

**CONSOLIDATED FINANCIAL REPORT**  
**FOR THE THREE MONTHS PERIOD ENDED JUNE 30, 2006**

Company Name: SQUARE ENIX CO., L TD.	Market: Tokyo Stock Exchange, First Section
Code: 9684	Headquarters: Tokyo
URL: <a href="http://www.square-enix.com/">http://www.square-enix.com/</a>	
Representative: Yoichi Wada, President and Representative Director	
Contact: Yosuke Matsuda, Director	Phone: 03- 5333-1555 (main)

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

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

**2. Consolidated Financial Report for the Three Months Period Ended June 30, 2006**

(1) Consolidated Financial Highlights

(Millions of yen except percentages and per share data)

	Net Sales		Operating Income		Recurring Income		Net Income	
Three Months Ended	%		%		%		%	
June 30, 2006	37,196	229.8	2,717	629.9	2,464	438.2	888	1,573.1
June 30, 2005	11,278	(6.3)	372	(89.4)	458	(87.8)	53	(97.1)
Fiscal Year 2005	124,473		15,470		15,547		17,076	

	Earnings Per Share (Basic)	Earnings Per Share (Diluted)
Three Months Ended	Yen	Yen
June 30, 2006	8.04	8.00
June 30, 2005	0.48	0.48
Fiscal Year 2005	154.65	153.44

Note: Percentages in net sales, operating income, recurring income, and net income are the percent change compared with the same period of the previous fiscal year.

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

The net sales, operating income, recurring income, and net income amounted to ¥37,196 million (up 229.8% from the same period of the previous fiscal year), ¥2,717 million (up 629.9%), ¥2,464 million (up 438.2%), and ¥888 million (up 1,573.1%), respectively, for the three month period (April 1, 2006 – June 30, 2006) results of the Company's consolidated group.

Quarterly results are considerably affected by title release schedule during the period.

## Games (Offline)

During the period under review, the Company released "Dragon Quest: Young Yangus' Mysterious Dungeon" (330 thousand units in Japan as of June 30, 2006), "Valkyrie Profile 2: Silmeria" (400 thousand units in Japan-ditto) for PlayStation2 ("PS2"), and "Dragon Quest & FINAL FANTASY in Itadaki-Street Portable" (110 thousand units in Japan-ditto) for PlayStation Portable ("PSP"). The Company also released "Dragon Quest VIII: Journey of the Cursed King" (400 thousand units in Europe-ditto) in Europe, and fully began sale of package game software as its own publication through a wholly-owned subsidiary, SQUARE ENIX LTD.

Consequently, net sales in the Games (Offline) segment totaled ¥8,547 million (up 92.6%), and an operating income amounted to ¥363 million (operating loss of ¥1,074 million was amounted in the same period of the previous fiscal year).

## Games (Online)

During the period under review, the Company released an expansion pack for "FINAL FANTASY XI," "FINAL FANTASY XI: Treasures of Aht Urhgan," in Japan, North America and Europe simultaneously. The Company, at the same time, started the support for Xbox360 platform.

Consequently, net sales in the Games (Online) segment totaled ¥4,751 million (up 60.4%), and operating income amounted to ¥2,003 million (up 74.3%).

## Mobile Phone Content

The Company plans, develops and provides content such as games, ring tones, wallpapers and portals for mobile phones. During the period under review, the Company launched services such as a messaging communication tool, "POKE-MATE."

Net sales in the Mobile Phone Content segment amounted to ¥1,375 million (up 20.9%), and operating income amounted to ¥422 million (up 6.5%).

## Publication

The Company publishes and distributes comic magazines, serial comics and game-related books. During the period under review, the Company published a game strategy book for the game title "FINAL FANTASY XII," which was released in the previous fiscal year.

Net sales in the Publication segment totaled ¥2,716 million (up 44.4%), and operating income amounted to ¥904 million (up 102.8%).

## Amusement

This segment includes the results of all the businesses of the Taito Group, which was included in the Company's scope of consolidation from the end of September 2005, such as Amusement Operation and Rental, Sales of Goods and Merchandise, Content Services, and Others are included in the results of the Amusement segment as well as goodwill amortization incurred from consolidation of TAITO. TAITO Group's operating results are included in the Company's consolidated statement of income from October 2005, and are not include in that of the same period of the previous fiscal year.

During the period under review, despite proceeding drastic restoration in business structure, amusement operation business, a major operation in this segment, was unsuccessful to offset unfavorable operation results of home game software and commercial karaoke machines businesses.

Consequently, net sales in the Amusement segment totaled ¥18,713 million, and operating loss amounted to ¥663 million.

## Others

The Others segment covers the planning, production, distribution and licensing of SQUARE ENIX titles' derivative products.

Net sales in the Others segment amounted to ¥1,092 million (up 27.1%), and operating income totaled ¥510 million (up 31.5%).

## (2) Consolidated Financial Position

(Millions of yen except percentages and per share data)

	Total Assets	Total Shareholders' Equity	Ratio of Shareholders' Equity	Shareholders' Equity Per Share
Three Months Ended			%	Yen
June 30, 2006	199,292	120,800	60.1	1,082.55
June 30, 2005	116,327	103,701	89.1	936.63
Fiscal Year 2005	213,348	120,993	56.7	1,094.50

Note: Net assets for the three month period ended June 30, 2005 and the fiscal year ended March 31, 2006 do not include minority interests.

## [ Consolidated Statement of Cash Flows ]

(Millions of yen except percentages and per share data)

	From Operating Activities	From Investing Activities	From Financing Activities	Closing Cash and Cash Equivalents
Three Months Ended				
June 30, 2006	9,122	(2,195)	(5,326)	76,841
June 30, 2005	(12,265)	(304)	(4,257)	64,563
Fiscal Year 2005	9,174	(60,039)	44,153	75,252

## [ Notes Regarding the Consolidated Financial Position ]

Cash and cash equivalents at the end of the period under review stood at ¥76,841 million.

The cash flows status and contributing factors are as follows.

### 1) Cash flows from operating activities

Income before income taxes amounted to ¥2,415 million, and mainly owing to recovery of accounts receivable, net cash provided by operating activities totaled of ¥9,122 million.

### 2) Cash flows from investing activities

Mainly owing to acquisition of property and equipment as well as intangible assets, net cash used in investing activities totaled ¥2,195 million.

### 3) Cash flows from financing activities

Mainly owing to payment of payables relating to the merger with TAITO and ordinary year-end dividend, net cash provided by financing activities amounted to ¥5,326 million.

## 3. Forecasts for FY2006

At this point, there is no revision to the Company's forecasts of FY2006 consolidated results announced on May 24, 2006.

### ■ Attachments

- Quarterly Consolidated Balance Sheet (summary)
- Quarterly Consolidated Statements of Income (summary)
- Quarterly Consolidated Statements of Cash Flows (summary)
- Segment Information.

**A Summary of Consolidated Balance Sheet for Three Months Ended June 30, 2006**

(Millions of yen / %)

Account	FY2006 Quarterly Results	FY2005 Quarterly Results	Change		(For Reference)
	(As of June 30, 2006)	(As of June 30, 2005)			Fiscal Year 2005
	Amount	Amount	Amount	Rate	Amount
(Assets)					
I Current assets					
1. Cash and deposits	76,846	64,563	12,283	19.0	75,257
2. Notes and accounts receivable	19,002	7,848	11,154	142.1	33,215
3. Inventories	5,899	1,449	4,449	307.0	5,489
4. Content production account	7,576	16,321	(8,745)	(53.6)	7,312
5. Deferred tax assets	6,785	3,364	3,420	101.7	7,877
6. Other current assets	4,711	2,146	2,565	119.5	3,968
Allowance for doubtful accounts	(922)	(252)	(669)	265.4	(868)
Total current assets	119,900	95,442	24,457	25.6	132,251
II Non-current assets					
1. Property and equipment	29,333	8,588	20,745	241.6	29,995
2. Intangible assets	24,968	5,758	19,210	333.6	25,389
3. Investments and other asset					
(1) Investment securities	1,169	1,109	59	5.3	1,459
(2) Long-term loans	172	7	165	2,321.8	173
(3) Rental deposits	17,170	2,898	14,271	492.3	17,361
(4) Construction corporation fund	2,078	—	2,078	—	2,158
(5) Deferred tax assets	6,407	1,887	4,519	239.4	6,523
(6) Other	2,705	634	2,070	326.2	2,774
Allowance for doubtful accounts	(4,613)	—	(4,613)	—	(4,738)
Total investments and other assets	25,089	6,538	18,551	283.7	25,712
Total non-current assets	79,391	20,884	58,506	280.1	81,097
Total assets	199,292	116,327	82,964	71.3	213,348
(Liabilities)					
I Current liabilities					
1. Notes and accounts payable	10,937	2,046	8,890	434.5	12,124
2. Other accounts payable	1,629	2,151	(522)	(24.3)	6,509
3. Accrued expenses	5,322	1,156	4,166	360.3	6,413
4. Accrued income taxes	954	194	759	389.4	4,848
5. Advance payments received	677	809	(131)	(16.2)	991
6. Deposits received	827	574	253	44.1	421
7. Reserve for bonuses	840	763	77	10.2	2,648
8. Allowance for sales returns	1,415	1,228	186	15.2	1,186
9. Allowance for store closings	270	—	270	—	292
10. Other	2,332	1,713	619	36.1	2,405
Total current liabilities	25,207	10,637	14,570	137.0	37,840
II Non-current liabilities					
1. Corporate bond	50,000	—	50,000	—	50,000
2. Allowance for retirement benefits	2,887	1,142	1,744	152.7	3,001
3. Other	395	150	245	162.8	392
Total non-current liabilities	53,283	1,293	51,990	4,019.9	53,394
Total liabilities	78,491	11,930	66,560	557.9	91,234
(Minority interests)					
Minority interests in consolidated subsidiaries	—	694	—	—	1,120
(Shareholders' equity)					
I Common stock	—	7,589	—	—	7,803
II Capital surplus reserve	—	36,829	—	—	37,044
III Retained earnings	—	60,103	—	—	76,022
IV Unrealized gain on revaluation of other investment securities	—	363	—	—	531
V Foreign currency translation adjustment	—	(731)	—	—	97
VI Treasury stock	—	(453)	—	—	(506)
Total shareholders' equity	—	103,701	—	—	120,993
Total liabilities, minority interests and shareholders' equity	—	116,327	—	—	213,348
(Net assets)					
I Shareholders' equity					
1. Common Stock	7,816	—	—	—	—
2. Capital surplus reserve	37,057	—	—	—	—
3. Retained earnings	74,937	—	—	—	—
4. Treasury stock	(514)	—	—	—	—
Total shareholders' equity	119,297	—	—	—	—
II Valuation and translation adjustment					
1. Unrealized gains on revaluation of other investment securities	365	—	—	—	—
2. Foreign currency translation adjustment	20	—	—	—	—
Total valuation and translation adjustments	385	—	—	—	—
III Minority interests in consolidated subsidiaries	1,117	—	—	—	—
Total net assets	120,800	—	—	—	—
Total liabilities and net assets	199,292	—	—	—	—

## A Summary of Consolidated Statements of Income for Three Months Ended June 30, 2006

(Millions of yen / %)

Account	FY2006 Quarterly Results	FY2005 Quarterly Results	Change		(For Reference)
	(As of June 30, 2006)	(As of June 30, 2005)	Amount	Rate	Fiscal Year 2005
	Amount	Amount			Amount
I Net Sales	37,196	11,278	25,918	229.8	124,473
II Cost of sales	20,969	5,048	15,920	315.3	68,105
Gross profit	16,227	6,230	9,997	160.5	56,367
Reversal of allowance for sales returns	949	1,316	(367)	(27.9)	1,316
Provision for allowance for sales returns	1,415	1,228	186	15.2	1,186
Net gross profit	15,760	6,317	9,443	149.5	56,497
III Selling, general and administrative expenses	13,043	5,945	7,097	119.4	41,026
Operating income	2,717	372	2,345	629.9	15,470
IV Non-operating income	195	85	109	127.5	1,046
V Non-operating expenses	447	0	447	—	968
Recurring income	2,464	458	2,006	438.2	15,547
VI Extraordinary gain	57	8	49	616.3	1,361
VII Extraordinary loss	101	517	(416)	(80.4)	7,878
Income before income taxes and distribution of loss in partnership (tokumei-kumiai)	2,421	(51)	2,473	(4,779.2)	9,031
Distribution of loss in partnership (tokumei-kumiai)	5	9	(3)	(34.9)	40
Income before income taxes	2,415	(60)	2,476	(4,072.2)	8,990
Income taxes:	660	(373)	1,034	(277.2)	922
Current deferred	858	231	627	270.6	(9,039)
Minority interest in consolidated subsidiaries	7	27	(20)	(74.1)	31
Net income	888	53	835	1,573.1	17,076

## A Summary of Consolidated Statements of Cash Flows for Three Months Ended June 30, 2006

(Millions of yen / %)

Account	FY2006 Quarterly Results	FY2005 Quarterly Results	(For Reference)
	(As of June 30, 2006)	(As of June 30, 2005)	Fiscal Year 2005
	Amount	Amount	Amount
I Cash flows from operating activities			
Income before income taxes	2,415	(60)	8,990
Depreciation and amortization	2,452	403	8,419
Decrease (increase) in accounts receivable	13,874	(127)	(16,330)
(Increase) decrease in inventories	(651)	(1,134)	9,140
(Decrease) increase in purchase liabilities	(702)	(227)	1,797
(Decrease) increase in accrued consumption taxes	(898)	(920)	102
Income taxes paid	(4,456)	(9,630)	(10,054)
Other	(2,910)	(568)	7,108
Net cash provided by (used in) operating activities	9,122	(12,265)	9,174
II Cash flows from investing activities			
Payments for acquiring property and equipment	(2,235)	(189)	(8,258)
Payments for acquiring intangible assets	(119)	(84)	(340)
Proceeds from return of guarantee money paid	333	9	1,160
Payments for provision of guarantee money paid	(61)	(44)	(234)
Other	(112)	5	(52,365)
Net cash used in investing activities	(2,195)	(304)	(60,039)
III Cash flows from financing activities			
Payments for dividends	(1,776)	(4,515)	(6,617)
Increase in short-term borrowings	5,000	—	40,000
Decrease in short-term borrowings	(5,000)	—	(40,000)
Payments for merger negotiation fees	(3,567)	—	—
Other	17	257	50,771
Net cash used in (provided by) financing activities	(5,326)	(4,257)	44,153
IV Effect of exchange rate changes on cash and cash equivalents	(11)	146	719
V Net increase (decrease) in cash and cash equivalents	1,589	(16,680)	(5,991)
VI Cash and cash equivalents at beginning of period	75,252	81,243	81,243
VII Cash and cash equivalent end of period	76,841	64,563	75,252

## Segment Information

### 1. Consolidated Business Segment Information

FY2005 Quarterly Results (April 1, 2005 to June 30, 2005)							(Millions of yen)		
	Games (Offline)	Games (Online)	Mobile Phone Content	Publication	Other	Total	Eliminations or Unallocated	Consolidated Total	
Sales and operating income									
Net sales									
(1) Sales to outside customers	4,437	2,962	1,138	1,881	859	11,278	—	11,278	
(2) Inter-segment sales	—	—	—	—	—	—	—	—	
Total	4,437	2,962	1,138	1,881	859	11,278	—	11,278	
Operating expenses	5,511	1,812	741	1,435	471	9,973	933	10,906	
Operating income	(1,074)	1,149	396	445	387	1,305	(933)	372	

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

2. Major products offered by each business segment

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

3. Unallocated operating expenses included in "Eliminations or Unallocated" totaled ¥933 million.

These expenses are related to administrative departments, such as accounting and general affairs, of the Company, which provide services and operational support that are not allocable to specific business segments.

FY2006 Quarterly Results (April 1, 2006 to June 30, 2006)							(Millions of yen)		
	Games (Offline)	Games (Online)	Mobile Phone Content	Publication	Amusement	Other	Total	Eliminations or Unallocated	Consolidated Total
Sales and operating income									
Net sales									
(1) Sales to outside customers	8,547	4,751	1,375	2,716	18,713	1,092	37,196	—	37,196
(2) Inter-segment sales	—	—	—	—	—	—	—	—	—
Total	8,547	4,751	1,375	2,716	18,713	1,092	37,196	—	37,196
Operating expenses	8,183	2,748	953	1,811	19,376	582	33,656	822	34,479
Operating income	363	2,003	422	904	(663)	510	3,540	(822)	2,717

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

2. Major products offered by each business segment

Segment	Major Products
Games (Offline)	Games
Games (Online)	Online games
Mobile Phone Content	Content for mobile phones
Publication	Magazine comics, serial comics, game-related books
Amusement	All businesses of Taito Group such as Amusement Operation and Rental, Sales of Goods and Merchandise, and Content Services
Other	Derivative products such as character merchandise, creator training school

3. Unallocated operating expenses included in "Eliminations or Unallocated" totaled ¥822 million.

These expenses are related to administrative departments, such as accounting and general affairs, of the Company, which provide services and operational support that are not allocable to specific business segments.

## 2. Consolidated Geographic Segment Information

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

(Millions of yen)

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

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

2. Main countries included in each segment:

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

(2) Europe.....United Kingdom

(3) Asia.....China

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

FY2006 Quarterly Results (April 1, 2006 to June 30, 2006)

(Millions of yen)

	Japan	North America	Europe	Asia	Total	Eliminations or Unallocated	Consolidated Total
<b>Sales and operating income</b>							
Net sales							
(1) Sales to outside customers	31,005	4,193	1,792	205	37,196	—	37,196
(2) Inter-segment sales	1,397	112	93	—	1,603	(1,603)	—
<b>Total</b>	<b>32,402</b>	<b>4,305</b>	<b>1,885</b>	<b>205</b>	<b>38,800</b>	<b>(1,603)</b>	<b>37,196</b>
Operating expenses	29,847	4,135	1,695	404	36,082	(1,603)	34,479
<b>Operating income</b>	<b>2,555</b>	<b>170</b>	<b>190</b>	<b>(198)</b>	<b>2,717</b>	<b>—</b>	<b>2,717</b>

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

2. Main countries included in each segment:

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

(2) Europe.....United Kingdom

(3) Asia.....China

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