by a range of earnings enhancement measures implemented during the previous fiscal year. An increase in revenues from its core arcade facility operations—at existing arcade facilities—also contributed to the performance turnaround.

As a result, sales in the Amusement segment amounted to ¥69,104 million, a decrease of 8.7% compared with the previous fiscal year, and operating income totaled ¥3,129 million. The Amusement segment recorded an operating loss of ¥351 million in the previous fiscal year.

悠久の車輪 Eternal Wheel



Others

The Others segment includes the planning, production, distribution and licensing of derivative products related to SQUARE ENIX titles, and the operation of a school for game engineers.

In the fiscal year under review, the successful launch in July 2007 of a kids card-game machine, “DRAGON QUEST Monster Battleroad,” contributed significantly to segment earnings.

As a result, sales in the Others segment amounted to ¥9,005 million, an increase of 126.4% compared with the previous fiscal year, and operating income totaled ¥3,324 million, an increase of 153.4%.

1. Basic Stance on Corporate Governance

The Company has adopted the corporate auditor system for its corporate governance. To strengthen monitoring functions and ensure the maintenance of sound management, at least half of the corporate auditors are drawn from outside the Company. Furthermore, in accordance with the objective standards provided under the Company's internal decision-making authority rules, the Board of Directors, which sets management policy, is clearly separated from the decision-making bodies responsible for the execution of operations. This system aims to enhance the efficiency and balance of management decision-making and operational execution.

2. Status of Implementation of Corporate Governance Policies

(1) Management control structure and other corporate governance systems relating to management decision-making, execution of operations and audit functions

The Board of Directors comprises five directors, including one outside director. The Company has four corporate auditors, all of whom are drawn from outside the Company. There is one standing corporate auditor. The directors are appointed for a term of one year, the same as for companies adopting the committee system.

The Auditing Division reports directly to the president as an autonomous internal unit currently comprising two members. The Auditing Division performs regular monitoring and evaluation of internal control systems, including those of Group companies, taking into account the relative importance and risk inherent in each part of the organization, and provides reports and recommendations to the president. The Auditing Division's functions are carried out while sharing information with the Board of Auditors and the independent audit firm.

To ensure a rigorous compliance system, the Company clearly specifies the importance of compliance in its management guidelines and The Square Enix Group Code of Conduct. The Company has established the Internal Control Committee and an internal compliance reporting (whistleblower) system, through which Companywide compliance measures are integrated laterally across organizational reporting lines. With regard to the management and operation of the Company's information systems, which form the foundation of efficient operational functions, the Company has established the Information System Management Committee to oversee information systems on a companywide basis.

In principle, the Board of Directors convenes monthly, and each of the directors, including one outside director, engages in vigorous discussion and exchange of opinions aimed at enhancing their mutual oversight functions.

In principle, the Board of Auditors convenes monthly, and conducts accounting and operational audits based on the audit plan. The corporate auditors attend meetings of the Board of Directors to audit the execution of duties of the directors.

With regard to the use of independent outside professionals, the Company consults with several outside legal counsels as necessary on significant transactions and legal matters. The Company retains Ernst & Young ShinNihon as its statutory audit firm under the Companies Act and the Financial Instruments and Exchange Law to perform independent third-party accounting audits. The Company fully cooperates with the statutory audit firm to ensure smooth performance of their duties.

The following certified public accountants (CPAs) conducted audits of the Company during fiscal 2007.

• CPAs performing audits:
Partners: Koichiro Watanabe, Kenichi Shibata, Tatsuya Yokouchi
• Personnel providing audit assistance:
8 CPAs and 15 assistant CPAs

Remuneration to directors and corporate auditors
Remuneration paid to directors totaled ¥243 million, of which ¥7 million was paid to the outside director.

Remuneration paid to corporate auditors totaled ¥30 million, of which ¥30 million was paid to outside auditors.

Compensation to independent audit firm
Compensation paid to Ernst & Young ShinNihon for contracted services prescribed under Article 2, Paragraph 1, of the Certified Public Accountants Law amounted to ¥57 million.

(2) Personal, financial business or other relationships constituting conflicts of interest between the Company and its outside director or outside corporate auditors

There are no such relationships to be specified.

(3) Basic policy on the establishment of internal control systems

The Board of Directors has passed a resolution establishing the Company's Basic Policy on Building an Internal Control System. The Company is building such systems to ensure auditing and supervisory functions are strictly maintained and to confirm that all business activities comply with all relevant laws and regulations and the Company's Articles of Incorporation, as well as to enhance the efficiency of the directors' exercise of duties.

(4) Overview of liability limitation agreements

The Company has liability limitation agreements in place with its outside director and outside corporate auditors in accordance with Article 427, Paragraph 1, of the Companies Act to limit liabilities provided under Article 423, Paragraph 1, of the Companies Act. These agreements limit the liability of the outside director and each outside corporate auditor to ¥10 million or the legally specified amount, whichever is greater, on condition that the director or corporate auditors have performed their duties in good faith and without gross negligence.

(5) Prescribed number of directors

The Company's Articles of Incorporation stipulate that the number of directors shall not exceed 12.

(6) Resolution requirements for the election of directors

The Company's Articles of Incorporation stipulate that resolutions for the election of directors shall be made by the majority of votes of shareholders exercising their voting rights at the General Meeting of Shareholders where shareholders in attendance hold one-third or more of outstanding voting rights.

(7) Bodies able to determine dividends paid from retained earnings

The Company's Articles of Incorporation stipulate that matters provided under Article 459, Paragraph 1, of the Companies Act may be determined by the Board of Directors unless legally stipulated otherwise. The objective of this provision is to expand the range of options enabling flexible execution of capital policies.

(8) Exemption from liability of directors and corporate auditors

Pursuant to Article 426, Paragraph 1, of the Companies Act, the Company's Articles of Incorporation stipulate that a director (including former directors) may be exempted from liability for actions related to Article 423, Paragraph 1, of the Companies Act, up to the limit provided by law, through a resolution passed by the Board of Directors. This provision aims to ensure the maintenance of an environment in which directors may exercise their duties to the maximum of their abilities and are able to fulfill the roles expected of them.

(9) Matters requiring special resolutions at the General Meeting of Shareholders

The Company's Articles of Incorporation stipulate that the special resolutions provided under Article 309, Paragraph 2, of the Companies Act may be passed by a majority of two-thirds or more of the votes of shareholders present at the General Meeting of Shareholders where shareholders in attendance hold one-third or more of outstanding voting rights. The objective of this relaxation of special resolution requirements is to ensure the smooth proceedings of the General Meeting of Shareholders.

Directors, Auditors and Executive Officers

(As of March 31, 2008)

Board of Directors

President and
Representative Director
Yoichi Wada

Executive Vice President
and Representative Director
Keiji Honda

Director
Yosuke Matsuda

Director
Yukinobu Chida

Director *1
Makoto Naruke

Corporate Auditors

Standing Auditor *2
Ryoichi Kobayashi

Auditor *2
Tamotsu Iba

Auditor *2
Norikazu Yahagi

Auditor *2
Ryuji Matsuda

*1: Outside Director
*2: Outside Auditor

Corporate Executives/ Executive Producers

Yoichi Wada
Keiji Honda
Yosuke Matsuda
Akitoshi Kawazu
Yoshinori Kitase
Yosuke Saito
Michihiro Sasaki
Koji Taguchi
Hiromichi Tanaka
Toshiro Tsuchida
Tatsuo Tomiyama
Ken Narita
Shinji Hashimoto
Yoichi Haraguchi
Masashi Hiramatsu
Yu Miyake
Akihide Miyawaki
Koji Yamashita
John Yamamoto

Honorary Chairman

Yasuhiro Fukushima

Financial Section

CONTENTS

SQUARE ENIX CO., LTD. assumes full responsibility for the accompanying consolidated financial statements prepared in conformity with accounting principles generally accepted in Japan, which are the English translation of the consolidated financial statements submitted to the Director of the Kanto Finance Bureau in Japan (*yukashoken hokokusyo*).

The following statements are based on management's view of SQUARE ENIX CO., LTD. (the "Company") as of June 30, 2008 and have not been audited. The following management discussion and analysis also contains forward-looking statements concerning the future performance of the Company. Please read the disclaimer regarding forward-looking statements at the beginning of this annual report.

1. Significant Accounting Policies and Estimates

The consolidated financial statements of the SQUARE ENIX Group (the "Group") are prepared in accordance with generally accepted accounting principles in Japan (JPNGAAP). In preparing the consolidated financial statements, management chooses and applies accounting policies, and makes estimates that affect the disclosure of amounts in assets, liabilities, income and expenses. Management formulated these estimates based on historical performance and certain other factors. However, actual results may differ materially from these estimates due to uncertainties inherent in the estimates.

Important accounting policies used in the preparation of the Group's consolidated financial statements are contained in the section titled "Summary of Significant Accounting Policies Used in the Preparation of Consolidated Financial Statements," which begins from page 28 of this report. In particular, judgments used in making estimates in the preparation of the consolidated financial statements are affected by accounting policies.

(1) Revenue Recognition

Sales revenue of the Group is recognized when products are ordinarily shipped or services are provided, while royalty revenue is recognized based on receipt of a statement from the licensee. In certain cases, the recognition of sales is determined based on contracts entered into with suppliers and product type.

(2) Provision for Doubtful Accounts

The Group provides a provision for doubtful accounts based on estimated irrecoverable amounts to prepare for bad debt losses on accounts receivable. In the event that the financial condition of a supplier deteriorates and its solvency declines, the Group may provide additional amounts to the provision for doubtful accounts or record bad debt losses.

(3) Content Production Account

When the Group determines that the difference between actual costs and market value of the content production account based on expected future demand and market conditions have reached a certain level, the Group recognizes a write-down of the content production account. If future demand and market conditions are worse than management's forecasts, there is the possibility that further write-downs will become necessary.

(4) Unrealized Losses on Investments

The Group owns shares in certain financial institutions and companies with which it sells or purchases goods. These shareholdings include stock in listed companies subject to price fluctuation risk in the stock market and stock in privately held companies for which share prices are difficult to calculate. In the event that the fair market value of these shares as of the end of the fiscal year declines no less than 50% of their acquisition cost, the entire amount is treated as an impairment loss. In addition, in the event of a 30% to 50% decline, an amount determined as necessary considering the importance and potential for recovery of the shares is treated as an impairment loss. During fiscal 2007, the Company recorded a loss on revaluation of investment securities amounting to ¥55 million. Worsening market conditions or unstable performance at the invested companies may require the recording of revaluation losses in the event that losses are not reflected in current book value, or, the book value becomes irrecoverable.

(5) Deferred Tax Assets

The Group records a valuation allowance to provide for amounts of deferred tax assets thought likely to decrease. In evaluating the necessity of a valuation allowance, the Company examines future taxable income and possible tax planning for deferred tax assets with a high likelihood of realization. If the Company determines that all or a portion of net deferred tax assets cannot be realized in the future, the Company writes down such deferred tax assets during the fiscal year in which the determination is made. If the Company determines that deferred tax assets in excess of the recorded amount can be realized in the future, the Company recognizes deferred tax assets to the recoverable amount and increases profits by the same amount during the period in which the determination is made.

2. Analysis of Financial Policy, Capital Resources and Liquidity

The Group internally finances working capital and capital investments, and utilizes the issuance of corporate bonds. The Company has issued yen-denominated zero-coupon bonds with warrants which mature in 2010. As of March 31, 2008, the Group's balance of interest-bearing debt was ¥26 million. The net assets ratio stood at 69.3%. Cash and cash equivalents at end of year totaled ¥111,479 million, an increase of ¥11,631 million compared with the previous fiscal year end.

The Group believes that it will be possible to procure the funds required for working capital and capital investments in the future to maintain growth based on its sound financial standing and ability to generate cash through operating activities.

3. Analysis of Business Performance in Fiscal 2007 (Ended March 31, 2008)

Assets

Total Assets

Millions of yen

March 31	2007	2008	Change
	¥215,679	¥212,134	¥(3,544)

Total assets as of March 31, 2008 amounted to ¥212,134 million, a decrease of ¥3,544 million compared with the previous fiscal year end. The main factors contributing to this change were as follows:

Cash and Deposits

Millions of yen

March 31	2007	2008	Change
	¥99,852	¥111,515	¥11,663

Cash flows in fiscal 2007, as well as the principal factors behind these cash flows, are described below.

(1) Net cash provided by operating activities

Net cash provided by operating activities amounted to ¥23,655 million. In addition to income before income taxes and minority interests of ¥16,681 million, there was a decrease in allowance for doubtful accounts, a decrease in accounts receivable and a decrease in accounts payable.

(2) Net cash used in investing activities

Net cash used in investing activities totaled ¥5,805 million. The main item within this was payments for acquiring property and equipment of ¥6,597 million.

(3) Net cash used in financing activities

Net cash used in financing activities amounted to ¥3,404 million. The largest item within this was payments for dividends of ¥3,882 million.

Notes and Accounts Receivable

Millions of yen

March 31	2007	2008	Change
	¥21,206	¥17,738	¥(3,468)

The year end balance of notes and accounts receivable varies greatly depending on the timing of new game title releases. Notes and accounts receivable at year end were ¥17,738 million, a decrease of ¥3,468 million compared with the previous year end.

Content Production Account

Millions of yen

March 31	2007	2008	Change
	¥11,903	¥14,793	¥2,890

As a rule, content development costs incurred during the period from a title's formal development authorization through to its release are capitalized in the content production account. When the title is released, this amount is then recorded as an expense.

The content production account is reevaluated based on the current business environment. In the event that a title development project is canceled as a result of such reevaluation, the Company may write-off capitalized development costs for the canceled title in the content production account as an extraordinary loss. Costs incurred during the pre-production phase—the phase before development is formally approved—are posted as selling, general and administrative (SG&A) expenses as they are incurred.

As of March 31, 2008, the content production account totaled ¥14,793 million, an increase of ¥2,890 million compared with the end of the prior fiscal year.

Deferred Tax Assets

Millions of yen

March 31	2007	2008	Change
Current	¥5,634	¥4,158	¥(1,476)
Non-current	4,939	852	(4,087)

In September 2005, the Company acquired 93.7% of the common shares of TAITO CORPORATION via a takeover bid. Subsequently, TAITO CORPORATION was merged with SQEX, Inc., a wholly-owned subsidiary of the Company, resulting in TAITO CORPORATION becoming part of a wholly-owned subsidiary of the Company.

The temporary tax differences associated with the takeover of TAITO CORPORATION were recognized as a tax effect that the Company is expected to recover in the future, and the expected amount to be recovered was recorded as a deferred tax asset.

Current deferred tax assets as of March 31, 2008, amounted to ¥4,158 million, a decrease of ¥1,476 million, and non-current tax assets totaled ¥852 million, a decrease of ¥4,087 million.

Property and Equipment

Millions of yen

March 31	2007	2008	Change
	¥25,664	¥19,939	¥(5,725)

Net property and equipment decreased ¥5,725 million to ¥19,939 million, primarily owing to a decrease in amusement equipment from ¥10,798 million to ¥5,906 million. This was mainly due to a changeover to leasing contracts when introducing new amusement equipment.

Intangible Assets

March 31	2007	2008	Change
			Millions of yen
	¥21,657	¥20,024	¥(1,633)

Total intangible assets decreased ¥1,633 million to ¥20,024 million, primarily owing to amortization of goodwill. In the fiscal year under review, ¥1,230 million in goodwill amortization was recorded as SG&A expenses and ¥136 million in goodwill amortization was posted as an extraordinary loss.

As of March 31, 2008, the balance of goodwill remaining within intangible assets was ¥18,883 million.

Investments and Other Assets

March 31	2007	2008	Change
			Millions of yen
	¥21,748	¥16,440	¥(5,308)

Total investments and other assets decreased ¥5,308 million to ¥16,440 million. Significant items within this included a ¥4,087 million decrease in deferred tax assets and a decrease in rental deposits from ¥14,198 million to ¥13,235 million, mainly owing to the closure of unprofitable amusement facilities in the Amusement business.

Owing to the Group's withdrawal from the pachinko-slot machine-related business in the Amusement business, claims in bankruptcy decreased from ¥5,065 million to ¥327 million and allowance for doubtful accounts decreased from ¥5,515 million to ¥948 million.

Liabilities

Total Liabilities

March 31	2007	2008	Change
			Millions of yen
	¥85,040	¥63,940	¥(21,099)

As of March 31, 2008, total liabilities amounted to ¥63,940 million, a decrease of ¥21,099 million compared with the previous fiscal year end. The main factors contributing to this change were as follows.

Current Liabilities

March 31	2007	2008	Change
			Millions of yen
	¥32,404	¥23,082	¥(9,321)

Total current liabilities decreased ¥9,321 million to ¥23,082 million. Major changes within this included a decrease in other accounts payable from ¥4,773 million to ¥3,912 million, a decrease in accrued expenses from ¥3,379 million to ¥1,859 million and a decrease in allowance for sales returns from ¥2,271 million to ¥1,135 million. In addition, reflecting financial adjustments made in the previous fiscal period relating to the closure of unprofitable amusement facilities, allowance for store closings decreased from ¥2,973 million to ¥226 million.

Non-Current Liabilities

March 31	2007	2008	Change
			Millions of yen
	¥52,635	¥40,858	¥(11,777)

Total non-current liabilities decreased ¥11,777 million to ¥40,858 million. Of the yen-denominated bonds with warrants issued by the Company maturing in 2010, ¥13,000 million were exercised, leaving ¥37,000 million as non-current liabilities as of March 31, 2008. Since these bonds with warrants are zero-coupon bonds, no interest expense has been incurred.

Shareholders' Equity/Net Assets

March 31	2007	2008	Change
			Millions of yen
Common stock	¥ 8,038	¥ 14,928	¥ 6,890
Capital surplus	37,279	44,169	6,890
Retained earnings	84,315	90,295	5,979
Treasury stock	(540)	(841)	(300)
Total shareholders' equity	129,092	148,552	19,459
Unrealized gain on revaluation of other investment securities	(8)	(12)	(4)
Foreign currency translation adjustments	377	(1,504)	(1,881)
Total valuation and translation adjustments	368	(1,517)	(1,886)
Stock acquisition rights	—	81	81
Minority interests in consolidated subsidiaries	1,178	1,077	(100)
Total net assets	¥130,639	¥148,193	¥17,554

As of March 31, 2008, total shareholders' equity amounted to ¥148,552 million, an increase of ¥19,459 million compared with the previous fiscal year end. Common stock and capital surplus increased owing to the exercise of yen-denominated bonds with warrants, maturing in 2010, of ¥13,000 million, and the exercise of stock options (stock acquisition rights).

Consolidated Statements of Income

Net Sales and Operating Income

Millions of yen

Years ended March 31	2007	Composition	2008	Composition	Amount change	Percent change
Net sales	¥163,472	100.0%	¥147,516	100.0%	¥(15,955)	(9.8)%
Gross profit	76,210	46.6	66,314	45.0	(9,895)	(13.0)
Reversal of allowance for sales returns	1,186	0.8	2,271	1.5	1,084	91.4
Provision for allowance for sales returns	2,271	1.4	1,135	0.8	(1,135)	(50.0)
Net gross profit	75,125	46.0	67,450	45.7	(7,675)	(10.2)
Selling, general and administrative expenses	49,209	30.1	45,929	31.1	(3,279)	(6.7)
Operating income	25,916	15.9	21,520	14.6	(4,396)	(17.0)

Comparisons by segment with the preceding fiscal year are provided in the section describing operating performance on pages 8–11.

Non-Operating Income and Expenses

Millions of yen

Years ended March 31	2007	2008	Change
Non-operating income	¥1,176	¥1,367	¥ 190
Non-operating expenses	852	4,023	3,171

Non-operating income increased ¥190 million to ¥1,367 million, mainly owing to an increase in interest income.

Non-operating expenses increased ¥3,171 million to ¥4,023 million, primarily owing to a foreign exchange loss of ¥1,858 million and a loss on write-off of content production account of ¥1,799 million.

Extraordinary Gain and Loss

Millions of yen

Years ended March 31	2007	2008	Change
Extraordinary gain	¥ 3,778	¥1,439	¥(2,339)
Extraordinary loss	11,629	3,618	(8,011)

Extraordinary gain amounted to ¥1,439 million, primarily owing to a reversal of allowance for closing of game arcades of ¥1,098 million. In the previous fiscal year, disposal of the commercial karaoke business generated a gain on divestiture of a business amounting to ¥2,697 million.

Extraordinary loss totaled ¥3,618 million. Significant items within this included loss on disposal and write-downs of assets associated with business restructuring of ¥1,302 million and loss on disposal of property and equipment of ¥950 million. In the previous fiscal year, extraordinary loss totaled ¥11,629 million, mainly owing to the restructuring of the Amusement business.

Capital Expenditures and Depreciation

Millions of yen

Years ended March 31	2007	2008	Change
Capital expenditures	¥11,360	¥6,952	¥(4,408)
Depreciation and amortization	11,115	9,933	(1,182)

Capital expenditures for fiscal 2007 amounted to ¥6,952 million, a decrease of ¥4,408 million compared with the previous fiscal year. This was mainly owing to a changeover to leasing contracts for new amusement equipment.

Overseas Sales

Geographic segment sales are dependent on game title development by the Company in Japan. As a result, overseas sales fluctuate depending on the timing of overseas game title releases.

North America

Millions of yen

Years ended March 31	2007	2008	Change
	¥23,801	¥13,358	¥(10,443)

The Group primarily is engaged in the Games (Offline) and Games (Online) businesses in North America. In the Games (Offline) business in this region, sales of game content developed by the Company are handled primarily by SQUARE ENIX, INC., a wholly-owned subsidiary of the Company. In the Games (Online) business in this region, the Group provides online game services and sells software discs for online games.

In the fiscal year under review, sales in North America totaled ¥13,358 million, a decrease of ¥10,443 million, which was mainly attributable to the absence of any major game title releases during the period.

Europe

Millions of yen

Years ended March 31	2007	2008	Change
	¥12,271	¥7,896	¥(4,375)

The Group primarily is engaged in the Games (Offline) and Games (Online) businesses in Europe. In the Games (Offline) business in this region, sales of game content developed by the Company are handled primarily by SQUARE ENIX LTD., a wholly-owned subsidiary of the Company. In the Games (Online) business in this region, the

Group provides online game services and sells software discs for online games.

In the fiscal year under review, sales in Europe amounted to ¥7,896 million, a decrease of ¥4,375 million, which was mainly attributable to the absence of any major game title releases during the period.

Asia

Years ended March 31	2007	2008	Change
			Millions of yen
	¥1,551	¥1,118	¥(433)

In Asia, the Group primarily is engaged in the Games (Online) and Amusement businesses. In the Games (Online) business, the Group primarily operates online game services for the PC platform in China. In this business in fiscal 2007, the Group commenced a restructuring of operations in response to changes in the market environment. The Group will continue to pursue business opportunities in China based on a flexible approach, including tie-ups with local companies.

In the Amusement business, the Group operates game arcade facilities in South Korea and China.

Sales in Asia in fiscal 2007 decreased ¥433 million to ¥1,118 million.

4. Strategic Outlook, Issues Facing Management and Future Direction

Management's key task is to ensure growth in the Group in the medium- and long-term, maintaining profitability through the creation of advanced, high-quality content and services. As the development and popularization of information technology (IT) and network environments rapidly advance, we anticipate a major transformation in the structure of the digital entertainment industry. We believe that this will be driven by such factors as increased consumer needs in the area of network-compliant entertainment and growing access to a diverse range of content by users of devices that provide multiple functions.

The Group will strive to respond to these changes, and has adopted a medium- to long-term management strategy that focuses on pioneering a new era in digital entertainment.

The Group's operating targets for the fiscal year ending March 31, 2009 are as follows (as of May 23, 2008).

Millions of yen

Years ended/ ending March 31	2004 results	2005 results	2006 results	2007 results	2008 results	2009 targets
Net sales	¥63,202	¥73,864	¥124,473	¥163,472	¥147,516	¥160,000
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
Net income	10,993	14,932	17,076	11,619	9,196	12,000

Owing to the consolidation of TAITO at the end of September 2005, TAITO's operating results are reflected in the Company's consolidated statements of income effective October 2005. Following this merger, we have set an operating income ratio target of at least 20% and a target for annual average growth in net income per share (EPS) of at least 10%. These are our two main numerical targets.

5. Dividend Policy

The Group recognizes the return of profits to shareholders as one of its most important management tasks. The Company maintains internal reserves to enable priority to be given to investments that will enhance the value of the Group. Such investments may include capital investments and M&A for the purpose of expanding existing businesses and developing new businesses. The retention of internal reserves is done while also taking into account return to shareholders, operating performance and the optimal balance for stable dividends. Accordingly, the Company strives to maintain stable and continuous dividends. The portion of dividends linked to operating results is determined by setting a consolidated payout ratio target of approximately 30%.

The Company's basic policy is to pay dividends from retained earnings twice a year, through an interim dividend and a year end dividend. The year end dividend is determined at the Annual General Meeting of Shareholders, and the interim dividend is determined by the Board of Directors.

For fiscal 2007, total dividends applicable to the year were ¥30 per share, comprising an interim dividend of ¥10 per share and a year end dividend of ¥20 per share. The consolidated payout ratio for fiscal 2007 was 36.7%.

	Millions of yen	Yen
Date of resolution	Total dividends	Dividends per share
November 19, 2007 Resolution of the Board of Directors	¥1,115	¥10
June 21, 2008 Resolution of the Annual General Meeting of Shareholders	2,296	20

6. Risk Factors

The risks described below are those that could affect the Company's business performance. Forward-looking statements in this management discussion and analysis are in accordance with management's judgments as of June 30, 2008.

(1) Changes in the Economic Environment

In the event of an exceptionally harsh downturn in the economy causing consumer expenditure to fall, demand for the Group's products and services in the entertainment field may decline. Such circumstances may lead to an adverse impact on the Group's business performance.

(2) Changes in Consumer Preferences in the Digital Content Market and the Group's Ability to Respond to the Rapid Progress of Innovative Technology

It is probable that the drastic changes stated in "4. Strategic Outlook, Issues Facing Management and Future Direction" may adversely affect the Group's business performance if the Group is unable to respond adequately and promptly to these changes.

(3) Changes in Game Platforms and the Group's Response

The Group's core business predominantly involves the sale of software for use on home-use video game consoles. Consequently, the Group's business may be subject to the impact of transition to next-generation console platforms and changes in console manufacturers' strategies.

(4) Securing Human Resources to Execute the Group's Growth Strategies Concentrating on the Creation of New Content

The Group has been making rapid progress in expanding its business operations. Delays in securing human resources may adversely affect the Group's business performance.

(5) Expansion in the Group's International Business Operations

In the Games (Offline), Games (Online) and Mobile Phone Content business segments, the Group is pursuing an expansion of its international business operations. A variety of factors present in the countries and regions in which the Group operates may affect the Group's business performance. Such factors include market trends, the political situation, the economic climate, laws and regulations, cultural factors, religious factors, customs and other factors.

(6) Exchange Rate Fluctuations

The Group includes consolidated subsidiaries located in North America, Europe and Asia. The risk of foreign exchange loss has been reduced as foreign currency gained by subsidiaries is expended for settlement or reinvestment in the applicable countries. However, sales, expenses, assets, liabilities and net assets of the overseas subsidiaries are converted into Japanese yen amounts in the consolidated financial statements. Consequently, exchange rates may affect the Group's financial results if they fluctuate beyond management is forecasts.

(7) Entertainment Industry Laws

The operation of game centers is subject to government control under the Law for Proper Control of Entertainment and Amusement Businesses and other related laws and regulations. These laws and regulations include an approval and licensing system for the opening and operation of amusement centers, regulations on business hours (ordinances vary, but operation is generally prohibited from midnight to 10 a.m.), age restrictions (ordinances vary, but the admittance of persons under 16 years of age after 6 p.m. and persons under 18 years of age after 10 p.m. is generally prohibited), area restrictions on outlet opening, and regulations concerning facility structures, interiors, lighting and noise. While complying with the laws and regulations, the Group has actively pursued the establishment of new amusement centers. However, if regulations were to change owing to the establishment of new laws or other reasons, the Group's business performance may be affected.

(8) Management of Personal Information

In conjunction with the enactment of the Personal Information Protection Law, the Group has bolstered employee training with the aim of increasing awareness about the handling of personal information. The Group has also improved the timeliness of its personal information management systems and identified all personal information obtained by the Group. The Group has undertaken a full range of measures to strengthen its internal control systems, including ongoing improvements to technology controlling access to its customer database and to its data security systems, restrictions on personnel permitted to access information and establishment of a system to deal with customer inquiries regarding personal information. To date, no leakage of personal information has occurred from the Group. The Group intends to maintain its stringent management systems for personal information by reviewing current systems and enhancing employee training. However, if a leak of personal information were to occur from the Group, the Group's business performance may be affected.

(9) Accidents and Disasters

The Group periodically carries out accident prevention checks, facility checks and emergency drills to minimize accidents and the impacts of disasters, including earthquakes, typhoons and flood damage, fires, electrical blackouts, computer system or server malfunctions, terrorist attacks, infectious diseases, food poisoning and other accidents. However, in the event of accidents or disasters, it may not be possible to avoid or alleviate all adverse impacts. If a major earthquake or disaster occurs, which could impede the continuation of business, the Group's business performance may be affected.

(10) Litigation

The Group is being managed strictly in compliance with laws and regulations and with full respect for third parties' rights while carrying out its operations. However, in the course of its business activities in Japan and abroad, the risk of the Group becoming a defendant in litigation cannot be discounted. If such litigation were to occur, the Group's business performance may be affected.

Consolidated Balance Sheets (JPNGAAP)

SQUARE ENIX CO., LTD. and Consolidated Subsidiaries
As of March 31

		Millions of yen	
		2008	2007
Assets			
I	Current assets		
	1. Cash and deposits	¥111,515	¥ 99,852
	2. Notes and accounts receivable*3	17,738	21,206
	3. Inventories	4,268	4,188
	4. Content production account	14,793	11,903
	5. Deferred tax assets	4,158	5,634
	6. Other	3,642	4,656
	Allowance for doubtful accounts	(385)	(832)
	Total current assets	155,730	146,608
II	Non-current assets		
	1. Property and equipment		
	(1) Buildings and structures	17,024	17,316
	Accumulated depreciation	11,641	11,354
		5,382	5,962
	(2) Tools and fixtures	11,357	11,365
	Accumulated depreciation	8,124	7,963
		3,233	3,401
	(3) Amusement equipment	31,393	41,577
	Accumulated depreciation	25,486	30,778
		5,906	10,798
	(4) Other	19	24
	Accumulated depreciation	15	19
		3	5
	(5) Land	5,404	5,404
	(6) Construction in progress	8	91
	Net property and equipment	19,939	25,664
	2. Intangible assets		
	(1) Goodwill	18,883	20,276
	(2) Other	1,140	1,381
	Total intangible assets	20,024	21,657
	3. Investments and other assets		
	(1) Investment securities	656	455
	(2) Long-term loans	171	176
	(3) Rental deposits	13,235	14,198
	(4) Construction cooperation fund	1,524	1,886
	(5) Claims in bankruptcy	327	5,065
	(6) Deferred tax assets	852	4,939
	(7) Other*1	621	541
	Allowance for doubtful accounts	(948)	(5,515)
	Total investments and other assets	16,440	21,748
	Total non-current assets	56,404	69,071
	Total assets	¥212,134	¥215,679

The accompanying notes are an integral part of these statements.

	2008	2007
Liabilities		
I Current liabilities		
1. Notes and accounts payable	¥ 10,704	¥ 13,275
2. Short-term loans	26	—
3. Other accounts payable	3,912	4,773
4. Accrued expenses	1,859	3,379
5. Accrued corporate taxes	763	994
6. Accrued consumption taxes	699	895
7. Advance payments received	1,145	1,188
8. Deposits received	551	490
9. Reserve for bonuses	1,802	1,872
10. Allowance for sales returns	1,135	2,271
11. Allowance for closing of game arcades	226	2,973
12. Other	257	289
Total current liabilities	23,082	32,404
II Non-current liabilities		
1. Corporate bonds	37,000	50,000
2. Allowance for employees' retirement benefits	1,528	2,169
3. Allowance for directors' retirement benefits	215	262
4. Allowance for closing of game arcades	796	—
5. Other	1,318	204
Total non-current liabilities	40,858	52,635
Total liabilities	63,940	85,040
Net assets		
I Shareholders' equity		
1. Common stock	¥ 14,928	¥ 8,038
2. Capital surplus	44,169	37,279
3. Retained earnings	90,295	84,315
4. Treasury stock	(841)	(540)
Total shareholders' equity	148,552	129,092
II Valuation and translation adjustments		
1. Unrealized gain on revaluation of other investment securities	(12)	(8)
2. Foreign currency translation adjustments	(1,504)	377
Total valuation and translation adjustments	(1,517)	368
III Stock acquisition rights	81	—
IV Minority interests in consolidated subsidiaries	1,077	1,178
Total net assets	148,193	130,639
Total liabilities and net assets	¥212,134	¥215,679

Millions of yen

The accompanying notes are an integral part of these statements.

Consolidated Statements of Income (JPNGAAP)

SQUARE ENIX CO., LTD. and Consolidated Subsidiaries

Years ended March 31

Millions of yen

		2008	2007
I	Net sales	¥147,516	¥163,472
II	Cost of sales	81,201	87,262
	Gross profit	66,314	76,210
	Reversal of allowance for sales returns	2,271	1,186
	Provision of allowance for sales returns	1,135	2,271
	Net gross profit	67,450	75,125
III	Selling, general and administrative expenses	45,929	49,209
	1. Packaging freight charges	2,421	2,493
	2. Advertising expenses	5,892	6,331
	3. Sales promotion expenses	642	1,060
	4. Provision for doubtful accounts	8	—
	5. Compensation for directors	567	682
	6. Salaries	15,889	15,482
	7. Provision of reserve for bonuses	1,403	2,237
	8. Net periodic pension cost	36	446
	9. Provision of reserve for directors' retirement benefits	47	42
	10. Welfare expenses	2,024	2,046
	11. Rental expenses	2,483	2,325
	12. Commissions paid	3,209	3,357
	13. Depreciation and amortization	1,463	1,464
	14. Other*[1]	9,839	11,238
	Operating income	21,520	25,916
IV	Non-operating income	1,367	1,176
	1. Interest income	959	467
	2. Dividends received	2	3
	3. Foreign exchange gain	—	147
	4. Rental income	70	69
	5. Facilities installation assistance fund fees	52	51
	6. Investment profit on equity method	23	29
	7. Miscellaneous income	258	407
V	Non-operating expenses	4,023	852
	1. Interest expense	0	2
	2. Foreign exchange loss	1,858	—
	3. Loss on disposal of inventories	119	119
	4. Loss on write-offs of content production account	1,799	—
	5. Loss on inventory revaluation	170	281
	6. Stock issuance expenses	—	31
	7. Loss on write-off of advance license payment	—	244
	8. Miscellaneous loss	75	172
	Recurring income	18,864	26,241
VI	Extraordinary gain	1,439	3,778
	1. Gain on sale of investment securities	64	410
	2. Gain on divestiture of a business	47	2,697
	3. Reversal of allowance for doubtful accounts	204	2
	4. Reversal of allowance for retirement benefits	—	465
	5. Reversal of allowance for closing of game arcades	1,098	—
	6. Other	24	203
VII	Extraordinary loss	3,618	11,629
	1. Loss on sale of property and equipment*[2]	145	17
	2. Loss on disposal of property and equipment*[3]	950	1,085
	3. Impairment loss*[5]	9	368
	4. Loss on write-offs of bad debts	170	—
	5. Loss on revaluation of investment securities*[4]	55	194
	6. Loss on disposal and write-downs of assets associated with business restructuring*[6]	1,302	2,275
	7. Severance payments associated with business restructuring	45	925
	8. Accelerated amortization of goodwill	136	1,831
	9. Provision of allowance for doubtful accounts	452	2,086
	10. Provision of allowance for closing of game arcades	54	2,784
	11. Legal settlement payment	156	—
	12. Other	140	60
	Income before income taxes and minority interests and distribution of loss in a partnership (*tokumei-kumiai*)	16,685	18,390
	Distribution of loss in a partnership (*tokumei-kumiai*)	4	16
	Income before income taxes and minority interests	16,681	18,374
	Corporate, inhabitants' and enterprise taxes	1,865	2,915
	Refunded income taxes	(424)	(127)
	Deferred income taxes	6,116	3,941
	Minority interests in consolidated subsidiaries	(73)	24
	Net income	¥ 9,196	¥ 11,619

The accompanying notes are an integral part of these statements.

Consolidated Statements of Changes in Net Assets (JPNGAAP)

SQUARE ENIX CO., LTD. and Consolidated Subsidiaries

Years ended March 31

Millions of yen

	Shareholders' equity					Valuation and translation adjustments					
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity	Unrealized gain on revaluation of other investment securities	Foreign currency translation adjustments	Total valuation and translation adjustments	Stock acquisition rights	Minority interests in consolidated subsidiaries	Total net assets
Balance as of March 31, 2007	¥ 8,038	¥37,279	¥84,315	¥(540)	¥129,092	¥ (8)	¥ 377	¥ 368	¥—	¥1,178	¥130,639
Changes during the year											
Exercise of warrants attached to bonds	6,499	6,499	—	—	12,999	—	—	—	—	—	12,999
New stock issuances	390	390	—	—	780	—	—	—	—	—	780
Dividends from retained earnings	—	—	(3,884)	—	(3,884)	—	—	—	—	—	(3,884)
Net income	—	—	9,196	—	9,196	—	—	—	—	—	9,196
Disposition of treasury stock	—	0	—	1	1	—	—	—	—	—	1
Acquisition of treasury stock	—	—	—	(301)	(301)	—	—	—	—	—	(301)
Change due to increase in consolidation	—	—	(63)	—	(63)	—	—	—	—	—	(63)
Increase in retained earnings due to exclusion of subsidiaries from the scope of consolidation	—	—	731	—	731	—	—	—	—	—	731
Net changes in items other than shareholders' equity	—	—	—	—	—	(4)	(1,881)	(1,886)	81	(100)	(1,905)
Total changes during the year	6,890	6,890	5,979	(300)	19,459	(4)	(1,881)	(1,886)	81	(100)	17,554
Balance as of March 31, 2008	¥14,928	¥44,169	¥90,295	¥(841)	¥148,552	¥ (12)	¥(1,504)	¥(1,517)	¥81	¥1,077	¥148,193

The accompanying notes are an integral part of these statements.

Millions of yen

	Shareholders' equity					Valuation and translation adjustments				
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity	Unrealized gain on revaluation of other investment securities	Foreign currency translation adjustments	Total valuation and translation adjustments	Minority interests in consolidated subsidiaries	Total net assets
Balance as of March 31, 2006	¥7,803	¥37,044	¥76,022	¥(506)	¥120,364	¥531	¥ 97	¥628	¥1,120	¥122,114
Changes during the year										
New stock issuances	234	234	—	—	469	—	—	—	—	469
Year end dividends from retained earnings	—	—	(2,210)	—	(2,210)	—	—	—	—	(2,210)
Interim dividends from retained earnings	—	—	(1,105)	—	(1,105)	—	—	—	—	(1,105)
Net income	—	—	11,619	—	11,619	—	—	—	—	11,619
Disposition of treasury stock	—	(0)	—	2	2	—	—	—	—	2
Acquisition of treasury stock	—	—	—	(37)	(37)	—	—	—	—	(37)
Change due to increase in consolidation	—	—	(10)	—	(10)	—	—	—	—	(10)
Net changes in items other than shareholders' equity	—	—	—	—	—	(540)	280	(260)	57	(202)
Total changes during the year	234	234	8,293	(34)	8,727	(540)	280	(260)	57	8,525
Balance as of March 31, 2007	¥8,038	¥37,279	¥84,315	¥(540)	¥129,092	¥ (8)	¥377	¥368	¥1,178	¥130,639

The accompanying notes are an integral part of these statements.

Consolidated Statements of Cash Flows (JPNGAAP)

SQUARE ENIX CO., LTD. and Consolidated Subsidiaries

Years ended March 31

		Millions of yen	
		2008	2007
I	Cash flows from operating activities		
	Income before income taxes and minority interests	¥ 16,681	¥ 18,374
	Depreciation and amortization	9,933	11,115
	Impairment loss	9	368
	(Decrease) increase in allowance for doubtful accounts	(4,949)	734
	Decrease in reserve for bonuses	(69)	(775)
	(Decrease) increase in allowance for sales returns	(1,136)	1,077
	Decrease in allowance for employees' retirement benefits	(640)	(832)
	(Decrease) increase in allowance for directors' retirement benefits	(46)	72
	(Decrease) increase in allowance for closing of game arcades and other allowances	(1,795)	2,773
	Interest and dividends received	(962)	(470)
	Interest expense	0	2
	Foreign exchange loss (gain)	1,670	(76)
	Gain on sale of investment securities	(64)	(410)
	Loss on revaluation of investment securities	55	194
	Loss on disposal of property and equipment	950	1,085
	Loss on sale of property and equipment	145	17
	Gain on divestiture of a business	(47)	(2,697)
	Amortization of goodwill	1,230	1,386
	Accelerated amortization of goodwill	136	1,831
	Loss on disposal of assets associated with business restructuring	789	—
	Other loss	—	693
	Decrease in accounts receivable	2,940	11,090
	Increase in inventories	(2,365)	(2,780)
	(Decrease) increase in accounts payable	(3,095)	1,671
	Decrease in accrued consumption taxes	(249)	(320)
	(Increase) decrease in other current assets	(206)	800
	Decrease (increase) in other non-current assets	4,827	(158)
	Decrease in other current liabilities	(1,809)	(5,432)
	Other	1,416	243
	Subtotal	23,345	39,577
	Interest and dividends received	974	487
	Interest paid	(0)	(5)
	Income taxes paid	(663)	(7,249)
	Net cash provided by operating activities	¥ 23,655	¥ 32,809

The accompanying notes are an integral part of these statements.

		2008	2007
			Millions of yen
II	Cash flows from investing activities		
	Investments in time deposits	¥ (62)	¥ —
	Proceeds from time deposits	31	—
	Payments for acquiring short-term securities	(4,014)	—
	Proceeds from sale of short-term securities	4,014	—
	Payments for acquiring investment securities	(347)	—
	Proceeds from sale of investment securities	155	443
	Payments for acquiring property and equipment	(6,597)	(10,733)
	Proceeds from sale of property and equipment	59	—
	Payments for acquiring intangible assets	(259)	(413)
	Proceeds from sale of intangible assets	0	—
	Payments for acquisition of shares in subsidiaries and affiliated companies	(90)	(63)
	Proceeds from sale of shares in subsidiaries and an affiliated company	113	—
	Proceeds from divestiture of a business	47	4,514
	Proceeds from return of guarantee money deposited	1,903	1,113
	Payments for provision of guarantee money	(591)	(398)
	Other	(168)	(134)
	Net cash used in investing activities	(5,805)	(5,671)
III	Cash flows from financing activities		
	Proceeds from issuances of shares of common stock	780	438
	Payments for acquisition of treasury stock	(301)	(37)
	Payments for dividends	(3,882)	(3,314)
	Payments for dividends for minority interests	(2)	(2)
	Other	1	2
	Net cash used in financing activities	(3,404)	(2,912)
IV	Effect of exchange rate changes on cash and cash equivalents	(2,756)	356
V	Net increase in cash and cash equivalents	11,689	24,582
VI	Cash and cash equivalents at beginning of the year	99,847	75,252
VII	Cash and cash equivalents of newly consolidated subsidiaries	12	13
VIII	Decrease in cash and cash equivalents due to exclusion of subsidiaries from the scope of consolidation	(70)	—
IX	Cash and cash equivalents at end of the year*[1]	¥111,479	¥ 99,847

The accompanying notes are an integral part of these statements.

Notes to Consolidated Financial Statements (JPNGAAP)

SQUARE ENIX CO., LTD. and Consolidated Subsidiaries

Summary of Significant Accounting Policies Used in the Preparation of Consolidated Financial Statements

1. Scope of Consolidation

• FY2006 (April 1, 2006 to March 31, 2007)

(1) Number of consolidated subsidiaries:
19 and one partnership

DIGITAL ENTERTAINMENT ACADEMY CO., LTD.
COMMUNITY ENGINE INC.
TAITO CORPORATION
SQUARE ENIX OF AMERICA HOLDINGS, INC.
SQUARE ENIX, INC.
SQUARE L.L.C.
SQUARE PICTURES, INC.
SQUARE ENIX LTD.
SQUARE ENIX (China) CO., LTD.
SQUARE ENIX WEBSTAR NETWORK TECHNOLOGY (BEIJING) CO., LTD.
COMMUNITY ENGINE NETWORK SOFTWARE (BEIJING) CO., LTD.
UIEVOLUTION, INC.
FF·FILM·PARTNERS (partnership)
HUANG LONG CO., LTD.
BEIJING TAIXIN CULTURAL AMUSEMENT CO., LTD.
TAITO KOREA CORPORATION
TAITO ART CORPORATION
EFFORT CO., LTD.
TAITO TECH CO., LTD.
UIE JAPAN CO., LTD.

UIE JAPAN CO., LTD., has been included in the scope of consolidation of SQUARE ENIX CO., LTD. (the "Company") effective this fiscal year, owing to its increase in materiality.

In this fiscal year, the Company established SQUARE ENIX OF AMERICA HOLDINGS, INC., in November 2006 as a holding company to oversee the Company's operations in North America.

On December 6, 2006, through investment in kind of shares amounting to US$19,100 thousand in certain of the Company's subsidiaries, SQUARE ENIX, INC. and SQUARE PICTURES, INC., these companies became special-purpose subsidiaries under Article 24, Paragraph 5, Item 4 of the Securities Exchange Law and Cabinet Ordinance No. 19 Concerning the Disclosure of Corporate Details.

SQUARE ENIX WEBSTAR NETWORK TECHNOLOGY (BEIJING) CO., LTD. is currently undergoing liquidation procedures.

(2) Non-consolidated subsidiaries:

SOLID CO., LTD.
SG Lab Inc.
Stylewalker, Inc.
PlayOnline, Inc.

ZERO RESEARCH LTD. was liquidated during the fiscal year ended March 31, 2007. The Company established SG Lab Inc., Stylewalker, Inc., and PlayOnline Co., Ltd. during the fiscal year ended March 31, 2007.

(Rationale for the exclusion of subsidiaries from the scope of consolidation)
Non-consolidated subsidiaries conduct operations that are relatively small in scale. The total amounts of the non-consolidated subsidiaries' assets, sales, equity in net income (loss), and equity in retained earnings (deficit) are deemed to have an immaterial effect on the Company's financial performance and consolidated financial statements.

• FY2007 (April 1, 2007 to March 31, 2008)

(1) Number of consolidated subsidiaries:
17 and one partnership

DIGITAL ENTERTAINMENT ACADEMY CO., LTD.
COMMUNITY ENGINE INC.
TAITO CORPORATION
SQUARE ENIX OF AMERICA HOLDINGS, INC.
SQUARE ENIX, INC.
SQUARE L.L.C.
SQUARE PICTURES, INC.
SQUARE ENIX LTD.
SQUARE ENIX (China) CO., LTD.
SQUARE ENIX WEBSTAR NETWORK TECHNOLOGY (BEIJING) CO., LTD.
FF·FILM·PARTNERS (partnership)
HUANG LONG CO., LTD.
BEIJING TAIXIN CULTURAL AMUSEMENT CO., LTD.
TAITO KOREA CORPORATION
TAITO ART CORPORATION
EFFORT CO., LTD.
TAITO TECH CO., LTD.
SG Lab Inc.

SG Lab Inc. has been included in the Company's scope of consolidation effective this fiscal year, owing to its increase in materiality.

COMMUNITY ENGINE NETWORK SOFTWARE (BEIJING) CO., LTD., was liquidated in this fiscal year.

UIEVOLUTION, INC. and UIE JAPAN CO., LTD. were excluded from the Company's scope of consolidation in this fiscal year, owing to the transfer of all shares held in these companies to another party.

SQUARE ENIX WEBSTAR NETWORK TECHNOLOGY (BEIJING) CO., LTD. is currently undergoing liquidation procedures.

(2) Non-consolidated subsidiaries:

SOLID CO., LTD.
PlayOnline, Inc.
SQUARE ENIX MOBILE STUDIO CO., LTD.
SMILE-LAB Co., Ltd.

SQUARE ENIX MOBILE STUDIO CO., LTD. and SMILE-LAB Co., Ltd. were established in this fiscal year.

(Rationale for the exclusion of subsidiaries from the scope of consolidation)

Same as FY2006

2. Application of the Equity Method of Accounting

• FY2006 (April 1, 2006 to March 31, 2007)

Number of equity-method affiliates: 4

Baltec Co., Ltd.
Kaaku Ltd.
Kaasa Solution GmbH
Brave, Inc.

Non-consolidated subsidiaries that are not accounted for under the equity method (SOLID CO., LTD., SG Lab Inc., Stylewalker, Inc. and PlayOnline, Inc.) and affiliated companies (BMF CORPORATION and KUSANAGI INC.) were excluded from the scope of application of the equity method because their impact on consolidated net income and retained earnings was small.

During the fiscal year ended March 31, 2007, the Company invested in Brave, Inc., turning this company into a subsidiary accounted for under the equity method.

• FY2007 (April 1, 2007 to March 31, 2008)

Number of equity-method affiliates: 3
Kaaku Ltd.
Kaasa Solution GmbH
Brave, Inc.

Baltec Co., Ltd. was excluded from application of the equity method in this fiscal year, owing to the transfer of all shares held in that company to another party.

Non-consolidated subsidiaries that are not accounted for under the equity method (SOLID CO., LTD., PlayOnline, Inc., SQUARE ENIX MOBILE STUDIO CO., LTD. and SMILE-LAB Co., Ltd.) and affiliated companies (BMF CORPORATION, Stylewalker, Inc. and KUSANAGI INC.) were excluded from the scope of application of the equity method because their impact on consolidated net income and retained earnings was small.

3. Fiscal Year End of Consolidated Subsidiaries

• FY2006 (April 1, 2006 to March 31, 2007)

Among the Company's consolidated subsidiaries, the fiscal years of SQUARE ENIX (China) CO., LTD., HUANG LONG CO., LTD., COMMUNITY ENGINE NETWORK SOFTWARE (BEIJING) CO., LTD., BEIJING TAIXIN CULTURAL AMUSEMENT CO., LTD., SQUARE PICTURES, INC. and FF·FILM·PARTNERS end on December 31.

In the preparation of the accompanying consolidated financial statements, their financial statements which have a December 31 fiscal year end, have been used. Significant transactions between their fiscal year end and the consolidated balance sheet date of March 31 are reconciled for consolidation.

For SQUARE ENIX WEBSTAR NETWORK TECHNOLOGY (BEIJING) CO., LTD., a provisional settlement of accounts as of the Company's balance sheet date was used as the basis for the preparation of the consolidated financial statements.

• FY2007 (April 1, 2007 to March 31, 2008)

Among the Company's consolidated subsidiaries, the fiscal years of SQUARE ENIX (China) CO., LTD., HUANG LONG CO., LTD., BEIJING TAIXIN CULTURAL AMUSEMENT CO., LTD., SQUARE PICTURES, INC. and FF·FILM·PARTNERS end on December 31.

In the preparation of the accompanying consolidated financial statements, their financial statements which have a December 31 fiscal year end, have been used. Significant transactions between their fiscal year end and the consolidated balance sheet date of March 31 are reconciled for consolidation.

For SQUARE ENIX WEBSTAR NETWORK TECHNOLOGY (BEIJING) CO., LTD., a provisional settlement of accounts as of the Company's balance sheet date was used as the basis for the preparation of the consolidated financial statements.

4. Summary of Significant Accounting Policies

(1) Standards and valuation methods for major assets

• FY2006 (April 1, 2006 to March 31, 2007)

A) Investment securities
Other investment securities
Securities for which fair values are available:
Market value, determined by the quoted market price as of the balance sheet date, with unrealized gains and losses reported as a separate component of net assets at a net-of-tax amount, and cost of sales determined by the moving-average method
Securities for which fair values are unavailable:
Stated at cost determined by the average method

B) Inventories
Manufactured goods, merchandise:
Stated at cost, determined by the monthly average method Certain consolidated subsidiaries, however, determine cost by the moving-average method
Content production account:
Stated at cost, determined by the identified cost method
Amusement equipment:
Stated at cost, determined by the identified cost method
Unfinished goods:
Some consolidated subsidiaries state unfinished goods at cost, determined by the moving-average method
Supplies:
Stated at the last purchase price

• FY2007 (April 1, 2007 to March 31, 2008)

A) Investment securities
Other investment securities
Securities for which fair values are available:
Same as in FY2006

Securities for which fair values are unavailable:

Same as in FY2006

B) Inventories

Manufactured goods, merchandise:

Same as in FY2006

Content production account:

Same as in FY2006

Amusement equipment:

Same as in FY2006

Unfinished goods:

Same as in FY2006

Supplies:

Same as in FY2006

(2) Method of depreciation and amortization of major assets:

• FY2006 (April 1, 2006 to March 31, 2007)

A) Property and equipment

Property and equipment of the Company and its domestic consolidated subsidiaries are depreciated using the declining-balance method. However, the straight-line method is applied to buildings (excluding building fixtures) acquired on or after April 1, 1998. The estimated useful lives of major assets are as follows:

Buildings and structures	3–65 years
Tools and fixtures	3–15 years
Amusement equipment	3–8 years

B) Intangible assets

The Company and certain consolidated subsidiaries amortize software used in-house using the straight-line method, based on an internal estimate of its useful life (five years).

Trademarks are amortized using the straight-line method over a period of 10 years.

• FY2007 (April 1, 2007 to March 31, 2008)

A) Property and equipment

Same as in FY2006

Change in method of depreciation

Pursuant to the revision of the Corporation Tax Law, effective this fiscal year, for tangible fixed assets acquired on or after April 1, 2007, the Company and its domestic consolidated subsidiaries have changed their method of accounting for depreciation to that provided under the revised Corporation Tax Law.

The impact of this change was an ¥828 million decrease in operating income, and an ¥829 million decrease in recurring income and income before income taxes and minority interests from the corresponding amounts which would have been recorded under the previous method.

The impact of this change on segment information is presented in the applicable section of these notes.

Additional information

Pursuant to the revision of the Corporation Tax Law, effective this fiscal year, for assets acquired on or before March 31, 2007, the Company and its domestic consolidated subsidiaries apply the method of accounting for depreciation provided in the Corporation Tax Law prior to the revision and depreciate the difference between 5% of an asset’s acquisition cost and its memorandum value using the straight-line method over a period of five years, from the fiscal year following the fiscal year in which the net book value of the asset reaches 5% of its acquisition cost. These differences are recorded in depreciation expense.

The impact of this change was a ¥149 million decrease in operating income and recurring income, and a ¥146 million decrease in income before income taxes and minority interests from the corresponding amounts which would have been recorded under the previous method.

The impact of this change on segment information is presented in the applicable section of these notes.

B) Intangible assets

Same as in FY2006

(3) Accounting for allowances and reserves:

• FY2006 (April 1, 2006 to March 31, 2007)

A) Allowance for doubtful accounts

An allowance for doubtful accounts provides for possible losses on defaults of accounts receivable. The allowance is made up of two components: the estimated credit loss on doubtful receivables based on an individual assessment of each account, and a general reserve calculated based on historical default rates.

B) Reserve for bonuses

A reserve for bonuses is provided for payments to employees of the Company and its consolidated subsidiaries at the amount expected to be paid in respect of the calculation period ended on the balance sheet date.

C) Allowance for sales returns

An allowance is provided for losses on the return of published materials, at an amount calculated based on historical experience, prior to this fiscal year. In addition, an allowance is provided for losses on the return of game software and other items, at an estimated amount of future losses assessed by game title.

D) Allowance for closing of game arcades

For closing of game arcades determined during this fiscal year, an allowance is provided at an amount in line with reasonable estimates of future losses on such closures.

E) Allowance for employees’ retirement benefits

An allowance for employees’ retirement benefits is provided at the amount incurred during the fiscal year, which is based on the estimated present value of the projected benefit obligation. Unrecognized actuarial differences are fully amortized in the year following the year in which they arise. At certain consolidated subsidiaries, amortization for each fiscal year is made over a certain period (five years) using the straight-line method within the average remaining years of service of the eligible employees when the differences are recognized, commencing from the year after the year in which they are incurred. Unrecognized prior service cost is amortized over a certain period (one year or five years) within the average remaining service period of the eligible employees. In addition, at certain of the Company's domestic consolidated subsidiaries, a reserve for employees' retirement benefits is provided at an amount equal to 100% of the benefits the subsidiaries would be required to pay under the lump-sum retirement plan if all eligible employees were to voluntarily terminate their employment at the balance sheet date.

F) Allowance for directors' retirement benefits
An allowance for directors' retirement benefits is provided to adequately cover the costs of directors' retirement benefits, which are accounted for on an accrual basis in accordance with internal policy.

• FY2007 (April 1, 2007 to March 31, 2008)

A) Allowance for doubtful accounts
Same as in FY2006

B) Reserve for bonuses
Same as in FY2006

C) Allowance for sales returns
Same as in FY2006

D) Allowance for closing of game arcades
For closures of game arcades that have been determined, an allowance is provided at an amount in line with reasonable estimates of future losses on such closures.

E) Allowance for employees' retirement benefits
An allowance for employees' retirement benefits is provided at the amount incurred during the fiscal year, which is based on the estimated present value of the projected benefit obligation and pension plan assets. Unrecognized actuarial differences are fully amortized in the year following the year in which they arise. At certain consolidated subsidiaries, amortization for each fiscal year is made over a certain period (five years) using the straight-line method within the average remaining years of service of the eligible employees when the differences are recognized, commencing from the year after the year in which they are incurred. Unrecognized prior service cost is amortized over a certain period (one year or five years) within the average remaining service period of the eligible employees. In addition, at certain of the Company's domestic consolidated subsidiaries, a reserve for employees' retirement benefits is provided at an amount equal to 100% of the benefits the subsidiaries would be required to pay under the lump-sum retirement plan if all eligible employees were to voluntarily terminate their employment at the balance sheet date.

F) Allowance for directors' retirement benefits
Same as in FY2006

(4) Translation of foreign currency transactions and accounts:

• FY2006 (April 1, 2006 to March 31, 2007)

All monetary assets and liabilities of the Company and its domestic consolidated subsidiaries denominated in foreign currencies are translated at the balance sheet date at the year end rates. The resulting translation gains or losses are credited or charged to income. All monetary assets and liabilities of overseas consolidated subsidiaries are translated as of the balance sheet date at the year end rates, and all income and expense accounts are translated at rates for their respective periods. The resulting translation adjustments are recorded in net assets as "Foreign currency translation adjustments" and are included in minority interests in consolidated subsidiaries.

• FY2007 (April 1, 2007 to March 31, 2008)

Same as in FY2006

(5) Accounting for leases:

• FY2006 (April 1, 2006 to March 31, 2007)

Finance leases, other than those for which the ownership of the leased assets is considered to be transferred to the lessees, are accounted for as operating leases.

• FY2007 (April 1, 2007 to March 31, 2008)

Same as in FY2006

(6) Accounting for deferred assets:

• FY2006 (April 1, 2006 to March 31, 2007)

A) Share delivery expenses
Costs associated with issuances of shares of common stock are expensed as incurred.

• FY2007 (April 1, 2007 to March 31, 2008)

Not applicable

(7) Additional accounting policies used to prepare consolidated financial statements:

• FY2006 (April 1, 2006 to March 31, 2007)

A) Accounting treatment of consumption taxes
Income statement items are presented exclusive of consumption taxes.

B) Accounting treatment of overseas consolidated subsidiaries
The accounts and records of overseas consolidated subsidiaries are maintained in conformity with accounting principles and practices generally accepted in their respective countries of domicile.

• FY2007 (April 1, 2007 to March 31, 2008)

A) Accounting treatment of consumption taxes
Same as in FY2006

B) Accounting treatment of overseas consolidated subsidiaries
Same as in FY2006

5. Valuation of Assets and Liabilities of Consolidated Subsidiaries

• FY2006 (April 1, 2006 to March 31, 2007)

All assets and liabilities of consolidated subsidiaries are revalued on acquisition.

• FY2007 (April 1, 2007 to March 31, 2008)

Same as in FY2006

6. Amortization of goodwill

• FY2006 (April 1, 2006 to March 31, 2007)

Goodwill is amortized using the straight-line method over a period of either five years or 20 years. However, goodwill whose value has been extinguished is fully amortized during the fiscal year in which it was incurred.

• FY2007 (April 1, 2007 to March 31, 2008)

Same as in FY2006

7. Scope of Cash and Cash Equivalents in the Consolidated Statements of Cash Flows

• FY2006 (April 1, 2006 to March 31, 2007)

Cash and cash equivalents in the consolidated statements of cash flows are comprised of cash on hand, bank deposits which are able to be withdrawn on demand and highly liquid short-term investments with an original maturity of three months or less and with minor risk of significant fluctuations in value.

• FY2007 (April 1, 2007 to March 31, 2008)

Same as in FY2006

New Accounting Standards

• FY2006 (April 1, 2006 to March 31, 2007)

(Accounting Standard for Presentation of Net Assets in the Balance Sheet)

"Accounting Standard for Presentation of Net Assets in the Balance Sheet" (Accounting Standards Board of Japan Statement No. 5, December 9, 2005) and "Guidance on Accounting Standard for Presentation of Net Assets in the Balance Sheet" (Accounting Standards Board of Japan Guidance No. 8, December 9, 2005) were adopted effective the fiscal year ended March 31, 2007. The amount corresponding to total shareholders' equity under the previous method of presentation was ¥129,461 million.

The net assets section of the consolidated balance sheet was prepared in accordance with the revised "Regulations for Consolidated Financial Statements."

(Accounting Standards for Business Combinations)

Effective the fiscal year ended March 31, 2007, the Company adopted "Accounting Standard for Business Combinations" (Business Accounting Council, October 31, 2003), "Accounting Standard for Business Divestitures" (Accounting Standards Board of Japan Statement No. 7, December 27, 2005) and "Implementation Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures" (Accounting Standards Board of Japan Guidance No. 10, December 27, 2005).

• FY2007 (April 1, 2007 to March 31, 2008)

Not applicable

Reclassifications

• FY2006 (April 1, 2006 to March 31, 2007)

(Consolidated Balance Sheets)

In accordance with revisions made in the regulations for the consolidated balance sheet, the consolidation adjustment account and the "goodwill" portion of the "other" item within intangible assets at March 31, 2006 were reclassified into "goodwill" effective the fiscal year ended March 31, 2007. In the consolidated balance sheet at March 31, 2006, the "goodwill" portion of the "other" item within intangible fixed assets amounted to ¥218 million.

(Consolidated Statements of Cash Flows)

Within cash flows from operating activities, for the fiscal year ended March 31, 2006, foreign exchange gains and losses were recorded in the "other" category of cash flows from operating activities. This has been listed as a separate accounting category effective the fiscal year ended March 31, 2007.

The amount within the "other" category corresponding to foreign exchange gains and losses for the fiscal year ended March 31, 2006 was ¥(223) million.

For the fiscal year ended March 31, 2006, goodwill amortization was included within the "other" segment in cash flows from operating activities. This has been listed as a separate accounting category effective the fiscal year ended March 31, 2007.

Amortization of the consolidated adjustment account, included in the "other" category for the fiscal year ended March 31, 2006, was ¥1,445 million.

• FY2007 (April 1, 2007 to March 31, 2008)

Not applicable

Notes to Consolidated Balance Sheets

• FY2006 (April 1, 2006 to March 31, 2007)

*1 Investments in non-consolidated subsidiaries and affiliates:

Investments and other assets	¥119 million

*2 Contingent liabilities for guarantees:

The Company's consolidated subsidiary, TAITO CORPORATION, has issued a guarantee of ¥12 million covering its lease obligations to Diamond Asset Finance Co., Ltd., one of the Company's sales partners.

*3 Notes maturing at the end of FY2006:

Notes maturing at the end of FY2006 were accounted for as if the notes had been settled as of the end of FY2006, although that date fell on a bank holiday. The amount of notes maturing at the end of FY2006 was as follows:

Notes receivable	¥410 million

• FY2007 (April 1, 2007 to March 31, 2008)

*1 Investments in non-consolidated subsidiaries and affiliates:

Investments and other assets	¥173 million

*2 Contingent liabilities for guarantees:

The Company's consolidated subsidiary, TAITO CORPORATION, has issued a guarantee of ¥1 million covering its lease obligations to Diamond Asset Finance Co., Ltd., one of the Company's sales partners.

*3 Not applicable

Notes to Consolidated Statements of Income

• FY2006 (April 1, 2006 to March 31, 2007)

*1 Selling, general and administrative expenses include R&D costs of ¥2,374 million

*2 Breakdown of loss on sale of property and equipment

Tools and fixtures	¥17 million

*3 Breakdown of loss on disposal of property and equipment

Buildings and structures	¥ 269 million
Tools and fixtures	266 million
Amusement equipment	484 million
Software	56 million
Other	7 million
Total	¥1,085 million

*4 Loss on revaluation of investment securities was due to a significant decline in market prices of marketable securities.

*5 Impairment loss

In this fiscal year, the Group posted impairment losses on the following asset groups:

Millions of yen

Location	Usage	Category	Impairment amount
Kumagaya-shi, Saitama	Idle assets	Buildings, land	¥ 91
Chiyoda-ku, Tokyo and other	Idle assets, other	Tools and fixtures	169
Chiyoda-ku, Tokyo and other	Idle assets	Telephone subscription rights	21
Republic of Korea		Goodwill	40
Other			44
Total			¥368

Cash inflows from business segments of the Group are complementary to one another in terms of similarities in the nature of products, merchandise, services and markets. Consequently, all assets for operational purposes are classified in one asset group, and idle assets which are not used for operational purposes are classified individually. In addition, assets related to the Group's headquarters and welfare facilities are classified as common-use assets.

Of the assets listed above, as a result of the restructuring of the amusement business, the assets owned by the pachinko and slot machine department were marked down to their respective recoverable values, resulting in an impairment loss of ¥102 million, which was recorded as an extraordinary loss.

For e-commerce assets, tools and fixtures were marked down to their respective recoverable values, resulting in an impairment loss of ¥66 million, which was posted as an extraordinary loss. As the market values of buildings, land and telephone subscription rights that were idle were substantially lower than their respective market values, and as they were not expected to be used in the future, they were marked down to their respective recoverable values, resulting in an impairment loss of ¥112 million, which was posted as an extraordinary loss.

In principle, the recoverable amounts for these assets are determined based on market prices calculated using real estate appraisals.

Related to the Republic of Korea (TAITO KOREA CORPORATION), an impairment loss of ¥40 million was posted as an extraordinary loss. This amount represents the difference between the appraised income potential in excess of acquisition cost for amusement facilities in the Republic of Korea at the time of acquisition, and the current level of income assessed as recoverable above acquisition cost.

*6 A breakdown of loss on disposal and write-downs of assets associated with business restructuring is as follows:

Inventories	¥1,368 million
Amusement equipment	666 million
Other (current assets)	239 million
Total	¥2,275 million

• FY2007 (April 1, 2007 to March 31, 2008)

*1 Selling, general and administrative expenses include R&D costs of ¥1,581 million

*2 Breakdown of loss on sale of property and equipment

Tools and fixtures	¥145 million

*3 Breakdown of loss on disposal of property and equipment

Buildings and structures	¥ 62 million
Tools and fixtures	131 million
Amusement equipment	741 million
Other	15 million
Total	¥950 million

*4 Loss on revaluation of investment securities was due to a significant decline in market prices of marketable securities.

*5 Impairment loss

In this fiscal year, the Group posted impairment losses on a following asset group:

Millions of yen

Location	Usage	Category	Impairment amount
Shibuya-ku, Tokyo and other	Idle assets	Telephone subscription rights	¥9
Total			¥9

Cash inflows from business segments of the Group are complementary to one another in terms of similarities in the nature of products, merchandise, services and markets. Consequently, all assets for operational purposes are classified in one asset group, and idle assets which are not used for operational purposes are classified individually. In addition, assets related to the Group's headquarters and welfare facilities are classified as common-use assets.

Telephone subscription rights in the above table were idle assets and their market value fell substantially below their respective book value. Since they were not expected to be used in the future, they were marked down to their respective recoverable value, resulting in an impairment loss of ¥9 million, which was posted as an extraordinary loss.

In principle, the recoverable amounts for these assets are determined based on their respective fair value calculated using market prices.

*6 A breakdown of loss on disposal and write-downs of assets associated with business restructuring is as follows:

Inventories	¥ 658 million
Current assets	249 million
Other	394 million
Total	¥1,302 million

Items Pertaining to the Consolidated Statements of Changes in Net Assets

• FY2006 (April 1, 2006 to March 31, 2007)

1. Type and number of shares issued and outstanding, and type and number of shares of treasury stock

Thousands of shares

	Shares at the end of FY2005	Share increases during the Year	Share decreases during the Year	Shares at the end of FY2006
Shares issued and outstanding				
Common stock*1	110,729	218	—	110,947
Total	110,729	218	—	110,947
Treasury stock*2				
Common stock	182	12	0	193
Total	182	12	0	193

*1 The increase of 218 thousand shares of common stock issued and outstanding was due to the exercise of stock options.

*2 The increase of 12 thousand shares of treasury stock was due to the acquisition of fractional shares constituting less than one trading unit.

The decrease of 0 thousand shares of treasury stock was due to the sale of fractional shares constituting less than one trading unit.

2. Stock options and the Company's stock options

Category	Details of stock options	Number of shares allocated for the purpose of stock options: Type of shares issuable for the exercise of stock options	End of FY2005	Increase during FY2006	Decrease during FY2006	End of FY2006	Balance at the end of FY2006 (Millions of yen)
Supplying company (parent company)	Issuance of yen-denominated zero-coupon warrant bonds maturing in 2010, pursuant to a resolution of the Board of Directors on November 9, 2005	Common stock	9,803,921	4,901,961	—	14,705,882	—
	Total	—	9,803,921	4,901,961	—	14,705,882	—

Note: The increase of 4,901,961 shares during the year was due to conversion price adjustment conditions being applied to warrant bonds in accordance with the debenture indenture.

3. Dividends

(1) Dividend payments

Date of approval	Type of shares	Total dividends (Millions of yen)	Dividends per share (Yen)	Record date	Effective date
June 24, 2006 (Annual General Meeting of Shareholders)	Common stock	¥2,210	¥20	March 31, 2006	June 26, 2006
November 17, 2006 (Board of Directors' Meeting)	Common stock	1,150	10	September 30, 2006	December 8, 2006

(2) Dividends with a record date during this fiscal year, but whose effective date falls in the following fiscal year

Date of approval	Type of shares	Total dividends (Millions of yen)	Source of dividends	Dividends per share (Yen)	Record date	Effective date
June 23, 2006 (Annual General Meeting of Shareholders)	Common stock	¥2,768	Retained earnings	¥25	March 31, 2007	June 25, 2007

• **FY2007 (April 1, 2007 to March 31, 2008)**

1. Type and number of shares issued and outstanding, and type and number of shares of treasury stock

Thousands of shares

	Shares at the end of FY2006	Share increases during the Year	Share decreases during the Year	Shares at the end of FY2007
Shares issued and outstanding				
Common stock*1	110,947	4,170	—	115,117
Total	110,947	4,170	—	115,117
Treasury stock*2				
Common stock	193	98	0	291
Total	193	98	0	291

*1 The increase of 4,170 thousand shares of common stock issued and outstanding was due to the exercise of stock options and warrants attached to bonds.

*2 The increase of 98 thousand shares of treasury stock was due to the acquisition of treasury stock in accordance with a resolution approved by the Board of Directors at a meeting held on January 25, 2008, and the acquisition of fractional shares constituting less than one trading unit.

The decrease of 0 thousand shares of treasury stock was due to the sale of fractional shares constituting less than one trading unit.

2. Stock options and the Company's stock options

Category	Details of stock options	Number of shares allocated for the purpose of stock options: Type of shares issuable for the exercise of stock options	End of FY2006	Increase during FY2007	Decrease during FY2007	End of FY2007	Balance at the end of FY2007 (Millions of yen)
Supplying company (parent company)	Issuance of yen-denominated zero-coupon warrant bonds maturing in 2010, pursuant to a resolution of the Board of Directors on November 9, 2005	Common stock	14,705,882	—	3,949,443	10,756,439	—
	Stock acquisition rights as stock options	—	—	—	—	—	81
	Total	—	14,705,882		3,949,443	10,756,439	81

Note: The decrease of 3,949,443 shares during the year was due to the exercise of warrants attached to bonds and conversion price adjustment conditions being applied to warrant bonds in accordance with the debenture indenture.

3. Dividends

(1) Dividend payments

Date of approval	Type of shares	Total dividends (Millions of yen)	Dividends per share (Yen)	Record date	Effective date
June 23, 2007 (Annual General Meeting of Shareholders)	Common stock	¥2,768	¥25	March 31, 2007	June 25, 2007
November 19, 2007 (Board of Directors' Meeting)	Common stock	1,115	10	September 30, 2007	December 7, 2007

(2) Dividends with a record date during this fiscal year, but whose effective date falls in the following fiscal year

Date of approval	Type of shares	Total dividends (Millions of yen)	Source of dividends	Dividends per share (Yen)	Record date	Effective date
June 21, 2008 (Annual General Meeting of Shareholders)	Common stock	¥2,296	Retained earnings	¥20	March 31, 2008	June 23, 2008

Notes to Consolidated Statements of Cash Flows

• FY2006 (April 1, 2006 to March 31, 2007)

*1 A reconciliation of cash and cash equivalents in the consolidated statement of cash flows to the corresponding amount disclosed in the consolidated balance sheet is as follows:

(As of March 31, 2007)

Cash and deposits	¥99,852 million
Time deposits with maturity periods over three months	(5 million)
Cash and cash equivalents	¥99,847 million

*2 Breakdown of key assets and liabilities resulting from the transfer of a business.

The following figures represent reductions in key assets and liabilities as a result of the transfer of the karaoke business of a consolidated subsidiary, TAITO CORPORATION:

Current assets	¥ 552 million
Non-current assets	1,879 million
Total assets	¥2,431 million
Current liabilities	¥ 614 million
Total liabilities	¥ 614 million

• FY2007 (April 1, 2007 to March 31, 2008)

*1 A reconciliation of cash and cash equivalents in the consolidated statement of cash flows to the corresponding amount disclosed in the consolidated balance sheet is as follows:

(As of March 31, 2008)

Cash and deposits	¥111,515 million
Time deposits with maturity periods over three months	(36 million)
Cash and cash equivalents	¥111,479 million

*2 Not applicable

*3 Important non-cash transactions

The Company had the following important non-cash transactions:

Increase in common stock due to conversion of convertible bonds	¥ 6,499 million
Increase in capital surplus due to conversion of convertible bonds	6,499 million
Total	¥12,999 million
Decrease in convertible bonds due to their conversion	¥13,000 million

Lease Transactions

• FY2006 (April 1, 2006 to March 31, 2007)

Information related to finance leases other than those that transfer ownership to the lessee

1. Acquisition cost, accumulated depreciation and net book value of leased assets:

Millions of yen

	Acquisition cost	Accumulated depreciation	Net book value
Buildings and structures	¥ 238	¥ 73	¥ 165
Tools and fixtures	2,182	811	1,371
Total	¥2,420	¥884	¥1,536

Note: The total amount of future lease payments at the end of the year constituted an insignificant portion of net property and equipment at the end of the year. Accordingly, total acquisition cost included the interest portion thereon.

2. Ending balances of future lease payments:

Due within one year	¥ 451 million
Due after one year	1,084 million
Total	¥1,536 million

Note: The total future lease payments at the end of the year constituted an insignificant portion of total property and equipment at the end of the year. Accordingly, total future lease payments included the interest portion thereon.

3. Lease payments and depreciation expense:

Lease payments	¥499 million
Depreciation expense	499 million

4. Method of calculation for depreciation
   Depreciation is calculated using the straight-line method over a useful life with no residual value.

Operating lease transactions

Not applicable

(Impairment loss)

No impairment loss was recognized on leased assets.

• **FY2007 (April 1, 2007 to March 31, 2008)**

Information related to finance leases other than those that transfer ownership to the lessee

1. Acquisition cost, accumulated depreciation and net book value of leased assets:

Millions of yen

	Acquisition cost	Accumulated depreciation	Net book value
Buildings and structures	¥1,246	¥ 589	¥ 657
Tools and fixtures	1,037	527	510
Total	¥2,283	¥1,116	¥1,167

Note: Same as in FY2006

2. Ending balances of future lease payments:

Due within one year	¥ 421 million
Due after one year	746 million
Total	¥1,167 million

Note: Same as in FY2006

3. Lease payments and depreciation expense:

Lease payments	¥455 million
Depreciation expense	455 million

4. Method of calculation for depreciation
Same as in FY2006

Operating lease transactions

Future lease payments	
Due within one year	¥1,729 million
Due after one year	2,477 million
Total	¥4,207 million

(Impairment loss)
Same as in FY2006

Securities

• **FY2006 (April 1, 2006 to March 31, 2007)**

1. Held-for-sale securities
Not applicable

2. Held-to-maturity securities with market value
Not applicable

3. Other investment securities with market value:

Millions of yen

	Type	Acquisition cost	Book value	Difference
Securities with book value exceeding acquisition cost	(1) Stocks	¥102	¥142	¥ 39
	Subtotal	102	142	39
Securities with acquisition cost exceeding book value	(1) Stocks	260	203	(57)
	Subtotal	260	203	(57)
Total		¥363	¥345	¥(17)

Note: For the year ended March 31, 2007, the impairment loss associated with the fair market value determination of other investment securities with market value was ¥36 million. Impairment loss on securities is charged to income when the market price at the end of the fiscal year falls less than 50% of the acquisition cost. In addition, impairment loss on securities is charged to income when the market price at the end of the fiscal year falls between 30% and 50% of the acquisition cost after considering factors such as the significance of the amount and the likelihood of recovery.

4. Securities sold during the fiscal year:
(April 1, 2006 to March 31, 2007)

Millions of yen

Amount of sale	Gain on sale	Loss on sale
¥443	¥410	¥—

5. Investment securities whose fair values are not readily determinable:

Millions of yen

	Book value
(1) Other investment securities	
Unlisted securities (excluding OTC securities)	¥108
Unlisted overseas bonds	0

Note: For the fiscal year ended March 31, 2007, the Company posted ¥157 million in impairment losses related to its investments in unlisted companies.

6. Redemption schedule of other securities with maturities and Held-to-maturity securities
Not applicable

• **FY2007 (April 1, 2007 to March 31, 2008)**

1. Held-for-sale securities
Not applicable

2. Held-to-maturity securities with market value
Not applicable

3. Other investment securities with market value:

Millions of yen

	Type	Acquisition cost	Book value	Difference
Securities with book value exceeding acquisition cost	(1) Stocks	¥217	¥266	¥ 48
	Subtotal	217	266	48
Securities with acquisition cost exceeding book value	(1) Stocks	263	198	(65)
	Subtotal	263	198	(65)
Total		¥481	¥465	¥(16)

Note: For the year ended March 31, 2008, the impairment loss associated with the fair market value determination of other investment securities with market value was ¥31 million. Impairment loss on securities is charged to income when the market price at the end of the fiscal year falls less than 50% of the acquisition cost. In addition, impairment loss on securities is charged to income when the market price at the end of the fiscal year falls between 30% and 50% of the acquisition cost after considering factors such as the significance of amount and the likelihood of recovery.

4. Securities sold during the fiscal year:
(April 1, 2007 to March 31, 2008)

Millions of yen

Amount of sale	Gain on sale	Loss on sale
¥155	¥64	¥—

5. Investment securities whose fair values are not readily determinable:

Millions of yen

	Book value
(1) Other investment securities	
Unlisted securities (excluding OTC securities)	¥191
Unlisted overseas bonds	0

6. Redemption schedule of other securities with maturities and Held-to-maturity securities
Not applicable

Derivative Transactions

• FY2006 (April 1, 2006 to March 31, 2007)

1. Terms of transactions

(1) Types and purposes of transactions
In principle, the Company does not engage in derivative transactions. However, from time to time, the Company enters into forward foreign exchange contracts for the purpose of reducing the risk of exposure to foreign exchange rate fluctuations.

(2) Transaction policy
The Company enters into forward foreign exchange contracts to cover anticipated transactions denominated in foreign currencies but does not enter into such contracts for speculative purposes.

(3) Risks
Forward foreign exchange contracts are subject to market risk arising from fluctuations in foreign exchange rates. The Company deems the risk of nonperformance by the counterparties to forward foreign exchange contracts to be low because the Company only enters into such contracts with financial institutions that have high credit ratings.

(4) Risk management
Contracts are approved by a representative director and the director with responsibility for this area. The Accounting and Finance Division administers risk management.

2. Market valuation of transactions
Not applicable

• FY2007 (April 1, 2007 to March 31, 2008)

1. Terms of transactions

(1) Types and purposes of transactions
In principle, the Company does not engage in derivative transactions. However, from time to time, the Company enters into forward foreign exchange contracts for the purpose of reducing the risk of exposure to foreign exchange rate fluctuations.

(2) Transaction policy
The Company enters into forward foreign exchange contracts to cover anticipated transactions denominated in foreign currencies but does not enter into such contracts for speculative purposes.

(3) Risks
Forward foreign exchange contracts are subject to market risk arising from fluctuations in foreign exchange rates. The Company deems the risk of nonperformance by the counterparties to forward foreign exchange contracts to be low because the Company only enters into such contracts with financial institutions that have high credit ratings.

(4) Risk management
Contracts are approved by a representative director and the director with responsibility for this area. The Accounting and Finance Division administers risk management.

2. Market valuation of transactions
Not applicable

Retirement Benefits

• FY2006 (April 1, 2006 to March 31, 2007)

1. Overview of retirement benefit plan

   The Company and its domestic consolidated subsidiaries have a lump-sum retirement payment plan in accordance with their internal bylaws.

   The projected benefits are allocated to periods of service on a straight-line basis. The Company's domestic consolidated subsidiaries apply a simplified method in the calculation of the retirement benefit obligations. In addition, certain of the Company's overseas subsidiaries maintain defined contribution retirement pension plans.

2. Retirement benefit obligation:

	Millions of yen
Retirement benefit obligation	¥(10,612)
Fair value of plan assets	9,871
Net unfunded obligation	(741)
Unrecognized prior service cost	(1,138)
Unrecognized actuarial gain	(289)
Allowance for retirement benefits	¥ (2,169)

3. Retirement benefit expenses:

	Millions of yen
Service cost	¥600
Interest cost	172
Expected return on plan assets	(170)
Amortization of prior service cost	(406)
Amortization of net actuarial loss	190
Retirement benefit expenses	¥386

Note: Due to the restructuring of certain businesses, such as the amusement business, in the fiscal year ended March 31, 2007, a substantial number of employees retired, and the Company recognized a curtailment of its retirement benefit plan in accordance with "Accounting for Transfers between Retirement Benefit Schemes" (Application Guideline No. 1 of Business Accounting Principles). As a result, the Company recognized a partial reversal of allowance for employees' retirement benefits and a lump-sum amortization of unrecognized gain/loss amounting to ¥465 million as an extraordinary gain, which was included in the amortization of prior service cost and amortization of net actuarial gains and losses in the fiscal year ended March 31, 2007.

In addition to the above, the Company recorded an extraordinary loss for premium severance payments of ¥925 million.

4. Assumptions used in accounting for the above plans:

Periodic allocation method for projected benefits	Straight-line basis
Discount rates	1.700%–2.093%
Expected rate of return on plan assets	1.700%
Period over which prior service cost is amortized	1–5 years
Period over which net actuarial gain or loss is amortized	1–5 years

• FY2007 (April 1, 2007 to March 31, 2008)

1. Overview of retirement benefit plan

   The Company and its domestic consolidated subsidiaries have a lump-sum retirement payment plan in accordance with their internal bylaws.

   The projected benefits are allocated to periods of service on a straight-line basis. The Company's domestic consolidated subsidiaries apply a simplified method in the calculation of the retirement benefit obligations. In addition, certain of the Company's overseas subsidiaries maintain defined contribution retirement pension plans.

2. Retirement benefit obligation:

	Millions of yen
Retirement benefit obligation	¥(11,343)
Fair value of plan assets	8,830
Net unfunded obligation	(2,513)
Unrecognized prior service cost	(805)
Unrecognized actuarial loss	1,790
Allowance for retirement benefits	¥ (1,528)

3. Retirement benefit expenses:

	Millions of yen
Service cost	¥ 509
Interest cost	180
Expected return on plan assets	(158)
Amortization of prior service cost	(333)
Amortization of net actuarial gain	(201)
Retirement benefit expenses	¥ (3)

4. Assumptions used in accounting for the above plans:

Periodic allocation method for projected benefits	Straight-line basis
Discount rates	1.700–2.026%
Expected rate of return on plan assets	1.700%
Period over which prior service cost is amortized	1–5 years
Period over which net actuarial gain or loss is amortized	1–5 years

Stock Options

• FY2006 (April 1, 2006 to March 31, 2007)

1. Details, scale of and changes in stock options

(1) Details of stock options

	2001 stock options	2002 stock options	2004 stock options	2005 stock options	2005 stock options
Category and number of grantees	Company directors and employees 766	Company directors and employees 696	Company directors and employees 206	Company directors and employees 52	Directors and employees of the Company's subsidiaries 3
Number of stock options	520,710 shares of common stock*1	2,550,000 shares of common stock*2	600,000 shares of common stock	902,000 shares of common stock	7,000 shares of common stock
Date granted	June 23, 2001	June 22, 2002	June 19, 2004	June 18, 2005	June 18, 2005
Conditions for vesting of interests	No conditions have been set for vesting of interests	No conditions have been set for vesting of interests	No conditions have been set for vesting of interests	No conditions have been set for vesting of interests	No conditions have been set for vesting of interests
Service period	No service period has been established	No service period has been established	No service period has been established	No service period has been established	No service period has been established
Rights exercise period	January 4, 2002 to June 30, 2006	July 1, 2004 to June 30, 2009	July 1, 2006 to June 30, 2009	July 1, 2007 to June 30, 2010	July 1, 2007 to June 30, 2010

Notes: 1 The number of stock options indicated for 2001 was adjusted for the April 1, 2003 business merger (1 to 0.85) with SQUARE CO., LTD.
2 The number of stock options indicated for 2002 was adjusted for the April 1, 2003 business merger (1 to 0.85) with SQUARE CO., LTD.

(2) Scale of and changes in stock options

With respect to stock options outstanding at this fiscal year end, the number of stock options and the status of their exercise to shares of common stock are indicated below:

1) Number of stock options

	2001 stock options	2002 stock options	2004 stock options	2005 stock options	2005 stock options
Before vesting (shares)					
March 31, 2006	—	—	561,000	902,000	7,000
Granted	—	—	—	—	—
Forfeited	—	—	4,000	23,000	—
Vested	—	—	557,000	—	—
Unvested balance	—	—	—	879,000	7,000
After vesting (shares)					
March 31, 2006	327,165	1,621,545	—	—	—
Vested	—	—	557,000	—	—
Exercised	—	218,195	—	—	—
Forfeited	327,165	30,600	17,000	—	—
Balance unexercised	—	1,372,750	540,000	—	—

2) Price information

Yen

	2001 stock options	2002 stock options	2004 stock options	2005 stock options	2005 stock options
Exercise price	¥3,430	¥2,152	¥2,981	¥3,365	¥3,360
Average share price at exercise	—	3,059	—	—	—
Fair market value on grant date	—	—	—	—	—

2. Estimate of fair value of stock options
Not applicable

3. Method of estimating vested interests in stock options
Not applicable

• FY2007 (April 1, 2007 to March 31, 2008)

1. Expense items and amounts during the fiscal year related to stock options:
   Cost of sales ¥ 6 million
   Selling, general and administrative expenses 67 million

2. Details, scale of and changes in stock options

(1) Details of stock options

	2002 stock options	2004 stock options	2005 stock options	2005 stock options	2007 stock options	2007 stock options
Category and number of grantees	Company directors and employees	Company directors and employees	Company directors and employees	Directors and employees of the Company's subsidiaries	Company directors	Company employees, and directors and employees of the Company's subsidiaries
	696	206	52	3	5	59
Number of stock options	2,550,000 shares of common stock*	600,000 shares of common stock	902,000 shares of common stock	7,000 shares of common stock	450,000 shares of common stock	670,000 shares of common stock
Date granted	June 22, 2002	June 19, 2004	June 18, 2005	June 18, 2005	December 4, 2007	December 4, 2007
Conditions for vesting of interests	No conditions have been set for vesting of interests	No conditions have been set for vesting of interests	No conditions have been set for vesting of interests	No conditions have been set for vesting of interests	No conditions have been set for vesting of interests	No conditions have been set for vesting of interests
Service period	No service period has been established	No service period has been established	No service period has been established	No service period has been established	No service period has been established	No service period has been established
Rights exercise period	July 1, 2004 to June 30, 2009	July 1, 2006 to June 30, 2009	July 1, 2007 to June 30, 2010	July 1, 2007 to June 30, 2010	November 20, 2009 to November 19, 2012	A. One-third of options granted: November 20, 2009 to November 19, 2012 B. One-third of options granted: November 20, 2010 to November 19, 2012 C. One-third of options granted: November 20, 2011 to November 19, 2012

Note: The number of stock options indicated for 2002 has been adjusted for the April 1, 2003 business merger (1 to 0.85) with SQUARE CO. LTD.

(2) Scale of and changes in stock options

With respect to stock options outstanding at this fiscal year end, the number of stock options and the status of their exercise to shares of common stock are indicated below:

1) Number of stock options

	2002 stock options	2004 stock options	2005 stock options	2005 stock options	2007 stock options	2007 stock options
Before vesting (shares)						
March 31, 2007	—	—	879,000	7,000	—	—
Granted	—	—	—	—	450,000	670,000
Forfeited	—	—	—	—	—	—
Vested	—	—	879,000	7,000	—	—
Unvested balance	—	—	—	—	450,000	670,000
After vesting (shares)						
March 31, 2007	1,372,750	540,000	—	—	—	—
Vested	—	—	879,000	7,000	—	—
Exercised	305,150	41,400	—	—	—	—
Forfeited	10,200	33,000	51,000	1,000	—	—
Balance unexercised	1,057,400	465,600	828,000	6,000	—	—

2) Price information

Yen

	2002 stock options	2004 stock options	2005 stock options	2005 stock options	2007 stock options	2007 stock options
Exercise price	¥2,152	¥2,981	¥3,365	¥3,360	¥3,706	¥3,706
Average share price at exercise	3,572	3,582	—	—	—	—
Fair market value on grant date	—	—	—	—	526	A. 526 B. 594 C. 715

Note: A, B and C indicated above refer to the three rights exercise periods A, B and C indicated in Table 2 (1).

3. Estimate of fair value of stock options

(1) Method of valuation employed—Black–Scholes Model

(2) Main basic values and methods of estimation

	2007 stock options	2007 stock options
Stock price volatility*2	24.0%	A. 24.0% B. 25.0% C. 27.9%
Expected remaining period*3	3.5 years	A. 3.5 years B. 4.0 years C. 4.5 years
Expected dividend*4	Dividend yield 0.99%	Dividend yield 0.99%
Risk-free interest rate*5	0.87%	A. 0.87% B. 0.92% C. 0.97%

Notes: 1. A, B and C indicated above refer to the three rights exercise periods A, B and C indicated in Table 2 (1).
2. Stock price volatility is calculated based on the actual stock price from the stock option grant date extending back the length of the expected remaining period.
3. Owing to a lack of sufficient historical data, it is difficult to determine the expected remaining period in a reasonable manner. Consequently, the expected remaining period is determined to be the period from the option grant date to the mid-point of the exercisable period.
4. The expected dividend is calculated based on the actual dividend applicable to the fiscal year ended March 31, 2007.
5. The risk-free interest rate represents the interest rate of Japanese government bonds whose remaining periods correspond to the expected remaining periods of the stock options.

4. Method of estimating the number of vested stock options
Owing to the difficulty of estimating the number of stock options that will be forfeited in future periods, estimation of the vested number is based upon actual forfeitures in prior periods.

Tax Effect Accounting

• FY2006 (April 1, 2006 to March 31, 2007)

1. Significant components of deferred tax assets and liabilities are summarized as follows:

	Millions of yen
Deferred tax assets	
1) Current assets	
Enterprise taxes payable	¥ 114
Business office tax payable	50
Reserve for bonuses	760
Advances paid	36
Accrued expenses	588
Allowance for sales returns	536
Non-deductible portion of allowance for doubtful accounts	119
Loss on write-offs of content production account	158
Loss on inventory revaluation	176
Loss on disposal of assets associated with business restructuring	919
Non-deductible amortization of goodwill	110
Loss carried forward	4,059
Other	173
Valuation allowance	(1,871)
Offset to deferred tax liabilities (current)	(298)
Total	5,634
2) Non-current assets	
Non-deductible portion of allowance for employees' retirement benefits	500
Allowance for directors' retirement benefits	64
Non-deductible depreciation expense of property and equipment	577
Loss on investments in securities	763
Non-deductible portion of allowance for doubtful accounts	902
Allowance for closing of game arcades	1,201
Loss carried forward	5,891
Other	362
Valuation allowance	(5,220)
Offset to deferred tax assets (non-current assets)	(102)
Total	4,939
Net deferred tax assets	10,573
Deferred tax liabilities	
1) Current liabilities	
Accrued expenses and other cost calculation details	298
Offset to deferred tax assets (non-current assets)	(298)
Total	—
2) Non-current liabilities	
Other	102
Offset to deferred tax assets (non-current assets)	(102)
Total deferred tax liabilities	—
Balance: Net deferred tax assets	¥10,573

2. A reconciliation of the statutory tax rate and the effective tax rate is as follows:

Statutory tax rate	40.70%
Permanent differences relating to entertainment expenses, etc., excluded from non-taxable expenses	0.45
Taxation on per capita basis for inhabitants' taxes	0.63
Foreign taxes	0.23
Amortization of goodwill	7.13
Valuation allowance	(6.95)
Refunded income taxes	(0.62)
Adjustments to deferred tax assets	(1.86)
Adjustments for unrecognized losses	(1.52)
Differences in tax rates from the parent company's statutory tax rate	(0.77)
Other	(0.79)
Effective tax rate	36.63%

• **FY2007 (April 1, 2007 to March 31, 2008)**

1. Significant components of deferred tax assets and liabilities are summarized as follows:

	Millions of yen
Deferred tax assets	
1) Current assets	
Enterprise taxes payable	¥ 79
Business office tax payable	55
Reserve for bonuses	731
Advances paid	36
Accrued expenses	361
Allowance for sales returns	199
Non-deductible portion of allowance for doubtful accounts	239
Tax credit	294
Loss on write-offs of content production account	1,884
Loss carried forward	1,639
Loss on inventory revaluation	123
Loss on disposal of assets associated with business restructuring	347
Other	130
Valuation allowance	(1,485)
Offset to deferred tax liabilities (current)	(480)
Total	4,158
2) Non-current assets	
Non-deductible portion of allowance for employees' retirement benefits	1,086
Allowance for directors' retirement benefits	77
Non-deductible depreciation expense of property and equipment	537
Loss on investments in securities	379
Non-deductible portion of allowance for doubtful accounts	780
Tax effect from sale of stock of affiliated companies	1,965
Allowance for closing of game arcades	413
Loss carried forward	4,816
Other	179
Valuation allowance	(9,382)
Total	852
Net deferred tax assets	5,010
Deferred tax liabilities	
Current liabilities	
Accrued expenses and other cost calculation details	480
Offset to deferred tax assets (non-current assets)	(480)
Total	—
Total deferred tax liabilities	—
Balance: Net deferred tax assets	¥5,010

2. A reconciliation of the statutory tax rate and the effective tax rate is as follows:

Statutory tax rate	40.70%
Permanent differences relating to entertainment expenses, etc., excluded from non-taxable expenses	0.47
Permanent differences relating to dividends received, etc., excluded from non-taxable expenses	(0.01)
Taxation on a per capita basis for inhabitants' taxes	0.38
Deduction for foreign taxes paid	1.82
Amortization of goodwill	3.33
Valuation allowance	(5.87)
Tax effect from sale of stock of affiliated companies	5.03
Adjustments for unrecognized losses	(0.03)
Differences in tax rates from the parent company's statutory tax rate	(1.35)
Other	0.84
Effective tax rate	45.31%

Segment Information

[Consolidated Business Segment Information]

• FY2006 (April 1, 2006 to March 31, 2007)

Millions of yen

	Games (Offline)	Games (Online)	Mobile Phone Content	Publication	Amusement	Others	Total	Eliminations or unallocated	Consolidated total
I Sales and operating income									
Net sales									
(1) Sales to external customers	¥51,316	¥13,660	¥7,759	¥11,208	¥75,610	¥3,915	¥163,472	¥ —	¥163,472
(2) Intersegment sales	—	—	7	—	91	62	161	(161)	—
Total	51,316	13,660	7,767	11,208	75,702	3,978	163,634	(161)	163,472
Operating expenses	34,968	6,893	4,753	7,604	76,054	2,666	132,941	4,614	137,555
Operating income (loss)	¥16,348	¥ 6,767	¥3,013	¥ 3,603	¥ (351)	¥1,311	¥ 30,693	¥ (4,776)	¥ 25,916
II Total assets, depreciation and amortization, impairment loss and capital expenditures									
Total assets	¥60,153	¥18,062	¥8,695	¥ 9,544	¥74,491	¥7,865	¥178,812	¥36,866	¥215,679
Depreciation and amortization	402	593	246	12	9,134	82	10,471	643	11,115
Impairment loss	—	—	—	—	368	—	368	—	368
Capital expenditures	428	411	79	22	9,477	108	10,528	832	11,360

Notes:
1. The classification of business segments is made based on the types of products and services.
2. Major products offered by business segment are summarized as follows:

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
Amusement	All businesses of the Taito Group including Amusement Operations and Rental, Sales of Goods and Merchandise and Content Services
Others	Derivative products such as character merchandise, school for game designers

3. Unallocated operating expenses included in “Eliminations or unallocated” totaled ¥4,614 million. These expenses were related to administrative departments of the Company which provide services and operational support that cannot be allocated to specific business segments.
4. Unallocated assets included in “Eliminations or unallocated” totaled ¥36,866 million. These assets mainly consisted of cash and deposits, deferred tax assets and buildings and structures of administrative departments of the Company.

• **FY2007 (April 1, 2007 to March 31, 2008)**

Millions of yen

	Games (Offline)	Games (Online)	Mobile Phone Content	Publication	Amusement	Others	Total	Eliminations or unallocated	Consolidated total
I Sales and operating income									
Net sales									
(1) Sales to external customers	¥41,588	¥12,098	¥6,474	¥11,158	¥67,632	¥ 8,564	¥147,516	¥ —	¥147,516
(2) Intersegment sales	—	—	104	—	1,471	440	2,017	(2,017)	—
Total	41,588	12,098	6,579	11,158	69,104	9,005	149,533	(2,017)	147,516
Operating expenses	32,705	6,218	4,820	7,532	65,974	5,681	122,931	3,064	125,996
Operating income (loss)	¥ 8,882	¥ 5,880	¥1,758	¥ 3,626	¥ 3,129	¥ 3,324	¥ 26,602	¥ (5,082)	¥ 21,520
II Total assets, depreciation and amortization, impairment loss and capital expenditures									
Total assets	¥64,345	¥18,118	¥7,697	¥10,588	¥68,380	¥13,266	¥182,397	¥29,736	¥212,134
Depreciation and amortization	375	428	43	5	7,544	730	9,127	805	9,933
Impairment loss	—	—	—	—	9	—	9	—	9
Capital expenditures	426	234	10	1	4,768	1,142	6,584	368	6,952

Notes:
1. The classification of business segments is made based on the types of products and services.
2. Major products offered by business segment are summarized as follows:

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
Amusement	All businesses of the Taito Group including Amusement Operations and Rental, Sales of Goods and Merchandise and Content Services
Others	Derivative products such as character merchandise, school for game designers

3. Unallocated operating expenses included in “Eliminations or unallocated” totaled ¥5,082 million. These expenses were related to administrative departments of the Company which provide services and operational support that cannot be allocated to specific business segments.
4. Unallocated assets included in “Eliminations or unallocated” totaled ¥30,558 million. These assets mainly consisted of cash and deposits, deferred tax assets and buildings and structures of administrative departments of the Company.
5. Change in accounting policy

   As noted in “Important matters relating to the presentation of the consolidated financial statements,” Section 4. (2) (A), pursuant to the revision of the Corporation Tax Law, effective this fiscal year, for tangible fixed assets acquired on or after April 1, 2007, the Company and its domestic consolidated subsidiaries have changed their method of accounting for depreciation to that provided under the revised Corporation Tax Law.

   As a result of this change, operating expenses increased for “Games (Offline)” by ¥33 million, for “Games (Online)” by ¥13 million, for “Amusement” by ¥537 million, for “Others” by ¥224 million and for “Eliminations or unallocated” by ¥19 million over the corresponding amounts which would have been recorded under the previous method. At the same time, operating income (loss) for each segment decreased (increased) by the same amount as that of the corresponding increase in operating expenses as a result of this change from the amount which would have been recorded under the previous method. The impact of this change on the remaining segments were immaterial.
6. Additional information

   As noted in “Important matters relating to the presentation of the consolidated financial statements,” Section 4. (2) (A), pursuant to the revision of the Corporation Tax Law, effective this fiscal year, for assets acquired on or before March 31, 2007, the Company and its domestic consolidated subsidiaries apply the method of accounting for depreciation provided for in the Corporation Tax Law prior to the revision and depreciate the difference between 5% of an asset’s acquisition cost and its memorandum value using the straight-line method over a period of five years, from the fiscal year following the fiscal year in which the net book value of the asset reaches 5% of its acquisition cost. Such depreciation is recorded in depreciation expense.

   As a result of this change, operating expenses increased for “Amusement” by ¥137 million and for “Eliminations or unallocated” by ¥9 million over the corresponding amounts which would have been recorded under the previous method. At the same time, operating income (loss) for each segment decreased (increased) by the same amount as that of the corresponding increase in operating expenses as a result of this change from the amount which would have been recorded under the previous method. The impact of this change on the remaining segments were immaterial.

[Consolidated Geographic Segment Information]

• FY2006 (April 1, 2006 to March 31, 2007)

Millions of yen

	Japan	North America	Europe	Asia	Total	Eliminations or unallocated	Consolidated total
I Sales and operating income							
Net sales							
(1) Sales to external customers	¥128,665	¥22,341	¥11,409	¥1,056	¥163,472	¥ —	¥163,472
(2) Intersegment sales	9,776	833	457	11	11,078	(11,078)	—
Total	138,441	23,174	11,867	1,067	174,551	(11,078)	163,472
Operating expenses	119,465	17,552	9,901	1,713	148,633	(11,077)	137,555
Operating income (loss)	¥ 18,976	¥ 5,621	¥1,965	¥ (645)	¥ 25,917	¥ (0)	¥ 25,916
II Total assets	¥203,303	¥11,881	¥7,585	¥2,747	¥225,517	¥(9,838)	¥215,679

Notes:
1. The classification of geographic segments is made based on geographical distance.
2. Main countries included in each segment:
   (1) North America.......................... the United States of America
   (2) Europe.................................... the United Kingdom
   (3) Asia....................................... the People's Republic of China, Republic of Korea
3. There were no unallocated operating expenses included in "Eliminations or unallocated."
4. There were no unallocated assets included in "Eliminations or unallocated."

• FY2007 (April 1, 2007 to March 31, 2008)

Millions of yen

	Japan	North America	Europe	Asia	Total	Eliminations or unallocated	Consolidated total
I Sales and operating income							
Net sales							
(1) Sales to external customers	¥127,643	¥12,035	¥7,217	¥ 620	¥147,516	¥ —	¥147,516
(2) Intersegment sales	5,738	552	457	7	6,756	(6,756)	—
Total	133,381	12,588	7,674	628	154,273	(6,756)	147,516
Operating expenses	115,069	9,836	6,592	1,222	132,721	(6,725)	125,996
Operating income (loss)	¥ 18,312	¥ 2,751	¥1,081	¥ (594)	¥ 21,551	¥ (31)	¥ 21,520
II Total assets	¥202,922	¥12,387	¥4,804	¥1,825	¥221,939	¥(9,804)	¥212,134

Notes:
1. The classification of geographic segments is made based on geographical distance.
2. Main countries included in each segment:
   (1) North America.......................... the United States of America
   (2) Europe.................................... the United Kingdom
   (3) Asia....................................... the People's Republic of China, Republic of Korea
3. There were no unallocated operating expenses included in "Eliminations or unallocated."
4. There were no unallocated assets included in "Eliminations or unallocated."
5. Change in accounting policy
   As noted in "Important matters relating to the presentation of the consolidated financial statements," Section 4. (2) (A), pursuant to the revision of the Corporation Tax Law, effective this fiscal year, for tangible fixed assets acquired on or after April 1, 2007, the Company and its domestic consolidated subsidiaries have changed their method of accounting for depreciation to that provided under the revised Corporation Tax Law.
   The impact of this change was an ¥828 million increase in operating expenses and a decrease in operating income of the same amount in Japan as compared to the corresponding amounts which would have been recorded under the previous method.
6. Additional information
   As noted in "Important matters relating to the presentation of the consolidated financial statements," Section 4. (2) (A), pursuant to the revision of the Corporation Tax Law, effective this fiscal year, for assets acquired on or before March 31, 2007, the Company and its domestic consolidated subsidiaries apply the method of accounting for depreciation provided for in the Corporation Tax Law prior to the revision and depreciate the difference between 5% of an asset's acquisition cost and its memorandum value using the straight-line method over a period of five years, from the fiscal year following the fiscal year in which the net book value of the asset reaches 5% of its acquisition cost. Such depreciation is recorded in depreciation expense.
   The impact of this change was a ¥149 million increase in operating expenses and a decrease in operating income of the same amount in Japan as compared to the corresponding amounts which would have been recorded under the previous method.

[Consolidated Overseas Sales]

• FY2006 (April 1, 2006 to March 31, 2007)

Millions of yen

	North America	Europe	Asia	Total
I Overseas sales	¥23,801	¥12,271	¥1,551	¥ 37,624
II Consolidated sales	—	—	—	163,472
III Overseas sales as a percentage of consolidated sales	14.6%	7.5%	1.0%	23.0%

Notes: 1. The classification of geographic segments is made based on geographical distance.
2. Main countries included in each segment:
(1) North America.......................... the United States of America, Canada
(2) Europe.................................... the United Kingdom, France, Germany, others
(3) Asia.. the People's Republic of China, Republic of Korea, others
3. Overseas sales represent sales of the Company and its consolidated subsidiaries to countries and areas outside Japan.

• FY2007 (April 1, 2007 to March 31, 2008)

Millions of yen

	North America	Europe	Asia	Total
I Overseas sales	¥13,358	¥7,896	¥1,118	¥ 22,373
II Consolidated sales	—	—	—	147,516
III Overseas sales as a percentage of consolidated sales	9.1%	5.4%	0.8%	15.2%

Notes: 1. The classification of geographic segments is made based on geographical distance.
2. Main countries included in each segment:
(1) North America.......................... the United States of America, Canada
(2) Europe.................................... the United Kingdom, France, Germany, others
(3) Asia.. the People's Republic of China, Republic of Korea, others
3. Overseas sales represent sales of the Company and its consolidated subsidiaries to countries and areas outside Japan.

Business separations

• FY2006 (April 1, 2006 to March 31, 2007)

During the year, the Company transferred the commercial karaoke-on-demand business of TAITO CORPORATION, a consolidated subsidiary.

1. Name of the recipient company
   XING INC.
2. Details of the business separation
   The commercial karaoke-on-demand business of TAITO CORPORATION, a consolidated subsidiary.
3. Reasons for the business separation
   Since TAITO CORPORATION was included in consolidation in September 2005, the Company has considered medium- to long-term growth strategies for the entire Group. One of the conclusions reached through this process was that the sale of TAITO CORPORATION's commercial karaoke-on-demand business to XING INC., would contribute to raising the corporate value of the Group.
4. Date of business separation
   July 3, 2006
5. Overview of business separation
   At a meeting of its Board of Directors held on April 27, 2006, TAITO CORPORATION approved a resolution to transfer its commercial karaoke-on-demand business to XING INC. This business was spun off as a new company, and all shares of the new company were sold to XING INC.
6. Change in equity of affiliated companies and method of accounting
   Not applicable
7. Name of separated business
   AM (Amusement) and Others
8. Overview of losses recorded in the consolidated financial statements for the year ended March 31, 2007 as a result of the business separation:

Net sales	¥1,248 million
Operating loss	¥97 million
Recurring loss	¥217 million

• FY2007 (April 1, 2007 to March 31, 2008)

In this fiscal year, there were no material items relating to business separations.

[Related Party Transactions]

• FY2006 (April 1, 2006 to March 31, 2007)

(1) Major Director and Individual Shareholders

Attribute	Name	Location	Capital or investment (Millions of yen)	Details of business or occupation	Voting rights (%) (Millions of yen)	Concurrent Director positions	Business relationship	Transaction details	Transaction amount (Millions of yen)	Category	Balance at the end of year (Millions of yen)
Director	Makoto Naruke	—	—	Director of the Company, President and Representative Director of ASPIRE CORPORATION	—	—	—	Consulting fees to ASPIRE CORPORATION	¥4	—	—

Note: 1. The terms of the transaction and method of determining the terms and prices of the transaction were determined after receiving individual estimates used to determine market rates.

• FY2007 (April 1, 2007 to March 31, 2008)

Not applicable

Per Share Information

• FY2006 (April 1, 2006 to March 31, 2007)

Net assets per share (yen)	¥1,168.91
Net income per share (yen)	105.06
Diluted net income per share (yen)	104.71

Note: The basis for calculating net income per share and diluted net income per share is provided below:

• FY2007 (April 1, 2007 to March 31, 2008)

Net assets per share (yen)	¥1,280.50
Net income per share (yen)	81.85
Diluted net income per share (yen)	81.41

Note: The basis for calculating net income per share and diluted net income per share is provided below:

• FY2006 (April 1, 2006 to March 31, 2007)

Net income per share:	
Net income (millions of yen)	¥ 11,619
Income not available to common shareholders (millions of yen)	—
Income available to common shareholders (millions of yen)	11,619
Average number of shares of common stock outstanding during the fiscal year (thousands of shares)	110,600
Adjustments to net income used to calculate diluted net income per share:	
Adjustments to net income (millions of yen)	—
Increase in the number of shares of common stock (thousands of shares)	366
(number of shares reserved for the purpose of new share issuances for exercise of share subscription rights)	(366)

Summary of residual securities that do not dilute the Company's earnings per share:

The issuance of stock options was approved at the Company's annual general meeting of shareholders held on June 18, 2005, and bonds with warrants were issued based on a resolution approved by the Board of Directors on November 9, 2005.

An overview of the stock option plan is provided in "4. Status of Parent Company, 1. Status of Shares, etc., (2) Status of stock options, etc."

• FY2007 (April 1, 2007 to March 31, 2008)

Net income per share:	
Net income (millions of yen)	¥9,196
Income not available to common shareholders (millions of yen)	—
Income available to common shareholders (millions of yen)	9,196
Average number of shares of common stock outstanding during the fiscal year (thousands of shares)	112,357
Adjustments to net income used to calculate diluted net income per share:	
Adjustments to net income (millions of yen)	—
Increase in the number of shares of common stock (thousands of shares)	605
(number of shares reserved for the purpose of new share issuances for exercise of share subscription rights)	(605)

Summary of residual securities that do not dilute the Company's earnings per share:

The issuance of stock options was approved by the Board of Directors on November 19, 2007, and bonds with warrants were issued based on a resolution approved by the Board of Directors on November 9, 2005.

An overview of the stock option plan is provided in "4. Status of Parent Company, 1. Status of Shares, etc., (2) Status of stock options, etc."

Significant Subsequent Events

• FY2006 (April 1, 2006 to March 31, 2007)

Granting of Stock Options

At the 27th Annual General Meeting of Shareholders, convened on June 23, 2007, a resolution was passed to grant stock acquisition rights to directors as a part of their remuneration in accordance with Articles 236 and 238 of Corporation Law.

The details are outlined below.

(1) Reason for issuing stock acquisition rights to directors

The objectives of issuing stock acquisition rights as stock options are to provide an incentive to the Company's directors in consideration of the execution of their duties, to improve operating performance and corporate value and to heighten their managerial awareness from a shareholder's perspective.

(2) Overview of stock options

1. Recipients of stock acquisition rights allocation
   Directors of the Company
2. Type and number of shares reserved for the purpose of stock acquisition rights
   A maximum of 450,000 shares of common stock in a one-year period. In the event that the Company conducts a stock split or a reverse stock split, the Company shall adjust this number in the manner it deems fit.
3. Amount payable upon delivery of stock acquisition rights
   No cash need be paid in exchange for these stock acquisition rights.
4. Value of assets subscribed upon exercise of each stock acquisition right
   The value of assets subscribed upon exercise of stock acquisition rights shall be the per-share payment that may be paid upon accepting delivery (hereinafter, "the Exercise Price") multiplied by the number of shares granted that corresponds to these stock acquisition rights.
   The Exercise Price shall be the average of the closing price on the Tokyo Stock Exchange during the six-month period preceding the month in which the allocation date falls (an exception applies in the event trading is not conducted on that day), multiplied by 1.05 with amounts less than one yen truncated. If the Exercise Price is less than the closing price of the day preceding the allocation date, the closing price of the day preceding the allocation date shall be used. (If the closing price is not available on the day preceding the allocation date, the most recent closing price shall be used.)
   In the event the Company carries out a stock split or a reverse stock split and a revaluation of the Company's shares of common stock become nesessary, the Company may apply any appropriate measures it deems necessary to justify the price per share.
   No cash need be paid in exchange for these stock options.

• FY2007 (April 1, 2007 to March 31, 2008)

Implementation of a Pure Holding Company Structure by Means of a Company Split

On May 23, 2008, a meeting of the Board of Directors approved a resolution under which the Company will move to a pure holding company structure by means of an incorporation-type company split effective October 1, 2008. Under this plan, a newly established wholly-owned subsidiary will assume the operations of the Company's business effective October 1, 2008. Accompanying this move to a holding company structure, effective October 1, 2008, the Company's Articles of Incorporation will be partially revised and the company's name is planned to be changed to SQUARE ENIX HOLDINGS CO., LTD. The Board of Directors' resolution referred to above also determined that the Company's purpose will be changed to that of a pure holding company. The Company plans to maintain the listing of its stock on the First Section of the Tokyo Stock Exchange as a holding company.

(1) Purpose of the company split

The Company believes that it is crucial to maintain profitability and achieve medium- to long-term growth through the provision of high-quality, sophisticated content and services. However, in recent years, as information technology (IT) and telecommunications technology and infrastructure have rapidly developed and seen widespread adoption, customer preferences have become greatly diversified and the speed of technical innovation has accelerated. In such a business environment, the Company has determined to pursue a strategy of moving to a pure holding company structure. As well as aiming to clarify the profitability of each business and the accountability structure, this move is seen as crucial to facilitating Group management that can flexibly engage in strategic business alliances, including capital alliances with other companies.

(2) Outline of the company split

1. Schedule for the split

Record date for the Ordinary General Meeting of Shareholders
  March 31, 2008

Meeting of the Board of Directors to pass a resolution for the move to a pure holding company structure
  April 25, 2008

Meeting of the Board of Directors to pass a resolution for implementation of the company split
  May 23, 2008

Annual General Meeting of Shareholders in which a resolution for the company split is to be approved
  June 21, 2008

Effective date of the company split
  October 1, 2008 (scheduled)

2. Method of the split
The Company, as the transferor, will newly establish SQUARE ENIX CO., LTD. as the succeeding company through a single-incorporation split.

3. Reduction of capital through the split
Not applicable

4. Stock options and bonds with warrants
The terms of certain stock options, which had been issued by the Company and subscribed to by employees of the Company, were amended by approval of the Annual General Meeting of Shareholders held on June 21, 2008. Based on this amendment, employees to be transferred to the succeeding company will be able to exercise the relevant stock options after such transfer. Other stock options and bonds with warrants issued by the Company remain unchanged.

5. Rights and obligations of the succeeding company
In accordance with the terms of the company split plan, the succeeding company will, as of the effective date of the company split, acquire all assets, and assume all liabilities, employment contracts and all other rights and obligations relating to the businesses being transferred. With regard to all liabilities assumed by the succeeding company, the Company will retain joint liability.

6. Fulfillment of obligations
With regard to all liabilities assumed by the transferor and the succeeding company as of the effective date of the split, assets are expected to exceed liabilities for both companies, and the Company anticipates that no problems will arise with respect to the fulfillment of these obligations.

(3) Outline of the parties to the split

	Transferor (as of March 31, 2008)	Succeeding company (new company established through the split) planned post-split status
(1) Company name	SQUARE ENIX CO., LTD. (SQUARE ENIX CO., LTD. is to be changed to SQUARE ENIX HOLDINGS CO., LTD. as of October 1, 2008)	SQUARE ENIX CO., LTD.
(2) Principle businesses	Planning, development and marketing of games and other content and services	Planning, development and marketing of games and other content and services
(3) Date of incorporation	September 22, 1975	October 1, 2008
(4) Address of head office	3-22-7, Yoyogi, Shibuya-ku, Tokyo	3-22-7, Yoyogi, Shibuya-ku, Tokyo
(5) Name and title of representative	Yoichi Wada, President and Representative Director	Yoichi Wada, President and Representative Director
(6) Common stock	¥14,928 million	¥1,500 million
(7) Outstanding shares	115,117,896 shares	30,000 shares
(8) Net assets	¥149,407 million	¥37,388 million
(9) Total assets	¥195,534 million	¥46,140 million
(10) Fiscal year end	March 31	March 31
(11) Major shareholders and percentage of shares held	Yasuhiro Fukushima 20.57% The Master Trust Bank of Japan, Ltd. (Trust Account) 8.83% Fukushima Planning Co., Ltd. 8.50% Sony Computer Entertainment Inc. 8.29% Masashi Miyamoto 6.86%	The Company 100%

Note: Treasury stock is not included in the percentage of shares held.

(4) Outline of the business divisions to be split

1. Business activities of the divisions to be split

   Games (Offline), Games (Online), Mobile Phone Content, Publication, Others.

2. Operating results of the divisions to be split

Millions of yen

	Business divisions to be split (a)	Actual results in the fiscal year ended March 31, 2008 (b)	(a) as a percentage of (b) (%)
Sales	¥65,719	¥65,719	100.0

3. Assets and liabilities to be split

Millions of yen

Item	Book value	Item	Book value
Current assets	¥35,498	Current liabilities	¥6,177
Non-current assets	10,642	Non-current liabilities	2,575
Total	¥46,140	Total	¥8,752

Note: Since the figures shown in the table above are calculated based on the balance sheet as of March 31, 2008, the actual amounts of assets and liabilities to be split will differ from those shown above.

(5) Post-split status of the Company as a listed company

1. Company name	SQUARE ENIX HOLDINGS CO., LTD. (scheduled)
2. Principle business	Management of corporate group as a pure holding company
3. Address of head office	3-22-7, Yoyogi, Shibuya-ku, Tokyo
4. Name and title of representative	Yoichi Wada, President and Representative Director
5. Common stock	¥14,928 million
6. Fiscal year end	March 31
7. Forecast	The Company plans to remain as a listed company subsequent to the move to a pure holding-company structure. In addition, the Company plans to undertake a range of functions, including unified and flexible Group strategic planning, optimal allocation of business resources among Group companies, and monitoring of the execution of business operations by subsidiaries. The Company plans to develop a strategically sound and transparent management structure to maximize the Group's corporate value.

Additional Information

[Corporate Bonds Issued]

Company	Bond type	Issuance date	Outstanding balance at end of FY2005 (Millions of yen)	Outstanding balance at end of FY2006 (Millions of yen)	Coupon (%)	Security	Maturity date
SQUARE ENIX CO., LTD.	Five-year yen-denominated bonds with warrants*1	November 25, 2005 (UK time)	¥50,000	¥37,000	—	None	November 25, 2010 (UK time)
Total			¥50,000	¥37,000			

*1 [Bonds with Warrants Issued]
(As of March 31, 2008)

Issuance price	100% of face value
Aggregate amount of issuance	¥50.0 billion
Warrants applicable to	Common shares
Exercise price (yen)*2	¥3,439.8
Period for exercise of warrants	November 28, 2005 to November 11, 2010 (local time where funds are deposited)
Issuance price of shares upon exercise of warrants and amount capitalized (yen)	
Issuance price	¥3,439.8
Amount capitalized	¥1,720
Conditions for exercise of warrants	Warrants cannot be exercised partially

*2 The related convertible debenture indenture stipulates provisions for the adjustment of the exercise price, and the exercise price was updated on November 16, 2007. The exercise price prior to the adjustment was ¥3,400.

3 Amount scheduled to be repaid within five years from March 31, 2008 are summarized as follows.

Millions of yen

Within one year	Over one year but within two years	Over two years but within three years	Over three years but within four years	Over four years but within five years
¥—	¥—	¥37,000	¥—	¥—

[Borrowings]

	Balance as of March 31, 2007 (Millions of yen)	Balance as of March 31, 2008 (Millions of yen)	Average interest rate (%)	Repayment date
Short-term borrowings	¥—	¥26	1.5	—
Long-term borrowings due for repayment within one year	—	—	—	—
Lease obligations due for repayment within one year	—	—	—	—
Long-term borrowings (excluding the amount due for repayment within one year)	—	—	—	—
Lease obligations (excluding the amount due for repayment within one year)	—	—	—	—
Other interest-bearing liabilities	—	—	—	—
Total	¥—	¥26	—	—

Note: The average interest rate shown is the weighted average interest rate on the balance of borrowings at the end of the fiscal year.

[Other]

Not applicable

Corporate Data

(As of March 31, 2008)

Company Profile

Headquarters:	Shinjuku Bunka Quint Bldg. 3-22-7 Yoyogi, Shibuya-ku Tokyo 151-8544, Japan. TEL.+81-3-5333-1555
Established:	September 22,1975
Common stock:	¥14,928,584,900
Number of employees:	2,973 (Consolidated) 1,932 (SQUARE ENIX) Note: Number of part-time employees is not included in the number of employees.

SQUARE ENIX Group

Company Name Major Consolidated Subsidiaries	Established	Fiscal Year End	Common Stock	Percent of Voting Rights	Principal Lines of Business
Japan					
TAITO CORPORATION	August 1953	March	¥4,524 million	100.0%	Management and operation of arcade facilities; planning, development, production, sale and rental of coin-operated game machines; planning, development and sale of game software; planning, development and provision of mobile phone content
SG Lab Inc.	May 2006	March	¥10 million	80.0%	Planning, development and sale of serious games
DIGITAL ENTERTAINMENT ACADEMY CO., LTD.	October 1991	March	¥72 million	72.2% (1.4)	School for computer game engineers
Community Engine Inc.	May 2000	March	¥25 million	58.8%	Network application, development, sale of middleware
North America					
SQUARE ENIX OF AMERICA HOLDINGS, INC.	November 2006	March	US$1	100.0%	Holding of shares in and business management of Square Enix Group companies located in North America
SQUARE ENIX, INC.	March 1989	March	US$10 million	100.0% (100.0%)	Sale of games, sale and management of online games in North America
SQUARE PICTURES, INC.	November 1997	December	US$0.1 million	100.0% (100.0%)	Management of overseas film revenues
Europe					
SQUARE ENIX LTD.	December 1998	March	GB£3 million	100.0%	Sale of games, sale and management of online games in Europe
Asia					
SQUARE ENIX (China) CO., LTD.	January 2005	December	US$12 million	100.0%	Development, sale, and management of online games in Asia
HUANG LONG CO., LTD.	August 2005	December	10 million yuan RMB	— [100.0%]	Sale and operation of online games in Asia
BEIJING TAIXIN CULTURAL ENTERTAINMENT CO., LTD.	July 1996	December	16,617 thousand yuan RMB	80.0% (80.0%)	Management of arcade facilities and rental of game machines
TAITO KOREA CORPORATION	May 2004	March	3,300 million won	100.0% (100.0%)	Management and operation of arcade facilities
Partnership					
FF·FILM·PARTNERS	March 1998	December	—	93.6%	Licensing and management of movies and derivative products

Notes: 1. In the Percentage of Voting Rights column, numbers in parentheses ( ) represent the percentage of indirect holdings and are including in the total percentage of voting rights held by the Company. Numbers in brackets [ ] represent the percentage of holdings of closely related parties of parties of the same interest and are excluded from the total percentage of voting rights held by the Company.

2. On March 31, 2006, TAITO CORPORATION (the former SQEX, Inc., name changed on March 31, 2006) absorbed the former TAITO CORPORATION. To make the de facto surviving company of this merger—the former TAITO CORPORATION—a wholly-owned subsidiary of the Company, the former TAITO CORPORATION was absorbed by TAITO CORPORATION (the former SQEX, Inc.) on a pro forma basis. Consequently, the date of establishment is recorded as that of the de facto surviving company, the former TAITO CORPORATION.

Investor Information

(As of March 31, 2008)

Share Information

Number of shares issued: 115,117,896

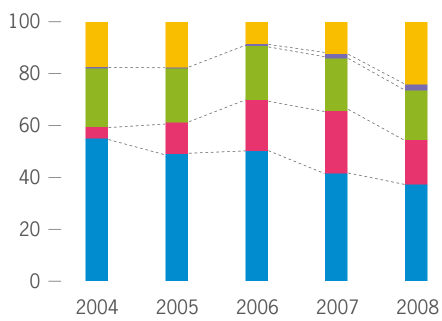
Number of shareholders: 27,349

Principal Shareholders

Rank	Shareholder	Investment in SQUARE ENIX (Thousands of Shares)	(%)
1	Yasuhiro Fukushima	23,626	20.52
2	The Master Trust Bank of Japan, Ltd. (Trust Account)	10,144	8.81
3	Fukushima Planning Co., Ltd.	9,763	8.48
4	Sony Computer Entertainment Inc.	9,520	8.26
5	Masashi Miyamoto	7,882	6.84
6	Japan Trustee Services Bank, Ltd. (Trust Account)	7,092	6.16
7	Trust & Custody Services Bank, Ltd. (Trust Account)	6,351	5.51
8	JP Morgan Chase Oppenheimer Funds JASDEC Account	3,314	2.87
9	The Chase Manhattan Bank, NA, London SL Omnibus Account	3,158	2.74
10	S System Co., Ltd.	2,045	1.77

Note: 1. The above investment of Japan Trustee Services Bank, Ltd. (Trust Account), includes 977,000 shares held in the name of Japan Trustee Services Bank, Ltd. (Trust Account 4).
2. The breakdown of shares held by Trust & Custody Services Bank, Ltd. (trust accounts) is as follows. Trust & Custody Services Bank, Ltd. (Trust Account Y): 3,804 thousand shares; Trust & Custody Services Bank, Ltd. (Pension Specified Money Trust Account): 1,066 thousand shares; Trust & Custody Services Bank, Ltd. (Securities Investment Trust Account): 754 thousand shares; Trust & Custody Services Bank, Ltd. (Pension Trust Account): 228 thousand shares; Trust & Custody Services Bank, Ltd. (Money Trust Account): 205 thousand shares; Trust & Custody Services Bank, Ltd. (Trust Account A): 164 thousand shares; Trust & Custody Services Bank, Ltd. (Trust Account B): 128 thousand shares.

Number of Shares Owned (Thousands of shares)



	2004		2005		2006		2007		2008	
Financial Institutions	19,225	(17.46%)	19,475	(17.64%)	9,456	(8.54%)	13,756	(12.40%)	27,760	(24.12%)
Financial Instruments Company	486	(0.44%)	374	(0.34%)	822	(0.74%)	1,843	(1.66%)	2,678	(2.33%)
Other Companies	25,023	(22.72%)	23,117	(20.94%)	23,178	(20.94%)	22,553	(20.33%)	22,148	(19.24%)
Foreign Companies and Individuals	4,914	(4.46%)	13,252	(12.01%)	21,761	(19.65%)	26,801	(24.16%)	19,620	(17.04%)
Individuals and Other	60,481	(54.92%)	54,164	(49.07%)	55,510	(50.13%)	45,992	(41.45%)	42,909	(37.27%)
Total	110,130	(100.00%)	110,385	(100.00%)	110,729	(100.00%)	110,947	(100.00%)	115,117	(100.00%)

Shareholders' Memo

- Fiscal year:
April 1 to March 31

- Record dates for dividends from retained earnings:
September 30 (Record date for interim dividend)
March 31 (Record date for year-end dividend)

- Annual general meeting of shareholders:
June

- Administrator of the Register of Shareholders:
Mitsubishi UFJ Trust and Banking Corporation

- Shareholder registration agent:
Securities Agency Department Mitsubishi UFJ Trust and Banking Corporation 7-10-11 Higashi-suna, Koto-ku, Tokyo 137-8081 TEL: +81-120-232-711

- Transfer agent offices:
Mitsubishi UFJ Trust and Banking Corporation (domestic branches)

- Listed on:
The First Section of the Tokyo Stock Exchange

- Securities code:
9684

- Trading unit:
100 shares

- Public notices:
URL:http://www.aspir.co.jp/koukoku/9684/9684.html (Japanese)

(Public notices will be announced in the Nihon Keizai Shimbun, a Japanese-language newspaper, in case an electronic notice is not possible due to an accident or any other unavoidable reasons

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