KONAMI

Annual Report 2007

Financial Review

For the year ended March 31, 2007

Annual Report 2007

Financial Review

Contents

Note: As used in this annual report, references to "Konami" are to KONAMI CORPORATION and references to "we", "our" and "us" are to KONAMI CORPORATION and its subsidiaries except as the context otherwise requires.

Consolidated Six-Year Summary

KONAMI CORPORATION and Consolidated Subsidiaries
Fiscal years ended/as of March 31

	Millions of Yen (except per share data)						Thousands of U.S. Dollars (except per share data)
	2002	2003	2004	2005	2006	**2007**	**2007**[2]
Income Statement Data							
Net revenues	¥225,580	¥253,657	¥273,412	¥260,691	¥262,137	**¥280,279**	**$2,374,240**
Cost of products sold and services rendered	154,651	174,879	179,182	180,363	184,744	**193,506**	**1,639,187**
Impairment of goodwill, other intangible assets and long-lived assets[3][4]	—	47,599	—	—	19,713	**—**	**—**
Selling, general and administrative expenses	52,842	53,049	53,517	52,192	55,199	**58,628**	**496,637**
Operating income (loss)	18,087	(21,870)	40,713	28,136	2,481	**28,145**	**238,416**
Other income (expenses), net	4,591	(226)	(606)	(694)	5,957	**(578)**	**(4,896)**
Income (loss) before income taxes, minority interest and equity in net income (loss) of affiliated companies	22,678	(22,096)	40,107	27,442	8,438	**27,567**	**233,520**
Income taxes	11,667	6,186	18,035	7,902	(10,270)	**10,919**	**92,495**
Minority interest in income (loss) of consolidated subsidiaries	364	(1,051)	2,220	2,761	(4,267)	**575**	**4,871**
Equity in net income (loss) of affiliated companies	755	(1,288)	252	(6,293)	33	**138**	**1,169**
Net income (loss)	¥ 11,402	¥ (28,519)	¥ 20,104	¥ 10,486	¥ 23,008	**¥ 16,211**	**$137,323**
Per Share Data[1]							
Basic net income (loss) per share	¥89.32	¥(234.58)	¥166.86	¥87.41	¥175.86	**¥118.15**	**$1.00**
Diluted net income (loss) per share	89.32	(234.58)	166.86	87.41	175.80	**118.09**	**1.00**
Cash dividends declared per share	¥54.00	¥ 54.00	¥ 54.00	¥54.00	¥ 54.00	**¥ 54.00**	**$0.46**
Balance Sheet Data							
Total current assets	¥142,055	¥136,705	¥152,766	¥161,938	¥144,327	**¥138,261**	**$1,171,207**
Total goodwill, identifiable intangible assets and property and equipment	140,556	92,912	93,148	93,435	103,129	**114,617**	**970,919**
Total assets	328,091	278,250	294,497	304,321	302,637	**304,657**	**2,580,745**
Total current liabilities	79,548	71,774	72,799	99,827	81,224	**82,466**	**698,568**
Total long-term liabilities	77,637	87,215	92,160	73,150	55,477	**44,832**	**379,771**
Total stockholders' equity	134,990	90,406	102,129	105,857	163,815	**174,662**	**1,479,560**

Notes: (1) Net income per share is calculated using the weighted average number of shares outstanding during the relevant period and are adjusted to reflect the issuance of new shares gratis through stock splits conducted from May 20, 1999, to May 19, 2000.

(2) The U.S. dollar amounts included herein represent a translation using the mid price for telegraphic transfer of U.S. dollars for yen quoted by The Bank of Tokyo-Mitsubishi UFJ, Ltd., as of March 30, 2007, of ¥118.05 to $1 and are included solely for the convenience of the reader. The translation should not be construed as a representation that the yen amounts.

(3) Following the impairment review for fiscal 2003, we recognized impairment losses of ¥47,599 million with respect to our investment in Konami Sports Corporation (the current operations of which are included in the Health & Fitness reporting unit). Approximately ¥36,717 million of this loss is related to the write-off of goodwill and the remaining ¥10,882 million is related to the impairment of identifiable intangible assets, such as trademarks and franchise contracts.

(4) During fiscal 2006, we determined that the fair value of long-lived assets and identifiable intangible assets related to the Health & Fitness reporting unit was lower than their carrying value as a result of a review based on independent valuations. Accordingly, impairment of long-lived assets and identifiable intangible assets of ¥10,533 million and ¥9,180 million were recorded in operating expenses, respectively.

Operating and Financial Review and Prospects

Fiscal 2007 and 2006 indicate the years ended March 31, 2007 and 2006, respectively.

A. Operating Results

You should read the following discussion of our financial condition and results of operations together with our consolidated financial statements and other information included in this annual report. Fiscal 2007 herein refers to the fiscal year ended March 31, 2007, and other fiscal years are referred to in a corresponding manner.

This discussion and analysis contains forward-looking statements that involve risks, uncertainties and assumptions. Our actual results may differ materially from those anticipated in these forward-looking statements as a result of certain factors, including, but not limited to, those set forth elsewhere in this annual report.

Overview

We are a global entertainment products, health products and services provider. We publish and distribute video game software for use by customers with home and handheld video game systems, principally those manufactured by Sony and Nintendo, and also produce and distribute Internet-based entertainment contents. We also offer a variety of other digital entertainment products by producing toys, including card games, manufacturing and distributing amusement games and token-operated games for amusement arcades. Some of these products use characters from or inspired by characters in our home video game software and other products. Since February 2001, we have also run the largest chain of fitness clubs in Japan. Furthermore, we produce and market a variety of entertainment and exercise machines and components, including fitness machines, gaming machines and LCDs for pachinko machines. We earn revenues and income and generate cash from sales of these products and services.

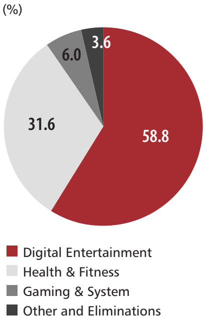
Effective the first quarter ended June 30, 2005, we divided our worldwide operations principally into three business segments for financial reporting purposes: Digital Entertainment, Health & Fitness and Gaming & System. The net revenues of these segments, before elimination of intersegment revenues, accounted for 58.8%, 31.6% and 6.0%, respectively, of our total net revenues in fiscal 2007. Our consolidated net revenues for fiscal 2007 was ¥280,279 million.

With the increasing use of the Internet and the enhancement of digital technology, differences among businesses in the digital entertainment industry have been disappearing. The recent emergence of the online game market is further intensifying this trend. In this environment, in order to respond to diversifying customer needs, in April 2005, we merged, in addition to our three home video game software production consolidated subsidiaries, Konami Computer Entertainment Studios, Inc., Konami Computer Entertainment Tokyo, Inc. and Konami Computer Entertainment Japan, Inc., and also Konami Online, Inc., which engaged in the planning, production and distribution of mobile and online games, and Konami Media Entertainment, Inc., which engaged in the music and publication business with and into Konami. Furthermore, in April 2005, we re-positioned five of our businesses, Computer & Video Games, Toy & Hobby, Amusement, Online and Multimedia, as Digital Entertainment Businesses and set up a framework to maximize the synergies among these businesses. With this new focus, we reorganized our business into three segments: the Digital Entertainment segment, Health & Fitness segment and Gaming & System segment.

Due to the nature of the entertainment industry, our results of operations have largely been, and will to a considerable extent remain, affected by individual products or a series of products that are hits with consumers, such as video game software and card games. See "Factors Affecting Our Results of Operations—Hit Products." We have been working to reduce volatility in our results by building a solid and well-balanced business portfolio with multiple segments, featuring a growing number and variety of products and services. We are also diversifying our revenue sources by

Net Revenues by Segment

(%)



expanding our businesses overseas. Our Digital Entertainment segment has been active in the North American and European markets and our Gaming & System segment has actively developed its operations particularly in the North American market, the biggest gaming market in the world with high future growth potential.

The entertainment industry in Japan has been expanding, reflecting an increasing social recognition of the importance of developing intellectual property and the rapid advance of technology.

Within the Japanese entertainment industry, the video game software industry has become increasingly competitive and more hit products-oriented, with the size of the market fluctuating depending on the number of hit products produced and distributed in a given year. The toy industry in Japan faces problems, including a declining birthrate, children growing out of toys at younger ages due to earlier maturity, a decrease in disposable income due to the sluggish economy and an increase in spending on other entertainment. The toy industry is holding firm, however, without any sharp decline in sales, due to an increase in expenditures per child and an increase in demand for toys targeting adults in line with the aging of society. The amusement arcade industry has been sluggish, reflecting intensifying competition with other entertainment options, but it has recovered recently due primarily to the development of large-size amusement arcades that attract new consumers. Also, with the increasing use of the Internet and the advancement of digital technology, the mobile phone and online game market has been expanding as a new entertainment business.

In the Japanese health industry, in which our Health & Fitness segment operates, due to the enforcement of health-related laws and regulations, there has been a growing interest in nursing care prevention as Japan's population grows older. Measures to tackle lifestyle-related diseases have been taken at the national level and steps to maintain good health are under way. We believe there will be increasing demand for health-related services among middle-aged and senior consumers and that the market may grow further.

In our business segment, hardware manufacturers have now released their next-generation computer entertainment systems, such as Nintendo Wii, Sony Computer Entertainment PLAYSTATION 3 and Microsoft Xbox 360, and handheld game consoles, such as Nintendo DS and the PlayStation Portable, have been well received by a broad range of users regardless of age or gender, and the home game market in Japan and abroad has been strong. Moreover, we have also been actively expanding overseas, taking advantage of opportunities for growth in foreign markets, such as North America and Europe, and we are increasingly dependent on our overseas business. For example, in the sports video game category, such soccer titles as the *Winning Eleven* series, including *WORLD SOCCER Winning Eleven* (*"Pro Evolution Soccer"* called in Europe), continue to gain popularity in Japan and Europe and recorded sales of over 7 million units worldwide in fiscal 2006 and over 8.4 million units in fiscal 2007. We seek to continue expanding our business by introducing products that were hits in the Japanese market into overseas markets as well as developing and introducing products that reflect the unique customer preferences and the competitive environment in each market.

Our main business strategies for each segment are as follows:

- Digital Entertainment Segment
  In our Computer & Video Games business, we are striving to strengthen our content lineup and make it attractive to customers not only in Japan but also worldwide in North America, Europe and Asia, by developing products that respond to the characteristics of each market.

In our Toy & Hobby business, we aim to develop globally and be on the cutting edge with unique innovative products in new markets, utilizing our strength in software, IT and content.

In our Amusement business, we plan to further enhance our "*e-AMUSEMENT*" service, which links amusement arcades online throughout Japan, by strengthening existing content and introducing new titles.

In our Online business, we plan to continually provide "intangible" service, the new value made possible by the Internet, by planning, producing, operating and distributing Internet-based entertainment contents, including mobile games and PC online games.

In our Multimedia business, we mainly publish game-related guides and plan, produce, manufacture and distribute game-related music CDs and DVDs. We aim to provide products that are unique to Konami and can be appreciated by a wide range of customers in the publication, music and video industries.

- Health & Fitness Segment

  In the Health & Fitness segment, we are focusing on improving the quality of our services, rather than giving discounts, by offering a wide range of health-related value-added services in order to develop our operations effectively.
- Gaming & System Segment

  In the Gaming & System segment, we aim to increase our revenues through the development of competitive slot machine and system offerings, better services for clients and improvement of client training for our casino management systems.

Factors Affecting Our Results of Operations

Factors Affecting Combined Results of Operations

A number of factors affect revenues and expenses across several of our segments, and therefore have a substantial impact on our combined results of operations. These factors include the importance of "hit products" that respond to trends in popular culture, intellectual property licensing, seasonal fluctuations, investments and acquisitions.

Hit Products

Most of our non–fitness related revenues come from sales of entertainment software and devices and are dependent on our ability to anticipate or influence the kinds of games and products that are popular with consumers. Revenues from our Digital Entertainment and Gaming & System segments are strongly affected by whether individual products or a series of products become "hits" with consumers. A single hit product can generate very substantial revenues, which can continue over an extended period through the release of sequel products and through expansion and extension of the concept or characters from popular games.

Previously, our strategy was to develop a large number of titles for various platforms in order to limit fluctuations in sales. However, due to recent changes in the business environment, such as the spread of online games, and our expansion into overseas markets, we have decided to adopt a new strategy of increasing revenues for each title through streamlining and enhancing the versatility of our content. Accordingly, we are cutting the number of titles through a process of "Selection and Concentration," which we expect will provide a more consistent stream of revenues from each hit title. We have also decreased the volatility of our net revenues by entering the fitness club business, which we believe will provide a more stable base of revenues.

Intellectual Property Licensing

One means we use to increase the likelihood that our products will succeed is licensing the right to utilize ideas and images from popular culture, such as comic book characters, sports and entertainment personalities and high visibility events. Thus, to some extent our revenues are dependent on successful identification and acquisition of rights to popular ideas and images. We have steadily increased the number of intellectual property licenses we hold to 380 licenses in fiscal 2007.

These licenses typically require a guarantee of minimum future royalties. We may experience losses if sales based on licensed intellectual property do not produce sufficient revenues to cover our royalties expenses. In addition, games that are based on licensed ideas have lower margins than games that we develop independently.

In recent years, the entertainment industry has seen an acceleration in crossovers with other industries, such as toys, films, music, comics, publishing and communications. When we are able to use intellectual property licenses in multiple segments, we are able to produce higher revenues. For example, our *Yu-Gi-Oh! Trading Card Game* originated from the popular *Yu-Gi-Oh!* comic in a prominent Japanese weekly magazine. Following our "media-mix strategy", we made good use of the license for the game, making substantial sales of our *Yu-Gi-Oh! Trading Card Game* for our Toy & Hobby business and as a video game for our Computer & Video Games business.

Seasonal Fluctuations

Many of our products are in the greatest demand from November to January. These months correspond to the periods of children's school holidays, and it is customary in Japan to buy such products as Christmas and New Years presents in December and January. In addition, demand in the U.S. is highest from November, starting with Thanksgiving and through the Christmas season. However, our earnings may not necessarily reflect the seasonal patterns of the industry as a whole as a result of increased sales due to the occurrence of various sports events or the release of "hit" titles.

Investments and Acquisitions

We have sought growth and diversification through investments and acquisitions in sectors that are expected to result in increased revenue stability and growth. These investments and acquisitions affected the composition of our assets and liabilities and our results of operations, sometimes materially. Among other things, we recognized an increase in the amount of goodwill and intangibles with indefinite life on our consolidated balance sheets in connection with such acquisitions, which we test for impairment at least on an annual basis – see " Critical Accounting Policies—Valuation of Intangible Assets and Goodwill."

In particular, we have conducted the following transactions:

- Sale of 23.0% of the common stock of TAKARA Co., LTD. ("Takara"), which Konami had acquired in fiscal 2001 and 2002, in April 2005, for which we realized a gain on sale of ¥6,917 million in the first quarter of fiscal 2006.
- Consolidation of HUDSON SOFT CO., LTD. ("Hudson"), which was previously an affiliate accounted for by the equity method after our acquisition of 45.5% of its common stock in fiscal 2002, in April 2005, due to a capital investment of ¥1,434 million whereby Konami increased its interest to 54.0%.
- Acquisition of 77.8% of the common stock of Konami Träumer, Inc., for a total cash consideration of ¥525 million by Konami in fiscal 2004 and thereafter its merger with Konami in June 2005.

- Acquisition of 34.8% of minority interest of Konami Computer Entertainment Studios, Inc., 36.9% of the minority interest of Konami Computer Entertainment Tokyo, Inc. and 37.6% of minority interest of Konami Computer Entertainment Japan, Inc. and the merger of these companies with Konami in April 2005. We recognized goodwill of ¥13,348 million from the acquisition of the minority interests in these companies as a result of these transactions in fiscal 2006.
- Merger between Konami Sports Corporation and Konami Sports Life Corporation in February 2006, and acquisition of the remaining minority interest by share exchange in March 2006. We recognized goodwill of ¥6,596 million from the acquisition of minority interests in Konami Sports Corporation as a result of the transaction.
- Acquisition of 20.0% of the common stock of Resort Solution Co., Ltd., for a total cash consideration of ¥5,993 million by Konami in March 2006, through which it became an affiliate accounted for by the equity method.
- Acquisition of all the shares of COMBI WELLNESS Corporation for a total cash consideration of ¥600 million by Konami in May 2006, through which it became our wholly owned subsidiary.
- Acquisition of all the shares of Megacyber Corporation for a total cash consideration of ¥10 million by Konami on October 2, 2006, through which it became our wholly owned subsidiary.
- Execution of an acquisition agreement with Blue Label Interactive, Inc. on June 22, 2006, pursuant to which Konami Digital Entertainment, Inc., our U.S. affiliated company, paid a total cash consideration of ¥1,099 million.

Foreign Currency Fluctuations

An increasing portion of our business is conducted in currencies other than yen — most significantly, U.S. dollar and Euro—as we increase our sales overseas. Our business is thus becoming sensitive to fluctuations in foreign currency exchange rates, especially the yen-U.S. dollar and yen-Euro exchange rates. Our consolidated financial statements are increasingly becoming subject to both translation risk and transaction risk. Translation risk arises from the fact that our foreign subsidiaries have different functional currencies than we do. Changes in the value of the Japanese yen relative to the functional currencies of these subsidiaries create translation gains and losses on our equity investments in foreign subsidiaries, which are recorded as foreign currency translation adjustments on our consolidated statements of shareholders' equity and accumulated other comprehensive income until we dispose of, liquidate or take an impairment charge with respect to the relevant subsidiaries.

Transaction risk arises when the currency structure of our costs and liabilities deviates from the currency structure of our sales proceeds and assets. A substantial portion of our overseas sales are made in U.S. dollars and Euros. Our sales denominated in U.S. dollars and Euro are, to a significant extent, offset by U.S. dollar and Euro denominated costs. Transaction risk remains for products sold in foreign currencies to the extent that we must purchase parts for our products from Japan, the costs for which are denominated in yen.

We use foreign exchange forward contracts to manage foreign exchange exposure associated with short-term movements in exchange rates applicable to our payable commitments and receivables that we expect to pay or receive in foreign currencies. Changes in the fair values of our foreign exchange forward contracts are recognized as gains or losses on derivative instruments in our income statement. For a more detailed discussion of these instruments, you should read Note 17 to our consolidated financial statements included in this annual report.

Factors Affecting Results of Business Segments

In addition to the factors affecting our combined results of operations through several segments, there are other factors that affect the results of each of our segments independently. The factors affecting results in our business segments are as follows.

Digital Entertainment Segment

Net Revenues. In our Digital Entertainment segment, in addition to the production and distribution of video game software for home and handheld game platforms and personal computers, we are engaged in the production and sales of card games and boys' toy products, the development, manufacturing and maintenance of video arcade games and token-operated games for amusement arcades, the production and distribution of software for mobile phones and online network, the production and sale of books and music of our products as well as the planning and production of original TV animation. In fiscal 2007, net revenues from the Digital Entertainment segment were ¥164,860 million, accounting for 58.8% of consolidated net revenues before elimination of intersegment revenues.

Our video game software is sold mainly in the format of DVD-ROMs or proprietary discs for home video game platforms, such as Sony PlayStation 2, PLAYSTATION 3, Nintendo Wii and Microsoft Xbox 360 and ROM-cartridges and other media for handheld video game platforms, such as Nintendo DS and PlayStation Portable.

Our sales of video game software are strongly influenced by our ability to develop or acquire popular game content. See "Factors Affecting Combined Results of Operations—Hit Products" and "Intellectual Property Licensing." For instance, sales of video game software are significantly affected by sales volumes of video game systems. The potential market for a software product designed for a particular video game system is determined by the total number of such video game systems purchased by consumers, a number which is sometimes referred to as the "installed base" of such video game systems. When new hardware systems are introduced, we may experience a temporary decline in net sales attributable to video game software until we are able to produce one or more hit products that utilize the increased capabilities of the new hardware.

The home video game industry is characterized by rapid technological changes, which have resulted in successive introductions of increasingly advanced game consoles. As a result of the rapid technological shifts, no single game console has achieved long-term dominance in the home video game and computer game market. To respond to these rapid shifts in video game hardware technology, it is necessary for us to continually anticipate game console cycles, time our product pipeline so that we do not publish games for hardware that is no longer popular and develop software programming tools necessary for emerging hardware systems.

Our net revenue sales from card games and toys are principally affected by our identification and acquisition of rights to characters of popular comic books and TV programs, our ability to produce unique games, the number of children in the population, the timing of market entry, market competition, lifecycle of products and general economic trends. The toy industry in Japan is now faced with such issues as a decline of birthrate, young children's shift away from toys due to their maturing at a younger age and an increase in household expenses for children or other amusement purposes. However, the toy industry has not experienced a rapid decline in sales but has continued steady growth because of an increase in expense spent per child and growing demand for toy products for adults along with an aging society. In response, in order to maintain the balance of our business portfolio and to make our lineup of products more attractive, we strive to diversify products targeted to the Japanese market, especially boys' toy products. For instance, we enhanced our reputation through sales of various action figures and others, such as toys of *SAZER X*, a popular SF action hero TV program.

Net revenues from amusement arcade games are affected by market acceptance, the number and size of video arcades in Japan, introduction of hit titles and general economic trends. In addition, our *e-Amusement* service, which links amusement arcades throughout Japan online, is influenced by market acceptance of network-based interactive games, network stability, which is the backbone of our services, and general economic trends. In addition to creating new games, we believe that we may be able to increase margins in this business by extending the life cycles of our existing arcade games by continuing to provide stable services after purchases of our machines. We also continue to benefit from sales of token-operated machines in Japan, mainly due to strong sales of the *GI* series of horse-racing token-operated gaming machines and "*GRANDCROSS*", which is a large-scale token-operated gaming machine. We are proud of being one of the leading companies in the token-operated machine industry in Japan. Because the arcade game industry in Japan continues to be streamlined, the average scale of each amusement arcade is expanding along with a decrease in the number of amusement arcades. Accordingly, large-scale token-operated machines that attract a large number of customers have a tendency to gain popularity within large amusement arcades.

Our online services are affected by market acceptance of network-based interactive games, the number of mobile phone and Internet users, network system stability, which is the backbone of our services, and general economic trends. We make every effort to strengthen the stability of our network-based services through such measures as server maintenance and improved stress tests.

We are engaged in publishing books and the production and sales of music and video software. Such sales are influenced by market acceptance of each media, our ability to select, find and develop attractive content and general economic trends. The sale of books and magazines in Japan has remained flat, and the value of audio record shipments has continued to decline. On the other hand, the market for video software continues to expand. In particular, the widespread use of DVD players has driven strong growth in the sale and rental of DVD software. Thus, the markets for books, music and video are largely shaped by such developments as increases in digitalization and content distribution via the Internet and mobile phones. We are focused on maintaining stable sales of books on strategy for our game software and are working on improvement of content through identifying and developing new artists in the music business and planning and producing original animation.

Expenses. Costs and expenses that we incur in the development of new video game software are expensed as research and development costs until such games reach technological feasibility, at which point we begin to capitalize the expenses. We expense capitalized costs to cost of revenues upon commercial release, as the commercial life of our software for home video game platforms is of a short duration.

The rapid technological advances in home game consoles have significantly changed the software development process. The process of developing software for the new 128-bit consoles is extremely complex, and we expect the process to become even more complex and expensive with the advent of more powerful next-generation game consoles. Our cost of revenues from software also include the costs of licenses from content licensors. While some of our content licenses include prepaid or guaranteed royalties, most of the royalties we pay are on a revenue basis. We amortize the cost of prepaid royalties based on the number of the associated products sold. We evaluate the future recoverability of any prepaid royalties and capitalized software development costs on a regular basis based on actual title performance. We expense as part of product development costs those capitalized costs that we deem unrecoverable.

Card games have historically shown a higher margin than other toy products due to their relatively low manufacturing costs. Costs include raw material costs, manufacturing outsourcing, licensing, research and development and administrative costs. Furthermore, because our card game and toy business is typically based on previously developed intellectual property, research and development costs are comparatively low.

As for amusement arcade games and token-operated games, we incur more limited cost of parts and raw materials and therefore have higher margins when we provide new game software content for existing machines rather than selling new machines because of lower cost of parts and raw materials. We are currently working on further improving margins in our Amusement business through the introduction of the less expensive "*e-AMUSEMENT*" service, which links amusement arcades online throughout Japan, and other measures to decrease production costs.

Our cost of services rendered for mobile phone and personal computer game content consists of expenses incurred in the development of content, maintenance expenses for servers in our online services and service charge collection fees. We capitalize development and production costs in the same manner as for video game software for home video game platforms and then amortize such costs as cost of services rendered for a period of two to three years or based on the expected length of services.

Costs and expenses related to publishing books, producing music and broadcasting original animation on television comprise mainly costs to produce content, costs paid for royalties on copyrights and royalties paid. Products in this business mainly use intellectual property rights that were developed in the past. As a result, the research and development costs of our Multimedia business are comparatively low.

Health & Fitness Segment

Net Revenues. We are the largest fitness club operator in Japan, according to the *Leisure Paper* issued by the Japan Productivity Center for Socio-Economic Development. We also design, manufacture and sell fitness and health-related products. As of March 31, 2007, we operated 208 fitness clubs that collectively served approximately 990,000 members and provided outsourced services to 104 fitness clubs. Our Health & Fitness segment had ¥88,459 million in net revenues, or 31.6% of our total net revenues, before elimination of intersegment revenues in fiscal 2007.

While the majority of our Health & Fitness revenues come from membership fees, our fitness clubs also collect additional revenues from ancillary sales and services, sales of consumables, including meals at our in-club restaurants and nutritional products from our in-club stores, and fees for such services as jazzercise and other fitness classes, massage, fitness counseling, work-out programs and personal trainers.

Expenses. Operating expenses for our Health & Fitness segment include, for our health and fitness club business, leases for facilities, salaries for trainers and other club employees, costs of fitness machines and other equipment, utilities charges, marketing expenses, costs for maintaining the facilities and depreciation. Upon opening a new fitness club, we often experience an initial period of operating losses with respect to that club for the first year. However, this period can vary depending on the individual club and may be substantially longer than one year. However, since most of our expenses are fixed, operating margins tend to improve significantly with respect to each club as membership increases. Expenses for our fitness-related game and fitness equipment business are largely related to cost of parts and raw materials, manufacturing costs and research and development expenses.

In fiscal 2006, we recognized impairment losses of ¥19,713 million related to our Health & Fitness segment, consisting of long-lived assets of ¥10,533 million and identifiable intangible assets of ¥9,180 million, as a result of our annual impairment assessment. These impairment losses for long-lived assets were attributed to the deterioration of the operating performances of certain clubs after a review of fiscal 2005 and the additional establishment of facilities during the fiscal year.

Gaming & System Segment

Net Revenues. In fiscal 2007, net revenues from the Gaming & System segment, before elimination of intersegment revenues, were ¥16,744 million, accounting for 6.0% of consolidated net revenues. The main revenue source for the Gaming & System segment is the sale of video slot machines and software content in Australia and sales of video and mechanical slot machines, casino management systems and software content in North America. Revenues for the Gaming & System segment are affected by the timing of the introduction of products, timing of regulatory approvals in various markets, the ability to penetrate into foreign gaming markets, the number of gaming players, gaming regulations in relevant markets, our competitiveness in these markets, average product life cycles and general economic trends.

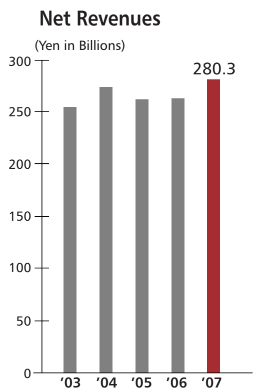
Our sales of gaming machines are conducted overseas, primarily in North America and in Australia. Casinos are authorized to operate in more than 130 countries, and the number of countries authorizing casinos has been increasing each year according to the Tokyo Metropolitan Government’s Bureau of Industrial and Labor Affairs. We believe that the market will continue to grow in 2008.

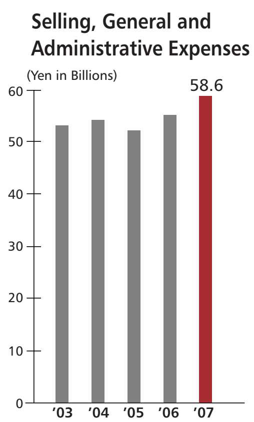
Expenses. Expenses in our Gaming & System segment are largely related to cost of parts and raw materials, manufacturing costs and research and development expenses. In recent years, we have attempted to decrease our cost of revenues for the Gaming & System segment by acquiring parts and producing our machines in the markets in which they are sold, thereby reducing shipping costs and foreign exchange risks.

Results of Operations

The table below shows our consolidated statements of income for the periods indicated:

	Millions of Yen			Thousands of U.S. Dollars
	2005	2006	**2007**	**2007**
NET REVENUES:				
Product sales revenue	¥183,030	¥186,875	**¥199,620**	**$1,690,979**
Service revenue	77,661	75,262	**80,659**	**683,261**
Total net revenues	260,691	262,137	**280,279**	**2,374,240**
COSTS AND EXPENSES:				
Costs of products sold	114,547	112,613	**118,806**	**1,006,404**
Costs of services rendered	65,816	72,131	**74,700**	**632,783**
Impairment of long-lived assets	—	10,533	**—**	**—**
Impairment of identifiable intangible assets	—	9,180	**—**	**—**
Selling, general and administrative	52,192	55,199	**58,628**	**496,637**
Total costs and expenses	232,555	259,656	**252,134**	**2,135,824**
Operating income	28,136	2,481	**28,145**	**238,416**
OTHER INCOME (EXPENSES):				
Interest income	518	716	**821**	**6,955**
Interest expense	(971)	(1,137)	**(985)**	**(8,344)**
Gain on sale of shares of affiliated companies	563	6,917	**—**	**—**
Other, net	(804)	(539)	**(414)**	**(3,507)**
Other income (expenses), net	(694)	5,957	**(578)**	**(4,896)**
INCOME BEFORE INCOME TAXES, MINORITY INTEREST AND EQUITY IN NET INCOME (LOSS) OF AFFILIATED COMPANIES	27,442	8,438	**27,567**	**233,520**
INCOME TAXES:				
Current	15,517	(4,785)	**8,298**	**70,292**
Deferred	(7,615)	(5,485)	**2,621**	**22,203**
Total	7,902	(10,270)	**10,919**	**92,495**
INCOME BEFORE MINORITY INTEREST AND EQUITY IN NET INCOME (LOSS) OF AFFILIATED COMPANIES	19,540	18,708	**16,648**	**141,025**
MINORITY INTEREST IN INCOME (LOSS) OF CONSOLIDATED SUBSIDIARIES	2,761	(4,267)	**575**	**4,871**
EQUITY IN NET INCOME (LOSS) OF AFFILIATED COMPANIES	(6,293)	33	**138**	**1,169**
NET INCOME	¥10,486	¥23,008	**¥ 16,211**	**$ 137,323**





Comparison of Fiscal 2007 with Fiscal 2006

Net Revenues

Net revenues increased by ¥18,142 million, or 6.9%, to ¥280,279 million for fiscal 2007, from ¥262,137 million for fiscal 2006. This mainly resulted from increases of net sales from our Health & Fitness segment and Gaming & System segment.

Net revenues of our Health & Fitness segment from external customers increased by ¥7,209 million, or 8.9%, to ¥88,326 million in fiscal 2007. This increase was due primarily to an increase in our membership of 3.0% and to an increase in revenues per member of 2.1% compared to fiscal 2006 due to further improvements in the quality of our services and our offering of a wider range of value-added health-related services to our members.

Net revenues of our Gaming & system Segment from external customers increased by ¥6,123 million, or 57.6%, to ¥16,744 million in fiscal 2007. This increase was due primarily to a significant increase in revenues from sales of gaming machines and casino management systems at our U.S. subsidiary, Konami Gaming, Inc.

Net revenues of the Digital Entertainment from external customers decreased by ¥30 million, to ¥163,654 million, accounting for 58.4% of the total. In our Computer & Video Games business, the *WORLD SOCCER Winning Eleven* (called "*Pro Evolution Soccer*" in Europe) series continued to gain high popularity in Japan and abroad, resulting in increased sales compared with the previous fiscal year and aggregate sales of over 8 million units, including all the series released. In the Amusement business, *MAH-JONG FIGHT CLUB*, a series of titles incorporating the "e-*AMUSEMENT*" service, which links amusement arcades online throughout Japan, continuously received favorable reviews and recorded increased sales. However, due to a decrease in net revenues of the Toy & Hobby business, net revenues of the Digital Entertainment segment as a whole decreased slightly.

Net revenues of Other segments from external customers increased by ¥4,780 million, or 70.6%, to ¥11,555 million, in fiscal 2007 due primarily to strong sales of pachinko LCDs and the related products.

Cost of Revenues

Cost of revenues increased by ¥8,762 million, or 4.7%, to ¥193,506 million for fiscal 2007. This primarily resulted from an increase in cost of revenues generated from manufactured goods, products and services with the increases in net revenues from our Health & Fitness segment and Gaming & System segment and to an increase in production expense by starting up a production function at our U.S. subsidiary in our Digital Entertainment segment to develop products that respond to the characteristics of the market in North America.

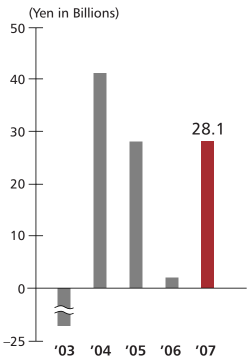
Impairment of Long-Lived Assets and Goodwill

We recorded no impairment charges of long-lived assets or goodwill for fiscal 2007, which amounted to ¥10,533 million and ¥9,180 million, respectively, for fiscal 2006.

Selling, General and Administrative Expenses

Selling, general and administrative expenses increased by ¥3,429 million, or 6.2%, to ¥58,628 million for fiscal 2007, from ¥55,199 million for fiscal 2006, due primarily to an increase in selling expenses with the increase in net revenues, to an increase in expenses related to obtaining intellectual property of approximately ¥536 million, and to an increase in expenses attributable to moving offices in Tokyo of approximately ¥458 million.

Operating Income (Loss)



Operating Income

As a result of the foregoing, our operating income increased by ¥25,664 million, or 1,034.4%, to ¥28,145 million for fiscal 2007.

As a percentage of net revenues, operating income increased by 9.1%, to 10.0%, in fiscal 2007, from 0.9% in fiscal 2006. This increase primarily resulted from the impairment charges in our Health & Fitness segment, which was recognized in fiscal 2006, while we did not have such charges in fiscal 2007. Excluding the impact of impairment, the Health & Fitness segment significantly increased its operating income by improving its profit structure of directly owned facilities due to "scrapping and building," which is our effort to periodically close, relocate and reconstruct unprofitable club facilities, and to opening large facilities next to train and subway stations and other attractive locations. Also, our Gaming & System segment increased its operating income from significant progress in sales.

On the other hand, start-up production activities at a U.S. subsidiary in our Digital Entertainment segment resulted in an increase in operating loss by ¥1,249 million, to ¥3,595 million, for fiscal 2007 in North America, which offset an increase of operating income in the Health & Fitness segment and the Gaming & System segment.

Other Income (Expenses), Net

Other income (expenses), net, decreased by ¥6,535 million to expenses of ¥578 million for fiscal 2007 from income of ¥5,957 million for fiscal 2006, due to a gain on sale of holding shares of Takara in fiscal 2006.

Income before Income Taxes, Minority Interest and Equity in Net Income (Loss) of Affiliated Companies

As a result of the foregoing, our income before income taxes, minority interest and equity in net income (loss) of affiliated companies increased by ¥19,129 million, or 226.7%, to ¥27,567 million for fiscal 2007, from ¥8,438 million for fiscal 2006.

Income Taxes

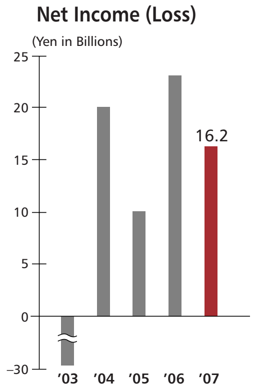
Income taxes increased by ¥21,189 million, to a tax expense of ¥10,919 million for fiscal 2007, from a tax benefit of ¥10,270 million for fiscal 2006, due primarily to a reversal of accrued income taxes in fiscal 2006 to reflect the benefit derived from the tax deduction recognized upon the completion of the reorganization into a holding company structure, in the amount of ¥17,051 million, investment tax credits in fiscal 2006, which were available until the end of fiscal 2006 and an increase in taxable income for fiscal 2007. Additional detailed information is described in Note 13 to the accompanying consolidated financial statements.

Minority Interest in Income (Loss) of Consolidated Subsidiaries

Minority interest in income (loss) of consolidated subsidiaries increased by ¥4,842 million to an income of ¥575 million for fiscal 2007 from loss of ¥4,267 million for fiscal 2006, due primarily to impairment losses on long-lived assets and identifiable intangible assets in the Health & Fitness segment for fiscal 2006 and the fact that Konami Sports & Life Co., Ltd., became a wholly owned subsidiary as of March 1, 2006.

Equity in Net Income (Loss) of Affiliated Companies

Equity in net income (loss) of affiliated companies increased for fiscal 2007, due primarily to the fact that, as of March 10, 2006, Resort Solution Co., Ltd., became an equity-method affiliate.



Net Income

As a result of the foregoing, our net income decreased by ¥6,797 million, or 29.5%, to ¥16,211 million for fiscal 2007, from ¥23,008 million for fiscal 2006.

Comparison of Fiscal 2006 with Fiscal 2005

Net Revenues

Net revenues increased ¥1,446 million, or 0.6%, to ¥262,137 million for fiscal 2006, from ¥260,691 million for fiscal 2005, due primarily to an increase in sales of the Digital Entertainment segment, resulting from an ¥827 million, or 0.5%, increase in sales, to ¥163,624 million, or 62.4% of the total net revenues. In our Computer & Video Games business, the *WORLD SOCCER Winning Eleven* series recorded solid sales, with sales of more than 7 million units including all the series released during the period. In our Toy & Hobby business, we continued to achieve strong sales of card games with sales of the *Yu-Gi-Oh! Trading Card Game* series remaining at the same level, reflecting increased sales in Japan that offset decreased sales in the U.S. and Europe. In the Amusement business, *MAH-JONG FIGHT CLUB*, a series of titles incorporating the "e-*AMUSEMENT*" service, and *QUIZ MAGIC ACADEMY III* received favorable reviews. Sales of the Health & Fitness segment increased ¥2,274 million, or 2.9%, to ¥81,117 million for fiscal 2006 from fiscal 2005 whereas, sales of the Gaming & System segment decreased ¥1,020 million, or 8.8%, to ¥10,621 million. We consolidated the results of operations of Hudson in the Digital Entertainment segment for the first time in fiscal 2006. Excluding the effect of Hudson, net revenues decreased ¥8,808 million (after elimination of intercompany revenues), or 3.4%, to ¥251,883 million for fiscal 2006, from ¥260,691 million for fiscal 2005. This was primarily due to fewer releases of major software titles in our Computer & Video Games business compared to fiscal 2005, as we have focused our efforts on developing new game consoles for release in the next transition period. For additional information regarding the increases and decreases in sales for each segment, see "Segment Information."

Cost of Revenues

Cost of revenues, which is the sum of costs of products sold and costs of services rendered, increased ¥4,381 million, or 2.4%, to ¥184,744 million for fiscal 2006, from ¥180,363 million for fiscal 2005. Excluding the effect of Hudson, cost of revenues decreased ¥1,368 million, or 0.8%, to ¥178,995 million for fiscal 2006, from ¥180,363 million for fiscal 2005, due primarily to a decrease of sales. We were also able to reduce our cost of revenues as a result of our "Selection and Concentration" policy, whereby we are streamlining our titles to concentrate on those which provide the most versatility in terms of content and relatively high and consistent revenues, especially in our Digital Entertainment segment.

Impairment of Long-Lived Assets and Goodwill

We recorded pre-tax impairment charges of ¥10,533 million, reducing goodwill balances related to our Health & Fitness segment for the year ended March 31, 2006. The impairment charges related to club locations with operating performances that deteriorated in the current year. In addition, we recorded impairment charges reducing the intangible asset balances related to our Health & Fitness segment in the amount of ¥9,180 million. See "Critical Accounting Policies — Valuation of Intangible Assets and Goodwill."

Selling, General and Administrative Expenses

Selling, general and administrative expenses increased ¥3,007 million, or 5.8%, to ¥55,199 million for fiscal 2006, from ¥52,192 million for fiscal 2005, due primarily to the addition of Hudson as a consolidated subsidiary of the Company from fiscal 2006.

Operating Income

As a result of the foregoing, our operating income decreased ¥25,655 million, or 91.2%, to ¥2,481 million for fiscal 2006, from ¥28,136 million for fiscal 2005. As a percentage of net revenues, operating income decreased 9.9%, to 0.9%, in fiscal 2006, from 10.8% in fiscal 2005.

Other Income (Expenses), Net

Other income (expenses), net, increased ¥6,651 million, to income of ¥5,957 million for fiscal 2006, from expenses of ¥694 million for fiscal 2005, due to a gain on sale of all of our shares of Takara, previously an equity-method affiliate in fiscal 2006, in the amount of ¥6,917 million.

Income before Income Taxes, Minority Interest and Equity in Net Income (Loss) of Affiliated Companies

As a result of the foregoing, our income before income taxes, minority interest and equity in net income (loss) of affiliated companies decreased ¥19,004 million, or 69.3%, to ¥8,438 million for fiscal 2006, from ¥27,442 million for fiscal 2005.

Income Taxes

Income taxes decreased by ¥18,172 million, to a tax benefit of ¥10,270 million for fiscal 2006, from a tax expense of ¥7,902 million for fiscal 2005, due primarily to a reversal of accrued income taxes to reflect the benefit derived from the tax deduction recognized upon the completion of the reorganization into a holding company structure, in the amount of ¥17,051 million, and to a decrease in income before income taxes of ¥19,004 million. As a result, the effective tax rate decreased by 150.5%, to (121.7)% in fiscal 2006, from 28.8% in fiscal 2005.

Minority Interest in Income (Loss) of Consolidated Subsidiaries

Minority interest in income (loss) of consolidated subsidiaries decreased ¥7,028 million, to a loss of ¥4,267 million for fiscal 2006, from income of ¥2,761 million for fiscal 2005, due primarily to impairment losses on long lived assets and identifiable intangible assets in the Health & Fitness segment and the effect of the additional acquisition of equity interests in and merger on April 1, 2005, with Konami Computer Entertainment Studios, Inc., Konami Computer Entertainment Tokyo, Inc., and Konami Computer Entertainment Japan, Inc.

Equity in Net Income (Loss) of Affiliated Companies

Equity in net income (loss) of affiliated companies increased ¥6,326 million, to a profit of ¥33 million for fiscal 2006, from a loss of ¥6,293 million for fiscal 2005, due primarily to sales of our entire shares of and termination of equity relationship with Genki Co., Ltd. (“Genki”), an equity-method affiliate, for fiscal 2005 and Takara, previously an equity-method affiliate. Hudson, previously an equity-method affiliate, became a consolidated subsidiary in fiscal 2006. Takara and Hudson had incurred equity losses for fiscal 2005.

Net Income
As a result of the foregoing, our net income increased ¥12,522 million, or 119.4%, to ¥23,008 million for fiscal 2006, from ¥10,486 million for fiscal 2005.

Segment Information
Based on the applicable criteria set forth in Statement of Financial Accounting Standards No. 131, “Disclosures About Segments of an Enterprise and Related Information,” or SFAS No. 131, we have three reportable operating segments for which separate financial information is available and reported in our consolidated financial statements. Our chief operating decision maker regularly evaluates this data in deciding how to allocate resources and in assessing performance. The operating segments are managed separately as each segment represents a strategic business unit that offers different products and serves different markets. As required by SFAS No. 131, we present our business segment information in the accompanying consolidated financial statements as it is presented in reports to our management, derived from our U.S. GAAP financial statements.

Effective the first quarter ended June 30, 2005, we reorganized our five business segments into three: Digital Entertainment, Health & Fitness and Gaming & System. In accordance with this change, results for the year ended March 31, 2005, have been reclassified to conform to the presentation for the years ended March 31, 2006, and 2007.

The following tables present net revenues, including both customers and intersegment revenues, operating expenses and operating income (loss) for fiscal 2005, 2006 and 2007, by segment, which are the primary measures used by our chief operating decision makers to measure our operating results and to measure segment profitability and performance. The year-to-year comparisons following the tables discuss comparisons of net revenues, before elimination of intersegment revenues, operating expenses and operating income (loss) for each year.

Year Ended March 31, 2005	Digital Entertainment	Health & Fitness	Gaming & System	Other, Corporate and Eliminations	Consolidated
	Millions of Yen				
Net revenue:					
Customers	¥162,797	¥78,843	¥11,641	¥ 7,410	¥260,691
Intersegment	874	263	2	(1,139)	—
Total	163,671	79,106	11,643	6,271	260,691
Operating expenses	131,018	77,059	10,201	14,277	232,555
Operating income (loss)	¥ 32,653	¥ 2,047	¥ 1,442	¥(8,006)	¥ 28,136

Year Ended March 31, 2006	Digital Entertainment	Health & Fitness	Gaming & System	Other, Corporate and Eliminations	Consolidated
	Millions of Yen				
Net revenue:					
Customers	¥163,624	¥ 81,117	¥10,621	¥ 6,775	¥262,137
Intersegment	1,652	92	2	(1,746)	—
Total	165,276	81,209	10,623	5,029	262,137
Operating expenses	131,426	98,268	10,563	19,399	259,656
Operating income (loss)	¥ 33,850	¥(17,059)	¥ 60	¥(14,370)	¥ 2,481

Year Ended March 31, 2007	Digital Entertainment	Health & Fitness	Gaming & System	Other, Corporate and Eliminations	Consolidated
	Millions of Yen				
Net revenue:					
Customers	**¥163,654**	**¥88,326**	**¥16,744**	**¥ 11,555**	**¥280,279**
Intersegment	**1,206**	**133**	**—**	**(1,339)**	**—**
Total	**164,860**	**88,459**	**16,744**	**10,216**	**280,279**
Operating expenses	**133,463**	**80,937**	**14,574**	**23,160**	**252,134**
Operating income (loss)	**¥ 31,397**	**¥ 7,522**	**¥ 2,170**	**¥(12,944)**	**¥ 28,145**

Year Ended March 31, 2007	Digital Entertainment	Health & Fitness	Gaming & System	Other, Corporate and Eliminations	Consolidated
	Thousands of U.S. Dollars				
Net revenue:					
Customers	**$1,386,311**	**$748,209**	**$141,838**	**$ 97,882**	**$2,374,240**
Intersegment	**10,215**	**1,127**	**—**	**(11,342)**	**—**
Total	**1,396,526**	**749,336**	**141,838**	**86,540**	**2,374,240**
Operating expenses	**1,130,563**	**685,617**	**123,456**	**196,188**	**2,135,824**
Operating income (loss)	**$ 265,963**	**$ 63,719**	**$ 18,382**	**$(109,648)**	**$ 238,416**

Comparison of Fiscal 2007 with Fiscal 2006

Digital Entertainment Segment

Net revenues of our Digital Entertainment segment, before elimination of intersegment revenues, decreased by ¥416 million, or 0.3%, to ¥164,860 million in fiscal 2007, from ¥165,276 million in fiscal 2006, due primarily to the decrease in net revenues from all card games including the *Yu-Gi-Oh!* series in the Toy & Hobby business, which offset the strong sales of business-use game machines for amusement arcades and increased net revenues from online services.

In addition, we recorded strong sales of the *Winning Eleven* series for PlayStation 2, Xbox 360, PlayStation Portable, Nintendo DS and PCs, with total sales of over 8 million units worldwide. We also recorded solid sales of game music in North America, with more than 1.3 million units of the *Dance Dance Revolution* series, including *Dance Dance Revolution SuperNOVA* (PlayStation 2). Therefore, sales of our titles taken as a whole increased to 22.50 million units in fiscal 2007, from 22.21 million in fiscal 2006. Revenues from all card games including the *Yu-Gi-Oh!* series significantly decreased from fiscal 2006. However, in games for amusement arcades, recorded higher sales of the *MAH-JONG FIGHT CLUB* series and *BASEBALL HEROES* series, as the *e-AMUSEMENT* products.

Operating expenses increased by ¥2,037 million, or 1.5%, to ¥133,463 million in fiscal 2007, from ¥131,426 million in fiscal 2006, due primarily to an increase in production expense, by starting up a production function in the North American market to develop products that respond to the characteristics of that market, which resulted in an increase in operating loss of ¥1,249 million, to ¥3,595 million, for fiscal 2007 in our business in North America.

As a result, operating income decreased by ¥2,453 million, or 7.2%, to ¥31,397 million in fiscal 2007, from ¥33,850 million in fiscal 2006.

Health & Fitness Segment

Net revenues of our Health & Fitness segment, before elimination of intersegment revenues, increased by ¥7,250 million, or 8.9%, to ¥88,459 million in fiscal 2007, from ¥81,209 million in fiscal 2006. This increase was due primarily to an increase in number of our membership of 3.0% and an increase in revenues per member of 2.1% due to further improvements in the quality of our services and our offering of a wider range of value-added health-related services to our members. We revised our fee-based programs and made progress in installing a proprietary IT health-management system in our fitness clubs. These efforts enabled us to provide our members with a more satisfactory level of service, which translated into an increase in the number of our members and an increase in revenue per member. Additionally, the increased number of sports facilities outsourced to us brought in a 40.5% gain in such revenues. The revenues generated from sales of goods, such as *Kenshin Keikaku 2*, the most recent software which jointly manages the data of *e-walkeylife2*, the multifunctional pedometer, *AROMA@FITNESS*, our original supplement, and *BIOMETRICS WATER*, also increased.

Operating expenses decreased by ¥17,331 million, or 17.6%, to ¥80,937 million in fiscal 2007, from ¥98,268 million in fiscal 2006. This decrease was due primarily to impairment charges of long-lived assets or goodwill for fiscal 2006, which amounted to ¥10,533 million and ¥9,180 million, respectively. However, excluding the effect of the impairment, operating expenses for fiscal 2007 resulted in an increase. This increase was due primarily through establishment of five new facilities and four renovations. Although, the rate of increase in operating expenses was kept lower than that for net revenues. With respect to such expenses as those for promotional campaigns, we believe we were also able to implement effective promotional activities while holding down such expenses. We were also able to hold down repair-related expenses by reconsidering priorities, while still giving the highest priority to safety.

As a result, we recognized operating income of ¥7,522 million in fiscal 2007, reflecting the fact that the increase of net revenues exceeded that for operating expenses, compared to the operating loss of ¥17,059 million in fiscal 2006.

Gaming & System Segment

Net revenues of our Gaming & System segment increased by ¥6,121 million, or 57.6%, to ¥16,744 million in fiscal 2007, from ¥10,623 million in fiscal 2006. This increase was due primarily to a significant increase in revenues from sales of gaming machines with a variety of game contents developed during the year and casino management systems at our U.S. subsidiary, Konami Gaming, Inc. In North America, sales of the new *K2V* video slot platform series were strong due to an increase in demand. Demand was fueled both by the increasing number of jurisdictions where gaming has been legalized and by growth in existing markets. With respect to the Australian market, although sales from overseas markets decreased at our Australian subsidiary, Konami Australia Pty Ltd., partially due to changing regulations, domestic sales in Australia increased slightly.

Operating expenses increased by ¥4,011 million, or 38.0%, to ¥14,574 million in fiscal 2007, from ¥10,563 million in fiscal 2006. This increase was primarily due to an increase in the costs of manufacturing and to an increase in selling expense and development costs for gaming machines and of management systems. Compared to the rate of increase in net revenues, growth in selling, general and administrative expenses was kept lower.

As a result, operating income increased by ¥2,110 million, or 3,516.7%, to ¥2,170 million in fiscal 2007, from ¥60 million in fiscal 2006, which reflects the significant increase in revenues that was far greater than the increase in expenses.

Comparison of Fiscal 2006 with Fiscal 2005

Digital Entertainment Segment

Net revenues of our Digital Entertainment segment, before elimination of intersegment revenues, increased by ¥1,605 million, or 1.0%, to ¥165,276 million in fiscal 2006, from ¥163,671 million in fiscal 2005, due primarily to strong sales of business-use game machines for amusement arcades and increased net revenues from online services. Excluding the effect of Hudson, which was included in our Digital Entertainment segment for the first time in fiscal 2006, net revenues of our Digital Entertainment segment decreased by ¥8,649 million, or 5.3%, to ¥155,022 million for fiscal 2006, from ¥163,671 million for fiscal 2005. This was primarily due to fewer releases of the major software titles in our Computer & Video Games business compared to fiscal 2005, as we have focused our efforts on developing new game consoles for release in the next transition period.

In addition, we recorded strong sales of the *Winning Eleven* series for PlayStation 2, Xbox, PlayStation Portable and PCs, with total sales of over 7 million units worldwide. We also recorded solid sales of game music in North America, with more than 800 thousand units sold of the *Dance Dance Revolution* series, including *Dance Dance Revolution EXTREME2*. However, sales of our titles taken as a whole decreased to 22.21 million units in fiscal 2006, from 24.4 million in fiscal 2005, and sales of titles from third parties decreased to 1.85 million units in fiscal 2006, from 2.3 million in fiscal 2005. On the other hand, revenues from all card games including the *Yu-Gi-Oh!* series, with expanding sales in Japan offsetting decreased sales in the U.S. and Europe, remained almost at the same level as in fiscal 2005 and amounted to approximately ¥33,000 million in fiscal 2006. With respect to games for amusement arcades, we recorded higher sales of the *MAH-JONG FIGHT CLUB* series, one of the *e-AMUSEMENT* products.

Operating expenses increased by ¥408 million, or 0.3%, to ¥131,426 million in fiscal 2006, from ¥131,018 million in fiscal 2005. This increase includes an increase in cost of revenues and an increase in selling, general and administrative costs resulting from the consolidation of Hudson, which was previously an equity-method affiliate. Excluding the effect of Hudson, operating expenses decreased by ¥8,940 million, or 6.8%, to ¥122,078 million in fiscal 2006 from ¥131,018 million in fiscal 2005, due primarily to our "Selection and Concentration" policy, whereby we are streamlining our titles to concentrate on those which provide the most versatility in terms of content and relatively high and consistent revenues.

As a result, operating income increased by ¥1,197 million, or 3.7%, to ¥33,850 million in fiscal 2006, from ¥32,653 million in fiscal 2005.

Health & Fitness Segment

Net revenues of our Health & Fitness segment, before elimination of intersegment revenues, increased by ¥2,103 million, or 2.7%, to ¥81,209 million in fiscal 2006, from ¥79,106 million in fiscal 2005. This increase was due primarily to an increase in revenue per member due to further improvements in the quality of our services and our offering of a wider range of value-added health-related services to our members and to an increase in net revenues from the operation of sports facilities outsourced to us by others.

Operating expenses increased by ¥21,209 million, or 27.5%, to ¥98,268 million in fiscal 2006, from ¥77,059 million in fiscal 2005, due primarily to impairment losses on long-lived assets and identifiable intangible assets of ¥19,513 million and an increase in expenses associated with improvements in the quality and safety of our services. For fiscal 2006, 6 facilities had been improved. Improvement expense is expected to be recognized every year, and for fiscal 2007, a total of ¥509 million is estimated as improvement expense. As a result, an operating loss of ¥17,059 million was recognized in fiscal 2006, compared to operating income of ¥2,047 million in fiscal 2005.

Gaming & System Segment

Net revenues of our Gaming & System segment decreased by ¥1,020 million, or 8.8%, to ¥10,623 million in fiscal 2006, from ¥11,643 million in fiscal 2005. This decrease was due primarily to a decrease in revenues from sales of gaming machines and casino management systems at our U.S. subsidiary, Konami Gaming, Inc. Although sales of gaming machines by our Australian subsidiary, Konami Australia Pty Ltd, decreased slightly in Australia in fiscal 2006, we managed to maintain net revenues by expanding sales activities into other overseas markets.

Operating expenses increased by ¥362 million, or 3.5%, to ¥10,563 million in fiscal 2006, from ¥10,201 million in fiscal 2005. This increase was primarily due to an increase in the cost of reinforced development and to an increase in the costs of development of software for gaming machines and of management systems. These costs were driven from recurring factors and are to be recognized continually.

Operating income decreased by ¥1,382 million, or 95.8%, to ¥60 million in fiscal 2006, from ¥1,442 million in fiscal 2005, reflecting the fact that revenues decreased and expenses increased.

Critical Accounting Policies

The preparation of our consolidated financial statements in conformity with U.S. generally accepted accounting principles requires our management to make assumptions and estimates about expected future cash flows and other matters that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Note 1 of the notes to our consolidated financial statements includes a summary of the significant accounting policies used in the preparation of our consolidated financial statements. We consider some of our significant accounting policies to be critical to our reported results because they require our management to make complex judgments in making assumptions and estimates about the effects of matters that are inherently uncertain and therefore subject to change. Changes in such assumptions and estimates could have a material effect on the amounts reported in our financial statements. We believe that among our significant accounting policies, the following policies may involve a higher degree of judgment or complexity.

Purchase Accounting

We account for acquired businesses using the purchase method of accounting which requires that the assets acquired and liabilities assumed be recorded at the date of acquisition at their respective fair values. The judgments made in determining the estimated fair value assigned to each class of assets acquired, as well as asset lives, can materially impact net income of the periods subsequent to the acquisition through depreciation and amortization, and in certain instances by impairment charges, if the asset becomes impaired in the future.

In determining the estimated fair value for intangible assets, we typically utilize the income approach, which employs discounting of the projected future net cash flow using an appropriate discount rate that reflects the risk factors associated with the cash flow streams. Some of the more significant estimates and assumptions inherent in the income approach or other methods include the projected future cash flows (including timing) and the discount rate reflecting the risks inherent in the future cash flows.

Determining the useful life of an intangible asset also requires judgment as different types of intangible assets will have different useful lives and certain assets may even be considered to have indefinite useful lives. Intangible assets determined to have an indefinite useful life have been reassessed at least annually based on the factors prescribed in SFAS No. 142 including, but not limited to, the expected use of the asset by us, legal or contractual provisions that may affect the useful life or renewal or extension of the asset's contractual life without substantial cost and the effects of demand, competition and other economic factors.

As a result of reassessment in 2006 made after termination of certain franchise contracts, intangible assets related to franchise contracts, which were previously determined to have an indefinite life, have been determined to have a finite life of 14 years based on the current expectation as to future renewals of the existing contracts. Intangible assets related to existing technology, customer relationships, membership lists and franchise and other contracts have been amortized over their estimated useful lives of 2 to 15 years.

Valuation of Intangible Assets and Goodwill

Under SFAS No. 142, "Goodwill and Other Intangible Assets," we are required to perform an annual impairment test of our indefinite-lived intangible assets and goodwill. We also assess the impairment of intangible assets and goodwill whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Some of the factors we consider important, which could trigger an impairment review, include the following:

- significant underperformance relative to historical or projected future operating results;
- significant changes in the manner of our use of the acquired assets or the strategy for our overall business;
- significant negative industry or economic trends;

When we determine that the carrying amount of intangible assets and goodwill may not be recoverable based upon the existence of one or more of the above indicators of impairment, we evaluate the carrying amount of the assets based on their fair value. If the fair value is less than the carrying amount of the assets, we record an impairment loss based on the difference between the carrying amount and the fair value of the assets.

We engage an independent appraiser to assist us in our determination of the fair values of our reporting units. In its determination of the fair values, the appraiser primarily utilizes a discounted cash flow analysis as well as other relevant valuation approaches including the stock price and market capitalization of the acquired entity and asset and liability structure of the reporting units. Significant assumptions used in this analysis include: (i) expected future revenue growth rates, profit margins and working capital levels of the reporting units; (ii) a discount rate; and (iii) terminal value multiples. The revenue growth rates, profit margins and working capital levels of the reporting units are based on our expectation of future results. In evaluating the recoverability of other intangible assets, which are allocated to the reporting units, we primarily utilize a discounted cash flow analysis as well as other applicable valuation approaches and, if applicable, independent valuations.

In the fourth quarter of the fiscal year ended March 31, 2006, we determined that the fair value of indefinite-lived assets related to trademarks and franchise contracts recognized in the Health & Fitness segment was lower than their carrying value as a result of our review based on the independent valuations. Accordingly, an aggregate non-cash impairment charge of ¥9,180 million was recorded in operating expenses for the year ended March 31, 2006. The impairment charge consisted of ¥3,478 million for trademarks and ¥5,702 million for franchise contracts. These impairment losses were attributed to the reporting unit's failure to meet previous growth expectations and the cancellation of certain franchise contracts by our review during 2006.

On March 31, 2007, we evaluated the recoverability of goodwill and intangible assets and concluded that there was no impairment in the carrying value of such assets for any of our reporting units.

Valuation of Long-Lived Assets

Our long-lived assets are reviewed for impairment in accordance with SFAS No. 144, “Accounting for the Impairment or Disposal of Long-Lived Assets,“ whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Factors we consider important which could trigger an impairment review include: significant underperformance relative to expected historical or projected future operating results; significant changes in the manner of the use of the acquired assets or the strategy for overall business; significant negative industry or economic trends; significant decline in the stock price of the acquired entity for a sustained period; and market capitalization of the acquired entity relative to its net book value. When it is determined that the carrying amount of assets to be held and used may not be recoverable based upon the existence of one or more of these indicators of impairment, recoverability is measured by a comparison of the carrying amount of an asset to future net cash flows (undiscounted and without interest charges) expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the estimated fair value of the assets.

The factors most significantly affecting the impairment calculation are our estimates of future cash flows. Our cash flow projections carry several years into the future and include assumptions on variables such as growth in revenues, and our cost of capital inflation, the economy and market competition. Any changes in these variables could have an effect upon our valuation.

In the years prior to 2006, we performed impairment reviews for our fitness club assets based on certain grouping of clubs in the same geographic area where club operations were characterized by interdependencies such as the sharing of costs and expenses. However, in fiscal 2006, in connection with changes in management of our Health & Fitness segment and in our operating structure of clubs, which eliminated these interdependencies among clubs, we reassessed our asset grouping for fitness clubs and changed our focus to an individual club operation level, which we consider to be the lowest level at which identifiable cash flows are largely independent of the cash flows of other assets. The carrying amount of the club assets is compared to the expected undiscounted future cash flows to be generated by those assets over the estimated remaining useful life of the club. Cash flows are projected for each club based on historical results and expectations. In cases where the expected future cash flows are less than the carrying amount of the assets, those clubs are considered impaired and the assets are written down to fair value.

Based on our review, we recorded a pre-tax impairment charge of ¥10,533 million for our Health & Fitness segment for the year ended March 31, 2006. The impairment charges related to club locations with operating performance that projected a deterioration in expected cash flows in 2007 and beyond or which had anticipated additions during forecasted periods that were found to be additionally impaired. The impairment charges related primarily to the carrying values of buildings, leasehold improvements and other tangible club facility assets that will continue to be operated by us.

Software Development Costs

We utilize our internal development teams to develop our software. We account for software development costs in accordance with SFAS No. 86, "Accounting for the Costs of Computer Software to Be Sold, Leased, or Otherwise Marketed." We capitalize software development costs once technological feasibility is established and such costs are determined to be recoverable from future revenues. We expense software development costs incurred prior to technological feasibility to research and development. We evaluate the technological feasibility of our software in development on a product-by-product basis, based on our historical experience, whether the software is closely related to previously marketed software or uses existing technology, and other factors. For products where proven game engine technology exists, technological feasibility may occur early in the development cycle. We believe that our accounting policies for software development are critical for our financial statements as our decisions as to technological feasibility affect the timing of our recognition of the costs associated with development of our software products.

Revenue Recognition

We derive revenue from primarily three sources: (i) product revenue, which includes packaged game software and other products, game machines and related equipment and components; (ii) membership fee revenue from health and fitness club members; and (iii) sales and subscription fee revenue from mobile game contents.

Our revenue recognition criteria are as follows:

Persuasive Evidence of an Arrangement

For our product sales, it is our customary practice to have a written contract, which is signed by both the customer and us, or a purchase order or amendment to the written contract from those customers that have previously negotiated a standard purchase agreement.

For our health and fitness clubs, members are required to sign a standard monthly membership agreement upon admission, which is automatically renewed unless the member provides an advance notice of his or her intention to cancel prior to the tenth day of the month at the end of which the membership will terminate.

For mobile game contents, we enter into distribution agreements with mobile phone carriers for the sale or subscription of mobile game contents by the carriers to their subscribers. We recognize as revenues the amount the mobile phone carrier pays to us upon the sale of our game contents, net of any service or other fees earned and deducted by the carrier.

Delivery Has Occurred

Our packaged game software and other products are physically delivered to our customers, with standard transfer terms. Also, our game machines and related equipment are physically delivered to our customers as a fully assembled, ready to be installed unit. Our arrangements generally include acceptance clauses. We recognize revenue from our product sales upon delivery and acceptance, which is the time the rights and risks are transferred to a customer. Generally, we do not permit exchanges or accept returns of unsold merchandise except in the case of obvious defects. In certain limited circumstances, we may allow returns or provide price protection, for which we estimate the related allowances based upon our management's evaluation of our historical experience, the nature of the software titles and other factors. We maintain detailed listings of software titles in the distribution channel, closely monitor their movements and are able to reasonably estimate future credits to be issued for price protection. These estimates are deducted from gross sales.

Revenue from fitness club membership is derived primarily from monthly membership fees from club members. Revenue from those fees is recognized as monthly charges and made to the members' accounts in advance, at the end of each month, with respect to the following month's membership. This policy requires us to defer the membership fee revenue for one month.

Revenue from mobile game contents is derived from monthly subscription fees. Under the distribution agreements, the mobile phone carriers are responsible for billing, collection and remittance of those subscription fees to us. We have a collection risk for our accounts receivable except for certain mobile phone carriers. The carriers generally report the final sales data to us within 60 days following the end of each month. When final sales data is not available in a timely manner for reporting purposes, we estimate our revenues based on sales data available from the server in which the game content is housed, which is then adjusted to actual revenues in the following reporting period once the actual amounts are determined.

The Price is Fixed or Determinable

The price our customers pay for our products is negotiated at the outset of an arrangement and is generally determined by the specific volume of product to be delivered. Therefore, the prices are considered to be fixed or determinable at the start of the arrangement. Our membership fee for fitness clubs is fixed at the time of admission of the member. Also, monthly subscription fees for mobile game contents are based on a fixed rate per end customer subscriber.

Collection is Probable

Probability of collection is assessed on a customer-by-customer basis. We typically sell to customers with whom we have a history of successful collection. New customers are subjected to a credit review process that evaluates the customers' financial position and ultimately their ability to pay. For our fitness clubs, the collectibility of membership fees is always assured as we charge members' accounts one month in advance. In addition, for our mobile game contents, we have a collection risk for our accounts receivable except for certain mobile phone carriers.

Income Taxes

The recoverability of deferred tax assets ultimately depends on the existence of sufficient taxable income of an appropriate character, and we record a valuation allowance to reduce the deferred tax assets to an amount that is more likely than not to be recoverable. A change in our ability to continue to generate future taxable income could affect our ability to recover the deferred tax assets and requires re-assessment of the valuation allowance. Such changes, if significant, could have a material impact on our effective tax rate, results of operations and cash flows.

Accounting Developments

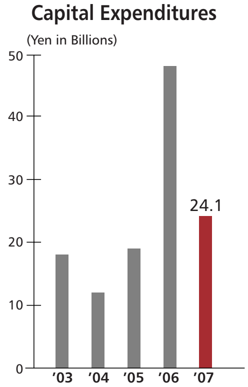
In June 2006, the FASB issued interpretation No. 48, "Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement No. 109" (FIN No. 48). FIN No. 48 requires that the tax effects of a position be recognized if it is "more-likely-than-not" to be sustained based solely on its technical merits as of the reporting date. The more-likely-than-not threshold represents a positive assertion by management that a company is entitled to the economic benefits of a tax position. If a tax position is not considered more-likely-than-not to be sustained based solely on its technical merits, no benefits of the position are to be recognized. Moreover, the more-likely-than-not threshold must continue to be met in each reporting period to support continued recognition of a benefit. FIN No. 48 is effective for fiscal years beginning after December 15, 2006. Konami is currently evaluating the potential impact of adopting FIN No. 48 on its consolidated financial statements and has not yet determined the impact of adopting this statement.

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements." SFAS No. 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles and expands disclosures about fair value measurements. SFAS No. 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007. Konami does not expect the adoption of SFAS No. 157 to have a material effect on its consolidated financial statements.

In September 2006, the FASB issued SFAS No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans." SFAS No. 158 improves financial reporting by requiring an employer to recognize the funded status of a defined benefit postretirement plan as an asset or liability in its balance sheets. Konami adopted the recognition and disclosure provisions of SFAS No. 158 effective March 31, 2007. SFAS No. 158 also requires that the defined benefit plan assets and obligations be measured as of the date of the employer's fiscal year-end balance sheet for fiscal years ending after December 15, 2008. Konami does not expect the adoption of the measurement provisions of SFAS No. 158 to have a material effect on its consolidated financial statements.

In February 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities – Including an amendment of FASB Statement No. 115." SFAS No. 159 permits entities to choose to measure many financial instruments and certain other items at fair value. The entity shall report unrealized gains and losses on items for which the fair value option has been elected. SFAS No. 159 is effective as of the beginning of an entity's first fiscal year that begins after November 15, 2007. Konami does not expect the adoption of SFAS No. 159 to have a material effect on its consolidated financial statements.

Capital Expenditures



Capital Expenditures

Our capital expenditures amounted to ¥18,654 million, ¥48,004 million and ¥24,125 million on an accrual basis during fiscal 2005, 2006 and 2007, respectively. During fiscal 2005, our capital expenditures consisted mainly of acquisition of computer software in the amount of ¥8,365 million. During fiscal 2006, our capital expenditures consisted mainly of acquisition of additional equity interest in relation to the mergers in the Digital Entertainment segment and the Health & Fitness segment in the amount of ¥21,253 million, opening new fitness clubs in the amount of ¥10,759 million and acquisition of intangible assets including mainly computer software in the amount of ¥4,365 million. In fiscal 2007, our capital expenditures consisted mainly of funds for the opening of fitness club facilities in the amount of ¥13,035 million, tools for products development in the amount of ¥1,752 million and acquisition of intangible assets, primarily for computer software, in the amount of ¥3,131 million. We expect our capital expenditures for fiscal 2008 to be approximately ¥12,000 million on an accrual basis, which are planned for the related expenditure of Konami Sports Club's facility equipment, tools for products development and computer software.

The following table shows reconciliation between capital expenditures disclosed in the cash flows statements to the amounts discussed here on an accrual basis.

	Millions of Yen			Thousands of U.S. Dollars
Fiscal years ended March 31,	2005	2006	**2007**	**2007**
Capital expenditures in the consolidated statements of cash flows	¥15,818	¥14,513	**¥ 9,308**	**$ 78,848**
Property acquired under capital leases	1,844	9,079	**12,007**	**101,711**
Additions to long-lived assets including goodwill and identifiable assets by acquisition	386	23,683	**1,750**	**14,824**
Effects of timing difference of payments and other	606	729	**1,060**	**8,979**
Capital expenditures (accrual basis)	¥18,654	¥48,004	**¥24,125**	**$204,362**

B. Liquidity and Capital Resources

Our principal needs for cash are: fees for manufacturing and royalty payments to video game hardware manufacturers who produce our game software; payments to content licensors; purchase of parts and raw materials; selling, general and administrative expenses such as research and development expenses; payments for the acquisition of companies targeted under our acquisitions strategy; employees' salaries, wages and other payroll costs; lease payments for fitness club facilities; debt service requirements; expenditures to renovate and maintain our properties; payments of dividends to our shareholders; and taxes.

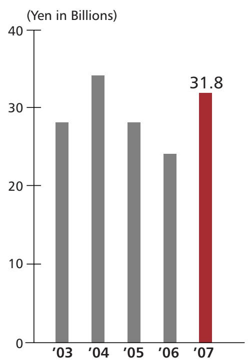
Our principal needs for cash for fiscal 2008 include cash used for ordinary operations of our business. In addition, we consider potential opportunities to expand our current business or enter new areas of business from time to time. Generally, our sources of funds include available cash reserves, cash provided by our current and future operating activities, borrowings from banks and other financial institutions and issuance of debt securities. We believe that available cash reserves and expected cash from operations and future borrowings or issuance of debt capital will provide sufficient financial resources to meet our currently anticipated capital and other expenditure requirements. There are no material contractual or legal restrictions on the ability of our subsidiaries to transfer funds to us in the form of dividends (assuming that they have sufficient distributable net assets or retained earnings as provided under the local laws of the relevant jurisdiction), loans or advances. There are no material economic restrictions on payments of dividends, loans or advances to us by our subsidiaries other than general withholding or other taxes calculated at rates determined by the local tax law of the relevant jurisdiction (ordinarily 20% in the case of dividend payments by our Japanese subsidiaries and 10% (or, in certain circumstances, 15%) in the case of dividend payments and 10% in the case of interest payments by our U.S. subsidiaries).

Cash Flows

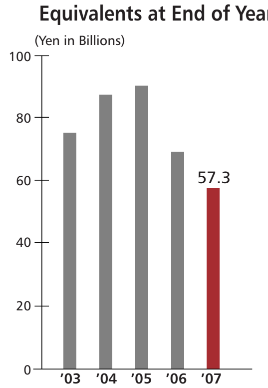
The following table sets forth certain information about our cash flows during fiscal 2005, 2006 and 2007:

	Millions of Yen			Thousands of U.S. Dollars
Fiscal years ended March 31,	2005	2006	**2007**	**2007**
Net cash provided by operating activities	¥ 27,760	¥ 23,879	**¥ 31,824**	**$ 269,581**
Net cash used in investing activities	(17,936)	(7,266)	**(11,098)**	**(94,011)**
Net cash used in financing activities	(8,077)	(38,330)	**(33,212)**	**(281,338)**
	1,747	(21,717)	**(12,486)**	**(105,768)**
Effect of exchange rate changes on cash and cash equivalents	951	828	**1,125**	**9,530**
Net increase (decrease) in cash and cash equivalents	2,698	(20,889)	**(11,361)**	**(96,238)**
Cash and cash equivalents at beginning of year	86,885	89,583	**68,694**	**581,905**
Cash and cash equivalents at end of year	¥ 89,583	¥ 68,694	**¥ 57,333**	**$ 485,667**

Net Cash Provided by Operating Activities



Cash and Cash Equivalents at End of Year



Comparison of Fiscal 2007 with Fiscal 2006

Net cash provided by operating activities increased by ¥7,945 million, or 33.3%, to ¥31,824 million in fiscal 2007, from ¥23,879 million in fiscal 2006. This increase was due primarily to an increase in net revenues and operating income, even though excluding the effects of the non-cash items such as impairment of long-lived tangible and intangible assets in fiscal 2006 and reversal of tax accrual in fiscal 2006. Particularly, the increased net cash was attributable to an increase in revenues from membership fees and program fees in the Health & Fitness segment and to an increase in sales of gaming machines or in regular income from maintenance and the servicing of management systems in the Gaming & System segment.

Net cash used in investing activities increased by ¥3,832 million, or 52.7%, to ¥11,098 million in fiscal 2007, from ¥7,266 million in fiscal 2006. This increase was primarily because in fiscal 2007 there were no proceeds from the sale of shares of affiliates or payments made for acquisition of shares in subsidiaries in 2007 compared to the related cash activity in fiscal 2006, and cash proceeds from the sale of tangible fixed assets decreased compared with fiscal 2006.

Net cash used in financing activities decreased by ¥5,118 million, or 13.4%, to ¥33,212 million for the fiscal 2007, from ¥38,330 million in the fiscal 2006. This decrease was primarily due to the net effect of the increase in cash paid upon redemption of bonds and decline in net repayments on short-term borrowings.

Comparison of Fiscal 2006 with Fiscal 2005

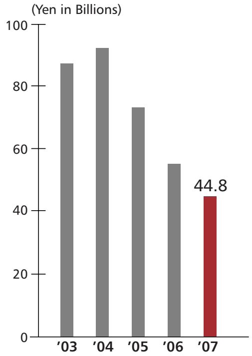
Net cash provided by operating activities decreased by ¥3,881 million, or 14.0%, to ¥23,879 million in fiscal 2006, from ¥27,760 million in fiscal 2005. This decrease was due primarily to an increase in the expenditure of tax payment along with elimination of net operating loss carryforward that we could utilize to decrease the expenditure of tax payment in fiscal 2005.

Net cash used in investing activities decreased by ¥10,670 million, or 59.5% to ¥7,266 million in fiscal 2006 from ¥17,936 million in fiscal 2005. This decrease was due primary to investment in a new affiliate of ¥5,993 million offset by the proceeds from sales of shares of affiliates of ¥11,016 million along with the termination of equity relationship with these companies.

Net cash used in financing activities increased by ¥30,253 million, or 374.6%, to ¥38,330 million for fiscal 2006, from ¥8,077 million in fiscal 2005. This was primarily due to the redemption of bonds of ¥15,000 million and payment of short-term borrowing of ¥12,551 million for some subsidiaries.

Total Long-Term Liabilities

(Yen in Billions)



Long- and Short-term Debt

Our debt includes both long-term and short-term debt. Our debt requirements have not been seasonal. Short-term debt consisted entirely of unsecured bank loans totaling ¥958 million as of March 31, 2006, and no amount as of March 31, 2007. As of March 31, 2007, long-term debt consisted mainly of ¥25,000 million of unsecured bonds described in the following paragraphs, of which ¥20,000 million is current. It also included ¥1,980 million of unsecured loans from banks, of which ¥592 million is current. For information regarding the aggregate annual maturities of our long-term debt outstanding at March 31, 2007, please see the Contractual Obligations table below. We are able to borrow from financial institutions at local market-based interest rates, which in our case is market-based rates in Japan. The interest rates of our loan debts ranged from 0.87% to 1.39% during fiscal 2007. We have earmarked a part of our substantial cash on hand, which was ¥57,333 million as of March 31, 2007, for the repayment of ¥15,000 million of unsecured bonds due in September 2007 and of ¥5,000 million of unsecured bonds due in December 2007.

During fiscal 2002, we issued series 3, 4 and 5 unsecured domestic bonds, due in fiscal 2006, fiscal 2007 and fiscal 2008, respectively. Each of the bonds was issued for ¥15,000 million, for an aggregate total principal amount of ¥45,000 million. During fiscal 2003, our consolidated subsidiary Konami Sports Corporation (now Konami Sports & Life Co., Ltd.) issued unsecured domestic bonds series 1, 2 and 3 due fiscal 2007, fiscal 2008 and fiscal 2009, respectively. Each series of the bonds was issued for ¥5,000 million, for an aggregate total principal amount of ¥15,000 million. The interest rates of these bonds issued by Konami and Konami Sports Corporation (now Konami Sports & Life Co., Ltd.) range from 0.70% to 1.39%.

In connection with our purchases of certain products for distribution in North America and Europe, some of our suppliers require us to provide irrevocable letters of credit prior to accepting our purchase orders. As of March 31, 2007, we had outstanding letters of credit of $9,000 and €7,000.

Derivative Transactions

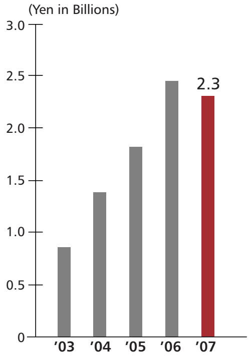
We enter into foreign exchange forward contracts to manage foreign exchange exposure associated with short-term movements in exchange rates applicable to our payables commitments and receivables that we expect to pay or receive in foreign currencies. For a more detailed discussion of these instruments, you should read Note 17 to our consolidated financial statements included in this annual report. We do not hold or issue derivatives for speculation purposes. Because the counterparties to those contracts are limited to major international financial institutions, we do not anticipate any material losses arising from credit risk. Our Finance Group executes and controls those contracts. Each contract and its results are to be periodically reported to an officer in charge of the group and the CFO.

We do not designate any derivative financial instruments as hedges, and, as a result, they are recognized as either assets or liabilities at fair value and the corresponding gains and losses are recognized in earnings in the period of change.

C. Research and Development, Patents and Licenses, Etc.

Our research and development activities consist primarily of developing video game software, toy and hobby products, amusement arcade games and gaming machines. Research and development expenses are charged to earnings as incurred. On a consolidated basis, we spent ¥1,813 million, ¥2,446 million and ¥2,285 million on research and development for fiscal 2005, 2006 and 2007, respectively.

R&D Expenses



D. Trend Information

While our results of operations for fiscal 2008 remain subject to a number of uncertainties, we currently expect that our net revenues for fiscal 2008 will increase slightly from the previous year. We also expect a slight increase in operating income in fiscal 2008 due to stable revenues generated by regular titles in each segment. We base our expectations on the following assumptions.

Our fiscal 2008 business plans are formulated on the basis of the following assumptions:

- Digital Entertainment segment: In Computer & Video Games business, in addition to the continuously strong sports-related titles, we expect an expansion of sales due to the release of *METAL GEAR SOLID 4*, a major title. However, we expect sales volume and net revenues as a whole to remain at almost the same level as in fiscal 2007 as a result of our "Selection and Concentration" policy whereby we are streamlining our titles to concentrate on those which provide the most versatility in terms of content and relatively high and consistent revenues. We expect our net revenues of our Toy & Hobby business to remain almost at the same level as in fiscal 2007, reflecting solid sales of the *Yu-Gi-Oh! Trading Card Game* in fiscal 2007. We expect net revenues of our Amusement business to increase as a result of additional sales from our standard series products and improvement and expansion of products by which "*e-AMUSEMENT*" services can be provided. We expect an increase in net revenues in our Online business, reflecting growth of home online gaming and revenues from mobile game contents. We expect an increase in net revenues in our Multimedia business as a result of evolving original animations collaborating with other segments.
- Health & Fitness segment: In the Health & Fitness segment, we expect an increase in the number of members, triggered by the surge of health-consciousness of middle aged people. Further, led by the increase of such fee-based programs as measures against metabolic and diet programs, we expect improved average spending per member, a higher retention rate of existing members and the establishment of new fitness clubs. In addition, with the potential expansion of demands for operation of exercise facilities and provision of exercise instruction from local authorities and private sectors, we expect another increase in sales in fiscal 2008.

- Gaming & System segment: We expect an increase in net revenues by our Gaming & System segment reflecting anticipated gains in sales of gaming machines and casino management systems in the market. Our operating margin is also expected to increase as a result of the expansion of those machines and systems all over the world.

The discussion above includes forward-looking statements based on management's assumptions and beliefs as to the factors set forth above, as to market and industry conditions and as to our performance under those conditions and are subject to the qualifications set forth in "*Risk Factors*." Our actual results could vary significantly from these projections and could be influenced by a number of factors including our ability to generate new popular products, our ability to expand overseas, consumer spending patterns and other factors and risks as discussed in the other part of "*Risk Factors*."

E. Off-Balance Sheet Arrangements

Not applicable.

F. Tabular Disclosure of Contractual Obligations

Contractual Obligations

The following table summarizes the contractual obligations and other commercial commitments that will affect our liquidity position for the next several years, as of March 31, 2007:

	Millions of Yen				
		Payments Due by Period			
Contractual Obligations	Total	Less than 1 year	1-3 years	4-5 years	After 5 years
Long-term debt	¥ 26,980	¥20,592	¥ 6,184	¥ 204	—
Capital lease obligations	26,349	3,099	4,751	2,921	¥ 15,578
Operating leases	99,153	7,709	15,551	15,509	60,384
Purchase obligations	6,477	6,477	—	—	—
Pension contribution	1,118	1,118	—	—	—
Asset retirement obligation	4,040	700	—	—	3,340
Total	¥164,117	¥39,695	¥26,486	¥18,634	¥ 79,302

Licenses. We have several ongoing contractual commitments involving minimum future royalties payments. Under these agreements, we commit to provide specified payments to the intellectual property holders, such as professional sports organizations, based upon contractual arrangements. Assuming all contractual provisions are met, the total future minimum contract commitment for contracts in place as of March 31, 2007, is ¥928 million, substantially all of which has been prepaid and recorded as prepaid royalties and license fees.

Risk Factors

Market Environmental Risks

A decline in consumer spending due to unfavorable economic conditions could hinder sales of our products.

Any significant downturn in general economic conditions which results in a reduction in consumers' discretionary spending could reduce demand especially for entertainment and health-oriented products and services like ours and may harm our business. Such industry downturns have been, and may continue to be, characterized by diminished product demand and subsequent erosion of average selling prices.

Our performance may be vulnerable to rapidly changing consumer preferences.

Many of our markets are characterized by rapidly changing trends and fads, and frequent innovations and improvements are necessary to maintain consumer interest. We compete with other forms of entertainment and leisure activities. Our financial performance may be harmed if we are unable to successfully adapt our products and services to these changing trends and fads.

Factors specific to international trade may result in reduced revenues and/or increased costs.

Approximately 73.6% of our net revenues during fiscal 2007 were derived from sales in Japan. Although we expect that domestic sales will continue to account for a significant portion of our revenues in future periods, we plan to expand our international operations, particularly with respect to video game software, gaming machines and toy & hobby products, including through alliances or investments. International trade is also subject to general country risks, including suspension of currency exchange by governments, increases in tariffs, and forfeiture of property through expropriation by governments. International trade is also exposed to fluctuating exchange rates. We may become exposed to increased litigation risks or unexpected bankruptcy risks through product liabilities, facility liabilities, product defect or labor issues in the course of further expanding our business, enhancing our international network and increasing our vendors and customers. These and other factors specific to international trade may result in increased costs or reduced revenues.

Demographic trends may have an adverse effect on our target market and our ability to increase revenues.

The Japanese population of people in their teens and twenties, the traditional target market for our products and services including computer & video games products and arcade games, is expected to decline. Accordingly, we may not be able to increase or maintain revenues if we are unable to enter new markets and expand our customer base and product offerings to overseas markets.

Business Activities Risks

Our future success is dependent on our ability to release "hit" products.

The market for video game software, toy & hobby products, amusement arcade games, token-operated games that belong to Digital Entertainment segment and gaming machines that belong to Gaming & System segment is "hits" driven. If we do not develop, publish and distribute "hit" products in the future, our financial condition, results of operations and profitability in these segments could be negatively affected. The most important factor in developing hit products is to respond quickly to public tastes and preferences that change rapidly and are hard to predict. Therefore, if we fail to accurately anticipate and promptly respond to changing tastes and preferences, our business, revenues and profits in these segments could be harmed.

Our revenues are dependent on timely introduction of popular new products.

Our success depends on generating revenue from the timely introduction and shipment of new products. The majority of sales of a new video game software generally occurs in the first thirty to one hundred and twenty days after release. The sales occurrence for toy & hobby products including mainly card games, amusement arcade games, token-operated games that belong to Digital Entertainment segment and gaming machines that belong to Gaming & System segment also tends to be limited. We are constantly required to introduce new products in order to generate revenues and/or to replace declining revenues from older products.

The timely shipment of a new product depends on various factors, including the development process, approval by third-party licensors, production capacity and other factors such as debugging and approval by hardware licensors, in the case of video game software. It is possible that some of our products will not be released or shipped in a timely fashion in accordance with our plans.

Competition for market acceptance and pricing competition affect our revenue and profitability.

The markets for video game software, toy & hobby products, arcade games, token-operated games, gaming machines and most of our other products are intensely competitive and new products and platforms are regularly introduced. Only a small percentage of products introduced in the market achieve any degree of sustained market acceptance. In the case of video game software for handheld systems and home game consoles, amusement arcade games, token-operated games and gaming machines, significant price competition and reduced profit margins may result as the hardware product cycle matures. In addition, competition from new technologies such as video game software for play over the Internet or mobile phones may reduce demand in markets in which we have traditionally competed.

If our products contain defects, our business could be harmed significantly.

Our video game software products, amusement arcade games, token-operated games, exercise equipments, gaming machines and pachinko liquid crystal displays ("LCDs") are complex and may contain undetected errors when first introduced or when new versions are released. We cannot assure you that, despite extensive testing prior to release, errors will not be found in new products or releases after shipment, resulting in loss of or delay in market acceptance. This loss or delay could significantly harm our business and financial results.

We may face limitations on our ability to find suitable acquisition opportunities and integrate acquired businesses.

In order to develop and market our products and services competitively, we are seeking opportunities in and outside Japan to make acquisitions of controlling or significant stakes in other businesses that will grow our current businesses. Some of these transactions could be material in size and scope. Our acquisitions strategy requires that we effectively coordinate and integrate our activities with those of the companies in which we invest or which we acquire.

Our business and financial results could be negatively impacted if we are unable to attract additional qualified employees or retain the services of key employees, the loss of whom could have a material adverse effect on our business.

Our continued growth and success depend to a significant extent on the continued service of our senior management and other key employees and the hiring of new qualified employees. The software industry in particular is characterized by a high level of employee mobility and aggressive recruiting among competitors for personnel with technical, marketing, sales, product development and management skills. We may not be able to attract and retain skilled personnel or may incur significant costs in order to do so that may not be offset through either improved productivity or higher prices.

Regulatory and Legal Proceedings Risks

Inability to procure commercially valuable intellectual property licenses may prevent product releases or result in reduced product sales.

We focus our development and publishing activities principally on products that are, or have the potential to become, franchise brand properties. Many of our products are based on intellectual property and other character or story rights acquired or licensed from third parties.

These license and distribution agreements are limited in scope and time, and we may not be able to acquire new licenses, renew licenses when they expire or include new products in existing licenses. License agreements relating to these rights generally extend for an initial term of two to three years. The agreements are terminable upon the occurrence of a number of factors, including our material breach of the agreement, failure to pay amounts due to the licensor in a timely manner, or a bankruptcy or insolvency. The loss of a significant number of our intellectual property licenses or of our relationships with licensors could have a material adverse effect on our ability to develop new products and therefore on our business and financial results.

Inadequate intellectual property protections could prevent us from enforcing or defending our proprietary technology.

We regard our products as proprietary and rely on a combination of patent, copyright, trademark and trade secret laws, employee and third party nondisclosure agreements and other methods to protect our proprietary rights. We own or license various patents, copyrights and trademarks. We are aware that some unauthorized copying occurs within the video game software, trading card game and arcade machine industries. The large-scale unauthorized copying of our products could significantly harm our business and financial results.

Infringement of intellectual property rights could lead to costly litigation and/or the need to enter into license agreements, which may result in increased operating expenses.

Existing or future infringement claims against us may result in costly litigation or require us to obtain a license for the proprietary rights of third parties, which could have a negative impact on our results of operations. As the number of our products increases there is an increased possibility of the contents and features of these products overlapping with the products of other companies, and we become subject to an increasing possibility of infringement claims. Although we are making efforts to ensure that our products do not violate the intellectual property rights of others, it is possible that third parties still may claim infringement.

Consolidated Balance Sheets

KONAMI CORPORATION and subsidiaries
March 31, 2006 and 2007

	Millions of Yen		Thousands of U.S. Dollars
	2006	2007	2007
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents	¥ 68,694	¥ 57,333	$ 485,667
Trade notes and accounts receivable, net of allowance for doubtful accounts of ¥541 million and ¥540 million ($4,574 thousand) at March 31, 2006 and 2007, respectively	32,294	29,729	251,834
Inventories	20,109	24,236	205,303
Deferred income taxes, net	16,510	14,877	126,023
Prepaid expenses and other current assets	6,720	12,086	102,380
Total current assets	144,327	138,261	1,171,207
PROPERTY AND EQUIPMENT, NET	42,452	53,294	451,453
INVESTMENTS AND OTHER ASSETS:			
Investments in marketable securities	572	701	5,938
Investments in affiliates	6,050	6,213	52,630
Identifiable intangible assets	38,575	38,585	326,853
Goodwill	22,102	22,738	192,613
Lease deposits	25,277	24,906	210,979
Deferred income taxes, net	3,179	2,593	21,965
Other assets	20,103	17,366	147,107
Total investments and other assets	115,858	113,102	958,085
TOTAL ASSETS	¥302,637	¥304,657	$2,580,745

See accompanying notes to consolidated financial statements.

	Millions of Yen		Thousands of U.S. Dollars
	2006	**2007**	**2007**
LIABILITIES AND STOCKHOLDERS' EQUITY			
CURRENT LIABILITIES:			
Short-term borrowings	¥ 958	**¥ —**	**$ —**
Current portion of long-term debt and capital lease obligations	24,492	**23,073**	**195,451**
Trade notes and accounts payable	19,357	**24,002**	**203,321**
Accrued income taxes	7,487	**1,740**	**14,739**
Accrued expenses	16,323	**19,179**	**162,465**
Deferred revenue	5,353	**5,661**	**47,954**
Other current liabilities	7,254	**8,811**	**74,638**
Total current liabilities	81,224	**82,466**	**698,568**
LONG-TERM LIABILITIES:			
Long-term debt and capital lease obligations, less current portion	35,631	**24,248**	**205,405**
Accrued pension and severance costs	2,658	**2,708**	**22,939**
Deferred income taxes, net	11,924	**12,207**	**103,405**
Other long-term liabilities	5,264	**5,669**	**48,022**
Total long-term liabilities	55,477	**44,832**	**379,771**
MINORITY INTEREST IN CONSOLIDATED SUBSIDIARIES	2,121	**2,697**	**22,846**
COMMITMENTS AND CONTINGENCIES (Notes 11 and 21)			
STOCKHOLDERS' EQUITY:			
Common stock, no par value— Authorized 450,000,000 shares; issued 143,555,786 shares at March 31, 2006 and March 31, 2007: outstanding 137,152,347 shares at March 31, 2006 and 137,254,816 shares at March 31, 2007	47,399	**47,399**	**401,516**
Additional paid-in capital	77,110	**77,213**	**654,070**
Legal reserve	284	**284**	**2,406**
Retained earnings	53,756	**62,560**	**529,945**
Accumulated other comprehensive income	3,957	**5,617**	**47,582**
Treasury stock, at cost— 6,403,439 shares and 6,300,970 shares at March 31, 2006 and March 31, 2007, respectively	(18,691)	**(18,411)**	**(155,959)**
Total stockholders' equity	163,815	**174,662**	**1,479,560**
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	¥302,637	**¥304,657**	**$2,580,745**

Consolidated Statements of Income

Years ended March 31, 2005, 2006 and 2007

	Millions of Yen			Thousands of U.S. Dollars
	2005	2006	**2007**	**2007**
NET REVENUES:				
Product sales revenue	¥183,030	¥186,875	**¥199,620**	**$1,690,979**
Service revenue	77,661	75,262	**80,659**	**683,261**
Total net revenues	260,691	262,137	**280,279**	**2,374,240**
COSTS AND EXPENSES:				
Costs of products sold	114,547	112,613	**118,806**	**1,006,404**
Costs of services rendered	65,816	72,131	**74,700**	**632,783**
Impairment of long-lived assets	—	10,533	**—**	**—**
Impairment of identifiable intangible assets	—	9,180	**—**	**—**
Selling, general and administrative	52,192	55,199	**58,628**	**496,637**
Total costs and expenses	232,555	259,656	**252,134**	**2,135,824**
Operating income	28,136	2,481	**28,145**	**238,416**
OTHER INCOME (EXPENSES):				
Interest income	518	716	**821**	**6,955**
Interest expense	(971)	(1,137)	**(985)**	**(8,344)**
Gain on sale of shares of affiliated companies	563	6,917	**—**	**—**
Other, net	(804)	(539)	**(414)**	**(3,507)**
Other income (expenses), net	(694)	5,957	**(578)**	**(4,896)**
INCOME BEFORE INCOME TAXES, MINORITY INTEREST AND EQUITY IN NET INCOME (LOSS) OF AFFILIATED COMPANIES	27,442	8,438	**27,567**	**233,520**
INCOME TAXES:				
Current	15,517	(4,785)	**8,298**	**70,292**
Deferred	(7,615)	(5,485)	**2,621**	**22,203**
Total	7,902	(10,270)	**10,919**	**92,495**
INCOME BEFORE MINORITY INTEREST AND EQUITY IN NET INCOME (LOSS) OF AFFILIATED COMPANIES	19,540	18,708	**16,648**	**141,025**
MINORITY INTEREST IN INCOME (LOSS) OF CONSOLIDATED SUBSIDIARIES	2,761	(4,267)	**575**	**4,871**
EQUITY IN NET INCOME (LOSS) OF AFFILIATED COMPANIES	(6,293)	33	**138**	**1,169**
NET INCOME	¥ 10,486	¥ 23,008	**¥ 16,211**	**$ 137,323**

	Millions of Yen			U.S. Dollars
	2005	2006	**2007**	**2007**
PER SHARE DATA:				
Basic net income per share	¥87.41	¥175.86	**¥118.15**	**$1.00**
Diluted net income per share	87.41	175.80	**118.09**	**1.00**

See accompanying notes to consolidated financial statements.

Consolidated Statements of Stockholders' Equity

Years ended March 31, 2005, 2006 and 2007

	Millions of Yen							
	Common Stock	Additional Paid-in Capital	Legal Reserve	Comprehensive Income (Loss)	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock, at Cost	Total Stockholders' Equity
Balance at March 31, 2004	¥47,399	¥46,736	¥ —		¥33,779	¥ (119)	¥(25,666)	¥102,129
Comprehensive income:								
Net income				¥10,486	10,486			10,486
Foreign currency translation adjustments				2,285				2,285
Net unrealized gains								
on available-for-sale securities				(20)				(20)
Minimum pension liability adjustment				71				71
Other comprehensive income				2,336		2,336		
Comprehensive income				¥12,822				
Cash dividends, ¥54.0 per share					(6,489)			(6,489)
Purchase of treasury stock							(2,605)	(2,605)
Balance at March 31, 2005	¥47,399	¥46,736	¥ —		¥37,776	¥2,217	¥(28,271)	¥105,857
Comprehensive income:								
Net income				¥23,008	23,008			23,008
Foreign currency translation adjustments				1,888				1,888
Net unrealized losses								
on available-for-sale securities				(132)				(132)
Minimum pension liability adjustment				(16)				(16)
Other comprehensive income				1,740		1,740		
Comprehensive income				¥24,748				
Issuance of common stock for stock exchange		33,095						33,095
Reissuance of treasury stock for stock exchange		(2,818)					9,612	6,794
Stock-based compensation		97					39	136
Transfer from retained earnings			284		(284)			—
Cash dividends, ¥54.0 per share					(6,744)			(6,744)
Purchase of treasury stock							(71)	(71)
Balance at March 31, 2006	¥47,399	¥77,110	¥ 284		¥53,756	¥3,957	¥(18,691)	¥163,815
Comprehensive income:								
Net income				**¥16,211**	**16,211**			**16,211**
Foreign currency translation adjustments				**1,267**				**1,267**
Net unrealized losses								
on available-for-sale securities				**27**				**27**
Minimum pension liability adjustment				**16**				**16**
Other comprehensive income				**1,310**		**1,310**		
Comprehensive income				**¥17,521**				
Adjustment to initially apply SFAS No. 158						**350**		**350**
Reissuance of treasury stock		**(125)**					**373**	**248**
Stock-based compensation		**228**						**228**
Cash dividends, ¥54.0 per share					**(7,407)**			**(7,407)**
Purchase of treasury stock							**(93)**	**(93)**
Balance at March 31, 2007	**¥47,399**	**¥77,213**	**¥ 284**		**¥62,560**	**¥5,617**	**¥(18,411)**	**¥174,662**

	Thousands of U.S.Dollars							
	Common Stock	Additional Paid-in Capital	Legal Reserve	Comprehensive Income (Loss)	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock, at Cost	Total Stockholders' Equity
Balance at March 31, 2006	$401,516	$653,198	$2,406		$455,366	$33,520	$(158,331)	$1,387,675
Comprehensive income:								
Net income				**$137,323**	**137,323**			**137,323**
Foreign currency translation adjustments				**10,733**				**10,733**
Net unrealized losses								
on available-for-sale securities				**229**				**229**
Minimum pension liability adjustment				**136**				**136**
Other comprehensive income				**11,098**		**11,098**		
Comprehensive income				**$148,421**				
Adjustment to initially apply SFAS No. 158						**2,964**		**2,964**
Reissuance of treasury stock		**(1,059)**					**3,160**	**2,101**
Stock-based compensation		**1,931**						**1,931**
Cash dividends, $0.46 per share					**(62,744)**			**(62,744)**
Purchase of treasury stock							**(788)**	**(788)**
Balance at March 31, 2007	**$401,516**	**$654,070**	**$2,406**		**$529,945**	**$47,582**	**$(155,959)**	**$1,479,560**

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows

Years ended March 31, 2005, 2006 and 2007

	Millions of Yen			Thousands of U.S. Dollars
	2005	2006	**2007**	**2007**
CASH FLOWS FROM OPERATING ACTIVITIES:				
Net income	¥ 10,486	¥ 23,008	**¥ 16,211**	**$ 137,323**
Adjustments to reconcile net income to net cash provided by operating activities—				
Depreciation and amortization	9,360	13,782	**11,757**	**99,593**
Provision for doubtful receivables	(400)	(10)	**(76)**	**(644)**
Impairment of long-lived assets	—	10,533	**—**	**—**
Impairment of identifiable intangible assets	—	9,180	**—**	**—**
Loss on sale or disposal of property and equipment, net	1,553	645	**829**	**7,022**
Loss (gain) on sale of marketable securities	46	(173)	**—**	**—**
Gain on sale of shares of an affiliated company	(563)	(6,917)	**—**	**—**
Equity in net loss (income) of affiliated companies	6,293	(33)	**(138)**	**(1,169)**
Minority interest	2,761	(4,267)	**575**	**4,871**
Deferred income taxes	(7,615)	(5,485)	**2,621**	**22,202**
Change in assets and liabilities, net of businesses acquired:				
Decrease (increase) in trade notes and accounts receivable	(5,632)	3,369	**4,716**	**39,949**
Decrease (increase) in inventories	2,949	(635)	**(4,298)**	**(36,408)**
Increase in trade notes and accounts payable	352	2,945	**3,354**	**28,412**
Increase (decrease) in accrued income taxes	4,954	(20,772)	**(7,190)**	**(60,906)**
Increase (decrease) in accrued expenses	617	(3,043)	**3,567**	**30,216**
Increase (decrease) in deferred revenue	(640)	(43)	**309**	**2,618**
Increase in advance received	1,301	1,685	**469**	**3,973**
Other, net	1,938	110	**(882)**	**(7,471)**
Net cash provided by operating activities	27,760	23,879	**31,824**	**269,581**
CASH FLOWS FROM INVESTING ACTIVITIES:				
Proceeds from sales of shares of affiliates	1,407	11,016	**—**	**—**
Capital expenditures	(15,818)	(14,513)	**(9,308)**	**(78,848)**
Proceeds from sales of property and equipment	696	2,455	**425**	**3,600**
Proceeds from sales of investments in marketable securities	22	245	**—**	**—**
Acquisition of new subsidiaries, net of cash acquired	—	1,433	**(202)**	**(1,711)**
Purchase of investments in subsidiaries	—	(6,688)	**—**	**—**
Increase in lease deposits, net	(542)	(697)	**(705)**	**(5,972)**
Purchases of treasury stock by subsidiaries	(3,593)	—	**—**	**—**
Acquisition of business	—	—	**(1,096)**	**(9,284)**
Other, net	(108)	(517)	**(212)**	**(1,796)**
Net cash used in investing activities	(17,936)	(7,266)	**(11,098)**	**(94,011)**
CASH FLOWS FROM FINANCING ACTIVITIES:				
Net increase (decrease) in short-term borrowings	6,001	(12,551)	**(1,119)**	**(9,479)**
Repayments of long-term debt	(1,177)	(1,099)	**(1,995)**	**(16,900)**
Redemption of bonds	—	(15,000)	**(20,000)**	**(169,420)**
Principal payments under capital lease obligations	(2,255)	(2,526)	**(2,814)**	**(23,837)**
Dividends paid	(7,963)	(7,025)	**(7,420)**	**(62,855)**
Purchases of treasury stock by parent company	(2,605)	(71)	**(93)**	**(787)**
Other, net	(78)	(58)	**229**	**1,940**
Net cash used in financing activities	(8,077)	(38,330)	**(33,212)**	**(281,338)**
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	951	828	**1,125**	**9,530**
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	2,698	(20,889)	**(11,361)**	**(96,238)**
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	86,885	89,583	**68,694**	**581,905**
CASH AND CASH EQUIVALENTS, END OF YEAR	¥ 89,583	¥ 68,694	**¥ 57,333**	**$ 485,667**

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

KONAMI CORPORATION and Subsidiaries

1. Business and Organization, Basis of Presentation and Summary of Significant Accounting Policies

Business and Organization

KONAMI CORPORATION (the "Company") was founded in 1969 and was incorporated under the laws of Japan in March 1973. The Company and its subsidiaries (collectively "Konami") engage in production and sale of video game software for home video game systems, game machines for installation in amusement arcades and other entertainment venues and other amusement-related products, and operation of health and fitness club facilities. The principal markets for Konami's products are Japan, North America, Europe, Asia and Australia while all of its health and fitness club facility operation is in Japan.

Substantially all of Konami's revenues from video game software have historically been derived from sales of software for use on proprietary game platforms developed and manufactured by other manufacturers. Konami may only publish its games for use on the manufacturers' game platforms if it receives a platform license from them, which is generally for an initial term of several years and may be extended for additional one-year terms. If Konami cannot obtain licenses to develop video game software from manufacturers of popular game platforms or if any of its existing license agreements are terminated, it will not be able to release software for those platforms, which may have a negative impact on its results of operations and profitability. To date, Konami has successfully obtained extensions or new agreements with the platform manufacturers each time it has attempted to do so. These licenses include other provisions such as approval rights by the manufacturers of all products and related promotional materials which could have an effect on Konami's costs and the timing of release of new game titles.

In the United States, Canada and Australia, the manufacture and distribution of Konami's gaming machines are subject to numerous federal, state and local regulations. In addition, Konami may be subject to regulation as a gaming operator if it enters into lease participation agreements under which it shares in the revenues generated by gaming machines. These regulations are constantly changing and evolving, and may curtail gaming in various jurisdictions in the future, which would decrease the number of jurisdictions from which Konami can generate revenues. Konami and its key personnel are subject to an extensive investigation before each jurisdictional gaming license is issued. Also, Konami's gaming machines are subjected to independent testing and evaluation prior to approval from each jurisdiction. Generally, regulatory authorities have broad discretion when granting, renewing or revoking these game approvals and licenses.

Basis of Accounting

The Company and its domestic subsidiaries maintain their books and records in conformity with accounting principles and practices generally accepted in Japan ("Japanese GAAP"), 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, which are necessary to conform with U.S. generally accepted accounting principles ("U.S. GAAP").

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 represent a translation using the mid price for telegraphic transfer of U.S. dollars for yen quoted by The Bank of Tokyo-Mitsubishi UFJ, Ltd. as of March 30, 2007 of ¥118.05 to $1 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.

Summary of Significant Accounting Policies

(a) Consolidation Policy

The accompanying consolidated financial statements include the accounts of the Company and all of its majority-owned subsidiaries. All significant intercompany balances and transactions have been eliminated in consolidation.

(b) Cash and Cash Equivalents

Cash and cash equivalents include all highly liquid investments with an initial maturity of three months or less.

(c) Marketable Securities

Konami classifies its debt and marketable equity securities into one of three categories: trading, available-for-sale, or held-to-maturity securities. Trading securities are bought and held primarily for the purpose of selling them in the near term. Held-to-maturity securities are those securities in which Konami has the ability and intent to hold them until maturity. All securities not included in trading or held-to-maturity categories are classified as available-for-sale. Trading and available-for-sale securities whose fair values are readily determinable are recorded at fair value. Held-to-maturity securities are recorded at amortized cost, adjusted for the amortization or accretion of premiums or discounts. Unrealized gains and losses on trading securities are included in earnings. Unrealized gains and losses, net of the related tax effect, on available-for-sale securities are excluded from earnings and are reported as a separate component of accumulated other comprehensive income until realized. Realized gains and losses from sale of available-for-sale securities are determined based on the average cost method. A decline in the market value of any available-for-sale security below cost that is deemed to be other-than-temporary results in a reduction in carrying amount to fair value. The impairment is charged to earnings and a new cost basis for the security is established. Dividend income is recognized when received. As of March 31, 2006 and 2007, all equity securities held by Konami are classified as available-for-sale.

On a continuous basis, but no less frequently than at the end of each semi-annual period, Konami evaluates the cost basis of an available-for-sale security for possible other-than-temporary impairment. Factors considered in assessing whether an indication of other-than-temporary impairment exists include: the degree of change in ratio of market prices per share to book value per share at date of evaluation compared to that at date of acquisition, the financial condition and prospects of each investee company, industry conditions in which the investee company operates, the fair value of an available-for-sale security relative to the cost basis of the investment, the period of time the fair value of an available-for-sale security has been below the cost basis of the investment and other relevant factors.

Konami evaluates the cost basis of a held-to-maturity debt security for possible other-than-temporary impairment by taking into consideration the financial condition, business prospects and credit worthiness of the issuer. The published credit ratings of investee companies that are “BB” or lower are considered an indication of other-than-temporary impairment.

Impairment to be recognized is measured based on the amount by which the carrying amount of the investment exceeds the fair value of the investment. Fair value is determined based on quoted market prices, projected discounted cash flows or other valuation techniques as appropriate.

(d) Investments in Affiliates

For those investments in affiliates in which the Company has the ability to exercise significant influence over the affiliate’s operations (generally when its voting interest is between 20% and 50%), the equity-method of accounting is used. Under this method, the investment is initially recorded at cost and is adjusted to recognize the Company's share of the net earnings or losses of the affiliates. All significant inter-company profits from these affiliates have been eliminated. Investments in non-marketable equity securities in which the Company's ownership is less than 20% are carried at cost.

On a continuous basis, but no less frequently than at the end of each semi-annual period, the Company evaluates the carrying amount of its ownership interests in investee companies for possible impairment. Factors considered in assessing whether an indication of other-than-temporary impairment exists include the achievement of business plan objectives and milestones including cash flow projections and the results of planned financing activities, the financial condition and prospects of each investee company, the fair value of the ownership interest relative to the carrying amount of the investment, the period of time the fair value of the ownership interest has been below the carrying amount of the investment and other relevant factors. Impairment to be recognized is measured based on the amount by which the carrying amount of the investment exceeds the fair value of the investment. Fair value is determined based on quoted market prices, projected discounted cash flows or other valuation techniques as appropriate. A decline in the fair value of a non-marketable equity security below cost that is deemed to be other-than-temporary results in a reduction in carrying amount to fair value. The impairment is charged to earnings and a new cost basis for the security is established.

(e) Inventories

Inventories, consisting of merchandise for resale, finished products, work-in-process, raw materials and supplies, are stated at the lower of cost or market. Cost is determined by the first-in, first-out method for merchandise, by the specific identification method for software products, and by the weighted-average method for others.

(f) Property and Equipment

Property and equipment are carried at cost. Depreciation is computed on the declining-balance method using estimated useful lives ranging from 10 to 50 years for buildings and structures and from 2 to 20 years for tools, furniture and fixtures. Equipment under capital leases is stated at the lower of the present value of minimum lease payments or the fair value of the leased equipment at the inception of the lease and is amortized on a straight-line basis over the shorter of the lease term or estimated useful life of the asset, which range from 3 to 20 years.

Ordinary maintenance and repairs are expensed as incurred. Major replacements and improvements are capitalized. When properties are retired or otherwise disposed of, the property and related accumulated depreciation accounts are relieved of the applicable amounts and any differences are included in operating income or expenses.

Konami accounts for its asset retirement obligations according to the Statements of Financial Accounting Standards ("SFAS") No. 143, "Accounting for Asset Retirement Obligations." SFAS No. 143 requires that legal obligations associated with the retirement of tangible long-lived assets be recorded as a liability and measured at fair value when those obligations are incurred if an estimate of fair value is possible. When a company initially recognizes a liability for an asset retirement obligation, it must capitalize the cost by recognizing an increase in the carrying amount of the related long-lived asset.

In March 2005, the Financial Accounting Standards Board (FASB) issued FASB Interpretation (FIN) No. 47, "Accounting for Conditional Asset Retirement Obligations" which requires conditional asset retirement obligations to be recognized if a legal obligation exists to perform asset retirement activities and a reasonable estimate of the fair value of the obligation can be made. FIN No. 47 also provides guidance as to when an entity would have sufficient information to reasonably estimate the fair value of an asset retirement obligation. The Company adopted the provisions of FIN No. 47 on March 31, 2006, impact of which was not significant.

(g) Software for Internal Use

Under the provisions of Statement of Position (“SOP”) 98-1, “Accounting for the Costs of Computer Software Developed or Obtained for Internal Use,” Konami has capitalized costs associated with software systems for internal use, that have reached the application stage and meet recoverability tests as capitalized computer software in the accompanying consolidated balance sheets. Such capitalized costs primarily include external direct costs utilized in developing or obtaining the applications. Capitalization of such costs ceases at the point in which the project is substantially complete and ready for its intended use, and the costs capitalized are amortized on a straight-line basis over the estimated useful life of each application, ranging from 2 to 5 years. Konami expenses costs incurred during the preliminary project stage which include costs for making strategic decisions about the project, and determining performance and system requirements. Konami also expenses costs incurred for internal-use software in the post-implementation stage such as training and maintenance costs.

(h) Business Combination

Konami has used the purchase method of accounting for its acquisitions and, accordingly, has allocated the purchase price based on the estimated fair value of net assets of the acquired companies in accordance with SFAS No. 141, “Business Combinations.” The excess purchase price over the fair value of net assets acquired is recorded as goodwill.

(i) Goodwill and Other Identifiable Intangible Assets

Goodwill represents the difference between the cost of acquired companies and amounts allocated to the estimated fair value of their net assets. Identifiable intangible assets represent intangible assets related to trademarks, membership lists, gaming licenses, existing technology, customer relationships and franchise and other contracts acquired primarily in connection with acquisitions of subsidiaries.

Konami performs an assessment of goodwill for impairment at least annually, and more frequently if an indicator of impairment has occurred, using a two-step process under SFAS No. 142, “Goodwill and Other Intangible Assets.” The first step requires identification of reporting units and determination of the fair value for each individual reporting unit. Primarily, Konami has determined its reporting units to be the same as its reportable segments. The fair value of each reporting unit is then compared to the reporting unit’s carrying amount including assigned goodwill. To the extent a reporting unit’s carrying amount exceeds its fair value, the second step of the impairment test is performed by comparing the implied fair value of the reporting unit’s goodwill to its carrying amount. If the implied fair value of a reporting unit’s goodwill is less than its carrying amount, an impairment loss is recorded.

Intangible assets determined to have an indefinite useful life have been also tested for impairment based on fair value under SFAS No. 142. Konami reassesses such determination periodically for each asset based on the factors prescribed in SFAS No. 142.

Intangible assets with finite useful lives have been amortized over their estimated useful lives. Konami assesses the recoverability of these intangible assets according to SFAS No. 144, “Accounting for the Impairment or Disposal of Long-Lived Assets.”

In the fourth quarter of the fiscal year ended March 31, 2006, Konami performed an annual assessment of goodwill and other intangible assets with an indefinite life for impairment under SFAS No. 142 and recorded an aggregate non-cash impairment charge of ¥9,180 million. See Note 7 for a description of impairment charges recorded for intangible assets for the year ended March 31, 2006.

(j) Impairment or Disposal of Long-Lived Assets
Konami's long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Factors Konami considers important which could trigger an impairment review include: significant underperformance relative to expected historical or projected future operating results; significant changes in the manner of the use of the acquired assets or the strategy for overall business; significant negative industry or economic trends; significant decline in the stock price of the acquired entity for a sustained period; and market capitalization of the acquired entity relative to its net book value. When it is determined that the carrying amount of assets to be held and used may not be recoverable based upon the existence of one or more of these indicators of impairment, recoverability is measured by a comparison of the carrying amount of an asset to future net cash flows (undiscounted and without interest charges) expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the estimated fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell. Impairment charges to reduce the carrying value of long-lived assets are presented in the accompanying consolidated statements of income as a separate line item within operating costs and expenses. See Note 6 for a description of impairment charges recorded for long-lived assets for the year ended March 31, 2006.

(k) Derivative Financial Instruments
From time to time, Konami uses certain derivative financial instruments to manage its foreign currency risks. Konami may enter into forward contracts to reduce its exposure to short-term (generally no more than one year) movements in exchange rates applicable to firm funding commitments that are denominated in currencies other than the Japanese yen.

Konami accounts for its derivative financial instruments in accordance with SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," as amended. SFAS No. 133, as amended, requires that all derivative instruments be reported on the balance sheet as either assets or liabilities measured at fair value. For derivative instruments designated and effective as fair value hedges, changes in the fair value of the derivative instrument and of the hedged item attributable to the hedged risk are recognized in earnings. For derivative instruments designated as cash flow hedges, the effective portion of any hedge is reported in accumulated other comprehensive income until it is recognized in earnings in the same period in which the hedged item affects earnings. Any amounts excluded from the assessment of hedge effectiveness as well as the ineffective portion of all hedges are reported in current earnings each period. Changes in fair value of derivative instruments that are not designated as a hedge are recorded each period in current earnings. If a derivative instrument is not designated as a hedge, the gain or loss is recognized in earnings in the current period. To date, Konami has not designated any derivative instrument as a hedge.

(l) Income Taxes
Konami accounts for income taxes in accordance with SFAS No. 109, "Accounting for Income Taxes." Under SFAS No. 109, deferred income taxes are recognized by the asset and liability method for the estimated future tax consequences attributable to temporary differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards, using enacted tax rates in effect for the years in which those temporary differences are expected to reverse. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in earnings in the period that includes the enactment date.

(m) Revenue Recognition

Konami derives revenue from primarily three sources: (i) product revenue, which includes packaged game software and other products, game machines and related equipment and components, (ii) membership fee revenue from health and fitness club members, and (iii) sales and subscription fee revenue from mobile game contents.

Konami's revenue recognition criteria are as follows:

Persuasive Evidence of an Arrangement

For product sales, it is Konami's customary practice to have a written contract, which is signed by both the customer and Konami, or a purchase order or amendment to the written contract from those customers that have previously negotiated a standard purchase agreement.

For Konami's health and fitness clubs, members are required to sign a standard monthly membership agreement upon admission, which is automatically renewed unless the member provides advance notice of his or her intention to cancel prior to the tenth day of the month at the end of which the membership will terminate.

For mobile game contents, Konami enters into distribution agreements with mobile phone carriers for the sale or subscription of mobile game contents by the carriers to their subscribers. Konami recognizes as revenues the net amount the mobile phone carrier pays to Konami upon the sale of Konami's game contents, net of any service or other fees earned and deducted by the carrier.

Delivery Has Occurred

Packaged game software and other products are physically delivered to customers. Also, Konami's game machines and related equipment are physically delivered to customers as a fully-assembled, ready to be installed unit. Accordingly, Konami recognizes revenue from product sales upon delivery and acceptance since title and risk of loss transfer to the customer based on freight on board ("FOB") destination. Generally, Konami does not permit exchanges or accept returns of unsold merchandise except in the case of obvious defects. In certain limited circumstances Konami may allow returns, for which Konami estimates the related allowances based upon management's evaluation of historical experience, the nature of the software titles and other factors. These estimates are deducted from gross sales.

Revenue from health and fitness club membership is derived primarily from monthly membership fees from club members. Revenue for those fees is recognized as monthly charges and generally made to the members' accounts in advance, at the end of each month, with respect to the following month's membership. This policy requires Konami to defer the applicable membership fee revenue for one month.

Revenue from mobile game contents is derived from monthly subscription fees. Under the distribution agreements, the mobile phone carriers are responsible for billing, collection and remittance of those subscription fees to Konami. The carriers generally report the final sales data to Konami within 60 days following the end of each month. When final sales data is not available in a timely manner for reporting purposes, Konami estimates its revenues based on sales data available from the server in which game contents are housed, which is then adjusted to actual revenues in the following reporting period once the actual amounts are determined.

The Price is Fixed or Determinable

The price customers pay for Konami's products is negotiated at the outset of an arrangement, and is generally determined by the specific volume of product to be delivered. Therefore, the prices are considered to be fixed or determinable at the start of the arrangement. Konami's membership fee for health and fitness clubs is fixed at the time of admission of the member. Also, monthly subscription fees for mobile game contents are based on a fixed rate per end customer subscriber.

Collection is Probable
Probability of collection is assessed on a customer-by-customer basis. Konami typically sells to customers with whom Konami has a history of successful collection. New customers are subjected to a credit review process that evaluates the customers' financial position and ultimately their ability to pay. For Konami's health and fitness clubs, the collectibility of membership fees is assured as it generally charges members' accounts one month in advance. Also, for mobile game contents, the collectibility of subscription fees is assured by the distribution agreements with the mobile phone carriers.

(n) Software Development Costs
Research and development expenses are charged to earnings as incurred. Research and development expenses included in selling, general and administrative expenses amounted to ¥1,813 million, ¥2,446 million and ¥2,285 million ($19,356 thousand) for the years ended March 31, 2005, 2006 and 2007, respectively, in the accompanying consolidated statements of income.

SFAS No. 86, "Accounting for the Costs of Computer Software to be Sold, Leased, or Otherwise Marketed," provides for the capitalization of certain software development costs incurred after technological feasibility is established or for development costs that have alternative future uses. Under Konami's current practice of developing new game software products, technological feasibility is not established until substantially all development activities are complete, which generally include the development of a working template and the related tools. For game products where a proven game engine technology exists and other criteria supporting the technological feasibility of the game title in development have been met, which include coding and testing of unique or unproven functions and features, Konami capitalizes these costs and begins to expense them upon release of the product through cost of revenues or they are written off when they are deemed unrecoverable.

(o) Royalties and License Fees
Konami pays royalties and license fees to professional sports organizations and certain other third parties for use of their trade names. Minimum portions of such royalties and license fees paid up-front are recorded as prepaid royalties and are expensed to costs of products sold over the contractual terms ranging primarily from 4 to 12 months. Variable portions of such royalties and license fees, which are generally determined based on the number of copies shipped at the predetermined royalty rates, are expensed to cost of products sold based on actual shipment. Management periodically evaluates the future realizability of prepaid royalties and charges to income any amounts deemed unlikely to be realized. Prepaid royalties amounted to ¥454 million and ¥928 million ($7,861 thousand) at March 31, 2006 and 2007, respectively, and were included in Prepaid expenses and other current assets in the accompanying consolidated balance sheets.

(p) Shipping and Handling Expenses
Shipping and handling expenses are charged to earnings as incurred and are included in selling, general and administrative expenses in the accompanying consolidated statements of income. Shipping and handling expenses amounted to ¥2,287 million, ¥2,367 million and ¥2,489 million ($21,084 thousand) for the years ended March 31, 2005, 2006 and 2007, respectively.

(q) Advertising Expenses
Advertising expenses are charged to earnings as incurred and are included in selling, general and administrative expenses in the accompanying consolidated statements of income. Advertising expenses amounted to ¥12,667 million, ¥10,836 million and ¥11,003 million ($93,206 thousand) for the years ended March 31, 2005, 2006 and 2007, respectively.

(r) Stock-Based Compensation

Konami accounted for its stock-based compensation plan to directors and employees using the intrinsic value based method prescribed by APB Opinion No. 25, "Accounting for Stock Issued to Employees," and FIN No. 44, "Accounting for Certain Transactions Involving Stock Compensation, an Interpretation of APB Opinion No. 25," prior to the adoption of SFAS No.123R, "Share-Based Payment," an amendment of SFAS 123 "Accounting for Stock-Based Compensation," as of April 1, 2006, which requires recording of expense for stock-based compensation to employees using the fair value based method. Konami has adopted the modified prospective transition method prescribed by SFAS No. 123R, under which the post-vesting share-based compensation awards are recognized according to the period in which employees are required to provide service, beginning from the adoption date.

The adoption of SFAS No.123R resulted in a decrease in net income of ¥214 million ($1,813 thousand) for the year ended March 31, 2007, compared to accounting under APB Opinion No. 25. The impact on basic net income per share and diluted net income per share was a decrease of ¥1.56.

Had Konami determined compensation expense based on the fair value at the grant date for rights of stock-based compensation plans under SFAS No. 123, for the year ended March 31, 2005 and 2006, Konami's net income and net income per share would have been adjusted to the pro forma amounts indicated below;

	Millions of Yen	
	2005	2006
Reported net income	¥10,486	¥23,008
Add back: stock-based compensation expense under intrinsic-value-based method, net of tax	—	97
Deduct: stock-based compensation expense under fair-value-based method, net of tax	(589)	(539)
Pro forma net income	¥9,897	¥22,566

	Yen	
Per share data:		
Reported net income per share, basic	¥87.41	¥175.86
Reported net income per share, diluted	87.41	175.80
Add back: stock-based compensation expense under intrinsic-value-based method, net of tax	—	0.74
Deduct: stock-based compensation expense under fair-value-based method, net of tax	(4.92)	(4.12)
Pro forma net income per share, basic	82.49	172.48
Pro forma net income per share, diluted	¥82.49	¥172.42

(s) Comprehensive Income

SFAS No. 130, "Reporting Comprehensive Income," requires classification of other comprehensive income in a financial statement and display of other comprehensive income separately from retained earnings and additional paid-in capital. Other comprehensive income primarily includes foreign currency translation adjustments, unrealized gains (losses) from marketable securities considered available-for-sale, adjustment for minimum pension liability and adjustment on retirement benefits as well as the income tax effects thereof.

(t) Translation of Foreign Currencies

Transactions denominated in foreign currencies are recorded using the exchange rates in effect as of the transaction dates. The related foreign currency asset and liability balances are translated based on exchange rates prevailing at each balance sheet date with the resulting gain or loss charged to earnings.

Assets and liabilities of a foreign subsidiary where the functional currency is other than Japanese yen are translated into Japanese yen at the exchange rates in effect at the balance sheet date. Revenue and expense accounts are translated at average exchange rates during the current year. The resulting translation adjustments are included in accumulated other comprehensive income.

(u) Net Income Per Share

Net income per share is presented in accordance with the provisions of SFAS No. 128, "Earnings Per Share." Under SFAS No. 128, basic net income per share excludes dilution for potential common stock and is computed by dividing consolidated net income (loss) by the weighted-average number of common shares outstanding. Diluted net income per share reflects the effect of potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock. Diluted net income per share is calculated by dividing net income by the sum of the weighted-average number of shares plus additional shares that would be outstanding if potential dilutive shares had been issued. The components of basic and diluted net income per share are as follows:

	Millions of Yen			Thousands of U.S. Dollars
	2005	2006	**2007**	**2007**
Net income available for common stockholders	¥10,486	¥23,008	**¥16,211**	**$137,323**
	Shares			
Weighted-average common shares outstanding	119,970,052	130,835,422	**137,202,151**	
Dilutive effect of employee stock options	—	42,014	**69,494**	
Common stock and common stock equivalents	119,970,052	130,877,436	**137,271,645**	
	Yen			U.S. Dollars
Net income per share:				
Basic	¥87.41	¥175.86	**¥118.15**	**$1.00**
Diluted	¥87.41	¥175.80	**¥118.09**	**$1.00**

For the years ended March 31, 2005, 2006 and 2007, 1,618,700, 2,572,280 and 2,356,180 shares attributable to outstanding stock options were excluded from the calculation of diluted earnings per share because the exercise prices of the stock options were greater than or equal to the average price of the common shares, and therefore their inclusion would have been anti-dilutive.

(v) Use of Estimates

Preparation of these consolidated financial statements requires management of Konami to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of financial statements, and the reported amounts of revenue and expenses during the reporting periods. There can be no assurance that actual results will not differ from those estimates.

Konami has identified four areas where it believes assumptions and estimates are particularly critical to the consolidated financial statements. These are revenue recognition, accounting for software development costs, impairment on long-lived and intangible assets, and realizability of deferred tax assets.

(w) Recent Accounting Pronouncements

In June 2006, the FASB issued interpretation No. 48, "Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement No. 109" (FIN No. 48). FIN No. 48 requires that the tax effects of a position be recognized if it is "more-likely-than-not" to be sustained based solely on its technical merits as of the reporting date. The more-likely-than-not threshold represents a positive assertion by management that a company is entitled to the economic benefits of a tax position. If a tax position is not considered more-likely-than-not to be sustained based solely on its technical merits, no benefits of the position are to be recognized. Moreover, the more-likely-than-not threshold must continue to be met in each reporting period to support continued recognition of a benefit. FIN No. 48 is effective for fiscal years beginning after December

15, 2006. Konami is currently evaluating the potential impact of adopting FIN No. 48 on its consolidated financial statements and has not yet determined the impact of adopting this statement.

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements." SFAS No. 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles and expands disclosures about fair value measurements. SFAS No. 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007. Konami does not expect the adoption of SFAS No. 157 to have a material effect on its consolidated financial statements.

In September 2006, the FASB issued SFAS No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans." SFAS No. 158 improves financial reporting by requiring an employer to recognize the funded status of a defined benefit postretirement plan as an asset or liability in its balance sheets. Konami adopted the recognition and disclosure provision of SFAS No. 158 effective March 31, 2007. SFAS No. 158 also requires that the defined benefit plan assets and obligations be measured as of the date of the employer's fiscal year-end balance sheet for fiscal years ending after December 15, 2008. Konami does not expect the adoption of the measurement provisions of SFAS No. 158 to have a material effect on its consolidated financial statements.

In February 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities – Including an Amendment of FASB Statement No. 115." SFAS No. 159 permits entities to choose to measure many financial instruments and certain other items at fair value. The entity shall report unrealized gains and losses on items for which the fair value option has been elected. SFAS No. 159 is effective as of the beginning of an entity's first fiscal year that begins after November 15, 2007. Konami does not expect the adoption of SFAS No. 159 to have a material effect on its consolidated financial statements.

2. Merger and Acquisition

On May 31, 2006, the Company acquired all outstanding shares of COMBI WELLNESS Corporation ("Combi Wellness") for the total cash purchase price of ¥600 million ($5,083 thousand) to expand the lineup of healthcare equipment of its Health & Fitness segment. Combi Wellness became the Company's consolidated subsidiary and its operating results have been included in the Company's consolidated financial statements from the date of acquisition. The acquisition was accounted for using the purchase method of accounting and the excess purchase price over the estimated fair value of the net assets acquired of ¥438 million has been recorded as goodwill in the accompanying consolidated balance sheets.

The following table reflects the May 31, 2006, condensed balance sheet of Combi Wellness, as adjusted to give effect to the preliminary purchase method accounting adjustments:

	Millions of Yen	Thousands of U.S. Dollars
Current assets	¥1,063	$ 9,005
Property and equipment	8	68
Goodwill	438	3,710
Identifiable intangible assets	161	1,364
Other assets	30	254
Total assets acquired	1,700	14,401
Current liabilities	1,100	9,318
Total liabilities assumed	1,100	9,318
Net assets acquired	¥ 600	$ 5,083

Goodwill from the acquisition of Combi Wellness is allocated to Konami's Health & Fitness segment.

On July 5, 2006, the Company's consolidated subsidiary, Konami Digital Entertainment, Inc. ("KDE-US") entered into an asset purchase agreement with Blue Label Interactive, Inc. ("Blue Label") and acquired primary assets of Blue Label for the total cash purchase price of ¥1,099 million ($9,310 thousand) to expand Digital Entertainment segment business in North America. Based on the preliminary allocation of the purchase price, Konami has recorded ¥586 million ($4,964 thousand) and ¥513 million ($4,346 thousand) for goodwill and identifiable intangible assets, respectively, as a result of this acquisition.

Goodwill from the acquisition of primary assets of Blue Label is allocated to Konami's Digital Entertainment segment.

On December 16, 2004, the Company entered into a plan of merger agreement with three of its consolidated subsidiaries, Konami Computer Entertainment Studios, Inc. ("Konami STUDIO"), Konami Computer Entertainment Tokyo, Inc. ("Konami TYO"), and Konami Computer Entertainment Japan, Inc., ("Konami JPN"). Under the terms of the agreement, 0.42, 1.00, and 0.81 of one share of the Company's common stock was exchanged for each common share of Konami STUDIO, Konami TYO and Konami JPN, respectively. The merger ratios were determined based on the independent valuations. The Company consummated the mergers on April 1, 2005, by issuing 10,794,142 new common shares to minority shareholders of those merged companies.

Konami accounted for the acquisitions of additional equity interests in the merged companies as a step-acquisition and, accordingly, the total purchase price of ¥24,373 million, consisted of the fair value of new common shares issued to minority shareholders of the merged companies and the direct cost of the acquisition, has been allocated based on the estimated fair value of assets and liabilities of Konami STUDIO, Konami TYO and Konami JPN. The excess of the purchase price over the estimated fair value of the net assets acquired of ¥13,348 million has been recorded as goodwill in the accompanying consolidated balance sheets. Goodwill arising from these acquisitions has all been allocated to the Digital Entertainment segment. In connection with the purchase price allocation, Konami identified in-process research and development ("IP R&D") which included the value of products in the development stage that were not considered to have reached technological feasibility or to have alternative future use. Accordingly, IP R&D of ¥225 million was charged to R&D expense in the consolidated statements of income upon consummation of the acquisition.

On April 27, 2005, the Company acquired an additional 3,000,000 shares of HUDSON SOFT CO., LTD. ("Hudson"), an equity-method affiliate, by acquiring newly issued shares for total cash consideration of ¥1,434 million. Accordingly, the Company's equity ownership interest in Hudson increased from 45.47% to 53.99% and, as a result, Hudson became a consolidated subsidiary. Financial results of Hudson have been included in the consolidated financial statements from the acquisition date.

The following table reflects the April 27, 2005, condensed balance sheet of Hudson, as adjusted to give effect to the purchase method accounting adjustments:

	Millions of Yen
Current assets	¥ 8,309
Property and equipment	1,130
Goodwill	1,266
Other assets	477
In-process research & development	42
Total assets acquired	11,224
Current liabilities	7,455
Long-term liabilities	500
Total liabilities assumed	7,955
Minority interest	924
Net assets acquired	¥ 2,345

Goodwill related to acquisition of Hudson shares is allocated to the Digital Entertainment segment. In connection with the purchase price allocation, IP R&D of ¥42 million was charged to R&D expense in the consolidated statements of income upon consummation of the acquisition.

On November 7, 2005, the Company, Konami Sports Corporation (a consolidated subsidiary, "KSP"), and Konami Sports Life Corporation (a wholly owned subsidiary, "KSL") entered into a basic agreement for a merger between KSP and KSL with KSP as the surviving entity, and a share exchange between KSP and the Company so that KSP became a wholly owned subsidiary of the Company. A public announcement of the terms of the share exchange was made on that day. The plan of merger and share exchange was approved in the shareholders' meeting held on January 26, 2006. KSL and KSP merger was closed on February 28, 2006, and the share exchange between the Company and KSP was executed on March 1, 2006. KSP and KSL merger was made via share exchange with the exchange ratio of 1.00 to 3.99 which was determined based on an independent valuation. The Company and KSP share exchange was made with the exchange ratio of 1.00 to 0.79 which was determined based on an independent valuation. A total of 9,898,911 shares of the Company's common stock, including 4,024,078 newly issued shares and 5,874,833 shares held as treasury stock, was issued to the minority shareholders of KSP in the share exchange. Upon completion of the merger, KSP changed its trade name to Konami Sports & Life Co., Ltd.

Konami accounted for the acquisition of additional equity interests in KSP as a step-acquisition and, accordingly, the total purchase price of ¥16,194 million, consisted of the fair value of common shares issued to minority shareholders of KSP and the direct cost of the acquisition, has been allocated using the estimates of fair value of assets and liabilities of KSP based on the valuation by third parties. The excess purchase price over the estimated fair value of the net assets acquired of ¥6,596 million has been recorded as goodwill in the accompanying consolidated balance sheets. Goodwill arising from the acquisition of additional equity interest in KSP has all been allocated to the Health & Fitness segment. The identifiable intangible assets of KSP recognized in connection with the step acquisition included ¥12,542 million for trademarks, ¥727 million for membership list and ¥1,557 million for franchise and other contracts.

The impact to revenue, net income and net income per share for the years ended March 31, 2005, 2006 and 2007, as if the above transactions to acquire newly consolidated subsidiaries were completed as of the beginning of those fiscal years, is not material.

3. Investments in Affiliates

The carrying amount of investments in affiliates as of March 31, 2006 and 2007 was ¥6,050 million and ¥6,213 million ($52,630 thousand), respectively, and includes ¥4,291 million ($36,349 thousand) of the excess cost of investments over the Company's equity in net assets of the affiliates ("equity-method goodwill").

Under SFAS No. 142, equity-method goodwill is not amortized but continues to be reviewed for impairment in accordance with APB No. 18, "The Equity Method of Accounting for Investments in Common Stock," which requires other-than-temporary decline in value of an equity-method investment to be recognized as an impairment loss. All significant intercompany profits from these affiliates have been eliminated according to the equity-method of accounting.

At March 31, 2005, 2006 and 2007, Konami held investments in the equity-method affiliates as follows:

	Description of Business	Acquisition Date	Ownership % 2005	Ownership % 2006	Ownership % 2007
TAKARA Co., Ltd.	Toy manufacturer	July 2000	23.0%	—	—
HUDSON SOFT CO., LTD.	Game software producer	August 2001	45.5%	—	—
Resort Solution Co., Ltd.	Management of resort facilities	March 2006	—	20.0%	**20.0%**

Condensed financial information of the Company's unconsolidated affiliates at March 31, 2006 and 2007 and for each of the three years ended March 31, 2007 are presented below. Operations information for the year ended March 31, 2005 presents the combined results of the Company's affiliates for the period.

	Millions of Yen		Thousands of U.S. Dollars
	2006	2007	2007
Financial position:			
Property and equipment, net	¥15,541	**¥14,719**	**$124,684**
Other assets, net	16,038	**15,707**	**133,054**
Total assets	¥31,579	**¥30,426**	**$257,738**
Debt	1,585	**2,206**	**18,687**
Other liabilities	24,195	**21,351**	**180,864**
Minority interest	10	**11**	**93**
Stockholders' equity	5,789	**6,858**	**58,094**
Total liabilities and equity	¥31,579	**¥30,426**	**$257,738**

	Millions of Yen			Thousands of U.S. Dollars
	2005	2006	2007	2007
Operations:				
Sales	¥108,979	¥24,783	**¥27,391**	**$232,029**
Cost of revenues	83,936	12,977	**13,689**	**115,959**
Selling, general and administrative expenses	41,820	10,512	**11,609**	**98,340**
Operating income (loss)	(16,777)	1,294	**2,093**	**17,730**
Interest income (expense), net	(476)	(56)	**(84)**	**(712)**
Other, net	(3,285)	(91)	**(645)**	**(5,464)**
Net income (loss)	¥ (20,538)	¥ 1,147	**¥ 1,364**	**$ 11,554**

On March 31, 2005, the Company sold its entire equity interest in Genki Co., Ltd. ("Genki"), previously an equity-method affiliate, and terminated its equity relationship with Genki. In connection with the sale, ¥563 million of gain on sales of an affiliated company was recognized in the accompanying consolidated statements of income for the year ended March 31, 2005.

On April 25, 2005, the Company sold its entire equity interest in TAKARA Co., Ltd. ("Takara"), previously an equity-method affiliate and terminated its equity relationship with Takara. As a result, gain on sales of ¥6,917 million was recognized in the accompanying consolidated statements of income for the year ended March 31, 2006.

As discussed in Note 2, the Company acquired additional newly issued shares by Hudson, previously an equity-method affiliate, on April 27, 2005 and Hudson became a 53.99% owned consolidated subsidiary of the Company.

On March 10, 2006, the Company acquired 11,329,000 shares, representing 20.0% of the total outstanding common stock of Resort Solution Co., Ltd. ("Resort Solution"), a company engaged in management and development of golf courses, hotels and resort facilities in Japan, for a total consideration of ¥5,993 million. The acquisition was aimed at achieving a business alliance with Resort Solution in the area of Konami's health and fitness business.

At March 31, 2006 and 2007, Konami evaluated the recoverability of its investments in affiliates and concluded that there was no impairment in the carrying value of those investments.

The Company's share of undistributed earnings of affiliated companies included in consolidated retained earnings was earnings of ¥57 million and ¥220 million ($1,864 thousand) as of March 31, 2006 and March 31, 2007, respectively.

Affiliated companies accounted for under the equity-method with an aggregate carrying amount of ¥6,050 million and ¥6,213 million ($52,630 thousand) as of March 31, 2006 and 2007, respectively, were traded on established markets and were quoted at an aggregate market value of ¥6,593 million and ¥6,458 million ($54,706 thousand) as of March 31, 2006 and 2007, respectively.

4. Inventories

Inventories at March 31, 2006 and 2007 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2006	**2007**	**2007**
Finished products	¥ 7,321	**¥11,068**	**$ 93,757**
Work in process	8,938	**10,171**	**86,158**
Raw materials and supplies	3,850	**2,997**	**25,388**
Total	¥20,109	**¥24,236**	**$205,303**

5. Investment in Marketable Securities

Investment in marketable securities at March 31, 2006 and 2007 consisted of the following:

	Millions of Yen			
	March 31, 2006			
	Cost	Gross unrealized gains	Gross unrealized losses	Fair value
Available-for-sale:				
Marketable equity securities	¥460	¥112	—	¥572
Total	¥460	¥112	—	¥572

There were no gross unrealized holding losses on available-for-sale securities and the fair value of the related securities in a continuous unrealized loss position for less than 12 months on March 31, 2006 and 2007.

	Millions of Yen				Thousands of U.S. Dollars			
	March 31, 2007				March 31, 2007			
	Cost	Gross unrealized gains	Gross unrealized losses	Fair value	Cost	Gross unrealized gains	Gross unrealized losses	Fair value
Available-for-sale:								
Marketable equity securities	**¥544**	**¥211**	**¥54**	**¥701**	**$4,608**	**$1,787**	**$457**	**$5,938**
Total	**¥544**	**¥211**	**¥54**	**¥701**	**$4,608**	**$1,787**	**$457**	**$5,938**

Gross unrealized holding losses on available-for-sale securities and the fair value of the related securities in a continuous unrealized loss position for less than 12 months at March 31, 2007, were ¥54 million ($457 thousand) and ¥30 million ($254 thousand), respectively.

6. Property and Equipment

Property and equipment at March 31, 2006 and 2007 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2006	**2007**	**2007**
Property and equipment, at cost:			
Land	¥ 10,362	**¥ 10,361**	**$ 87,768**
Buildings and structures	44,169	**53,321**	**451,681**
Tools, furniture and fixtures	21,922	**25,553**	**216,459**
Construction in progress	1,244	**2,420**	**20,500**
Total	77,697	**91,655**	**776,408**
Less—Accumulated depreciation and amortization	(35,245)	**(38,361)**	**(324,955)**
Net property and equipment	¥ 42,452	**¥ 53,294**	**$ 451,453**

Depreciation and amortization expense for the years ended March 31, 2005, 2006 and 2007 amounted to ¥7,592 million, ¥9,209 million and ¥7,624 million ($64,583 thousand), respectively.

In accordance with SFAS No. 144, all long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. In the years prior to 2006, Konami performed such reviews for its Health & Fitness operations based on certain grouping of clubs in the same geographic area where interdependencies of club operations existed such as sharing of costs and expenses. However, in fiscal 2006, in connection with changes in management of KSP and in its operating structure of clubs, which eliminated interdependencies among clubs, Konami reassessed its asset grouping for Health & Fitness operations and changed to an individual club operation level which is considered to be the lowest level at which identifiable cash flows are largely independent of the cash flows of other assets under the new operating structure. The carrying amount of the club assets is compared to the expected undiscounted future cash flows to be generated by those assets over the estimated remaining useful life of the club. Cash flows are projected for each club based on historical results and expectations. In cases where the expected future cash flows are less than the carrying amount of the assets, those clubs are considered impaired and the assets are written down to fair value. For purposes of estimating fair value, the Company and its subsidiaries have utilized the third-party appraisals, which were based on the projected future cash flows of the impaired clubs discounted at a weighted average cost of capital. The Company and its subsidiaries recorded a pre-tax impairment charge of ¥10,533 million in operating expenses in the accompanying consolidated statements of income for the year ended March 31, 2006. The impairment charges related to club locations with operating performance that deteriorated subsequent to the 2005 review or which had additions during the subsequent period that were found to be impaired. The impairment charges related primarily to the carrying values of buildings, leasehold improvements and other tangible club facility assets that will continue to be operated by the Company and its subsidiaries.

7. Goodwill and Identifiable Intangible Assets

Konami evaluates the recoverability of the carrying value of goodwill under SFAS No. 142. Konami engages an independent appraiser to assist management in its determination of the fair values of its reporting units. In its determination of the fair values, the appraiser primarily utilizes a discounted cash flow analysis as well as other valuation approaches including the stock price and market capitalization of the acquired entity and asset and liability structure of the reporting units. Significant assumptions used in this analysis included 1) expected future revenue growth rates, profit margins and working capital levels of the reporting units, 2) a discount rate, and 3) a terminal value multiples. The revenue growth rates, profit margins and working capital levels of the reporting units are based on management's expectation of future results. In evaluating the recoverability of other intangible assets which were allocated to the reporting units, Konami primarily utilizes a discounted cash flow analysis as well as other applicable valuation approaches, and if applicable, independent valuations.

In the fourth quarter of the fiscal year ended March 31, 2006, Konami determined that the fair value of indefinite lived assets related to trademarks and franchise contracts recognized in the Health & Fitness reporting unit was lower than their carrying value as a result of review based on the independent valuations. Accordingly, an aggregate non-cash impairment charge of ¥9,180 million was recorded in operating expenses in the accompanying consolidated statements of income for the year ended March 31, 2006. The impairment charge consisted of ¥3,478 million for trademarks and ¥5,702 million for franchise contracts. These impairment losses were attributed to the reporting unit's failure to meet previous growth expectations and the cancellation of certain franchise contracts during fiscal 2006.

At March 31, 2007, Konami evaluated the recoverability of goodwill and intangible assets and concluded that there was no impairment in the carrying value of such assets for any of its reporting units.

The changes in the carrying amount of goodwill by operating segment for the years ended March 31, 2006 and 2007 are as follows:

	Millions of Yen			
	Digital Entertainment	Health & Fitness	Gaming & System	Total
Balance at March 31, 2005	¥ 339	¥ 385	¥125	¥ 849
Additional acquisitions during year	14,657	6,596	—	21,253
Balance at March 31, 2006	¥14,996	¥6,981	¥125	¥22,102
Additional acquisitions during year	**638**	**438**	—	**1,076**
Adjustment for previously unrecognized tax benefits	**(113)**	**(327)**	—	**(440)**
Balance at March 31, 2007	**¥15,521**	**¥7,092**	**¥125**	**¥22,738**

	Thousands of U.S. Dollars			
	Digital Entertainment	Health & Fitness	Gaming & System	Total
Balance at March 31, 2006	$127,031	$59,136	$1,059	$187,226
Additional acquisitions during year	**5,404**	**3,710**	—	**9,114**
Adjustment for previously unrecognized tax benefits	**(957)**	**(2,770)**	—	**(3,727)**
Balance at March 31, 2007	**$131,478**	**$60,076**	**$1,059**	**$192,613**

As discussed in Note 2, additional acquisitions of equity interests in its subsidiaries in Digital Entertainment segment resulted in the increase of goodwill for the year ended March 31, 2006. In addition, the Company acquired the remaining interest in KSP and made it a wholly owned subsidiary, which resulted in recognition of goodwill in the Health & Fitness segment for the year ended March 31, 2006.

Additional goodwill in the Digital Entertainment and Health & Fitness segments for the year ended March 31, 2007 was acquired in connection with the acquisitions made during the year as discussed in Note 2.

Adjustment for previously unrecognized tax benefits represented initial recognition of acquired tax benefits allocated to reduce goodwill of acquired entities. See also Note 13.

Identifiable intangible assets at March 31, 2006 and 2007 primarily representing intangible assets acquired in connection with acquisitions of subsidiaries consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2006	**2007**	**2007**
Identifiable intangible assets subject to amortization:			
Existing technology	¥ 705	**¥ 513**	**$ 4,346**
Franchise and other contracts	2,202	**2,202**	**18,653**
Membership lists	727	**819**	**6,938**
Less—Accumulated amortization	(701)	**(702)**	**(5,947)**
Net amortized identifiable intangible assets	2,933	**2,832**	**23,990**
Identifiable intangible assets with an indefinite life:			
Trademarks	35,340	**35,410**	**299,958**
Gaming licenses	302	**343**	**2,905**
Total unamortized identifiable intangible assets	35,642	**35,753**	**302,863**
Total identifiable intangible assets	¥38,575	**¥38,585**	**$326,853**

Intangible assets determined to have an indefinite useful life have been reassessed at least annually based on the factors prescribed in SFAS No. 142 including, but not limited to, the expected use of the asset by the Company, legal or contractual provisions that may affect the useful life or renewal or extension of the asset's contractual life without substantial cost, and the effects of demand, competition and other economic factors. As a result of reassessment in 2006, intangible assets related to franchise contracts which were previously determined to have an indefinite life have been determined to have a finite life of 14 years.

Intangible assets related to existing technology, customer relationships, membership lists and franchise and other contracts have been amortized over their estimated useful lives of 2 to 15 years.

The aggregate amortization expense for identifiable intangible assets for the years ended March 31, 2005, 2006 and 2007 was ¥129 million, ¥179 million and ¥704 million ($5,964 thousand), respectively.

The estimated amortization expense for the following years is as follows:

Years ending March 31,	Millions of Yen	Thousands of U.S. Dollars
2008	¥674	$5,709
2009	340	2,880
2010	212	1,796
2011	169	1,432
2012	169	1,432

8. Other Assets

Other assets at March 31, 2006 and 2007, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2006	**2007**	**2007**
Capitalized computer software, net	¥11,831	**¥10,021**	**$ 84,888**
Investments in non-marketable securities	391	**422**	**3,575**
Other	7,881	**6,923**	**58,644**
Total other assets	¥20,103	**¥17,366**	**$147,107**

Konami acquired computer software, principally for ERP (Enterprise Resource Planning) implementation, of ¥5,599 million and ¥3,131 million ($26,523 thousand) in fiscal years 2006 and 2007, respectively.

Capitalized computer software at March 31, 2006 and 2007 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2006	**2007**	**2007**
Capitalized computer software, at cost	¥18,887	**¥19,334**	**$163,778**
Less—Accumulated amortization	(7,056)	**(9,313)**	**(78,890)**
Capitalized computer software, net	¥11,831	**¥10,021**	**$ 84,888**

Amortization expense of computer software for the years ended March 31, 2005, 2006 and 2007 amounted to ¥1,329 million, ¥4,007 million and ¥3,254 million ($27,565 thousand), respectively.

Estimated amortization expense of computer software for the following years is as follows:

Years ending March 31,	Millions of Yen	Thousands of U.S. Dollars
2008	¥2,945	$24,947
2009	2,858	24,210
2010	2,670	22,618
2011	1,331	11,275
2012	217	1,838

Amortization expense of other intangible assets for the years ended March 31, 2005, 2006 and 2007 amounted to ¥310 million, ¥387 million and ¥175 million ($1,482 thousand), respectively.

9. Related Party Transactions

Konami engages in sale and purchase transactions in the normal course of business with its equity-method affiliates. Such transactions for the years ended March 31, 2005, 2006 and 2007 are summarized as follows:

	Millions of Yen			Thousands of U.S. Dollars
	2005	2006	**2007**	**2007**
Purchases from Takara	¥1,151	¥ 5	**¥—**	**$—**
Sales to Hudson	6	—	**—**	**—**
Purchases from Hudson	4,244	1,047	**—**	**—**
Sales to Genki	5	—	**—**	**—**
Purchases from Genki	1,277	—	**—**	**—**

The Company sold its entire shares of Takara, an equity-method affiliate, and dissolved its equity relationship on April 25, 2005.

The Company acquired additional newly issued shares by Hudson, previously an equity-method affiliate, on April 27, 2005 and Hudson became a 53.99% owned consolidated subsidiary of the Company.

During fiscal 2005, Konami Corporation of America, a consolidated subsidiary, acquired 100,000 shares of Konami Computer Entertainment Hawaii, Inc. for ¥129 million from Takuya Kozuki who is a director of Konami Corporation of America and an immediate family member of senior management team and major shareholders of the Company. The transaction price was determined based on the third party appraisal.

During fiscal 2005, Konami Real Estate, Inc., a consolidated subsidiary, transferred certain fixed assets to Kozuki Capital Corporation at ¥162 million. During fiscal 2006, Konami Real Estate, Inc. acquired certain fixed assets from Kozuki Capital Corporation at ¥1,582 million. Kozuki Capital Corporation is a company owned by senior management shareholders of the Company and their immediate family members and operates in the business of securities, investments and real estates. The transaction price was determined based on fair market value.

Konami Real Estate, Inc. paid rent of ¥4 million and ¥14 million during fiscal 2005 and 2006, respectively, and a lease deposit of ¥4 million during 2005 to Kozuki Capital Corporation in accordance with rent agreements entered into in December 2004, for the lease of certain office spaces.

10. Short-Term Borrowings and Long-Term Debt

A summary of short-term borrowings at March 31, 2006 and 2007 is as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2006	**2007**	**2007**
Unsecured bank loans consisting of notes to banks and bank overdrafts with interest rates ranging from 0.59% to 5.59% per annum at March 31, 2006	¥958	**¥—**	**$—**
Total	¥958	**¥—**	**$—**

Weighted-average interest rate on short-term borrowings was 2.458% at March 31, 2006. Those unsecured short-term bank loans included loans denominated in foreign currencies amounting to US$3,000 thousand (¥352 million) at March 31, 2006.

A summary of long-term debt at March 31, 2006 and 2007 is as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2006	**2007**	**2007**
Unsecured 0.92% per annum bonds due in September 2006	¥ 15,000	**¥ —**	**$ —**
Unsecured 1.05% per annum bonds due in September 2007	15,000	**15,000**	**127,065**
Unsecured 1.18% per annum bonds issued by Konami Sports due in December 2006	5,000	**—**	**—**
Unsecured 1.25% per annum bonds issued by Konami Sports due in December 2007	5,000	**5,000**	**42,355**
Unsecured 1.39% per annum bonds issued by Konami Sports due in December 2008	5,000	**5,000**	**42,355**
Unsecured loans from banks due serially from 2005 to 2011 with interest rates ranging from 0.87% to 2.9% and from 0.87% to 1.03% per annum at March 31, 2006 and 2007	3,975	**1,980**	**16,772**
Total long-term debt	48,975	**26,980**	**228,547**
Less: current portion	(21,992)	**(20,592)**	**(174,434)**
Long-term debt, non-current portion	¥ 26,983	**¥ 6,388**	**$ 54,113**

Unsecured long-term loans from banks included loans denominated in foreign currencies at March 31, 2006 were US$25 thousand (¥3 million). At March 31, 2006 and 2007, Konami did not have any assets that were pledged as collateral for any of the debt obligations.

The Company has committed lines of credit available for immediate borrowings amounting to ¥20,000 million ($169,420 thousand) with certain financial institutions. The aggregate commitment fee paid for such credit line agreements for the years ended March 31, 2007 amounted to ¥2 million ($17 thousand).

The aggregate annual maturities of long-term debt outstanding at March 31, 2007 are as follows:

Years ending March 31,	Millions of Yen	Thousands of U.S. Dollars
2008	¥20,592	$174,435
2009	5,592	47,370
2010	592	5,015
2011	204	1,728

11. Leases

Konami is obligated under various capital leases and noncancelable operating leases which expire at various dates during the next 25 years.

At March 31, 2006 and 2007, the amounts of assets and related accumulated amortization included in property and equipment on the consolidated balance sheet recorded under capital leases were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2006	**2007**	**2007**
Building and structures	¥ 5,067	**¥16,003**	**$135,561**
Tools, furniture and fixtures	4,704	**6,886**	**58,331**
Accumulated amortization	(2,971)	**(5,275)**	**(44,684)**
Net leased property	¥ 6,800	**¥17,614**	**$149,208**

Amortization of capitalized leases is included in depreciation expense.

Future minimum lease payments under capital leases and noncancelable operating leases as of March 31, 2007 are as follows:

	Millions of Yen		Thousands of U.S. Dollars	
Year ending March 31,	Capital Leases	Operating Leases	Capital Leases	Operating Leases
2008	¥ 3,099	¥ 7,709	$ 26,252	$ 65,303
2009	2,579	7,650	21,847	64,803
2010	2,172	7,901	18,399	66,929
2011	1,680	7,863	14,231	66,607
2012	1,241	7,646	10,512	64,769
Thereafter	15,578	60,384	131,961	511,512
Total minimum lease payments	¥26,349	¥99,153	$223,202	$839,923
Less: amount representing interest				
(rates ranging from 1.250% to 9.362% per annum)	6,008		50,894	
Present value of net minimum lease payments	20,341		172,308	
Less: current portion	2,481		21,016	
Non-current portion	¥17,860		$151,292	

Current and non-current portions of minimum leases payments for capital leases are included in current and non-current portions of long-term debt, respectively, in the accompanying consolidated balance sheets.

Konami occupies certain offices and lease equipment under cancelable lease arrangements. Rental expenses for all operating leases for the years ended March 31, 2005, 2006 and 2007 totaled ¥18,449 million, ¥19,133 million and ¥19,529 million ($165,430 thousand), respectively, and were included in costs of products sold, costs of services rendered and selling, general and administrative expenses in the accompanying consolidated statements of income.

12. Asset Retirement Obligation

Konami has asset retirement obligations arising from the contractual requirements to perform certain asset retirement activities at the time that certain leasehold improvements relating primarily to the health and fitness facilities are disposed of. The liability was initially measured at fair value and subsequently is adjusted for accretion expenses and changes in amount or timing of estimated cash flows. The corresponding asset retirement costs are capitalized as part of the carrying amount of related long-lived asset and depreciated over the asset's useful life. The following table presents the activity for asset retirement obligations for the years ended March 31, 2006 and 2007:

	Millions of Yen		Thousands of U.S. Dollars
	2006	**2007**	**2007**
Beginning balances	¥ —	**¥1,757**	**$14,884**
Additional liabilities incurred	1,620	**159**	**1,347**
Liabilities settled	—	**(35)**	**(297)**
Accretion expense	137	**43**	**364**
Ending balance	¥1,757	**¥1,924**	**$16,298**

13. Income Taxes

The Company and its domestic subsidiaries are subject to a national corporate tax of 30% and corporate inhabitant tax plus corporate tax of approximately 10.9%, after considering the non-deductible expense to the corporation tax, which in the aggregate resulted in a statutory income tax rate of 40.9% for the years ended March 31, 2005, 2006 and 2007. The income before income taxes and income tax expense (benefit) for the years ended March 31, 2005, 2006 and 2007 consisted of the following:

	Millions of Yen			Thousands of U.S. Dollars
	2005	2006	**2007**	**2007**
Income before income taxes:				
Japanese	¥21,900	¥ 8,376	**¥26,771**	**$226,777**
Foreign	5,542	62	**796**	**6,743**
Total	¥27,442	¥ 8,438	**¥27,567**	**$233,520**
Income taxes —Current:				
Japanese	¥13,674	¥(5,747)	**¥ 7,092**	**$ 60,076**
Foreign	1,843	962	**1,206**	**10,216**
Total	¥15,517	¥(4,785)	**¥ 8,298**	**$ 70,292**
Income taxes —Deferred:				
Japanese	¥ (7,540)	¥(5,500)	**¥ 2,278**	**$ 19,297**
Foreign	(75)	15	**343**	**2,906**
Total	¥ (7,615)	¥(5,485)	**¥ 2,621**	**$ 22,203**

The significant components of income taxes for the years ended March 31, 2005, 2006 and 2007 are as follows:

	Millions of Yen			Thousands of U.S. Dollars
	2005	2006	**2007**	**2007**
Income taxes on continuing operations before minority interest and equity in net income (loss) of affiliated companies	¥7,902	¥(10,270)	**¥10,919**	**$92,495**
Income tax expense (benefit) reported on other comprehensive income related to:				
Net unrealized gains (losses) on available-for-sale securities	(14)	(52)	**18**	**152**
Foreign currency translation adjustments	(27)	27	**—**	**—**
Minimum pension liability adjustment	49	—	**—**	**—**
Adjustment of retirement benefits upon initial application of SFAS No. 158	—	—	**242**	**2,050**
Total income taxes	¥7,910	¥(10,295)	**¥11,179**	**$94,697**

Reconciliations of the differences between the statutory tax rates and the effective tax rates are as follows:

	2005	2006	2007
Statutory tax rate	40.9%	40.9%	40.9%
Increase (reduction) in taxes resulting from:			
Non-deductible expenses	5.9	21.2	2.1
Non-taxable income	—	—	(4.3)
Change in valuation allowance	(1.1)	15.3	1.1
Reversal of accrued income taxes	—	(196.9)	—
Investments in affiliates	(4.8)	—	—
Gain on sales of subsidiaries shares	(12.7)	—	—
Dividend of overseas subsidiaries	4.5	3.3	0.3
Investment tax credits	(3.1)	(10.2)	—
Other, net	(0.8)	4.7	(0.5)
Effective income tax rate	28.8%	(121.7)%	39.6%

In March 2006, the Company recognized the tax benefit as a result of the reversal of ¥17,051 million of accrued income taxes, which had been provided due to the uncertainty as to deductibility of the capital loss incurred in the year ended March 31, 2003 in connection with its plan to reorganize the Konami group into a holding company structure, a necessary condition for such loss to be deductible, which was delayed and was not expected to complete as originally planned. The reorganization to a holding company structure was completed and finalized in the fiscal year ended March 31, 2006 and, accordingly, the Company reversed the accrued taxes and recognized the tax deduction of the capital loss, which resulted in a decrease in the effective income tax rate by 196.9%.

The effects of temporary differences that give rise to deferred tax assets and liabilities at March 31, 2006 and 2007 are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2006	2007	2007
Deferred tax assets:			
Accrued enterprise taxes	¥ 1,109	¥ 931	$ 7,887
Accrued expenses	3,634	3,546	30,038
Accrued pension and severance costs	1,433	1,158	9,809
Allowance for doubtful accounts	869	316	2,677
Inventories	12,814	11,963	101,339
Net operating loss carryforwards	7,437	8,084	68,479
Property and equipment basis differences	4,009	3,657	30,978
Asset retirement obligation	719	787	6,667
Other	4,097	2,964	25,108
Gross deferred tax assets	36,121	33,406	282,982
Less valuation allowance	(11,641)	(11,742)	(99,467)
Total deferred tax assets	24,480	21,664	183,515
Deferred tax liabilities:			
Intangible assets	(15,718)	(15,568)	(131,876)
Investments in affiliates	(23)	(114)	(966)
Other	(1,106)	(935)	(7,920)
Gross deferred tax liabilities	(16,847)	(16,617)	(140,762)
Net deferred tax assets	¥ 7,633	¥ 5,047	$ 42,753

In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible and tax carryforwards are utilizable. Management considered the scheduled reversal of deferred tax liabilities, projected future taxable income and tax planning strategies in making this assessment. Based upon the level of historical taxable income and projections for future taxable income over the periods which the deferred tax assets are deductible, management believes it is more likely than not that Konami will realize the benefits of these deductible differences, net of the existing valuation allowances at March 31, 2007.

The net change in the total valuation allowance for the years ended March 31, 2005, 2006 and 2007 was a decrease of ¥224 million, an increase of ¥5,145 million and ¥101 million ($856 thousand), respectively. Foreign subsidiaries are subject to income taxes of the countries in which they operate.

The valuation allowance for deferred tax assets that would be allocated to reduce goodwill or other non-current intangible assets of acquired entities upon subsequent recognition of the related tax benefits amounted to ¥715 million ($6,057 thousand) as of March 31, 2007.

Deferred tax liabilities aggregating ¥73 million ($618 thousand) have been recognized for undistributed earnings of certain foreign subsidiaries where dividends are expected with additional tax burden to the Company. At March 31, 2006 and 2007, the Company did not recognize deferred tax liabilities of ¥694 million and ¥766 million ($6,489 thousand), respectively, for undistributed earnings of certain foreign subsidiaries as the Company does not currently intend to repatriate those earnings. At March 31, 2006 and 2007, aggregate undistributed earnings not subject to deferred tax liabilities were ¥11,803 million and ¥10,108 million ($85,625 thousand), respectively.

Net deferred tax assets were included in the accompanying consolidated balance sheets as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2006	**2007**	**2007**
Current assets:			
Deferred income taxes, net	¥ 16,510	**¥ 14,877**	**$ 126,023**
Investments and other assets:			
Deferred income taxes, net	3,179	**2,593**	**21,965**
Current liabilities:			
Other current liabilities	(132)	**(216)**	**(1,830)**
Long-term liabilities:			
Deferred income taxes	(11,924)	**(12,207)**	**(103,405)**
Net deferred tax assets	¥ 7,633	**¥ 5,047**	**$ 42,753**

At March 31, 2007, certain domestic subsidiaries had operating loss carry forwards aggregating approximately ¥5,488 million ($46,489 thousand), which expire as follows:

Years ending March 31,	Millions of Yen	Thousands of U.S. Dollars
2008	¥ —	$ —
2009	47	398
2010	82	695
2011	999	8,463
2012	2,385	20,203
2013	582	4,930
2014	1,393	11,800
Total	¥5,488	$46,489

U.S. subsidiaries had federal and state tax net operating loss carry forwards of approximately ¥14,913 million ($126,328 thousand) and ¥13,335 million ($112,961 thousand), respectively, which expire in varying amounts through the year 2025. These net operating loss carry forwards which expire within 1 to 5 years, 6 to 10 years, 11 to 15 years and thereafter are ¥16,198 million ($137,213 thousand), ¥262 million ($2,219 thousand), ¥2,880 million ($24,396 thousand) and ¥8,908 million ($75,460 thousand), respectively.

14. Severance and Retirement Plans

The Company and its domestic subsidiaries have defined benefit severance and retirement plans covering their employees. The plans provide, under most circumstances, retirement benefits and lump-sum severance payments to the employees that are determined by reference to their rate of pay at the time of termination, years of service and certain other factors. All employees may choose either to remain in the defined benefit plans or to withdraw from the plans and enroll under such system as receiving all compensation currently during their employment. For those under the fixed annual compensation system, separate severance and retirement benefits are not to be paid upon their termination or retirement.

On March 31, 2007, Konami adopted SFAS No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans." Accordingly, Konami recognized the funded status of a benefit plan (measured as the difference between plan assets at fair value and the benefit obligation) in the consolidated balance sheet and recorded the adjustments, after considering tax effect, as a component of accumulated other comprehensive income/loss. The adjustments made to accumulated other comprehensive income/loss represented actuarial (gain) loss and unamortized prior service cost under the previously adopted SFAS No. 87, which were eliminated with the funded status recognized in the consolidated balance sheet.

The incremental effects of adopting the provisions of SFAS No. 158 on the consolidated balance sheet at March 31, 2007 are as follows:

	Millions of Yen		
	Before application of SFAS No. 158	Adjustments	After application of SFAS No. 158
Deferred income taxes, net (Current assets)	¥14,864	¥ 13	¥14,877
Other assets	16,716	650	17,366
Deferred income taxes, net (Investments and Other assets)	2,842	(249)	2,593
Other current liabilities	8,779	32	8,811
Accrued pension and severance costs	2,666	42	2,708
Minority interest	2,707	(10)	2,697
Accumulated other comprehensive income	¥ 5,267	¥ 350	¥ 5,617

	Thousands of U.S. Dollars		
	Before application of SFAS No. 158	Adjustments	After application of SFAS No. 158
Deferred income taxes, net (Current assets)	$125,913	$ 110	$126,023
Other assets	141,601	5,506	147,107
Deferred income taxes, net (Investments and Other assets)	24,074	(2,109)	21,965
Other current liabilities	74,367	271	74,638
Accrued pension and severance costs	22,583	356	22,939
Minority interest	22,931	(85)	22,846
Accumulated other comprehensive income	$ 44,618	$ 2,964	$ 47,582

The reconciliation of beginning and ending balances of the benefit obligations of the Company and its domestic subsidiaries' plans accounted for in accordance with SFAS No. 87 are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2006	**2007**	**2007**
Change in benefit obligation:			
Benefit obligation, beginning of year	¥ 2,848	**¥ 3,444**	**$ 29,174**
Service cost	236	**233**	**1,974**
Interest cost	24	**23**	**195**
Effect of acquisition	444	**—**	**—**
Actuarial (gain) loss	164	**(213)**	**(1,804)**
Benefits paid	(272)	**(161)**	**(1,364)**
Benefit obligation, end of year	¥ 3,444	**¥ 3,326**	**$ 28,175**
Change in plan assets:			
Fair value of plan assets, beginning of year	¥ 2,433	**¥ 2,596**	**$ 21,991**
Actual return on plan assets	130	**23**	**195**
Employer contribution	190	**203**	**1,719**
Benefits paid	(157)	**(99)**	**(839)**
Fair value of plan assets, end of year	2,596	**2,723**	**23,066**
Funded status	(848)	**(603)**	**(5,108)**
Unrecognized actuarial net gain	(382)	**—**	**—**
Unrecognized prior service cost	(66)	**—**	**—**
Net amount recognized	¥(1,296)	**¥ (603)**	**$ (5,108)**
Amounts recognized in the consolidated balance sheets consist of:			
Other assets	¥ —	**¥ 805**	**$ 6,819**
Other current liabilities	—	**(32)**	**(271)**
Accrued pension and severance cost	(1,296)	**(1,376)**	**(11,656)**
Accumulated other comprehensive loss	(29)	**—**	**—**
Net amount recognized	¥(1,325)	**¥ (603)**	**$ (5,108)**

Recognized accumulated other comprehensive loss at March 31, 2007 is as follows:

	Millions of Yen	Thousands of U.S. Dollars
Actuarial net gain	¥(320)	$(2,711)
Prior service cost	(30)	(254)
Total	¥(350)	$(2,965)

	Millions of Yen		Thousands of U.S. Dollars
	2006	**2007**	**2007**
Pension plans with an accumulated benefit obligation in excess of plan assets:			
Projected benefit obligation	¥2,507	**¥2,455**	**$20,796**
Accumulated benefit obligation	2,223	**2,310**	**19,568**
Fair value of plan assets	953	**1,047**	**8,869**

Net periodic cost of the Company and its domestic subsidiaries' plans accounted for in accordance with SFAS No. 87 for the years ended March 31, 2005, 2006 and 2007 included the following components:

	Millions of Yen			Thousands of U.S. Dollars
	2005	2006	**2007**	**2007**
Service cost—benefits earned during the year	¥313	¥236	**¥233**	**$1,974**
Interest cost on projected benefit obligation	40	24	**23**	**195**
Expected return on plan assets	(41)	(41)	**(44)**	**(373)**
Recognized actuarial (gain) loss	(51)	(68)	**(51)**	**(432)**
Amortization of prior service cost	(14)	(1)	**(13)**	**(110)**
Net periodic cost	¥247	¥150	**¥148**	**$1,254**

Estimated amortization for actuarial (gain) loss and prior service cost for the year ending March 31, 2008 is as follows:

	Millions of Yen	Thousands of U.S. Dollars
Actuarial net gain	¥(60)	$(508)
Prior service cost	(13)	(110)

The measurement date used to determine pension benefit obligations for all the pension plans was March 31. The accumulated benefit obligation for the defined benefit plans was ¥3,148 million and ¥3,169 million ($26,845 thousand) at March 31, 2006 and 2007, respectively.

Weighted-average assumptions used to determine projected benefit obligations at March 31, 2006 and 2007 were as follows:

	2006	**2007**
Weighted-average assumptions:		
Discount rate	1.4%	**1.3%**
Assumed rate of increase in future compensation levels	1.7%	**2.0%**

Weighted-average assumptions used to determine net periodic cost for the years ended March 31, 2005, 2006 and 2007 were as follows:

	2005	2006	**2007**
Weighted-average assumptions:			
Discount rate	1.4%	1.4%	**1.4%**
Assumed rate of increase in future compensation levels	2.7%	2.3%	**2.0%**
Expected long-term rate of return on plan assets	1.7%	1.7%	**1.7%**

The Company and its domestic subsidiaries determine the expected long-term rate of return on plan assets of the various assets categories in which it invests. Konami considers the current expectations for future returns and the actual historical returns of each plan asset category.

The benefit plan weighted-average asset allocations for the Company and its domestic subsidiaries for the years ended March 31, 2006 and 2007 by asset category were as follows:

	2006	**2007**
Asset category:		
Equity securities	23.9%	**22.6%**
Debt securities	23.2	**23.2**
Guaranteed investment contracts—insurance companies	40.7	**38.6**
Other	12.2	**15.6**
	100.0%	**100.0%**

The Company and its domestic subsidiaries' investment goals for the pension benefit plans are to ensure adequate plan assets to provide future payments of pension benefits to eligible participants. The Company and its domestic subsidiaries address diversification by the use of domestic and international equity securities and domestic and international debt securities in order to secure stable return on plan assets subject to specific risk management policies. The Company and its domestic subsidiaries evaluate the difference between expected return based on expected long-term rate of return on plan assets and actual return on invested plan assets on an annual basis. The Company and its domestic subsidiaries will revise the asset allocation if the evaluation requires a revision of its formulation of asset allocation.

The Company and its domestic subsidiaries have participated in the welfare pension fund for the computer industry association, a multi-employer contributory plan, since its establishment in October 1989. Konami's contributions to the plan amounted to ¥624 million, ¥765 million and ¥805 million ($6,819 thousand) for the years ended March 31, 2005, 2006 and 2007, respectively, and were recorded as costs and expenses in the consolidated statements of income.

The Company and its domestic subsidiaries expect to contribute ¥231 million ($1,957 thousand) and ¥887 million ($7,514 thousand) to its domestic defined benefit plan and multi-employer contributory plan, respectively, in the year ending March 31, 2008.

Future estimated pension benefit payments, using the defined benefit plan for the Company and its domestic subsidiaries are as follows.

Years ending March 31,	Millions of Yen	Thousands of U.S. Dollars
2008	¥133	$1,127
2009	148	1,254
2010	161	1,364
2011	170	1,440
2012	182	1,542
2013–2018	¥969	$8,208

The Company and certain of its subsidiaries have accrued the liability for retirement benefits for their directors and corporate auditors in the amount of ¥1,332 million ($11,283 thousand) at March 31, 2006 and 2007, which is included in accrued pension and severance costs in the accompanying consolidated balance sheets.

15. Stockholders' Equity

Dividends

Under the Japanese Corporate Law (the "Law"), the amount available for dividends is based on retained earnings as recorded on the books of the Company maintained in conformity with Japanese GAAP. Certain adjustments not recorded on the Company's books are reflected in the consolidated financial statements for reasons described in Note 1. At March 31, 2007, retained earnings available for dividends determined in accordance with Japanese GAAP recorded on the Company's books of account was ¥54,512 million ($461,770 thousand).

The Law provides that an amount equal to at least 10% of the aggregate amount of cash dividends of retained earnings associated with cash outlays shall be appropriated as a legal reserve until such reserve and additional paid-in-capital equals 25% of common stock.

Treasury Stock Transactions

The following table summarizes treasury stock activities for the years ended March 31, 2005, 2006 and 2007:

	Change in Treasury Stock	
	Shares	Millions of Yen
Balance at March 31, 2005	9,256,155	¥ 28,271
Acquisition through purchase of odd-lot shares	27,936	71
Issuance in a stock exchange	(5,917,233)	(18,064)
Shares issued to subsidiary in a stock exchange	3,048,481	8,452
Issuance upon exercise under stock compensation plan	(11,900)	(39)
Balance at March 31, 2006	6,403,439	¥ 18,691
Acquisition through purchase of odd-lot shares	31,331	93
Issuance upon exercise under stock compensation plan	(133,800)	(373)
Balance at March 31, 2007	6,300,970	¥ 18,411

	Change in Treasury Stock
	Thousands of U.S. Dollars
Balance at March 31, 2006	$158,331
Acquisition through purchase of odd-lot shares	788
Issuance upon exercise under stock compensation plan	(3,160)
Balance at March 31, 2007	$155,959

Stock-Based Compensation Plan

The Company and its domestic consolidated subsidiaries maintain certain stock-based compensation plans for grant of stock subscription rights to their directors and employees. Under these plans, the number of ordinary shares issuable will be adjusted for stock splits, reverse stock splits and certain other recapitalizations.

Subsidiaries that previously maintained such plans included Konami Computer Entertainment Osaka, Inc. ("Konami OSA"), Konami TYO, Konami JPN, Konami STUDIO and KSP. All plans related to Konami OSA, Konami TYO, Konami STUDIO and Konami JPN were canceled by March 31, 2005, in connection with their mergers with the Company. Also, in the year ended March 31, 2006, the exercise price and the number of shares issuable under KSP's plan originally established in 2004 were adjusted so that the shares were issuable in the Company's common shares, in connection with the stock exchange between KSP and the Company as described in Note 2. The subject shares of the adjusted stock acquisition rights became the Company's shares. The adjustment did not result in compensation expense as the fair value of the Company's common shares exceeded the adjusted exercise price.

Konami's stock option awards generally vest based on 2 to 4 years of continuous service and have 5 year contractual terms. These awards gradually vest through the period of service rendered and therefore compensation cost is recognized over the period, in which employees are required to provide service.

Previously, Konami elected to account for compensation cost under APB Opinion No. 25, and FIN No. 44. Konami has adopted SFAS No. 123R beginning from the year ended March 31, 2007. The compensation cost recognized for the years ended March 31, 2006 and 2007 were ¥97 million and ¥228 million ($1,931 thousand), respectively. There was no compensation cost recognized for the year ended March 31, 2005.

The fair value of the stock acquisition rights granted under the plan shown above are estimated on the date of grant using the Black-Scholes option pricing model with assumptions shown below. Expected volatilities are based on implied volatilities and historical volatility of Konami's stock. The expected term is determined by analysis of historical exercise behavior. The risk-free rate for periods within the contractual life of the option is based on Japanese government bond yields in effect at the time of grant. Also, expected dividends are derived from dividends disclosed by Konami.

	2005	2006	2007
Risk-free interest rate	0.52%	0.02% – 0.16%	—%
Expected term (in years)	3.42	0.82 – 2.48	—
Expected dividends	2.24	2.23	—
Expected volatility	52.43%	21.65% – 38.10%	—%

The following summarizes Konami's stock option and changes during the year ended March 31, 2007.

Options	Shares	Weighted-Average Exercise Price (in yen)	Weighted-Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value (in millions of yen)
Outstanding at March 31, 2006	2,845,680	¥3,293	—	¥—
Granted	—	—	—	—
Exercised	(133,800)	1,889	—	—
Forfeited or expired	(141,000)	3,269	—	—
Outstanding at March 31, 2007	2,570,880	3,368	0.99	28
Exercisable at March 31, 2007	1,845,658	¥3,506	0.43	¥14

The weighted-average fair value of options granted were ¥774 and ¥489 for the years ended March 31, 2005 and 2006, respectively. There were no stock options newly granted for the year ended March 31, 2007.

Aggregate intrinsic value of options exercised were ¥8 million and ¥72 million ($610 thousand) for the year ended March 31, 2006 and 2007, respectively. There were no options exercised for the year ended March 31, 2005.

The following table summarizes Konami's nonvested shares and changes during the year ended March 31, 2007.

Nonvested Shares	Shares	Weighted-Average Grant-Date Fair Value
Nonvested at March 31, 2006	1,733,243	853
Granted	—	—
Vested	953,864	971
Forfeited	54,157	732
Nonvested at March 31, 2007	725,222	715

Aggregate unrecognized compensation cost relating to nonvested compensation arrangements granted under the above employee stock option plan was ¥103 million ($873 thousand) at March 31, 2007. The cost is expected to be recognized over the weighted-average period of 0.71 years. Aggregate fair value of shares vested for the years ended March 31, 2005, 2006 and 2007 were ¥669 million, ¥703 million and ¥926 million ($7,844 thousand), respectively.

Cash received from the exercise of stock options were ¥21 million and ¥253 million ($2,143 thousand) for the year ended March 31, 2006 and 2007, respectively. There were no options exercised for the years ended March 31, 2005.

Konami has a policy for issuing its treasury stock to satisfy option exercises.

16. Comprehensive Income (Loss)

Accumulated other comprehensive income (loss) at March 31, 2005, 2006 and 2007 is as follows:

	Millions of Yen			Thousands of U.S. Dollars
	2005	2006	**2007**	**2007**
Foreign currency translation adjustments, net of tax:				
Balance, beginning of year	¥ (266)	¥2,019	**¥3,907**	**$33,096**
Aggregate adjustment for the year resulting from translation of foreign currency financial statements	2,285	1,888	**1,267**	**10,733**
Balance, end of year	¥2,019	¥3,907	**¥5,174**	**$43,829**
Net unrealized gains (losses) on available-for-sale securities, net of tax:				
Balance, beginning of year	¥ 218	¥ 198	**¥ 66**	**$ 559**
Net change	(20)	(132)	**27**	**229**
Balance, end of year	¥ 198	¥ 66	**¥ 93**	**$ 788**
Minimum pension liability adjustment:				
Balance, beginning of year	¥ (71)	¥ —	**¥ (16)**	**$ (136)**
Adjustments for the year	71	(16)	**16**	**136**
Balance, end of year	¥ —	¥ (16)	**¥ —**	**$ —**
Adjustment on retirement benefits:				
Adjustments for the adoption of SFAS No. 158	¥ —	¥ —	**¥ 350**	**$ 2,964**
Balance, end of year	¥ —	¥ —	**¥ 350**	**$ 2,964**
Total accumulated other comprehensive income (loss), net of tax:				
Balance, beginning of year	¥ (119)	¥2,217	**¥3,957**	**$33,520**
Adjustments for the year	2,336	1,740	**1,310**	**11,098**
Adjustments for the adoption of SFAS No. 158	—	—	**350**	**2,964**
Balance, end of year	¥2,217	¥3,957	**¥5,617**	**$47,582**

Tax effects allocated to each component of other comprehensive income (loss) and adjustments are as follows:

	Millions of Yen		
	Pretax amount	Tax (expense) or benefit	Net of tax amount
2005			
Foreign currency translation adjustments	¥2,258	¥ 27	¥2,285
Net unrealized losses on available-for-sale securities:			
Unrealized gains arising during the year	216	(88)	128
Less: reclassification adjustment for gains included in net income	(250)	102	(148)
Net unrealized losses	(34)	14	(20)
Minimum pension liability adjustment	120	(49)	71
Other comprehensive income (loss)	2,344	(8)	2,336
2006			
Foreign currency translation adjustments	¥1,915	¥ (27)	¥1,888
Net unrealized losses on available-for-sale securities:			
Unrealized gains arising during the year	(518)	189	(329)
Less: reclassification adjustment for gains included in net income	334	(137)	197
Net unrealized losses	(184)	52	(132)
Minimum pension liability adjustment	(16)	—	(16)
Other comprehensive income	1,715	25	1,740
2007			
Foreign currency translation adjustments	**¥1,267**	**¥ —**	**¥1,267**
Net unrealized gains on available-for-sale securities:			
Unrealized gains arising during the year	**45**	**(18)**	**27**
Less: reclassification adjustment for gains included in net income	**0**	**0**	**0**
Net unrealized gains	**45**	**(18)**	**27**
Minimum pension liability adjustment	**16**	**—**	**16**
Other comprehensive income (loss)	**¥1,328**	**¥ (18)**	**¥1,310**
Adjustments for the adoption of SFAS No. 158	**592**	**(242)**	**350**
Change in the year	**¥1,920**	**¥(260)**	**¥1,660**

	Thousands of U.S. Dollars		
	Pretax amount	Tax (expense) or benefit	Net of tax amount
2007			
Foreign currency translation adjustments	**$10,733**	**$ —**	**$10,733**
Net unrealized losses on available-for-sale securities:			
Unrealized gains arising during the year	**381**	**(152)**	**229**
Less: reclassification adjustment for gains included in net income	**0**	**0**	**0**
Net unrealized losses	**381**	**(152)**	**229**
Minimum pension liability adjustment	**136**	**—**	**136**
Other comprehensive income (loss)	**$11,250**	**$ (152)**	**$11,098**
Adjustments for the adoption of SFAS No. 158	**5,015**	**(2,051)**	**2,964**
Change in the year	**$16,265**	**$(2,203)**	**$14,062**

17. Derivative Financial Instruments

Konami uses foreign exchange forward contracts with terms ranging from 3 to 6 months to reduce its exposure to short-term movements in the exchange rates applicable to firm funding commitments denominated in currencies other than Japanese yen. The aggregate notional amounts of derivative financial instruments outstanding at March 31, 2005, 2006 and 2007 were as follows:

	Millions of Yen			Thousands of U.S. Dollars
	2005	2006	**2007**	**2007**
Forward exchange contracts to sell foreign currencies:				
Contract amount	¥9,493	¥3,757	**¥876**	**$7,421**
Fair value	9,753	3,775	**862**	**7,302**
Gain (loss)	¥ (260)	¥ (18)	**¥ 14**	**$ 119**

Konami does not designate the forward exchange contracts as hedges. Accordingly, the foreign currency gains and (losses) of ¥(260) million, ¥(18) million and ¥14 million ($119 thousand) arising from these forward exchange contracts at March 31, 2005, 2006 and 2007, respectively, were included in earnings under the caption Other, net in the accompanying consolidated statements of income. Foreign exchange net losses, including those on these forward exchange contracts, for the years ended March 31, 2005, 2006 and 2007 were ¥826 million, ¥455 million and ¥330 million ($2,795 thousand), respectively.

Effects of exchange rate changes subsequent to March 31, 2007 on fair value of those forward exchange contracts have not been significant as of the reporting date.

18. Fair Value of Financial Instruments

Cash and cash equivalents, Trade notes and accounts receivable, Trade notes and accounts payable, Accrued expenses, and Short-term borrowings

The carrying amount approximates fair value because of the short maturity of these instruments.

Investments in marketable securities

The fair values of Konami's investments in marketable securities are based on quoted market prices.

Investments in non-marketable securities

For investments in non-marketable securities for which there are no quoted market prices, a reasonable estimate of fair value could not be made without incurring excessive costs. It was not practicable to estimate the fair value of common stock representing certain untraded companies. These investments are carried at cost.

Long-term debt

The fair values of Konami's long-term debt instruments are based on the quoted price in the most active market or the present value of future cash flows associated with each instrument discounted using the Company's current borrowing rate for similar debt instruments of comparable maturity.

Derivative financial instruments

The fair values of derivative financial instruments, consisting principally of foreign exchange contracts, all of which are used for purposes other than trading, are estimated by obtaining quotes from brokers.

The estimated fair values of Konami's financial instruments at March 31, 2006 and 2007 are as follows:

	Millions of Yen				Thousands of U.S. Dollars	
	2006		**2007**		**2007**	
	Carrying amount	Estimated fair value	Carrying amount	Estimated fair value	Carrying amount	Estimated fair value
Nonderivatives:						
Investment in marketable securities	¥ 572	¥ 572	**¥ 701**	**¥ 701**	**$ 5,938**	**$ 5,938**
Long-term debt, including current installments	(48,975)	(47,967)	**(26,980)**	**(26,592)**	**(228,547)**	**(225,260)**
Derivatives:						
Foreign exchange forward contracts:						
Assets	3	3	**14**	**14**	**119**	**119**
Liabilities	(21)	(21)	**—**	**—**	**—**	**—**

Limitations

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. Changes in assumptions could significantly affect the estimates.

19. Supplemental Disclosures to Consolidated Statements of Cash Flows

	Millions of Yen			Thousands of U.S. Dollars
	2005	2006	**2007**	**2007**
Cash paid during the year for:				
Interest	¥ 974	¥ 1,137	**¥ 1,024**	**$ 8,674**
Income taxes	9,983	15,581	**15,139**	**128,242**
Acquisitions of new subsidiaries:				
Fair value of assets acquired	—	6,180	**997**	**8,446**
Liabilities assumed	—	(7,955)	**(1,286)**	**(10,335)**
Goodwill	—	1,266	**491**	**3,600**
Minority interest	—	(924)	**—**	**—**
Cash paid, net of cash acquired	—	(1,433)	**202**	**1,711**
Property acquired under capital leases during the year	1,844	9,079	**12,007**	**101,711**
Recognition of tangible fixed assets due to assets retirement obligation	—	1,620	**159**	**1,347**

20. Segment Information

Under SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information," operating segments are defined as components of an enterprise about which separate financial information is available that is regularly evaluated by the chief operating decision maker in deciding how to allocate resources and in assessing performance. The operating segments are managed separately as each segment represents a strategic business unit that offers different products and serves different markets.

In order to better serve a rapidly changing digital entertainment market, the Company combined the related three operating segments, Computer & Video Games, Toy & Hobby and Amusement, which represented operating segments separately managed and reported in 2005, into the newly established Digital Entertainment segment in 2006. Accordingly, segment information for the years ended March 31, 2005 has been restated to conform to the current segment reporting structure.

Konami operates on a worldwide basis principally with the following three business segments:

1. Digital Entertainment:	Production and sale of digital contents and related products including Computer & Video Games, Toy & Hobby, Amusement, Online and Multimedia.
2. Health & Fitness:	Operation of health and fitness clubs, production and sale of health and fitness related goods.
3. Gaming & System:	Production, manufacture and sale of gaming machines for overseas markets.

Notes:
"Other" consists of segments which do not meet the quantitative criteria for separate presentation under SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information."
"Corporate" primarily consists of administrative expenses of the Company.
"Eliminations" primarily consist of eliminations of intercompany sales and of intercompany profits on inventories.
Gaming segment was renamed to Gaming & System segment from October 1, 2005.

The following table summarizes revenue, operating income (loss), total assets, depreciation and amortization and capital expenditures by operating segment which are the primary measures used by Konami's chief operating decision maker to measure Konami's operating results and to measure segment profitability and performance. This information is derived from Konami's management reports which have been prepared based on U.S. GAAP.

a. Segment information

(1) Revenue and operating income (loss)

	Millions of Yen				
Year ended March 31, 2005	Digital Entertainment	Health & Fitness	Gaming & System	Other, Corporate and Eliminations	Consolidated
Net revenue:					
Customers	¥162,797	¥78,843	¥11,641	¥ 7,410	¥260,691
Intersegment	874	263	2	(1,139)	—
Total	163,671	79,106	11,643	6,271	260,691
Operating expenses	131,018	77,059	10,201	14,277	232,555
Operating income (loss)	¥ 32,653	¥ 2,047	¥ 1,442	¥ (8,006)	¥ 28,136

	Millions of Yen				
Year ended March 31, 2006	Digital Entertainment	Health & Fitness	Gaming & System	Other, Corporate and Eliminations	Consolidated
Net revenue:					
Customers	¥163,624	¥ 81,117	¥10,621	¥ 6,775	¥262,137
Intersegment	1,652	92	2	(1,746)	—
Total	165,276	81,209	10,623	5,029	262,137
Operating expenses	131,426	98,268	10,563	19,399	259,656
Operating income (loss)	¥ 33,850	¥(17,059)	¥60	¥(14,370)	¥ 2,481

	Millions of Yen				
Year ended March 31, 2007	Digital Entertainment	Health & Fitness	Gaming & System	Other, Corporate and Eliminations	Consolidated
Net revenue:					
Customers	**¥163,654**	**¥88,326**	**¥16,744**	**¥ 11,555**	**¥280,279**
Intersegment	**1,206**	**133**	**—**	**(1,339)**	**—**
Total	**164,860**	**88,459**	**16,744**	**10,216**	**280,279**
Operating expenses	**133,463**	**80,937**	**14,574**	**23,160**	**252,134**
Operating income (loss)	**¥ 31,397**	**¥ 7,522**	**¥ 2,170**	**¥(12,944)**	**¥ 28,145**

	Thousands of U.S. Dollars				
Year ended March 31, 2007	Digital Entertainment	Health & Fitness	Gaming & System	Other, Corporate and Eliminations	Consolidated
Net revenue:					
Customers	**$1,386,311**	**$748,209**	**$141,838**	**$ 97,882**	**$2,374,240**
Intersegment	**10,215**	**1,127**	**—**	**(11,342)**	**—**
Total	**1,396,526**	**749,336**	**141,838**	**86,540**	**2,374,240**
Operating expenses	**1,130,563**	**685,617**	**123,456**	**196,188**	**2,135,824**
Operating income (loss)	**$ 265,963**	**$ 63,719**	**$ 18,382**	**$(109,648)**	**$ 238,416**

Intersegment revenues primarily consist of sales of hardware products and parts from Digital Entertainment to Health & Fitness.

As discussed in Notes 6 and 7, impairment charges of ¥10,533 million for long-lived assets and ¥9,180 million for identifiable intangible assets were included in the operating expenses of the Health & Fitness segment for the year ended March 31, 2006.

(2) Total assets, depreciation and amortization and capital expenditures

Year ended March 31, 2005	Digital Entertainment	Health & Fitness	Gaming & System	Other, Corporate and Eliminations	Consolidated
	Millions of Yen				
Assets	¥111,842	¥105,278	¥10,235	¥76,966	¥304,321
Depreciation and amortization	1,891	4,976	397	2,096	9,360
Capital expenditures	1,485	5,353	865	10,951	18,654

Year ended March 31, 2006	Digital Entertainment	Health & Fitness	Gaming & System	Other, Corporate and Eliminations	Consolidated
	Millions of Yen				
Assets	¥114,654	¥105,533	¥9,627	¥72,823	¥ 302,637
Depreciation and amortization	2,286	5,420	517	5,559	13,782
Capital expenditures	19,785	19,911	661	7,647	48,004

Year ended March 31, 2007	Digital Entertainment	Health & Fitness	Gaming & System	Other, Corporate and Eliminations	Consolidated
	Millions of Yen				
Assets	**¥103,031**	**¥117,568**	**¥12,607**	**¥71,451**	**¥304,657**
Depreciation and amortization	**3,640**	**3,589**	**274**	**4,254**	**11,757**
Capital expenditures	**5,546**	**14,718**	**291**	**3,570**	**24,125**

Year ended March 31, 2007	Digital Entertainment	Health & Fitness	Gaming & System	Other, Corporate and Eliminations	Consolidated
	Thousands of U.S. Dollars				
Assets	**$872,774**	**$995,917**	**$106,794**	**$605,260**	**$2,580,745**
Depreciation and amortization	**30,834**	**30,402**	**2,321**	**36,036**	**99,593**
Capital expenditures	**46,980**	**124,676**	**2,465**	**30,241**	**204,362**

Eliminations and corporate primarily consist of eliminations of intercompany profits on inventories and assets for corporate headquarters, which primarily consist of cash and financial assets.

Capital expenditures include expenditures for acquisitions of tangible and intangible long-lived assets used in operations of each segment, including those acquired in acquisitions of businesses and are stated on an accrual basis.

b. Geographic information

Year ended March 31, 2005	Japan	North America	Europe	Asia/Oceania	Total	Eliminations	Consolidated
	Millions of Yen						
Net revenue:							
Customers	¥176,566	¥41,480	¥34,878	¥7,767	¥260,691	—	¥260,691
Intersegment	57,123	1,593	450	419	59,585	¥(59,585)	—
Total	233,689	43,073	35,328	8,186	320,276	(59,585)	260,691
Operating expenses	211,500	41,682	32,207	6,684	292,073	(59,518)	232,555
Operating income (loss)	¥ 22,189	¥ 1,391	¥ 3,121	¥1,502	¥ 28,203	¥ (67)	¥ 28,136
Property and equipment, net	¥ 44,775	¥ 1,018	¥ 472	¥ 330	¥ 46,595	—	¥ 46,595

Year ended March 31, 2006	Japan	North America	Europe	Asia/Oceania	Total	Eliminations	Consolidated
	Millions of Yen						
Net revenue:							
Customers	¥193,108	¥33,797	¥27,387	¥7,845	¥262,137	—	¥262,137
Intersegment	31,488	1,545	902	361	34,296	¥(34,296)	—
Total	224,596	35,342	28,289	8,206	296,433	(34,296)	262,137
Operating expenses	222,559	37,688	27,181	6,895	294,323	(34,667)	259,656
Operating income (loss)	¥ 2,037	¥ (2,346)	¥ 1,108	¥1,311	¥ 2,110	¥ 371	¥ 2,481
Property and equipment, net	¥ 39,888	¥ 1,815	¥ 454	¥ 295	¥ 42,452	—	¥ 42,452

	Millions of Yen						
Year ended March 31, 2007	Japan	North America	Europe	Asia/Oceania	Total	Eliminations	Consolidated
Net revenue:							
Customers	¥206,343	¥34,847	¥31,650	¥7,439	¥280,279	—	¥280,279
Intersegment	27,219	1,904	295	530	29,948	¥(29,948)	—
Total	233,562	36,751	31,945	7,969	310,227	(29,948)	280,279
Operating expenses	205,831	40,346	28,860	7,249	282,286	(30,152)	252,134
Operating income (loss)	¥ 27,731	¥ (3,595)	¥ 3,085	¥ 720	¥ 27,941	¥ 204	¥ 28,145
Property and equipment, net	¥ 51,081	¥ 1,739	¥ 137	¥ 337	¥ 53,294	—	¥ 53,294

	Thousands of U.S. Dollars						
Year ended March 31, 2007	Japan	North America	Europe	Asia/Oceania	Total	Eliminations	Consolidated
Net revenue:							
Customers	$1,747,929	$295,188	$268,107	$63,016	$2,374,240	—	$2,374,240
Intersegment	230,572	16,129	2,499	4,489	253,689	$(253,689)	—
Total	1,978,501	311,317	270,606	67,505	2,627,929	(253,689)	2,374,240
Operating expenses	1,743,592	341,770	244,473	61,406	2,391,241	(255,417)	2,135,824
Operating income (loss)	$ 234,909	$ (30,453)	$ 26,133	$ 6,099	$ 236,688	$ 1,728	$ 238,416
Property and equipment, net	$ 432,707	$ 14,731	$ 1,160	$ 2,855	$ 451,453	—	$ 451,453

For the purpose of presenting its operations in geographic areas above, Konami attributes revenues from external customers to individual countries in each area based on where products are sold and services are rendered and attribute assets based on where assets are located.

North America presented in the table above substantially consists of the United States.

As discussed in Notes 6 and 7, impairment charges of ¥10,533 million for long-lived assets and ¥9,180 million for identifiable intangible assets were included in the operating expenses of Japan segment for the year ended March 31, 2006.

21. Commitments and Contingencies

Konami is subject to pending claims and litigation. Management, after review and consultation with counsel, considers that any liability from the disposition of such lawsuits would not have a material adverse effect on the consolidated financial condition and results of operations of Konami.

Konami has placed firm orders for purchases of property, plant and equipment and other assets amounting to approximately ¥6,477 million ($54,867 thousand) as of March 31, 2007.

SCHEDULE II—VALUATION AND QUALIFYING ACCOUNTS

	Millions of Yen			
	Balance at beginning of the year	Additions	Deductions	Balance at end of the year
2005				
Allowance for doubtful accounts				
Trade accounts receivable	¥ 709	¥158	¥ 263	¥604
Lease deposits	¥4,137	—	4,137	¥ —
2006				
Allowance for doubtful accounts				
Trade accounts receivable	¥ 604	¥ 77	¥ 140	¥541
2007				
Allowance for doubtful accounts				
Trade accounts receivable	**¥ 541**	**¥ 78**	**¥ 79**	**¥540**

	Thousands of U.S. Dollars			
	Balance at beginning of the year	Additions	Deductions	Balance at end of the year
2007				
Allowance for doubtful accounts				
Trade accounts receivable	**$4,583**	**$660**	**$669**	**$4,574**

Management's Report on Internal Control over Financial Reporting

The management of Konami is responsible for establishing and maintaining adequate internal control over financial reporting. Internal control over financial reporting is defined in Rule 13a-15(f) promulgated under the Securities Exchange Act of 1934 as a process designed by, or under the supervision of, the company's principal executive and principal financial officers and effected by the company's board of directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles and includes those policies and procedures that (1) pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

The management of Konami assessed the effectiveness of internal control over financial reporting as of March 31, 2007. In making this assessment, the management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission in Internal Control-Integrated Framework (the COSO criteria).

Based on its assessment, the management concluded that, as of March 31, 2007, our internal control over financial reporting was effective based on the COSO criteria.

Our independent registered public accounting firm, KPMG AZSA & Co., has issued an audit report on our assessment of internal control over financial reporting.

Changes in internal controls over financial reporting

There has been no change in our internal control over financial reporting that occurred during the period covered by this Annual Report that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Kagemasa Kozuki
CEO, KONAMI Group

Noriaki Yamaguchi
CFO, KONAMI Group

Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders
KONAMI CORPORATION:

We have audited the accompanying consolidated balance sheets of KONAMI CORPORATION and subsidiaries as of March 31, 2006 and 2007, and the related consolidated statements of income, stockholders' equity and cash flows for each of the years in the three-year period ended March 31, 2007, expressed in Japanese yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of KONAMI CORPORATION and subsidiaries as of March 31, 2006 and 2007, and the results of their operations and their cash flows for each of the years in the three -year period ended March 31, 2007, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of the Company's internal control over financial reporting as of March 31, 2007, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated July 27, 2007 expressed an unqualified opinion on management's assessment of, and the effective operation of, internal control over financial reporting.

The accompanying consolidated financial statements as of and for the year ended March 31, 2007 have been translated into United States dollars solely for convenience of the reader. We have audited the translation and, in our opinion, the consolidated financial statements, expressed in yen, have been translated into dollars on the basis set forth in Note 1 to the consolidated financial statements.

KPMG AZSA & Co.

Tokyo, Japan
July 27, 2007

Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders
KONAMI CORPORATION:

We have audited management's assessment, included in the accompanying Management's Report on Internal Control over Financial Reporting, that KONAMI CORPORATION and subsidiaries maintained effective internal control over financial reporting as of March 31, 2007, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management's assessment and an opinion on the effectiveness of the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with U.S. generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with U.S. generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, management's assessment that KONAMI CORPORATION and subsidiaries maintained effective internal control over financial reporting as of March 31, 2007, is fairly stated, in all material respects, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Also, in our opinion, KONAMI CORPORATION and subsidiaries maintained, in all material respects, effective internal control over financial reporting as of March 31, 2007, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of KONAMI CORPORATION and subsidiaries as of March 31, 2006 and 2007, and the related consolidated statements of income, stockholders' equity and cash flows for each of the years in the three-year period ended March 31, 2007, expressed in Japanese yen, and our report dated July 27, 2007 expressed an unqualified opinion on those consolidated financial statements.

KPMG AZSA & Co.

Tokyo, Japan
July 27, 2007

KONAMI

Printed in Japan on 100% recycled paper.