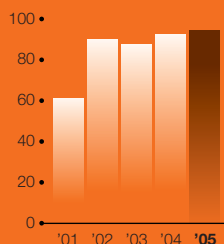


Review by Business Segment

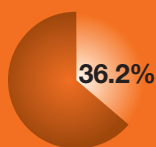
Digital Entertainment Business

Computer & Video Games

Sales
(Billions of Yen)



Sales Composition



Michihiro Ishizuka
*President, Computer & Video
Games Company*

In this domain, KONAMI develops, manufactures and sells video game software for consoles, handheld platforms and PCs.

We have a solid position in Japan and overseas markets, underpinned by an outstanding product lineup. This includes sports titles such as the WORLD SOCCER WINNING ELEVEN and PAWAFURU PURO YAKYU (baseball game) series; original content, including the METAL GEAR SOLID and SILENT HILL series; animation content such as the Yu-Gi-Oh! series; and music simulation titles such as the Dance Dance Revolution series.

In fiscal 2005, consolidated net sales in this domain increased 2.1% to ¥94,444 million, while operating income was down 6.3% at ¥15,068 million. The operating margin was 16.0%, compared with 17.4% in the previous fiscal year.

MARKET ENVIRONMENT

Several years have passed since the launch of existing platforms (hardware systems), a fact that reflected lackluster hardware sales. Nevertheless, fiscal 2005 witnessed a strong start for sales of the Nintendo DS (NDS) and PlayStation Portable (PSP), two newly released handheld video game platforms.

In contrast, the home-use video game software market as a whole continued to expand. On the one hand, while sequels to popular series and games based on outstanding content continued to record brisk sales, new titles struggled for growth as the gap between strong sellers and unpopular titles widened.

Moreover, market attention focused not only on existing hardware platforms, but also online games and the provision of content for mobile phones.

In this climate, it has become increasingly crucial for companies to have a large volume of highly appealing global content with the qualities customers want the most.

PERFORMANCE

In fiscal 2005, KONAMI launched attractive content in a variety of genres in Japan and overseas. Total shipments, including our distribution business, reached 24.4 million copies, compared with 24.7 million copies in the previous fiscal year. Shipments of KONAMI titles reached an all-time high of 22.1 million copies, versus 21.6 million copies a year ago, while shipments in the distribution business of other companies' games declined from 3.1 million to 2.3 million copies.

The strongest contributors to sales in fiscal 2005 included titles from the WORLD SOCCER WINNING ELEVEN, METAL GEAR SOLID, Yu-Gi-Oh! and Dance Dance Revolution series.

Regarding the WORLD SOCCER WINNING ELEVEN series, August 2004 saw the release in Japan of WORLD SOCCER WINNING ELEVEN 8 for the PlayStation 2 (PS2) as the latest title in this franchise. The title went on to become the third consecutive million-seller in this series, an achievement that is solidifying the stature of this series as Japan's number one soccer game. In October 2004, the title was released in Europe as Pro Evolution Soccer 4 for the PS2. A PC version and an online-enabled version for the Xbox followed later in November. Mirroring performance in Japan, the latest release in the Pro Evolution Soccer series sold more than a million copies for the third straight year, with sales growth sharply higher year on year. In March 2005, WORLD SOCCER WINNING ELEVEN 8 LIVEWARE EVOLUTION, the first-ever online-enabled title in this series for the PS2, sold briskly following its launch in Japan. As a result, we shipped 5.8 million copies of titles from the WORLD SOCCER WINNING ELEVEN series, a figure much higher than in the previous year.

Regarding the METAL GEAR SOLID series, in November 2004, we launched METAL GEAR SOLID 3 SNAKE EATER, the latest title in this series, in North America. The title, hailed as the best yet in terms of quality, was released in Japan in December, and hit the European market in March 2005. We also released METAL GEAR



METAL GEAR SOLID 3 SNAKE EATER
©1987 2004 KONAMI



Dance Dance Revolution EXTREME
©1998 2004 KONAMI



WORLD SOCCER WINNING ELEVEN 8 LIVEWARE EVOLUTION

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the use of real player names and likenesses is authorised by FIFPro and its member associations.
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ACID in Japan and North America for PSP, a new handheld platform. These new titles, in conjunction with repeat sales of existing products, helped ship a total of 4.2 million copies for the entire METAL GEAR SOLID series.

Regarding the Dance Dance Revolution series, sales rose year on year as word of weight-loss benefits boosted the series' popularity in North America. We shipped a total of 2.1 million copies of music simulation titles, including the Dance Dance Revolution series.

In other product categories, we recorded firm sales of popular existing content, including the Yu-Gi-Oh!, JIKKYO PAWAFURU PURO YAKYU (baseball game), and SILENT HILL series.

On a different note, we are taking steps to create new content. In fiscal 2005, we launched RUMBLE ROSES in Japan and North America. This women's pro wrestling game features authentic gameplay and stunning graphics, and has sold briskly in both markets.

From these factors, consolidated net sales for Computers & Video Games increased 2.1% to ¥94,444 million, operating income was down 6.3% at ¥15,068 million, and the operating margin was 16.0%, compared with 17.4% in the previous fiscal year.

OUTLOOK

On April 1, 2005, KONAMI merged with three JASDAQ-listed development subsidiaries—Konami Computer Entertainment Tokyo, Inc., Konami Computer Entertainment Japan, Inc. and Konami Computer Entertainment Studios, Inc.—and wholly owned subsidiaries Konami Online, Inc. and Konami Media Entertainment, Inc.

Producing hit content has become increasingly important in the video game market. This merger will enable KONAMI to optimally allocate resources to enhancing existing content and investments in new titles, while fully sharing production expertise and raising operating efficiency.

Turning to platforms, following the newly launched PSP and NDS handhelds at the end of 2004, the close of 2005 and beyond should see the launch of next-generation home-use consoles. We aim to deliver greater growth by providing our wealth of innovative hit content to these new platforms.

*Figures for sales and operating income are calculated based on business segments through the fiscal year ended March 31, 2005.