SQUARE ENIX

2009 ANNUAL REPORT

our world[s]

SQUARE ENIX™

our world[s]

The worlds we create together
are unlike anything else.

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 forward-looking statements are 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.

CONTENTS

CONNECTING OUR WORLDS

To Our Shareholders

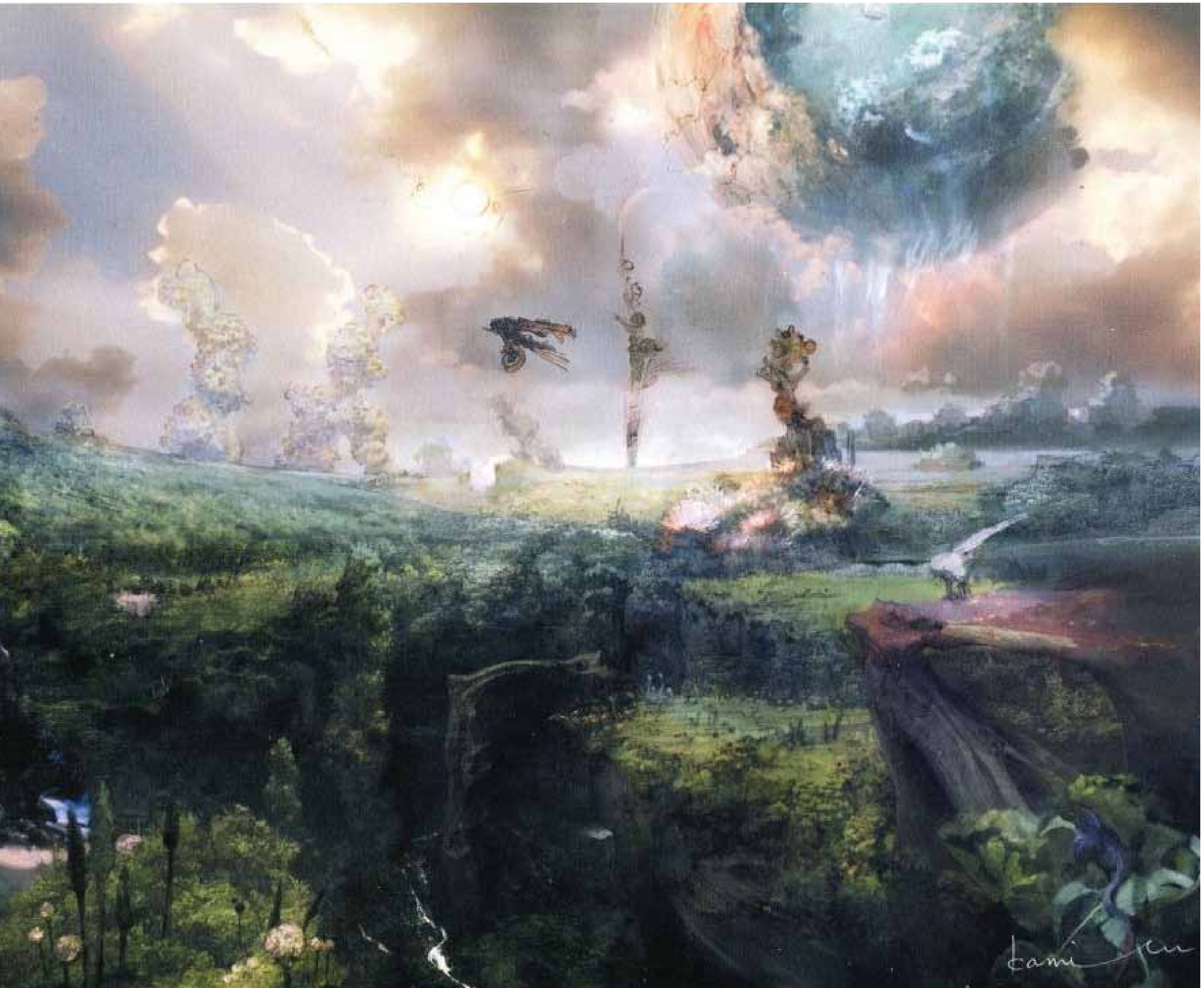
Yoichi Wada, President and Representative Director

Square Enix Co., Ltd. is proud to present its first annual report for fiscal 2009, ended March 31, 2010, following the merger of Enix Corporation and Square Co., Ltd. on April 1, 2008

For its first fiscal year, consolidated net sales totaled ¥63,202 million, operating income was ¥19,398 million and net income amounted to ¥10,993 million for an operating income margin of 30.7% and return on equity (ROE) of 11.9%. Compared against the simple addition of the historical figures of the former Enix Corporation and Square Co., Ltd., performance in fiscal 20 reached a record high. Square Enix got an excellent start to its new journey owing to the smooth integration of the two companies following the merger.

The Square Enix Group aims to become one of the world's largest and best digital content providers. While our performance during the fiscal year under review was encouraging, we believe it was nothing more than a start of what is to come.

[Opposite] Final Fantasy XIII's main character Lightning Farron leads the player on an incredible journey throughout the game.



[Above] Final Fantasy XIII's epic storyline and stunning visuals have created a stunning piece of work that has taken the world by storm.

"In any case, we believe users stand to benefit no matter what happens next in the coming era of network gaming."

Here, we would like to discuss our vision, perception of the operating environment and future management strategies.

A Fundamental Industry Change from Evolution in Network Technology

One factor why we decided on the merger was the major changes underway in the video game industry. The structure of the IT industry in general has been changing from a vertically integrated to a horizontally linked industry—the typical example is the PC industry. Being part of the increasingly horizontally linked IT industry the video game business has been in the rare position of being able to maintain a vertically integrated business model. We believe that this atypical position was possible due to the unique capability of game consoles to make unique entertainment experiences possible—experiences that other hardware and software vendors were unable to provide on other platforms. We also believe that it was possible due to market growth that kept profits well distributed within the industry value chain.

However, these conditions have changed.

For hardware vendors, this change was embodied by the ability of PCs, and in the near future mobile phones, to match the unique features of game consoles, which had lost their lead in graphics rendering capabilities. Game consoles were also behind PCs in incorporating networking functions, an indispensable competitive feature in the new industry structure. For software vendors, this change represented an increase in development costs to accommodate much improved hardware specifications and technical difficulties in transferring game software to other media. For customers, this change meant the emergence of markets for new digital content beyond video games. All of these changes collided together in the game industry. The strength of having a vertically integrated business model began to become a weakness, because there were few companies, other than console providers, which were large enough to weather downward pricing pressure and so the market grew too large for console providers to keep pace.

At a glance, this might appear to be a problem unique to Japan, but we believe it applies in global markets as well. These conditions are not reflected outside Japan yet owing to differences in the timing of game console proliferation in Japan and other countries, as well as differences in the distribution structure. Even if the aforementioned change did not occur, the real issue at hand is advancements in network technology. Open networks disrupt vertically integrated business models, and this is not something unique to Japan.

The video game industry is changing from a vertically integrated model to a horizontally linked one, and customer ownership is shifting from game console manufacturers to content providers.

“The video game industry is changing.”

A New Era of Entertainment

Another factor why we decided on the merger was to tackle a massive new market.

Taking another look at changes in the industry structure, we see that the process of change is offering customers new forms of entertainment. Companies unable to adjust to this change will fail, and companies that precisely adapt to this change will be offered incredible business opportunities.

Square Enix expresses the new era of networking in the following two catchphrases.

Network is the Game

“Network is the Game” is our way of expressing the fact that communication across networks is an essential element in new network-based interactive content. To think abstractly, it can be said that a game is a form of communication based on a set of rules. The enjoyment derived from a game of chess or sports is created through interaction between people. Technology has advanced to the point of allowing users to enjoy communicating through virtual worlds. Demand for communications, and the communities that naturally formed as a result, present an unlimited market restricted only by the whims of people.

Everything Plays Games

With the advancement of multifunctional, high-performance platforms, the way users access content is diversifying. Users will be able to access the same content at any time no matter where they are, and they will be able to access various kinds of content from a single platform.

[Above] Brand new battle mechanics in Final Fantasy XIII keep the player more engaged in the world than ever.

In any case, we believe users stand to benefit no matter what happens next in the coming era of network gaming.

It is our view that these developments are occurring in not only the TV gaming industry, but also the IT industry as a whole.

Becoming the Largest and Finest Digital Content Provider

A noteworthy point about the video game industry is that it has increased the variety and quality of entertainment through technology. The video game industry is in the best position to take advantage of the technological changes mentioned above. To this end, we believe the mission of Square Enix is to lead the industry into a new era of entertainment.

To be able to adapt to any industry structure, more specifically, to take the initiative in designing the next ecosystem, Square Enix must have influence over the whole value chain, reinforce its financial capacity, and enhance its presence to form broad-ranging alliances.

The former Enix and Square were similar in terms of their commitment to the quality of their products, but they had different business models and different areas of business focus. As a result of the merger, the two companies were able to mutually complement these differences and achieve the above-mentioned objectives in a short time.

In addition, both companies share a point in common in that they were early to start initiatives in network content and we believe this will become a crucial cornerstone for our future growth, despite the fact that both companies' preeminence in packaged software tended to overshadow their efforts on the online games front.

What is Square Enix's strategy in this challenging but exciting business environment? We think the following three actions are critical: enhance community management; deploy polymorphic content; and define new platforms.

Network content is comprised of two elements, namely software and communities. Communities are a previously nonexistent service category, and managing the quality of these communities is an area where we can add the most value going forward. Communities provide the most value to users, and managing them is the most difficult business area for providers to enter. For these very reasons, Square Enix plans to concentrate on enhancing community management skills.

Our next strategy is the development of polymorphic content. This entails the creation of original content with the intent of deployment across various platforms

“We are now setting out on a new adventure.”

while leveraging the unique features of each platform and media type. Recently, there has been an industry trend toward creating games based on preexisting content such as sports and movies. In other words, many games are created as a secondary usage of the original content for which others hold the intellectual property (IP) rights. We are focusing on capitalizing on our own IPs. As the “Everything Plays Games” trend continues, we expect profits will converge on the industry players, such as Square Enix, who possess the IP rights to original content.

Our third strategy is to define new platforms, yet this does not mean we intend to become a hardware manufacturer. As the industry shifts to a horizontally linked structure, Square Enix intends to develop a new relationship with various hardware and software companies to define new platforms that will be a combination of many technologies provided by the various industry players.

With regard to our medium-term outlook, we plan to lay the groundwork for earnings in fiscal 2010 and fiscal 2011 based on products currently in the pipeline. We expect an outline of the new industry structure to emerge in fiscal 2010 or fiscal 2011. Therefore, Square Enix has chosen the first two years as a period for reinforcing its business foundation and making forward-looking investments. As a part of these efforts, we enhanced our management and organization of overseas operations in the U.S., Europe and China, beginning in April 2010. In fiscal 2010, 2011 and 2012, we will take part in full-fledged competition within the IT industry as a whole, and I have chosen these years as a time for expansion. By 2011, the Square Enix Group plans on becoming one of the largest and best digital content providers in the world and profiting from its endeavors.

We are now setting out on a new adventure. To this end, we ask for the steadfast support of our shareholders.

July 2010

Yoichi Wada

Yoichi Wada
President and Representative Director

[Right] Kingdom Hearts 358/2 Days created a roar upon its release for the Nintendo DS, an already booming platform.

FINANCIAL HIGHLIGHTS

The World that Connects Us

Square Enix Co., Ltd. assumes full responsibility of the 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 (yuka shoken hokokusho). Please refer to the yukashoken hokokusho for the original Japanese consolidated financial statements and the report of independent auditors attached thereto.

The consolidated financial statements prepared in conformity with accounting principles generally accepted in the United States of America were audited by independent auditors.

[Opposite] Square-Enix creates worlds like no other to immerse players, creating unique and innovative experiences.

FINANCIAL HIGHLIGHTS

The World that Connects Us

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

	Millions of Yen			Thousands of U.S. Dollars
	2009 SQUARE ENIX	2008 Former ENIX	2008 Former SQUARE	2009 SQUARE ENIX
For the year:				
Net sales	¥63,202	¥21,877	¥40,286	$597,994
Operating income	19,398	4,603	12,594	183,537
Net income	10,993	2,419	14,074	104,012
At year-end:				
Total assets	¥110,633	¥57,465	¥54,354	¥1,046,769
Total shareholders' equity	96,700	49,647	37,727	914,940
Per share of common stock:				
Net income	¥100.04	¥41.18	233.83	$0.95
Total shareholders' equity	878.85	845.18	626.78	8.32

Notes : For the convenience of readers, amounts in U.S. dollars have been translated from yen at the exchange rate prevailing in the Tokyo foreign exchange market as of March 31, 2010 of ¥105.69=U.S. $1.

Notes: 1. Return on equity = Net income / Average shareholders' equity
2. The former ENIX did not prepare consolidated financial statements for the period between FY1998 and FY2000. The former ENIX figures for this period are, therefore, disclosed on a non-consolidated basis.
3. Return on equity for FY2009 has been calculated using the simple addition of the former ENIX and the former SQUARE's shareholders' equity as of the end of the previous period.

[Opposite] Final Fantasy XIII's band of characters create a strong bond between two separate worlds.

REVIEW OF OPERATIONS

The Connections We Make

The Year in Review

Since the merger on April 1, 2008, Square Enix Co., Ltd. ("the Company") has made determined efforts to strengthen the foundation and profitability of its business segments, which comprise Games (Offline), Games (Online), Mobile phone Content, Publication, and Others.

As a result, Square Enix secured earnings and expanded operations in all business segments in fiscal year ended March 31, 2010 (this "Fiscal Year"), its first fiscal year since the merger.

[Opposite] Final Fantasy XIV is on the horizon with a whole new type of MMORPG experience that builds upon Final Fantasy XI.

REVIEW OF OPERATIONS

The Connections We Make

Overview by Business Segment

Games-Offline

In the Games (Offline) segment in this Fiscal Year, the Company shipped many best-selling titles worldwide. More than two million copies of FINAL FANTASY XIII for the PlayStation 3, and more than one million copies of FINAL FANTASY TACTICS ADVANCE A2 for the Game Boy Advance were shipped in North America and Europe. In Japan, the Company released a new PlayStation 2 version of DRAGON QUEST V TENKU NO HANAYOME-originally released for the Super Famicom in 1992-which shipped 1.3 million copies in only two days after its release. The Company also shipped more than half a million copies of KENSHIN DRAGON QUEST - YOMIGAERISHI DENSETSU NO TSURUGI in Japan, a new type of game that is independent of game platforms.

Sales in the Games (Offline) segment were ¥37,988 million, and operating income was ¥16,404 million.

Games-Online

Since the May 2002 launch of our PlayOnline service and the Company's flagship online title, FINAL FANTASY XI-a massively multiplayer online role-playing game (MMORPG)-the number of PlayOnline subscribers has continued to grow at a steady pace. During this Fiscal Year, our subscriber base became one of the largest in Japan, spurred on by the release of the FINAL FANTASY XI: Rise of the Zilart expansion pack in April 2009, with the new Final Fantasy XIV MMORPG soon to follow.

Overseas, the Company made its debut in the North American online gaming market with the launch of PlayOnline services and the PC version of FINAL FANTASY XI in October 2003. In addition, the Company released a PlayStation 2 version of the same game in March 2004, significantly increasing the number of subscribers to PlayOnline. As of March 31, 2009, there were approximately half a million FINAL FANTASY XI players around the world. In addition, sales are steadily growing for Crossgate, a MMORPG developed specifically for the Asian market, and the title has acquired a leading position in terms of membership in the Chinese online gaming market.

In this way, the Company achieved stable growth and established an earnings foundation in Japan and overseas, marking this Fiscal Year as the first year for online games.

Sales in the Games (Online) segment totaled ¥8,924 million, and operating income was ¥2,348 million.

Mobile Phone Content

The Company provides content for mobile phones such as ring tones and wallpaper, as well as role-playing games (RPGs) and adventure games. In Japan, the Company proved beyond any doubt that mobile phones are a viable game platform by releasing complete versions of DRAGON QUEST and FINAL FANTASY for NTT DoCoMo's FOMA handsets.

The Company made significant strides during this Fiscal Year, entering overseas markets in North America and Asia, and began to provide content to Verizon Wireless and AT&T Wireless in the U.S. In March 2004, the Company acquired U.S.-based UIEvolution, which possesses technology that is able to distribute the same content to any number of mobile phones, thus providing a foundation for future overseas development.

Sales in the mobile phone Content segment were ¥2,793 million. Operating income was ¥1,159 million.

Business Segment Information

(Fiscal year ended March 31, 2010)

Millions of Yen

	Games (Offline)	Games (Online)	Mobile Phone	Publication	Others	Elimination	Consolidated
Net Sales	¥37,988	¥8,924	¥2,793	¥9,671	¥3,824	¥–	¥63,202
Operating Income	16,404	2,348	1,159	3,180	1,027	(4,722)	19,398
Operating Income	43.2%	26.3%	41.5%	32.9%	26.9%	–	0.7%

Publication

The Company publishes monthly magazines including SHONEN GANGAN, G FANTASY, and GANGAN WING. During this Fiscal Year, from among these serial comics the Company created three animation series, FULLMETAL ALCHEMIST, SOUL EATER, E'S, and PAPUWA, which were aired on television.

Of these titles, FULLMETAL ALCHEMIST and SOUL EATER are best-selling hits with over 1.1 million publications in print, including comics and fan books. Synergetic effects from FULLMETAL ALCHEMIST are also substantial. In the Games (Offline) segment, the newly created FULLMETAL ALCHEMIST game title for the PlayStation 2 shipped 250,000 copies, and the circulation of SHONEN GANGAN, the monthly magazine featuring the FULLMETAL ALCHEMIST comic, more than doubled. Despite the lack of publications of game strategy books for major titles in this Fiscal Year, the Publication segment performed admirably well.

Sales in the Publication segment amounted to ¥9,671 million and operating income was ¥3,180 million.

Others

The Others segment covers the planning, production, sales, and licensing of Square Enix titles' derivative products. The Company offers character goods related to FINAL FANTASY, the BATO-EN series of popular pencil battle games related to DRAGON QUEST, as well as a wide variety of other toys and goods for all ages. The Company also licenses music CDs including the soundtracks of popular games.

Total sales in the Others segment were ¥3,824 million, and operating income was ¥1,027 million.

Consolidated Sales by Geographic Segment

(Fiscal year ended March 31, 2010)

	Japan	North America	Europe	Asia	Millions of Yen Total
Consolidated net sales	¥44,491	¥15,618	¥2,121	¥972	¥63,202
Percentage of Share	70.4%	24.7%	3.4%	1.5%	100.0%

Directors, Auditors and Executive Officers

Board of Directors

Yoichi Wada
President and Representative Director

Keiji Honda
Executive Vice President and Director

Akitoshi Kawazu
Director

Yosuke Matsuda
Director

Yukinobu Chida
Director

Makoto Naruke
Director

Corporate Auditor

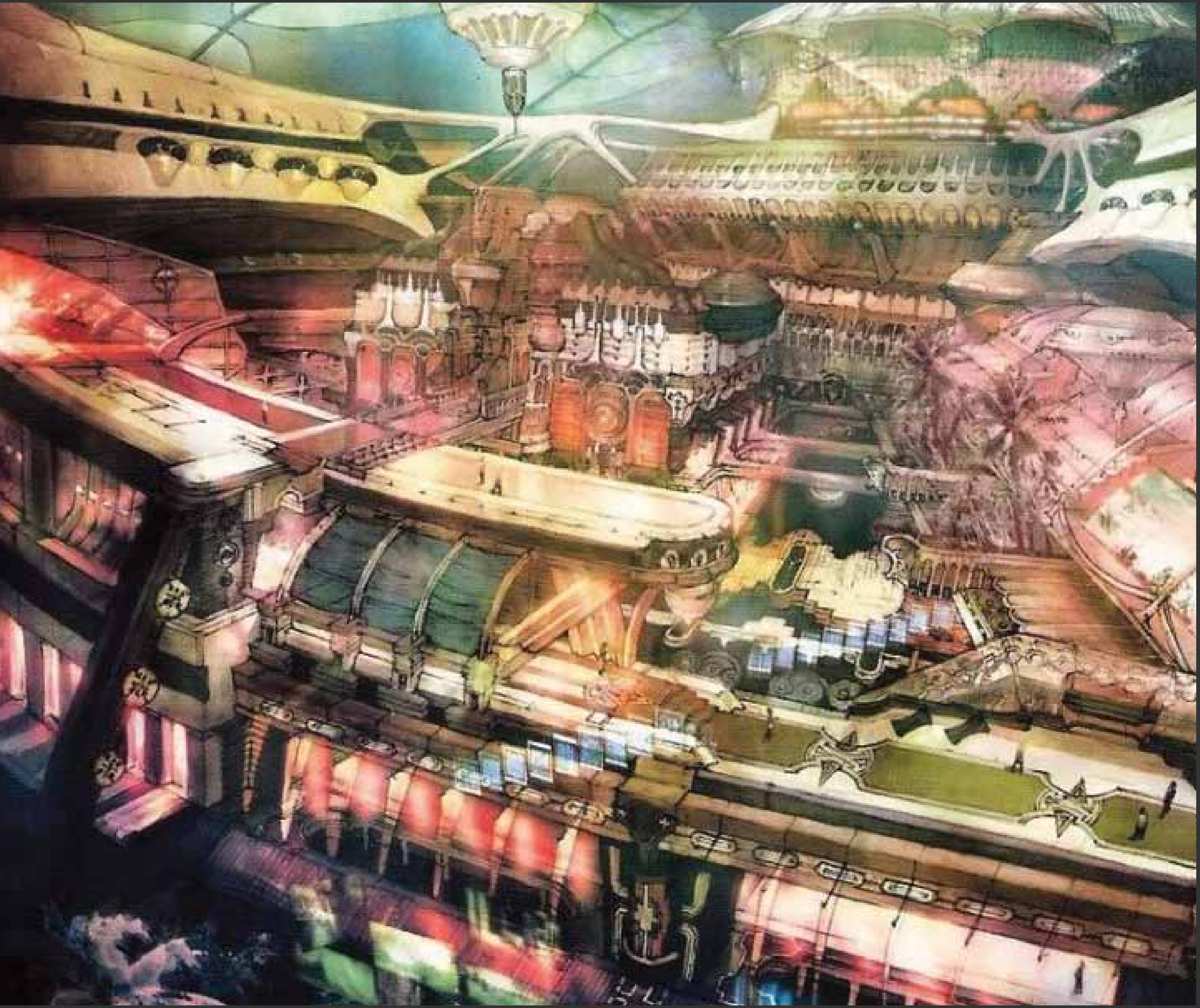
Hiroshi Nakamura
Standing Auditor
Toshio Maekawa
Auditor
Tamotsu Iba
Auditor
Norikazu Yahagi
Auditor

Executive Officers

Yoichi Wada
Keiji Honda
Akitoshi Kawazu
Yosuke Matsuda
Koichi Ishii
Yoshinori Kitase
Yosuke Saito
Koji Taguchi
Hiromichi Tanaka
Tatsuo Tomiyama
Ken Narita
Shinji Hashimoto
Masashi Hiramatsu
Yasumi Matsuno
Koji Yamashita

Honorary Chairman

Yasuhiro Fukushima



FINANCIAL SECTION

Our Bonds to the World

The following management's discussion and analysis contains figures representing the simple unadjusted total of the consolidated results for the fiscal year ended March 31, 2010 of the former ENIX CORPORATION ("ENIX") and the former SQUARE CO., LTD. ("SQUARE") (the "Simple Total") as well as the Simple Total of the former two companies' business segment results reclassified corresponding to the current business segments of SQUARE ENIX CO., LTD. (the "Company"). These Simple Totals were calculated by the Company for the purpose of facilitating year-on-year comparisons, and have not been audited by an external auditor. The following management's discussion and analysis also contains forward-looking statements concerning the future performance of the Company. Please read the cautionary note regarding forward-looking statements at the beginning of this annual report.

[Opposite] The Nautilius Amusement Park in Final Fantasy XIII is a land of vibrant lights and great spectacle.

Consolidated Balance Sheets

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

	Millions of Yen		Thousands of U.S. Dollars
	2009	2008 (Unaudited)	2009
Assets			
Current Assets			
Cash and cash equivalents	¥ 58,675	¥39,847	$ 555,161
Accounts and notes receivable,			
less allowance for doubtful accounts of 227 and 9, respectively	11,819	5,018	111,828
Inventories	809	411	7,660
Software development costs	12,507	–	118,340
Prepaid expenses and others current assets	1,163	113	10,995
Deferred income taxes	1,922	1,013	18,185
Total current assets	86,895	46,402	822,169
Property and equipment, net	9,085	5,188	85,965
Intangible assets, net	76,474	119	723,575
Investment securities	3,516	3,674	33,274
Lease deposits	2,864	–	27,103
Other assets	515	1,440	4,848
Deferred income taxes	2,699	657	25,537
Total assets	¥182,048	¥57,480	$1,722,471
Liabilities and Stockholders' Equity			
Current liabilities			
Accounts and notes payable :			
Trade	¥ 3,200	¥ 2,019	$ 30,278
Other	1,020	763	9,652
Current portion of long-term debt	18	–	174
Advance received	696	–	6,594
Income taxes payable	1,313	3,168	12,425
Accrued bonus	1,239	87	11,730
Reserve for sales return and price protection	1,569	213	14,851
Accrued expenses and other current liabilities	3,397	1,258	32,119
Deferred income taxes	1,142	–	10,805
Total current liabilities	13,594	7,508	128,628
Accrued pension costs	1,035	154	9,799
Other long-term liabilities	178	146	1,654
Deferred income taxes	14,380	–	136,058
Total liabilities	29,187	7,808	276,139
Minority interest in consolidated subsidiaries	594	162	5,621
Commitments and contingencies			
Stockholders' equity			
Common stock:	7,154	6,940	67,694
No par value. Authorized 300,000,000 shares, issued and outstanding 110,030,879 and 58,741,609 shares, respectively.			
Additional paid-in capital	110,404	9,383	1,044,609
Retained earnings	35,583	33,206	336,673
Accumulated other comprehensive (loss) income	(637)	66	(6,024)
Treasury stock, at cost, 99,500 and 36,700 shares, respectively	(237)	(85)	(2,241)
Total stockholders' equity	152,267	49,510	1,440,711
Total liabilities and stockholders' equity	¥182,048	¥57,480	$1,722,471

The accompanying notes are an integral part of these statements.

Consolidated Statements of Income

SQUARE ENIX CO., LTD. and Consolidated Subsidiaries [For the years ended March 31]

	Millions of Yen		Thousands of U.S. Dollars
	2009	2008 (Unaudited)	2009
Net sales	¥63,095	¥21,883	$596,991
Cost of sales	28,991	12,345	274,309
Gross profit	34,104	9,538	322,682
Selling, general and administrative expenses	24,622	5,142	232,968
Income from operations	9,482	4,396	89,714
Other income (expenses):			
Interest income	67	1	636
Interest expenses	(7)	(2)	(73)
Losses on sale of property and equipment	(124)	–	(1,170)
Losses on disposal of property and equipment	(749)	(46)	(7,077)
Write-down of investment securities	(375)	(100)	(3,552)
Foreign currency exchange losses	(788)	–	(7,457)
Other income (expenses), net	102	(4)	966
Income before income taxes	7,608	4,245	71,987
Income taxes:			
Current	3,600	3,162	34,065
Deferred	(1,168)	(1,240)	(11,052)
	2,432	1,922	23,013
Income before minority interest and equity in loss of affiliated company	5,176	2,323	48,974
Minority interest in earnings of consolidated subsidiaries	(61)	(27)	(572)
Equity in loss of affiliated company	(760)	–	(7,197)
Net income	¥ 4,355	¥ 2,296	$ 41,205
Per share data :			
Net income		Yen	U.S Dollars
- basic	¥39.58	39.06	$0.37
-diluted	37.99	38.57	0.36
Cash dividends	¥30.00	25.00	$0.28

The accompanying notes are an integral part of these statements.

[Below] Final Fantasy XIII's floating land of Cocoon.

Consolidated Statements of Changes in Stockholders' Equity

SQUARE ENIX CO., LTD. and Consolidated Subsidiaries [For the years ended March 31]

	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income	Treasury Stock, at cost	Total Stockholders' Equity
	Millions of Yen (except number of shares)						
Balance at March 31, 2008	58,778,325	¥6,940	¥9,383	¥32,398	¥70	¥(38)	¥48,753
Purchase of treasury stock	(36,716)					(47)	(47)
Dividends declared				(1,468)			(1,468)
Unrealized gains on available-for-sale securities					13		13
Foreign currency translation adjustments					(17)		(17)
SFAS87 transition obligation				(20)			(20)
Net income				2,296			2,296
Balance at March 31, 2009	58,741,609	¥6,940	¥9,383	¥33,206	¥66	¥(85)	¥49,510
Issuance of common stock to effect business combination	51,167,293		100,807				100,807
Dividends declared				(1,978)			(1,978)
Purchase of treasury stock	(88,221)					(211)	(211)
Reissuance of treasury stock	25,398					59	59
Exercise of stock option	184,800	214	214				428
Unrealized gains on available-for-sale securities					296		296
Foreign currency translation adjustments					(999)		(999)
Net income				4,355			4,355
Balance at March 31, 2010	110,030,879	¥7,154	¥110,404	¥35,583	¥(637)	¥(237)	¥152,267
	Thousands of U.S. Dollars (except number of shares)						
Issuance of common stock to effect business combination	51,167,293	$ –	$ 953,798	$ –	$ –	$ –	$ 953,798
Dividends declared				(18,724)			(18,724)
Purchase of treasury stock	(88,221)					(1,996)	(1,996)
Reissuance of treasury stock	25,398					558	558
Exercise of stock option	184,800	2,024	2,024				4,048
Unrealized gains on available-for-sale securities					2,800		2,800
Foreign currency translation adjustments					(9,452)		(9,452)
Net income				41,205			41,205
Balance at March 31, 2010	110,030,879	$67,694	$1,044,609	$336,673	$(6,024)	$(2,241)	$1,440,711

The accompanying notes are an integral part of these statements.

[Below] Star Ocean: The Last Hope sends players into the far reaches of space.

Consolidated Statements of Cash Flows

SQUARE ENIX CO., LTD. and Consolidated Subsidiaries [For the years ended March 31]

	Millions of Yen 2009	Millions of Yen 2008 (Unaudited)	Thousands of U.S. Dollars 2009
Cash flows from operating activities:			
Net income	¥ 4,355	¥ 2,296	$ 41,205
Adjustment to reconcile net income to net cash provided by operating activities:			
Deferred income taxes	(673)	(1,230)	(6,368)
Depreciation and amortization	5,406	386	51,150
Amortization and write-off of capitalized software developments costs	12,723	–	120,385
Write-down of investment securities	375	100	3,552
Losses on sale of property and equipment	124	–	1,170
Losses on disposal of property and equipment	749	46	7,077
Minority interest in earnings of consolidated subsidiaries	61	27	577
Equity in loss of affiliated company	760	–	7,191
Changes in assets and liabilities, net of effects of acquisitions:			
Accounts and notes receivable	4,849	(50)	45,879
Accrued pension costs	200	20	1,892
Inventories	(437)	115	(4,135)
Software development costs	(12,226)	–	(115,674)
Accounts and notes payable	(507)	681	(4,797)
Other assets	555	(460)	5,251
Other liabilities	(916)	1,217	(8,667)
Other	(1,261)	44	(11,929)
Net cash provided by operating activities	14,137	3,192	133,759
Cash flows from investing activities:			
Purchases of property and equipment	(2,709)	(215)	(25,632)
Purchases of intangible assets	(416)	(79)	(3,936)
Purchases of investment securities	–	(2,002)	–
Proceeds from sale of investment securities	–	120	–
Purchases of investment in affiliated company	–	(795)	–
Proceeds from sale of investment in affiliated company	423	4	4,002
Refund of lease deposits	407	3	3,851
Payment of lease deposits	(1,843) (771)	(17,438)	
Cash acquired in business acquisitions (net of cash used)	12,095	–	114,438
Other	292	(2)	2,764
Net cash provided by (used in) investing activities	8,249	(3,737)	78,049
Cash flows from financing activities:			
Repayment of short–term borrowings	(1,000)	(361)	(9,462)
Purchases of treasury stock	(147)	(47)	(1,391)
Dividends paid	(2,574)	(1,468)	(24,354)
Other	1,147	–	10,853
Net cash used in financing activities	(2,574)	(1,876)	(24,354)
Effect of exchange rate changes on cash and cash equivalents	(984)	(11)	(9,310)
Net increase (decrease) in cash and cash equivalents	18,828	(2,432)	178,144
Cash and cash equivalents at beginning of year	¥39,847	¥42,279	$377,017
Cash and cash equivalents at end of year	¥58,675	¥39,847	$555,161

The accompanying notes are an integral part of these statements.

Notes to Consolidated Financial Statements

SQUARE ENIX CO., LTD. and Consolidated Subsidiaries

1. BUSINESS AND ORGANIZATION

SQUARE ENIX CO., LTD. (the "Company") is a digital entertainment content provider. The Company was formed in connection with the merger of ENIX CORPORATION ("Enix") and SQUARE CO., LTD. ("Square") on April 1, 2003. The merger was consummated in the form of statutory merger under the Japanese Commercial Code ("JCC"), with Enix being the surviving entity.

The Company's businesses consist of five segments: (i) games, (ii) online games, (iii) mobile phone content, (iv) publication, and (v) others. (i) Games: The Company develops interactive games designed for video game console platforms and PCs, and publishes and distributes such games in Japan, North America, Europe and Asia. (ii) Online Game: The Company provides online game services including massively multi-players online RPGs such as "FINAL FANTASY XI" in Japan and North America, and "CROSS GATE" in Asia. (iii) Mobile phone Content: The Company's mobile phone content is delivered via third party telecommunication carriers offers contents such as games, wallpaper, and ring tones. (iv) Publication: Publishing of RPG strategy guide books, comic books and manga magazines. (v) Others: The Company produces character goods and toys.

As of March 31, 2004, the Company had ten consolidated subsidiaries, one consortium and three non-consolidated subsidiaries. Three subsidiaries were established in Japan, five in the United States, the United Kingdom, and the People's Republic of China.

SQUARE ENIX, INC., the wholly-owned U.S. subsidiary, publishes video games, provides localization services to the Company translating Japanese content into English, provides online game and mobile phone content services, and markets middle-ware products to electronic device manufacturers.

SQUARE ENIX LTD., the U.K. wholly-owned subsidiary, provides localization services to the Company, translating Japanese content into English, French, Germany, Italy, and Spanish. Marketing and distribution of the translated content in the European market is carried out through outside independent licensees.

The Chinese subsidiary, SQUARE ENIX WEBSTAR NETWORK TECHNOLOGY (BEIJING) CO., LTD., is a joint venture company with SOFTSTAR ENTERTAINMENT, INC., a Taiwan based video game publisher, in which the Company holds a 60% interest stake. The venture has been concentrated on the provision of online game services for CROSS GATE in China since its incorporation.

2. TRANSLATION INTO U.S. DOLLARS

The accompanying consolidated financial statements are stated in Japanese yen, the functional currency of the country in which the Company is incorporated and principally operates. The U.S. dollar amounts included herein represents a translation using the mid price for telegraphic transfer of U.S. dollars for yen quoted by The Bank of Tokyo Mitsubishi, Ltd as of March 31, 2009 of ¥105.69 to $1.00 and are included solely for the convenience of the reader. The translation should not be construed as a representation that the yen amounts have been, could have been, or could in the future be converted into U.S. dollars at the above or any other rate.

3. SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The Company and its domestic subsidiaries maintain their books and records in conformity with generally accepted accounting principles and practices in Japan ("JPNGAAP"), and its foreign subsidiaries in conformity with those of the country of their domicile. The consolidated financial statements presented herein have been prepared in a manner and reflect certain adjustments that are necessary to conform with accounting principles generally accepted in the United States of America ("U.S.GAAP"). Such adjustments include principally accounting for business combinations, goodwill and other intangible assets, and pensions.

Principles of Consolidation

The consolidated financial statements include the financial statements of the Company and its wholly owned subsidiaries. All inter-company balances and transactions have been eliminated in consolidation.

Use of Estimates

The preparation of financial statements in conformity with U.S.GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the dates of the financial statements and the reported amounts of revenues and expenses during the reporting periods. The most significant estimates and assumptions relate to the recoverability of capitalized software development costs and other intangibles, inventories, realization of deferred income taxes and the adequacy of allowances for returns, price protection and doubtful accounts. Actual amounts could differ significantly from these estimates.

Concentration of Credit Risk

If the financial condition and operations of the Company's customers deteriorate, the risk of collection could increase substantially. As of March 31, 2009 and 2008, the receivable balances from the Company's five largest customers amounted to approximately 40.4% and 60.7% of the Company's net receivable balance, respectively. For the years ended March 31, 2009 and 2008, the Company's five largest customers accounted for 21.6% and 30.2% of net sales, respectively. The Company sets the credit limit to each customer and monitors its solvency continuously.

Cash and Cash Equivalents

The Company considers all highly liquid instruments purchased with original maturities of three months or less to be cash equivalents.

Fair Value of Financial Instruments

The carrying amount of cash and cash equivalents, accounts receivable,accounts payable, accrued expenses and short term borrowings approximates fair value because of their short maturity. Investments in marketable securities are stated at their fair value based on quoted market prices. Investments in non-marketable securities for which there are no quoted market price are stated at cost because reasonable estimates of their fair value could not be made without incurring excessive costs and it was not practicable to estimate their fair value of common stock representing certain closely held companies. The carrying amount of the Company's lines of credit approximates fair value because the interest rates of the lines of credit are based on floating rates identified by reference to market rates

[Above] The worlds Square-Enix creates are full of incredible encounters.

Fair value estimates are made at a specific point in time, based on relevant market information and information about the financial instruments. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and therefore cannot be determined with precision. Change in assumption could significantly affect the estimates.

Inventories

Inventories are stated at the lower of cost or market. The Company periodically evaluates the carrying value of its inventories and makes adjustments as necessary. Cost is determined by the monthly average method for finished goods, merchandise and work in progress, by the last purchase price method for other supplies.

Software Development Costs

The Company applies Statement of Financial Accounting Standards ("SFAS") No.86, "Accounting for the Cost of Computer Software to be Sold, Leased, or Otherwise Marketed", pursuant to which, the Company capitalizes internal software development cost, as well as content cost, subsequent to establishment of technological feasibility of a certain video game software. Capitalized software development costs on the accompanying consolidated balance sheets includes the payment to the outside independent contactor as well as costs associated with internal development of the video game product. Software development costs are amortized as a component of "Cost of sales" over the expected life of each video game product, starting from its initial delivery to the market. The Company continually evaluates the recoverability of capitalized software costs and will charge to earnings any amounts that are deemed unrecoverable or for projects that it will abandon.

Property and Equipment

Depreciation of property and equipment is computed on the declining-balance method for the Company and domestic subsidiaries, and the straightline method for foreign subsidiaries over the estimated useful lives of the assets, ranging from 3 to 50 years for buildings and 3 to 20 years for machinery and equipment. The cost of additions and betterments are capitalized, and repairs and maintenance costs are charged to earnings in the periods incurred. When depreciable assets are retired or sold, the cost and related allowances for depreciation are removed from the accounts and the gain or loss is recognized.

Intangible Assets

Intangible assets consist of identifiable intangibles and the remaining excess purchase price paid over identified intangible and tangible net assets of acquired companies (goodwill). The Company applies the provisions of SFAS No.141, "Business Combinations" in its entirety and SFAS No.141 requires all business combinations be accounted for using the purchase method of accounting and that certain intangible assets acquired in a business combination shall be recognized as assets apart from goodwill. SFAS No.142, "Goodwill and Other Intangible Assets" addresses the recognition and measurement of goodwill and other intangible assets subsequent to their acquisition. SFAS No.142 provides that intangible assets with finite useful lives be amortized and that intangible assets with indefinite lives and goodwill not be amortized but tested for impairment annually.

SFAS No.142 requires an annual test for impairment of goodwill, and between annual tests if events occur or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying amount. In assessing potential impairment of goodwill, the Company determines the implied fair value of each reporting unit using discounted cash flow analysis and compares such values to the respective reporting unit's carrying amount. The Company performs its annual test for indication of goodwill impairment in the fourth quarter of each fiscal year.

Impairment of Long-Lived Assets

The Company evaluates its long-lived assets for impairment as events or changes in circumstances indicate that the carrying amount of such assets may not be fully recoverable. The Company evaluates the recoverability of long-lived assets by measuring the carrying amount of the assets against the estimated undiscounted future cash flows associated with them. At the time such evaluations indicate that the future undiscounted cash flows of certain long-lived assets are not sufficient to recover the carrying value of such assets, the assets are adjusted to their fair values

Investment Securities

The Company invests in equity securities and bonds, and has classified its investment securities as available-for-sale and held-to-maturity, in accordance with SFAS No.115 "Accounting for Certain Investments in Debt and Equity Securities." Investment securities designated as available-forsale, whose fair values are readily determinable, are carried at fair value with unrealized gains or losses included as a component of accumulated other comprehensive income, net of applicable taxes. Investment securities that are expected to be held-to-maturity are carried at amortized cost. Individual securities classified as either available-for-sale or held-to-maturity are reduced to net realizable value by a charge to income for other than temporary declines in fair value. Realized gains and losses are determined on the moving average cost method and are reflected in income.

Income Taxes

The Company recognizes deferred taxes using the asset and liability method. Under the asset and liability method, deferred income taxes are recognized for the differences between financial statement and tax bases of assets and liabilities at currently enacted statutory tax rates for the years in which the differences are expected to reverse. The effect on deferred taxes of a change in tax rates is recognized in income in the period that includes the enactment date. Valuation allowances are established when necessary to reduce deferred tax assets to the amounts expected to be realized.

Accounting for Consumption Taxes

The Japanese consumption taxes received and consumption taxes paid are not included in the accompanying consolidated statements of income. The consumption taxes paid are set off against consumption taxes received and the resultant balance due to Japanese tax authorities are presented in the consolidated balance sheets as "accrued expenses and other current liabilities".

Employee Benefit Plan

The Company and its domestic subsidiaries have defined benefit retirement plans, which are accounted for in accordance with SFAS No.87 "Employers' Accounting for Pensions".

Revenue Recognition

The Company recognizes revenue in accordance with Statement of Position ("SOP") No.97-2, "Software Revenue Recognition", which provides guidance on applying generally accepted accounting principles in recognizing revenue on software transactions and Staff Accounting Bulletin ("SAB") No.101, "Revenue Recognition in Financial Statements", as amended by SAB No.104, "Revenue Recognition", which outline the basic criteria that must be met to recognize revenue and provides guidance for presentation of revenue and for disclosure related to revenue recognition policies in financial statements. The Company recognizes revenue when the price is fixed and determinable, when there is persuasive evidence of an arrangement, upon fulfillment of its obligations under any such arrangement and when determination that collection is probable.

Sales Returns and Allowances and Bad Debt Reserves

The Company's software distribution arrangements with customers in Japan do not give customers the right to return products; However, the U.S. subsidiary, at its discretion, may accept product returns for stock balancing or defective products, sometimes negotiates accommodations to customers, including price discounts, credits and product returns, when demand for specific products falls below expectations, and accepts returns and grants price protection in connection with its publishing arrangements. The U.S. subsidiary estimates potential future product returns, price protection and sales incentives related to the current period product revenue. The U.S. subsidiary analyzes historical returns, current sell-through of distributor and retailer inventory of its products, current trends in the software games business segment and the overall economy, changes in customer demand and acceptance of its products and other related factors when evaluating the adequacy of the sales returns and price protection allowances. In addition, the U.S. subsidiary monitors and manages the volume of sales to retailers and distributors and monitors their inventories as substantial overstocking in the distribution channel can result in high returns or the requirement for substantial price protection in subsequent periods. Similarly, significant judgment is required to estimate the allowance for doubtful accounts in any period. The Company and the U.S. subsidiary analyze customer concentrations, customer credit-worthiness and current economic trends when evaluating the adequacy of the allowance for doubtful accounts.

Shipping and Handling Charges

Outbound shipping and handling charges of approximately ¥545 million and ¥350 million for the year ended March 31, 2009 and 2008, respectively, are included in selling, general and administrative expenses.

Advertising Expenditures

The Company recognizes advertising expense as it is incurred except for cooperative advertising. Cooperative advertising obligations are accrued and amortized at the same time the related revenues are recognized. Total advertising expense was approximately ¥5,119 million and ¥1,288 million for the year ended March 31, 2009 and 2008, respectively.

Line of Credit

As of March 31, 2009, the Company had an unused line of credit with a bank in the amount of ¥ 24,500 million at various rates expiring in 2010. No guarantee is provided for such line-of-credit.

Recently Issued Accounting Pronouncements

In June 2002, the Financial Accounting Standards Board ("FASB") issued SFAS No.146, "Accounting for Costs Associated with Exit or Disposal Activities". SFAS No.146 addresses financial accounting and reporting for costs associated with exit or disposal activities and nullifies Emerging Issues Task Force ("EITF") Issue No.94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (Including Certain Costs Incurred in a Restructuring)". This statement requires recognition of a liability for a cost associated with an exit or disposal activity when the liability is incurred, as opposed to when the entity commits to an exit plan under EITF No.94-3. The provision of this Statement is effective for exit or disposal activities that are initiated after December 31, 2007, with early application encouraged. The adoption of SFAS No.146 has not had a material effect on the Company's consolidated financial statements.

In 2007, the FASB issued SFAS No.132, which was revised in December 2008 ("SFAS No.132R"), "Employer's Disclosure about Pensions and Other Postretirement Benefits". SFAS No.132R revises and prescribes employer's disclosures about pension plans and other postretirement benefit plans; It does not change the measurement or recognition of those plans. SFAS No.132R retains the disclosure requirements contained in the original SFAS No.132. It also requires additional disclosers about the assets, obligations, cash flows and net periodic benefit cost of defined benefit pension plans and other postretirement benefit plans.

Stock-Based Compensation

The Company accounts for its incentive stock option plans using intrinsic value method in accordance with Accounting Principles Board Opinion No.25, "Accounting for Stock Issued to Employees" ("APB25"). Under APB25, generally no compensation expenses are recorded when the terms of the award are fixed and the exercise price of the stock option equals or exceeds the fair value of the underlying stock on the date of grant.

In fiscal 2009, the Company adopted the disclosure provisions of SFAS No.148 "Accounting for Stock-Based Compensation-Transaction and Disclosure-an Amendment of FASB Statement No. 123", which provides alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation.

In June 2008, the stockholders of the Company approved the Company's Stock Option Plan, pursuant to which officers, directors, employees of the Company may purchase up to an aggregate of 487,400 shares of common stock. In addition, the Company took over Square's stock option plan as a result of the merger,

pursuant to which, the directors, officers and employees of former Square may purchase up to an aggregate of 3,330,895 shares of common stock of the Company. As of March 31, 2009 and 2008, the plans had outstanding stock options for an aggregate of 3,262,645 and 487,400 shares of the Company's common stock, respectively.

The following table summarizes the activity in options under the plans:

	Number of shares (In thousands)	Weighted Average Exercise Price
Options outstanding - April 1, 2007	357.7	¥2,215.15
Granted - exercise price equal to fair value	312.5	2,313.00
Granted - exercise less than fair value	–	–
Exercised	–	–
Forfeited	182.8	2,543.48
Options outstanding - March 31,2008	487.4	¥2,374.92
Increase in option as a result of the merger		
with SQUARE on April 1, 2008	3,330,895	3,084.84
Granted - exercise price equal to fair value	–	–
Granted - exercise price equal to fair value	–	–
Exercise less than fair value	184.8	2,313.00
Forfeited	370.85	2,984.04
Options outstanding - March 31, 2009	3,262,645	¥3,001.17

At March 31, 2009 and 2008, the number of options exercisable was 719,038 and 185,945, respectively, and their related weighted average exercise prices were ¥3,001.17 and ¥2,374.92, respectively.

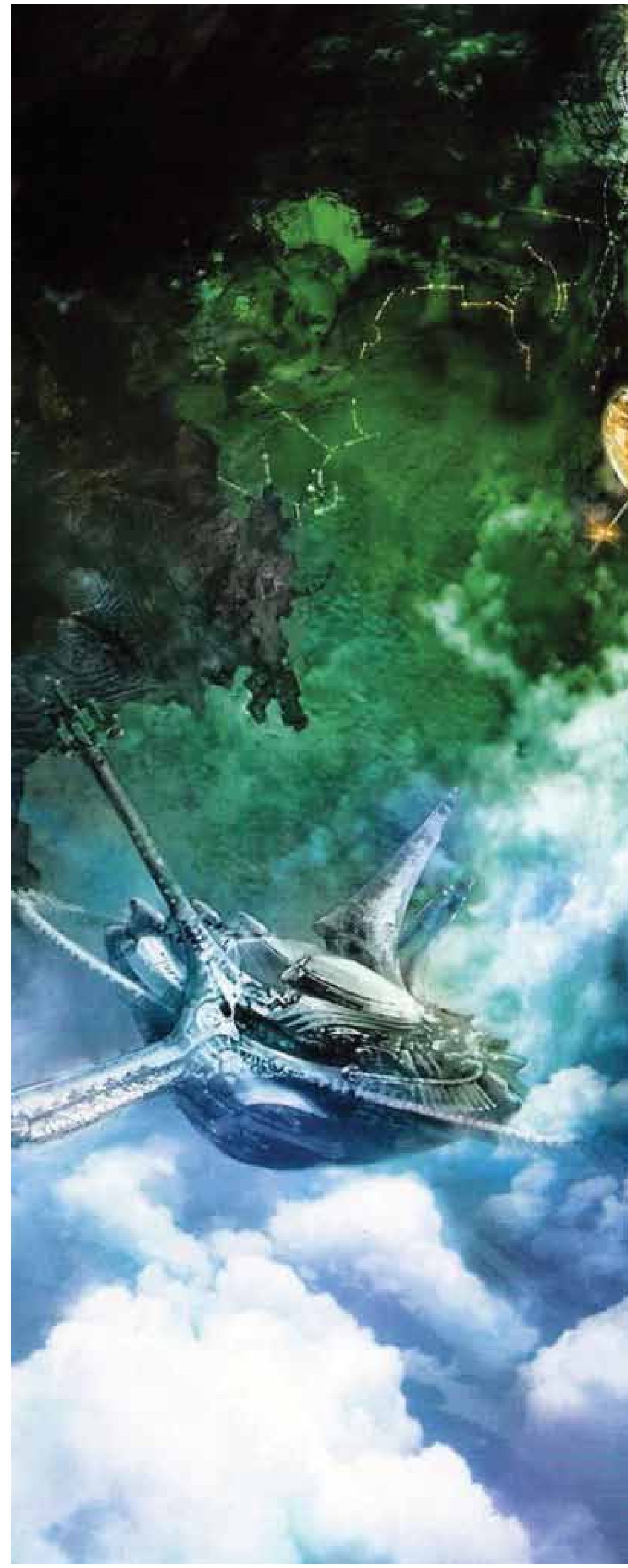
Had compensation cost for the Company's stock option plan been determined based on the fair value at the grant date for awards in 2009 and 2008, consistent with the provisions of SFAS No.123, the Company's net income and the net income per share would have been reduced to the pro forma amounts indicated below.

	Millions of Yen (Except share data) Years Ended March 31,		Thousands of U.S. Dollars (Except share data)
	2009	2008	2009
Net income :			
As reported	¥4,355	¥2,296	$41,205
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards	–	45	–
Pro forma net income	¥4,355	¥2,251	$41,205
Earnings per share:			
As reported - Basic	¥39.58	¥39.06	$0.37
Pro forma - Basic	–	38.28	–
As reported - Diluted	¥37.99	¥38.57	$0.36
Pro forma - Diluted	–	37.80	–

The pro forma disclosures shown are not representative of the effects on net income and the net income per share in future years.

The fair value of the Company's stock options used to compute pro forma net income and the net income per share disclosures is the estimated present value at the grant date using the Black-Scholes option-pricing model. The weighted average fair values of options granted were ¥146.27 for the year ended March 31, 2008. The following weighted average

[Below] Sailing into the skies creates a sense of wonder for players of Square-Enix games.



assumptions for 2008 were used to value grants: expected volatility of 44.65 percent; risk-free interest rate of 0.029 percent; and expected holding period of 0.68 years.

Earnings Per Share

Basic earnings per share ("EPS") are computed by dividing the net income (loss) applicable to common stockholders for the year by the weighted average number of common shares outstanding during the year. Diluted EPS is computed by dividing the net income (loss) applicable to common stockholders for the year by the weighted average number of common and common stock equivalents, which include common shares issuable upon the exercise of stock options outstanding during the year. Common stock equivalents are excluded from the computation if their effect is antidilutive.

Comprehensive Income (Loss)

Comprehensive income (loss) represents change in net assets of a business enterprise during a period from transactions and other events and circumstances from non-owner sources. Comprehensive income (loss) of the Company includes net income adjusted for the change in foreign currency translation adjustments and the change in net unrealized gain (loss) from investments.

Foreign Currency Translation and Transactions

The functional currency for the Company's foreign operations is the applicable local currency. Accounts of foreign operations are translated into Japanese yen using period-end exchange rates for assets and liabilities at the balance sheet date and average prevailing exchange rates for the period for revenue and expense accounts. Adjustments resulting from translation are included in other comprehensive income (loss). Realized and unrealized transaction gains and losses are included in income in the period in which they occur.

4. BUSINESS COMBINATIONS

Acquisition of SQUARE

On April 1st, 2008, the Company acquired entire outstanding shares of SQUARE CO., LTD., a video game developer in Japan, in the form of a statutory merger. The purpose of the merger was to enhance the ability to provide high quality digital contents in the rapidly changing digital entertainment industry. The aggregate purchase price, including assumption of liabilities and issuance of 51,167,293 shares of common stock was ¥117,131 million. The value of the Company's common stock issued in connection with this acquisition has been based on the market price of the Company's common stock shortly before and after the date such proposed transaction was agreed and announced. The acquisition has been accounted for as a purchase business combination in accordance with SFAS No.141 and, accordingly, the result of operations and financial position of the acquired business are included in the Company's consolidated financial statement from the date of acquisition. The balance of the purchase price in excess of the fair value of the assets acquired and the liabilities assumed at the date of acquisition was recorded as goodwill totaling ¥35,624 million, none of which is expected to be deductible for tax purposes. The amount of purchased in-process research and development assets was ¥12,728 million. Of this, ¥4,862 million was charged to cost of sales during the year ended March 31, 2009.

The following table sets forth the components of the purchase price of the Square acquisition:

	Millions of Yen	U.S. Dollars
Cost of the acquisition:		
Value of stock issued	¥100,807	$953,798
Liabilities assumed	16,324	154,452
Total	¥117,131	$1,108,250
Allocation of purchase price:		
Current assets	¥49,973	$472,828
Non-current assets	8,012	75,807
Trademarks (indefinite useful life)	10,300	97,454
Licensing agreement (indefinite useful life)	9,710	91,872
Existing online game (useful life of 12 years)	12,850	121,581
Existing off-line games and other (useful life ranging from 1 to 5 years)	3,130	29,614
Goodwill	35,624	337,061
Net deferred tax liabilities	(12,468)	(117,967)
Total	¥117,131	$1,108,250

Acquisition of UIEvolution

On March 24, 2009, the Company acquired all of the outstanding preferred and common stock of UIEvolution, Inc. ("UIEvolution"), a Seattle-based middleware development company for approximately $58million. The purpose of acquisition was to acquire core technology that could provide the Company with more flexibility to produce digital contents for various type of platform, by way of which, the Company expects to enhance its cutting edge under rapidly changing internet circumstances. This transaction has been accounted for as a purchase and included in the Company's operations since the date of acquisition. The balance of the purchase price in excess of the fair value of the assets acquired and the liabilities assumed at the date of acquisition was recorded as goodwill totaling ¥3,331 million, none of which is expected to be deductible for tax purposes. The Company's consolidated results of operations reflected UIEvolution's operating activities for the period from March 24, 2009 (the date of acquisition) to March 31, 2009.

The following table sets forth the components of the purchase price of the UIEvolution acquisition:

	Millions of Yen	Thousands of U.S. Dollars
Cost of the acquisition:		
Cash, net of cash acquired	¥6,091	$57,640
Total	¥6,091	$57,640
Allocation of purchase price:		
Property and equipment	¥10	$94
Existing technology (useful life of 5 years)	2,853	26,994
Trade name and trade marks (useful life of 5 years)	401	3,794
Customer contracts (useful life of 2 years)	243	2,299
Goodwill	3,331	31,516
Net other liabilities	(747)	(7,057)
Total	¥6,091	$57,640

Unaudited Pro Forma Information

The unaudited pro forma data below for the year ended March 31, 2008 is presented as if the acquisitions of Square and UIEvolution had taken place on April 1st, 2007. The unaudited pro forma financial information is based on management's estimates and assumptions and does not purport to represent the results that actually would have occurred if the acquisitions had, in fact, been completed on the dates assumed, or which may result in the future. Pro forma data for the year ended March 31, 2009 is not presented as it would not differ materially from reported results.

	The year ended March 31, 2008 Millions of Yen (Except share data)
Total revenue	¥62,380
Income before income taxes	¥2,794
Net income	¥1,334
Net income per share-Basic	¥12.12
Net income per share-Diluted	¥11.64

[Above] Fantastic machines like this take players on stunning voyages across land and sea.

5. EQUITY INVESTMENT IN THE AFFILIATED COMPANY

The Company had an equity interest of 26.54% in DigiCube Co., Ltd., a domestic video game whole-seller devoted to the convenience store market, listed on the Hercules market of Osaka Securities Exchange, and accounted for using the equity method. DigiCube went bankrupt in November 2008, and the Company recognized impairment loss on its investment in DigiCube in the amount of ¥760 million. Whereas the bankruptcy proceeding is in progress as of March 31, 2009, the Company made settlement with the receiver and left itself from the proceeding in February 2009. Accordingly, the management of the Company expects that no further obligation would arise from the DigiCube investment.

6. INVENTORIES

As of March 31, 2009 and 2008, inventories consist of:

	Millions of Yen		Thousands of U.S. Dollars
	2009	2008	2009
Finished goods and merchandise	¥668	–	$6,325
Finished goods	–	¥242	–
Merchandise	–	97	–
Work in progress	81	53	774
Other supplies	60	19	561
Total	¥809	¥411	$7,660

7. SOFTWARE DEVELOPMENT COSTS

The following table provides the details of capitalized software development costs:

	Millions of Yen Years Ended March 31		Thousands of U.S. Dollars
	2009	2008	2009
Beginning balance	–	–	–
Acquired from Square	¥13,004	–	$123,050
Increased during the year	12,226	–	115,679
Amortization	(12,660)	–	(119,791)
Written off	(63)	–	(598)
Ending balance	¥12,507	–	$118,340

8. PROPERTY AND EQUIPMENT

As of March 31,2009 and 2008, property and equipment consist of:

	Millions of Yen		Thousands of U.S. Dollars
	2009	2008	2009
Buildings	¥3,445	¥2,121	$32,595
Machinery and equipment	8,445	1,673	79,923
Land	3,813	3,392	36,077
Other	9	10	66
Total	¥15,712	¥7,196	$148,661
(Less accumulated depreciation)	(6,627)	(2,008)	(62,696)
Net book value	¥9,085	¥5,188	$85,965

Depreciation expenses for the year ended March 31, 2009 and 2008 were ¥1,631 million and ¥342 million, respectively.

CORPORATE DATA

Company Profile (As of March 31, 2009)

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: ¥7,154,614,000
Number of employees: 1,412 (Consolidated)
1,137 (SQUARE ENIX)
Note: Number of employees does not include temporary staff.

SQUARE ENIX GROUP (As of July 1st, 2009)

Company Name	Established	Fiscal Year-End	Common Stock	Shareholding	Principal Lines of Business
Consolidated Subsidiaries					
[Japan]					
The Gamedesigners Studio, Inc	June 1999	March	¥10 million	49.0%	Planning, development, and sale of games
Community Engine Co., Ltd.	May 2000	March	¥25 million	84.3%	Network application, development, and sale of middleware
DIGITAL ENTERTAINMENT ACADEMY	October 1991	March	¥72 million	70.8%	School for computer game engineers
[North America]					
SQUARE ENIX, INC.*	March 1989	March	US$10 million	100.0%	Sale of games in North America
UIEVOLUTION, INC.	August 2000	March	US$39,082	100.0%	Network application, development, and sale of middleware
SQUARE PICTURES, INC.	November 1997	December	US$0.1 million	100.0%	Management of overseas film revenues
[Europe]					
SQUARE ENIX, LTD.*	December 1998	March	GB£3 million	100.0%	Sale of games in Europe
[Asia]					
SQUARE ENIX WEBSTAR NETWORK TECHNOLOGY (BEIJING) CO., LTD.	December 2001	December	US$4 million	60.0%	Development, sale, and management of online games in Asia
COMMUNITY ENGINE NETWORK SOFTWARE (BEIJING) CO., LTD.	September 2003	December	877 thousand yuan RMB	68.1%	Network application, development, and sale of middleware
[Partnership]					
FF Film Partners	March 1998	December	–	92.2%	Licensing and management of movies and derivative products

*Changed the company name as of July 1st, 2009.

[Below and Opposite] The merging of Square-Enix's forces has created worlds beyond imagination.

[fin]