

# KONAMI



## ● **Annual Report 2007**

Operational Review

For the year ended March 31, 2007



# Moving

# Up

— Preparing to Take Further Strides Forward —

Our corporate goal is to be a business group that is always highly-expected by all the people around the globe, through creating and providing them with **“Valuable Time”**.

Guided by this goal, KONAMI produces and delivers valuable time in the fields of entertainment and health.

By continuing to provide valuable time to ever more people worldwide, KONAMI will keep moving up.

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### Cautionary Statements with Respect to Forward-Looking Statements

Statements made in this report with respect to our current plans, estimates, strategies and beliefs, including any forecasts, are forward-looking statements about our future performance. These statements are based on management's assumptions and beliefs in light of information that is currently available to it, and therefore, you should not place undue reliance on such statements. A number of important factors could cause actual results to be materially different from, and possibly worse than, those discussed in forward-looking statements. Such factors include, but are not limited to: (i) changes in economic conditions affecting our operations; (ii) fluctuations in currency exchange rates, particularly with respect to the value of the Japanese yen, the U.S. dollar and the Euro; (iii) our ability to continue to win acceptance of our products, which are offered in highly competitive markets characterized by the continuous introduction of new products, rapid developments in technology and subjective and changing consumer preferences; (iv) our ability to expand internationally, mainly in our video game software business, card game business, and gaming machine business; (v) our ability to successfully expand the scope of our business and broaden our customer base through our health and fitness business; (vi) regulatory developments and changes, and our ability to respond and adapt to those changes; (vii) our expectations with regard to further acquisitions and the integration of any companies we may acquire; and (viii) the outcome of contingencies.

KONAMI has three mainstay businesses. Our Digital Entertainment Segment develops products and services that offer customers fun and added value in many different areas of everyday life. The Health & Fitness Segment offers total health support. Principally operating sports clubs in Japan, this segment also markets fitness machines and health-related products. Moreover, KONAMI's Gaming & System Segment focuses on the development, production, and sale of gaming machines and casino management systems as well as the provision of related services in North America and Australia.

**Digital Entertainment Segment**

**Health & Fitness Segment**

**Gaming & System Segment**

This year's annual report outlines KONAMI's business achievements in fiscal 2007. We will issue a financial report detailing financial results after August 2007.

This annual report includes images of products that are under development.

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# Digital Entertainment Segment

Our overriding strategy in the Digital Entertainment Segment is to anticipate customers' consistently diversifying and changing needs through the multifaceted development of popular content, the creation of highly original new content, and the fullest exploitation of information technology. Reflecting this strategy, we are developing products and services that offer customers enjoyment and added value in different aspects of their everyday lives.



## ■ Home Video Game Software



**PUROYAKYU SPIRITS 4**

Approved by NPB. Usage of NPB BIS Professional Baseball Records. Approved by 13 franchised Baseball Stadiums.

## ■ Card Game



**Yu-Gi-Oh! Trading Card Game**

©1996 KAZUKI TAKAHASHI  
©2004 NAS-TV TOKYO



■ Amusement Arcade Machines



Large token-operated machine  
*GRANDCROSS*

# Health & Fitness Segment

See Page 22.

In this segment, KONAMI operates sports clubs and plans, produces, and markets fitness machines for sports clubs as well as health-related products and services. By marrying the Group's latest technologies with expertise cultivated in health management, KONAMI is developing initiatives to incorporate information technology in health management and make fitness fun. The Health & Fitness Segment provides ideas to assist customers in living every day more enjoyably and healthily.



Commercial-Use Fitness Machine



*EZWISTER*

Home-Use Fitness Product



*Kenshin Keisoku*

Training Machine for Adjusting Posture



*Massugu-sesuji*

# Gaming & System Segment

See Page 26.

This Segment develops, manufactures, and supplies gaming machines and casino management systems and markets related services. We offer gaming machines featuring highly reliable, innovative, and entertaining content that anyone can enjoy. Aiming to establish business and development on a global scale, the Gaming & System Segment caters to growing gaming markets worldwide while establishing an unshakable position as a supplier.



■ Multi-Line Mechanical Reel Slot



Mega Wild

■ K2V Quick Strike (Stand-Alone Progressive)



Egyptian Prince

■ Connection



Eleven Pearls



# Moving Up

— Preparing to Take Further Strides Forward —

**Fast-paced, powerful  
Group management  
will catapult KONAMI forward.**

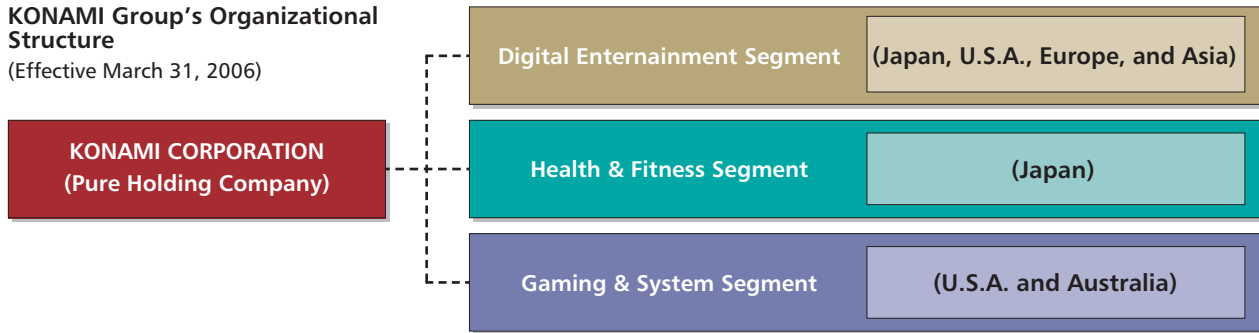
■ **More than One Year since Change to Holding Company System**

More than one year has passed since we transferred to a pure holding company on March 31, 2006. In our first fiscal year under the holding company system, which comprises the Digital Entertainment Segment, the Health & Fitness Segment, and the Gaming & System Segment, we achieved favorable results. In fiscal 2007, ended March 31, 2007, we posted increased revenues and earnings, with record net revenues and higher operating income. This performance was made possible by our shareholders' deep understanding and generous support of the KONAMI Group's business activities following our transfer to a holding company system, and we thank them for their backing.

In April 2007, by aiming to further heighten operational efficiency and consolidate the Group, the KONAMI Group integrated operational bases that had been scattered through out the Tokyo area at a single location. This marked the first time the KONAMI Group's operational bases had been gathered at one location since the establishment of the Group's head office in Tokyo in 1992. Previously, Group companies maintained close contact through such measures as the introduction of video conferences. Now, however, face-to-face communication has become possible. We expect this consolidation will generate even more outstanding Group synergies based on strengthened internal controls and enhanced communication among Group companies and employees.

**KONAMI Group's Organizational Structure**

(Effective March 31, 2006)



**Operating Bases Concentrated in Tokyo Midtown**

Since transferring to a holding company system in March 2006, the KONAMI Group has worked to further raise corporate value. Mindful of this goal, we have gathered operating bases that were dispersed throughout Tokyo at a single location in Tokyo Midtown to heighten operational efficiency and further integrate the Group.

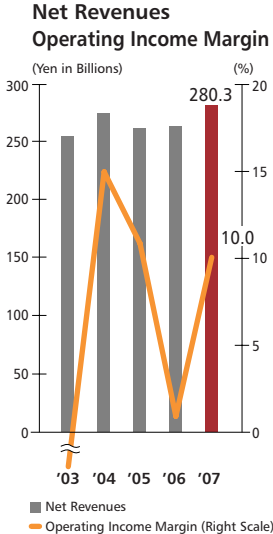
**Tokyo Midtown**

Our new base is situated in Roppongi, in Tokyo's Minato ward, which is known for its strongly international atmosphere and is home to more than 40 embassies and international schools. Redeveloped following the transfer of the Defense Agency in 2000, the multifunctional building shown on the right opened in March 2007.



As a result of the consolidation of our operating bases, I am looking forward to strengthened internal controls, enhanced communication among Group companies and employees, and the creation of Group synergies that are even more outstanding.

Viewing the consolidation of operational bases as a watershed, the KONAMI Group's management team and employees will approach operations with a fresh outlook and implement rapid, more powerful Group management.



**Evaluation of Fiscal 2007 Business Results**

In fiscal 2007, ended March 31, 2007, KONAMI achieved record revenues and earnings\*, with year-on-year increases of 6.9% in net revenues, to ¥280.3 billion, and 1,034.4% in operating income, to ¥28.1 billion. Net income decreased 29.5%, to ¥16.2 billion. However, this decrease was due to the recognition in the previous fiscal year of a gain on sale of shares of an affiliated company of ¥6.9 billion. Effectively, net income rose.

We have largely completed a round of measures that caused business results to fluctuate in the past several years, such as Group reorganization and the adoption of U.S. GAAP. As a result, fiscal 2007 business results reflect operational achievements. In the context of our longer-term efforts to further improve business results, I think we achieved solid business results in fiscal 2007.

\* Based on U.S. GAAP

**Increases in revenues and earnings, with record net revenues  
Net income also effectively grows.**

[ Net Revenues ] . . . . . Up 6.9%, to **¥280.3 billion**

[ Operating Income ] . . . Up 1,034.4%, to **¥28.1 billion**

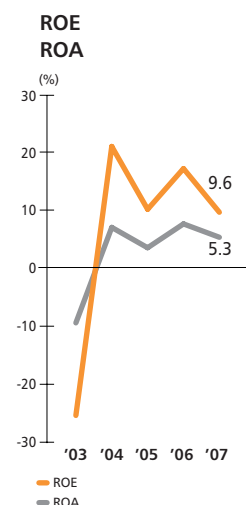
[ Net Income ] . . . . . Down 29.5%, to **¥16.2 billion**

## ■ Management Strategy Going Forward

With a view to realizing its corporate philosophy of becoming a business group that is always highly-expected by all the people around the globe, through creating and providing them with “Valuable Time”, the KONAMI Group will continue concentrating efforts on expanding the operations and growing the earnings of the Digital Entertainment Segment, the Health & Fitness Segment, and the Gaming & System Segment. In the past several years, the KONAMI Group has concentrated the deployment of management resources on the construction of a balanced business portfolio underpinned by these three mainstay businesses. This tripod structure has finally bedded down. Having enjoyed particular success in developing the Health & Fitness Segment and the Gaming & System Segment into operations with even greater growth potential that will supplement the Digital Entertainment Segment, we are prepared to take a major stride forward.

Regarding initiatives by business segment, in the Digital Entertainment Segment we will exploit the benefits of the recent consolidation of our operating bases by stepping up diverse collaborations to lend further impetus to multifaceted content rollout. Conditions in the home video game software market—one of the mainstays of the Digital Entertainment Segment—are buoyant, since hardware manufacturers have now released their next-generation video game systems and handheld systems are gaining popularity. In this business segment, we will raise our earnings capabilities by developing content for not only home video game software but also a range of fields, including amusement arcade machines, PCs, and mobile phones, as well as in such regions as Europe, North America, and Asia. Moreover, we will develop business beyond the Digital Entertainment Segment’s traditional business area through collaborations with the Health & Fitness Segment. Furthermore, in light of the maturing of the Internet and other online environments for digital entertainment, we must expand the Online business area to tap the growth potential in this area. As digital entertainment markets worldwide grow, our goal is to enhance and expand our lineup of competitive digital entertainment content.

Recognizing health and fitness as a promising business area, given the graying of Japanese society, we entered into this business area in earnest in 2000. Since then, we have used mergers and acquisitions to increase the size of the business. At the same time, the KONAMI Group has given first priority to establishing firm business foundations by improving operational efficiency, integrating or eliminating unprofitable fitness clubs, and adopting accounting treatment based on U.S. GAAP, such as goodwill amortization and asset impairment. As a result of these preparatory measures, for several years the business results of the Health & Fitness Segment did not progress in line with our expectations. However, with that round of preparatory measures completed, in fiscal 2007 the segment posted strong results. Having achieved a dramatic improvement in the profitability of directly managed fitness clubs, the segment promises stable earnings growth on the back of additional memberships, increasing membership fees per member, and the expansion of pay programs.



The Gaming & System Segment must clear high regulatory hurdles to gain market access. In all regions in which it operates, the segment has to acquire licenses, which stipulate conditions for the manufacture, sale, and purchase of gaming machines. As a result, launching operations in a new region requires a huge initial investment. Nevertheless, in 1997 the KONAMI Group started operations in Australia, which has the world's second-largest casino market. Since establishing a bridgehead in the United States—the world's largest casino market—in 2000, we have obtained licenses in almost all states and provinces in North America. Further, our June 2005 construction of a new plant in Las Vegas has increased our production capacity and set operations on a course for full-fledged growth. Our previous investment is steadily bearing fruit, with the KONAMI Group's slot machines and casino management systems winning high acclaim. While continuing to focus business development on North America and Australia, we are looking to open up new markets. Since casinos are legal in more than 130 countries and regions worldwide, we believe this segment has huge potential.

#### ■ Returns to Shareholders Policy

For fiscal 2007, the KONAMI Group decided to pay its shareholders a year-end cash dividend of ¥27.00 per share. Together with an interim cash dividend of ¥27.00 per share, the full-year cash dividend was ¥54.00 per share, the same amount as in the previous fiscal year. Further, from the settlement of accounts in September 2006, the KONAMI Group introduced its first-ever shareholder benefits program. Under this program, we distributed day pass coupons for Konami sports clubs to shareholders owning more than 100 shares. Converted according to the value of Konami sports club tickets, these coupons were equivalent to ¥32,000 per year. Returning profits to shareholders in this way—by adding shareholder benefits to cash dividends per share—is one of the results realized by transferring to a holding company structure, which enables the payment of stable dividends based on the achievements of the Group's businesses.

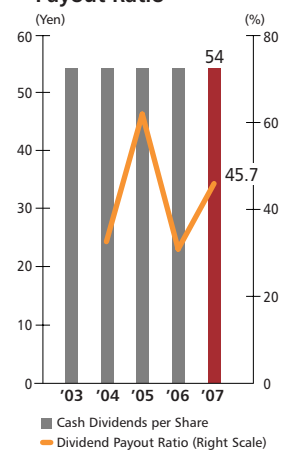
For the KONAMI Group, we believe the payment of stable, high dividends and improving corporate value are important means of returning profits to our shareholders. Based on this policy, we have maintained a full-year cash dividend of ¥54.00 per share for the past seven fiscal years. With respect to measures for returns to shareholders, the KONAMI Group's senior management team regards continuously growing earnings while maintaining stable, high dividends as priority issues.

**The KONAMI Group will offer stable, high dividends, improve corporate value, and further reinforce its business foundations to ensure all businesses grow continuously.**

As I mentioned at the beginning of this message, by consolidating its operating bases at a new location in Tokyo Midtown, the KONAMI Group has established a system that will enable it to fully capitalize on the Group's collective strengths. Now, we will be able to realize the full-fledged benefits of the KONAMI Group's holding company structure. Concentrating on our three businesses with tremendous potential—the Digital Entertainment Segment, the Health & Fitness Segment, and the Gaming & System Segment—we will maximize corporate value by expanding operations and growing earnings. I ask our shareholders and other investors for their continued support and guidance as we continue taking on these challenges.

June 2007

**Cash Dividends per Share  
Consolidated Dividend  
Payout Ratio**



**Kagemasa Kozuki**  
CEO, KONAMI Group

# CONSOLIDATED FINANCIAL HIGHLIGHTS (U.S. GAAP)

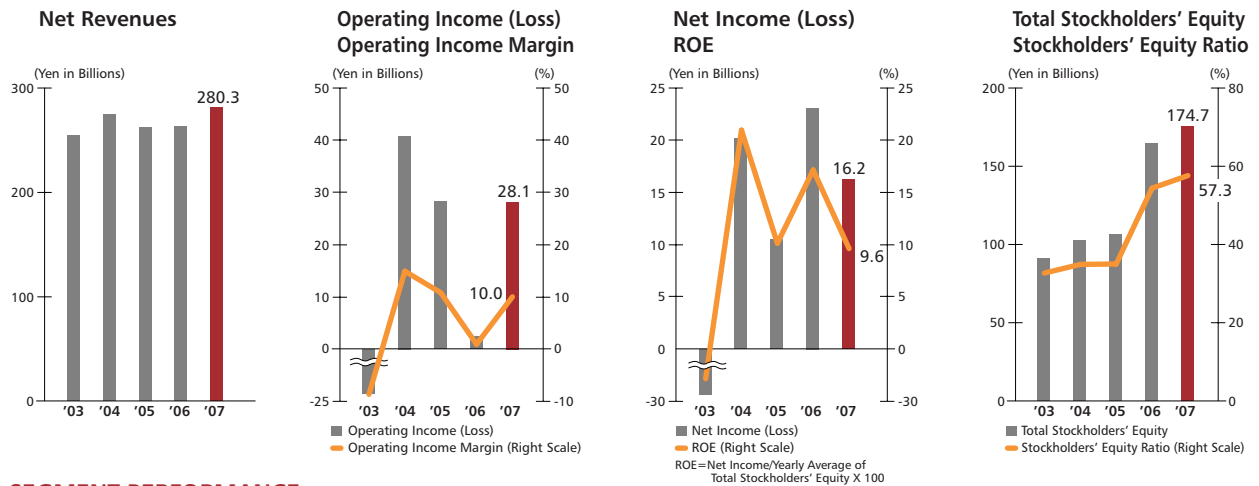
KONAMI CORPORATION and Consolidated Subsidiaries  
Years ended March 31, 2005, 2006, and 2007

## CONSOLIDATED PERFORMANCE

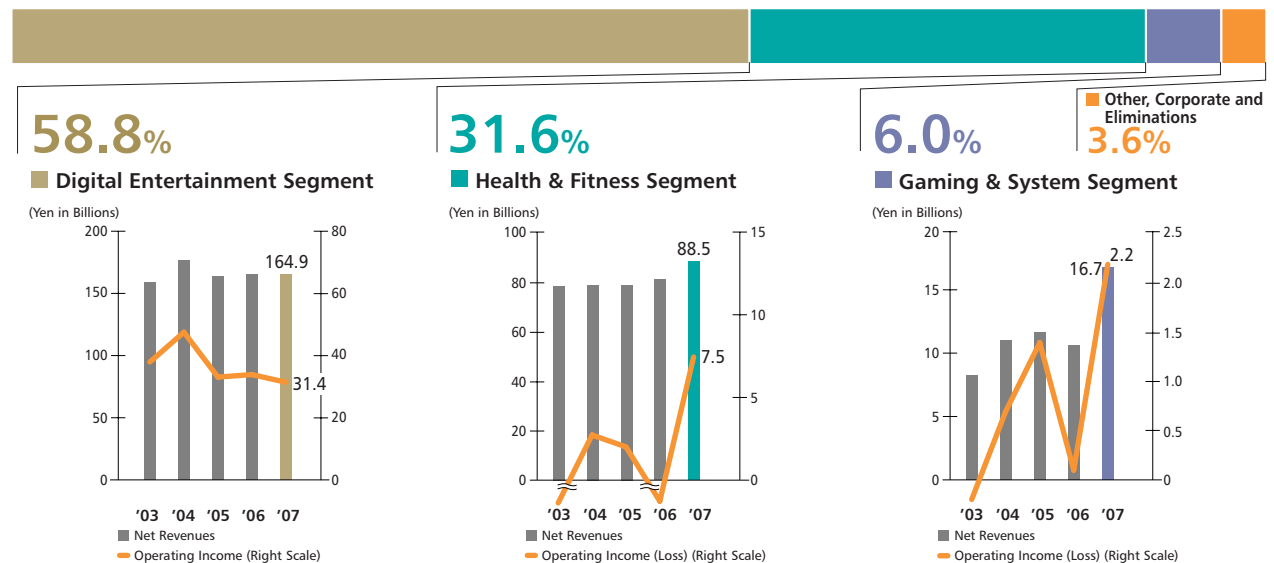
	Yen in Millions (except per share data)			U.S. Dollars in Thousands (except per share data)	% Change 2006/2007
	2005	2006	2007	2007 <sup>(2)</sup>	
<b>Income Statement Data:</b>					
Net revenues	¥260,691	¥262,137	<b>¥280,279</b>	<b>\$2,374,240</b>	6.9
Operating income	28,136	2,481	<b>28,145</b>	<b>238,416</b>	1,034.4
Net income	10,486	23,008	<b>16,211</b>	<b>137,323</b>	-29.5
<b>Balance Sheet Data:</b>					
Total current assets	¥161,938	¥144,327	<b>¥138,261</b>	<b>\$1,171,207</b>	-4.2
Total assets	304,321	302,637	<b>304,657</b>	<b>2,580,745</b>	0.7
Total current liabilities	99,827	81,224	<b>82,466</b>	<b>698,568</b>	1.5
Total long-term liabilities	73,150	55,477	<b>44,832</b>	<b>379,771</b>	-19.2
Total stockholders' equity	105,857	163,815	<b>174,662</b>	<b>1,479,560</b>	6.6
<b>Other Data:</b>					
ROE	10.1%	17.1%	<b>9.6%</b>		
ROA	3.4	7.6	<b>5.3</b>		

Notes: (1) Cash dividends per share consist of interim dividends paid during the fiscal year and year-end dividends paid after the fiscal year-end.

(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.



## SEGMENT PERFORMANCE



# Moving Up

— Preparing to Take Further Strides Forward —

The KONAMI Group creates and provides **valuable time** for people worldwide through its three Segments: the Digital Entertainment Segment, the Health & Fitness Segment, and the Gaming & System Segment. This features section explains the growth strategies that we are pursuing in these three business segments to move up to a new level.

The Digital Entertainment Segment accounts for 58.8% of net revenues.

#### Highlights

- The *Winning Eleven* series posts a record for annual sales worldwide
- The number of e-AMUSEMENT machines installed passes the 50,000-unit milestone

The Health & Fitness Segment accounts for 31.6% of net revenues.

#### Highlights

- Membership of directly managed facilities rises 3.0% year on year, to 989,512 members (as of March 31, 2007)
- Net revenues are up 8.9% year on year and favorable operating income is posted, compared with an operating loss in the previous fiscal year

The Gaming & System Segment accounts for 6.0% of net revenues.

#### Highlights

- A sharp 57.6% year-on-year increase in net revenues and marked improvement in operating income are posted

## Digital Entertainment Segment

# Moving Up

— Preparing to Take Further Strides Forward —

With communication and creativity as overriding themes, we will provide a constant stream of new entertainment.



**Fumiaki Tanaka**

Konami Digital Entertainment Co., Ltd. (Japan)  
President



**Kazumi Kitaue**

Konami Digital Entertainment, Inc. (Americas)  
Konami Digital Entertainment B.V. (United Kingdom)  
Konami Digital Entertainment GmbH (Germany)  
President



**Akihiko Nagata**

Konami Digital Entertainment Limited (Hong Kong)  
President

Recreation is diversifying rapidly in the digital entertainment business area thanks to increasingly varied hobbies and preferences, the ready availability of information due to the spread of the Internet, more-advanced video game systems and the introduction of network infrastructures with higher speeds and capacities. As well as a broadening spectrum of ways in which people play, more than ever they are demanding features that are fun and interesting.

As recreation diversifies, at KONAMI we believe communication will be key in creating features that are more exciting and more attractive.

KONAMI's e-AMUSEMENT service is an example of an advanced initiative that incorporates our concept of communication. Enabling head-to-head games among players in various regions by providing a network that links e-AMUSEMENT-compatible arcade games across Japan, the e-AMUSEMENT service has earned widespread customer endorsement. e-AMUSEMENT games have gained popularity because, rather than simply playing against a computer, many players want games that they can enjoy while communicating with others through an online network.

Online functions are currently becoming standard, even for home video game systems, with the release of such next-generation video game consoles as Wii, PLAYSTATION 3, and Xbox 360, as well as handheld systems, including Nintendo DS and PlayStation Portable. In other words, customers do not just want to play games by themselves; they want games and consoles to evolve into mediums through which they can enjoy communicating with an unlimited number of other players. Therefore, we are moving into an era in which we must offer a diverse range of online-network-enabled products and services.

Of course, efforts to maximize the enjoyment of games by enabling communication must be underpinned by the pursuit of features that are fun and interesting. To this end, honing our creativity is a recurrent theme.

By developing products that reflect the overriding themes of communication and creativity, the Digital Entertainment Segment will generate an unstoppable stream of new entertainment that provides never-before-experienced fantasy and excitement.

## ■ Growth Strategy

In the Digital Entertainment Segment, while developing products under the key themes of communication and creativity, we will continue pursuing a basic strategy of developing content for diverse business areas and platforms and bolstering overseas business development. At the same time, KONAMI will expand all business segments and improve their profitability by seeking synergistic benefits between these businesses and the Digital Entertainment Segment.

### ■ Overlapping the Health & Fitness Segment and the Digital Entertainment Segment

A major focus of our efforts to create synergies in business areas outside digital entertainment is the establishment of new product categories by combining the capabilities of the Digital Entertainment Segment and the Health & Fitness Segment. As the preliminary move of this initiative, we launched full-fledged yoga instruction software *DOKODEMO YOGA* for Nintendo DS in July 2007. *DOKODEMO YOGA* is based on the Bilanx Yoga fitness program offered by Konami Sports & Life Co., Ltd. At the same time, the new product reflects one of the themes in our video game software development—self-improvement. Self-improvement products enable users to acquire knowledge or skills through video games. By using *DOKODEMO YOGA*, customers learn as they practice yoga. We plan to market a series of video game software products that aid self-improvement and incorporate synergies with the Health & Fitness Segment.



*DOKODEMO YOGA*

### ■ Consolidation of Production Bases

In April 2007, the Digital Entertainment Segment concentrated production teams that had been dispersed in several locations across Tokyo at a new office in Tokyo Midtown. Previously, the sharing and standardization of core production capabilities was occasionally impeded since the main teams worked at separate locations. Gathering all the teams at one site has heightened the speed and efficiency of production.

### ■ Advancing Basic Strategies

#### 1. Multifaceted Development of Content to Grow Revenues and Earnings

The multifaceted development of content is one of the basic strategies of the Digital Entertainment Segment for increasing revenues and earnings. This strategy entails offering popular content in a variety of different business areas to heighten awareness of such content among customers and achieve synergistic benefits, which will grow revenues and earnings. For example, developing products based on popular home video game software in such business areas as amusement arcade machines, toys, and online services improves the efficiency of development costs and achieves an earlier return on investment. To fully realize multifaceted development and its associated synergistic benefits, rather than simply rolling out the same content across different areas, we add value to content by adapting it to offer fun and interest that suits the characteristics of different platforms or markets.

Our multifaceted development efforts have been consistently successful. In April 2006, in a full-fledged initiative we simultaneously developed the Winning Eleven soccer video game for home video game software, amusement arcade machines, online services, and magazines. In another example, we introduced a home video game that connects to our popular e-AMUSEMENT service product *MAH-JONG FIGHT CLUB*.

## Digital Entertainment Segment



*JIKKYOU PAWAFURU  
PROYAKYU Wii*

Approved by NPB. Usage of NPB BIS Professional Baseball Records. Approved by 13 franchised Baseball Stadiums. Approved by ALL JAPAN BASEBALL FOUNDATION.

## 2. Multiplatform Strategy That Exploits the Distinctive Features of Video Game Systems

Video game platforms have become more diverse with the release of next-generation video game consoles, including Wii, PLAYSTATION 3, and Xbox 360, and such handheld systems as Nintendo DS and PlayStation Portable. In addition to the distinctive functions of each platform, these new video game systems have online compatibility included as a standard.

In response to these market changes, KONAMI is designing video game software to suit its multiplatform strategy. Under this strategy, we do not favor any specific platform. Instead, we choose the most suitable platforms for the release of a video game based on assessments of the characteristics of the content and target audience as well as the features and popularity of candidate platforms.

For example, we have developed versions of a single-title baseball video game to suit the features of different platforms by varying the video game's representation and playing techniques. We have developed one version for Wii that takes advantage of the video game system's unique remote control. Another version capitalizes on the computing power and image representation capabilities of PLAYSTATION 3. And yet another version effectively uses the unique touch pen and two screens of Nintendo DS.

Through multifaceted development, we are cultivating synergistic benefits that span different markets. We simultaneously release video games for multiple platforms, create versions of home video games for handheld systems, and adapt video games originally for video game consoles for use with mobile phones or as online games.

## 3. The e-AMUSEMENT Service Network Going Global

The e-AMUSEMENT service network is growing beyond Japan into other parts of Asia, such as Hong Kong and Taiwan. Plans call for the strengthening of the network in Asia and its development on a global scale through rollouts in the United States and Europe. Having already begun pilot projects in the United States and Europe, we plan to develop operations in earnest starting with the United States.

## 4. Stepped-Up Development of Overseas Business

In the efforts of the Digital Entertainment Segment to achieve a dramatic upturn in growth, forays into overseas markets are one of its most important strategies. In particular, the penetration of next-generation video game consoles is driving expansion of markets in North America and Europe. In the medium-to-long term, digital entertainment markets in these regions are likely to continue growing. Therefore, in both regions KONAMI will follow a strategy of deploying further management resources to strengthen operational foundations and expand business to heighten the presence of the KONAMI brand. As near-term initiatives under this strategy, we will continue to expand the *Pro Evolution Soccer* series and the European version of the *Winning Eleven* series while developing other video game titles. Leveraging the benefits of our consolidation of operating bases, which resulted from the transfer of our San Francisco operations to Los Angeles, we will take on the challenges of expanding business in a wide variety of digital entertainment areas. Further, we are laying the foundations for the launch of operations in earnest in Asia, which has significant potential.

Meanwhile, our medium-to-long-term strategy is to localize operating bases. The reasoning behind this strategy is that local people familiar with their region's culture and customs are needed to create entertainment that consistently wins acceptance in each region. However, in some cases, such as the *Winning Eleven* series and the *METAL GEAR SOLID* series, we have developed video game software in Japan that has gained worldwide acceptance. Bearing this in mind, in North America, Europe, and Asia, local employees will create, produce, and offer products and services targeting local markets. However, at the same time each local operating base will build a system that will enable the global rollout of certain products and services.



*Pro Evolution Soccer 6*

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## ■ Fiscal 2007 Overview

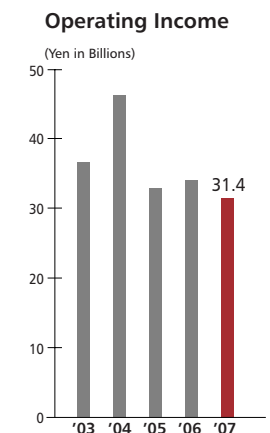
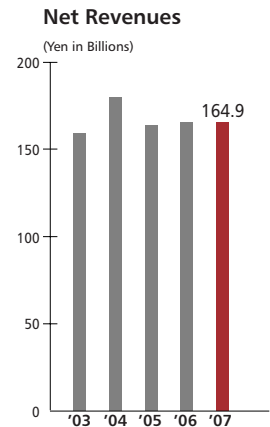
### ■ Overall Segment Performance

In fiscal 2007, ended March 31, 2007, the segment's net revenues edged down 0.3%, to ¥164.9 billion, while operating income declined 7.2%, to ¥31.4 billion. Overall, the segment's business units performed well, with a significant increase in sales of amusement arcade machines. However, sales of card games and toys struggled.

In home video game software, we posted a new annual sales record for the *Winning Eleven* soccer video game series, shipping 8.47 million units worldwide. Further, mainstay baseball, music, and animation titles registered solid performances. However, a delay in the realization of benefits from investments in the United States, selected for priority strengthening as part of our global business development strategy, curbed overall growth. We expect the benefits of our investments in the United States to emerge from the current fiscal year.

Sales of card games and toys were flat primarily because we did not achieve product lineups that reflected market diversification and changes in customer preferences. In view of this issue, we are currently restructuring lineups to cater more closely to market demand.

At the same time, in the amusement arcade machine area, products compatible with the e-AMUSEMENT service, which provides a network that links amusement arcades nationwide, recorded higher revenues. Further, the large token-operated machine *GRANDCROSS* that started operation from fiscal 2007 proved popular and enjoyed brisk sales.



## Digital Entertainment Segment

## ■ Home Video Game Software

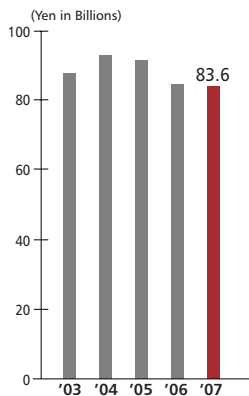
In home video game software, KONAMI offered products globally, focusing on sports and music titles, and marketed a total of 22.5 million units. KONAMI has particular competence in sports and music video games, which have won acceptance all over the world because of their universal themes. In addition, we look forward to stimulating markets and increasing sales in new business areas by creating original content that breaks the mold of conventional home video game software.

In Japan, favorable sales were recorded of such soccer video games as the *Winning Eleven* series and mainstay baseball titles, including *JIKKYOU PAWAFURU PROYAKYU 13* and *JIKKYOU PAWAFURU MAJOR LEAGUE*, as well as the original content video game *METAL GEAR SOLID PORTABLE OPS* for PlayStation Portable.

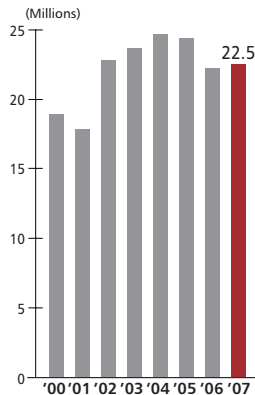
Other offerings in our diverse lineup, including animation and music titles, achieved strong sales performances. Further, fiscal 2007 marked the releases of *Elebits* for Wii as a video game for next-generation video game systems and a version of *MAH-JONG FIGHT CLUB* for PLAYSTATION 3.

Overseas, in North America sales of the mainstay music video game *Dance Dance Revolution* were favorable, as were shipments of such original content as *METAL GEAR SOLID PORTABLE OPS* for PlayStation Portable, *Castlevania Portrait of Ruin* for Nintendo DS, and *Elebits* for Wii. In Europe, *Pro Evolution Soccer 6* launched for multiple platforms outsold the previous installment of the series.

Net Revenues from Home Video Game Software



Unit Sales of Video Game Software



Dance Dance Revolution SuperNOVA



Elebits



MAH-JONG FIGHT CLUB



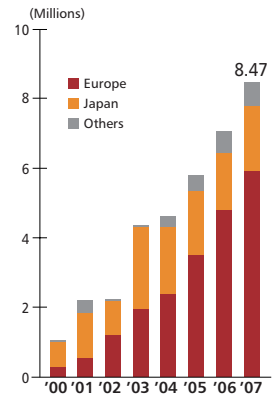
METAL GEAR SOLID PORTABLE OPS

## Close Up Record Worldwide Unit Sales for *Winning Eleven* Series

KONAMI achieved its highest-ever worldwide annual unit sales for the *Winning Eleven* soccer game series, selling 8.47 million units in fiscal 2007, up from 7.08 million units in the previous fiscal year. This performance was attributed to particularly favorable sales in Europe, which accounted for 5.92 million units of the 8.47 million units sold.

Although the strong popularity of soccer in Europe compared with other parts of the world was one of the reasons for such a dramatic increase in sales, another major factor was the introduction of a multiplatform rollout, one of KONAMI's digital entertainment strategies. Multiplatform rollouts involve marketing a single video game software title for a variety of platforms by creating different versions of the game tailored to the distinctive features of each console. Accordingly, in fiscal 2007 KONAMI released the European version of the *Winning Eleven* series *Pro Evolution Soccer 6* and its North American equivalent *Winning Eleven Pro Evolution Soccer 2007* for five platforms: PlayStation 2, PlayStation Portable, Nintendo DS, and Xbox 360, and PCs.

Unit Sales of Soccer Games by Region



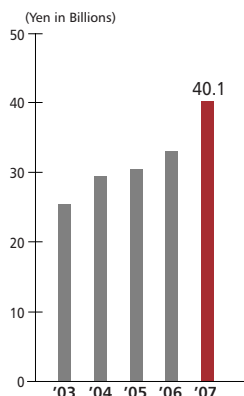
## Multiplatform Rollout of the *Winning Eleven* Series



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## Digital Entertainment Segment

## Net Revenues from Amusement Arcade Machines



Yu-Gi-Oh! ONLINE

©1996 KAZUKI TAKAHASHI  
©2004 NAS-TV TOKYO

### Amusement Arcade Machines

In the amusement arcade machines business area, demand is increasing as the development of larger amusement arcades attracts new customer groups, such as families and couples, as well as previously established customer groups.

In video games, among products using the e-AMUSEMENT service and its network linking amusement arcades throughout Japan, favorable sales were recorded of the *MAH-JONG FIGHT CLUB* series and the *BASEBALL HEROES* series, which incorporates professional baseball player cards.

Further, in response to recent growth in the market for educational video games, we launched a new-concept “brain-training” video game *CURUCURULABO*, which recorded rising sales. In music video games, the latest installment of the *Dance Dance Revolution* series, *Dance Dance Revolution SuperNOVA*, was a hit with customers.

In token-operated games, *GRANDCROSS*, which is the largest machine in the history of token-operated games that can accommodate 32 people playing simultaneously, performed favorably. Also, the latest offering in our *GI* series of large horse-racing token-operated machines, *GI-HORSE PARK EX*, recorded steady sales. By catering to a wide customer base and diversifying demand, KONAMI amusement arcade machines earned the endorsement of a large number of customers.

### Online Services

As well as the increasing ubiquity of services enabled by the online functions of mobile phones and PCs, services based on the online capabilities of video game systems and handheld systems are becoming commonplace. In response to these trends, KONAMI is developing online services—with an emphasis on the type of communication only possible online—to target customers in wide range of groups.

In fiscal 2007, for video game software based on the popular amusement arcade machine game *MAH-JONG FIGHT CLUB* for PlayStation Portable and PLAYSTATION 3, we launched a service that enables head-to-head playing. Also, we began offering new ways of playing this game for PlayStation Portable based on a wireless LAN service, e-AMUSEMENT SPOT, which is installed at amusement arcades nationwide. In another initiative to increase playing options, we timed the addition of a head-to-head battle mode to the *SHINKI-NET* online service to coincide with the marketing of *BUSOU SHINKI* action figures. In services for mobile phones, KONAMI made diverse use of its popular content by offering the video games *QUIZ MAGIC ACADEMY mobile2* and *Winning Eleven CLUB MANAGEMENT* through domestic mobile phone Web sites.

In online video games, the *Yu-Gi-Oh! ONLINE* service released to high acclaim *Yu-Gi-Oh! ONLINE DUEL EVOLUTION*, featuring avatar and chat functions.

### Card Games and Toys

In markets worldwide, we continued developing the *Yu-Gi-Oh! Trading Card Game* series, which has become a mainstay. Moreover, we unveiled *Digiriman* as a new-concept handheld digital toy. Also, in action figures we sought to build on the firm sales of our original content *BUSOU SHINKI* figures by launching a related online service.



BUSOU SHINKI



Yu-Gi-Oh! Trading Card Game

©1996 KAZUKI TAKAHASHI  
©2004 NAS-TV TOKYO

**Close Up** **What Is e-AMUSEMENT?**

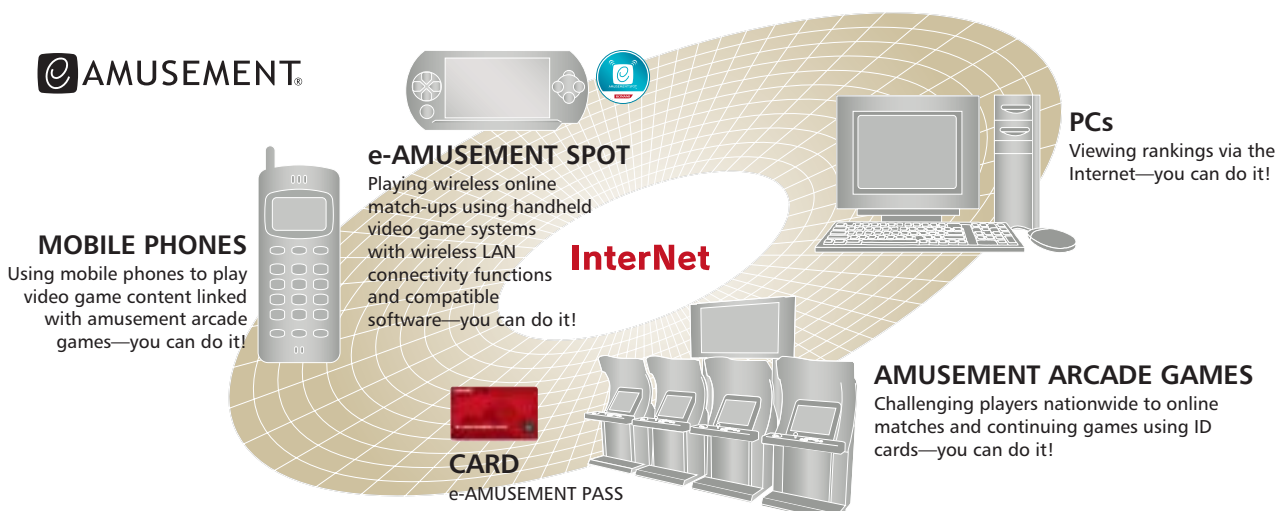
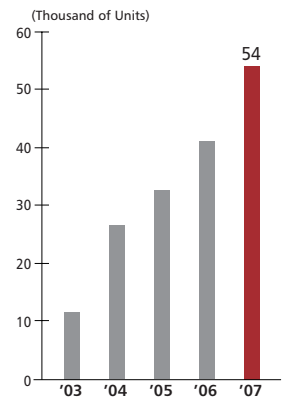
KONAMI pioneered e-AMUSEMENT in the amusement arcade machine market as a service based on the concept of providing an environment that allows customers to play video games with anyone, anytime, and anywhere. Because KONAMI's e-AMUSEMENT-enabled arcade machines around Japan are linked online, players can compete against opponents in different regions as well as view their nationwide rankings in real time. Also, we are introducing the e-AMUSEMENT service across Asia following the establishment of online networks in Hong Kong and Taiwan.

Moreover, by using the e-AMUSEMENT PASS, an IC-chip-embedded ID card, players can continue a game where they previously stopped at a different time and place. Further, we are developing a range of services that reach beyond amusement arcades to heighten customer convenience. For example, we offer a service that allows users to play video game content linked to amusement arcade games via mobile phones as well as a PC service to view rankings.

Recently, we have begun the e-AMUSEMENT SPOT service that enables users to enjoy wireless online head-to-head playing. Installed in amusement arcades and large leisure facilities, e-AMUSEMENT SPOT is a new wireless LAN connectivity service. By combining compatible software and a handheld video game system with a wireless LAN connection function, such as PlayStation Portable, to an e-AMUSEMENT SPOT users can enjoy playing wireless online match-ups as well as view amusement arcade game data and nationwide rankings.

This onslaught of innovations has spurred sales of e-AMUSEMENT-enabled arcade machines, with installations passing the 50,000-machine mark in fiscal 2007—more than five times the number of machine installations at the end of fiscal 2003, when the e-AMUSEMENT initiative had just started. The number of installations continues growing. For KONAMI, as well as higher revenues, increased sales of e-AMUSEMENT-enabled arcade machines secure a stable source of revenues from online connection fees.

**Number of e-AMUSEMENT Machines Installed**



MAH-JONG FIGHT CLUB 6



BASEBALL HEROES 2

Approved by NPB. Usage of NPB BIS Professional Baseball Records. Approved by 13 franchised Baseball Stadiums.

# Health & Fitness Segment

## Moving Up

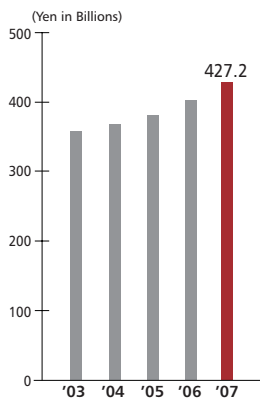
— Preparing to Take Further Strides Forward —

Under the themes of exercise, well-being, and nutrition, KONAMI is leading the way in the development of a range of products and services related to health and fitness.



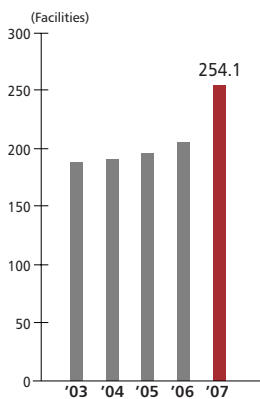
**Toshimitsu Oishi**  
Konami Sports & Life Co., Ltd.  
President

### Sales in Domestic Fitness Club Market



Source: Fitness Club Business Japan 2006

### Number of Fitness Club Facilities in Japan



Source: Fitness Club Business Japan 2006

In the Health & Fitness Segment, we have improved the profitability of directly managed facilities significantly in the past few years by carrying out a scrap-and-build strategy for fitness clubs while heightening their operational efficiency. Further, we have laid operational foundations that are enabling much more aggressive business development. In these initiatives, we are taking advantage of the growing interest in health as Japanese society ages and the baby boomer generation reaches retirement. As a result, in fiscal 2007 we achieved sharp increases in revenues and earnings.

Until now, the segment expanded business mainly by adding value to its sports clubs in Japan's fitness club market, which accounts for annual revenues of more than ¥400 billion. However, KONAMI's core competences are not restricted to the operation of numerous sports clubs throughout the country; we also plan and produce fitness machines and nutritional supplements in-house. Moreover, we are able to test the efficacy of these products at fitness clubs and reflect the outcomes of marketing efforts in the development of subsequent products. This process, or business model, is another facet of our core competences. In the health and fitness industry, KONAMI is the only company with such a business model. KONAMI's basic strategy in this segment is to exploit advantages to the fullest to develop and market health and fitness related products and services with even higher added value.

Therefore, guided by the themes of exercise, well-being, and nutrition, we will bring our core competence to bear on the innovative development of a wide array of health and fitness related products and services and expand our business areas in the health and fitness industry as a whole.

### Market Conditions

Acting as a tailwind, such social trends as the increasing amount of leisure time among the population due the advent of an aging society and the retirement of the baby boomer generation are generating significantly stronger demand for the services of the Health & Fitness Segment. Further, interest in the prevention of such lifestyle-related diseases as metabolic syndrome is increasing due to the June 2006 enactment of a health care reform law that stresses the importance of disease prevention. Related health maintenance initiatives



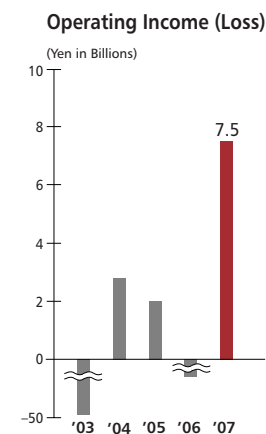
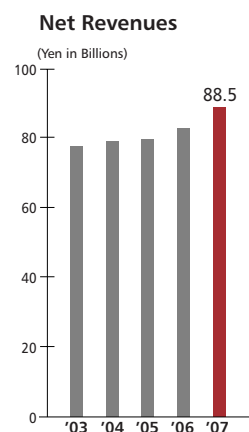
centered on encouraging regular exercise and improving diets have begun in earnest. As a result, demand is burgeoning for health-related products and services, including fitness clubs and nutritional supplements. In addition, greater health consciousness is prevalent among people in their 40s and over. Against this backdrop, the fitness club market continues to expand steadily, and the overall market for health and fitness products and services, including fitness machines for seniors, home fitness products, and nutritional supplements, promises further strong growth.

### ■ Fiscal 2007 Performance

In fiscal 2007, the Health & Fitness Segment recorded an 8.9% rise in net revenues, to ¥88.5 billion. The segment achieved operating income of ¥7.5 billion, compared with an operating loss of ¥17.1 billion in the previous fiscal year, which was due to the impairment loss of tangible and intangible fixed assets. As a result, the segment realized significant increases in revenues and earnings, posting new records for net revenues and operating income.

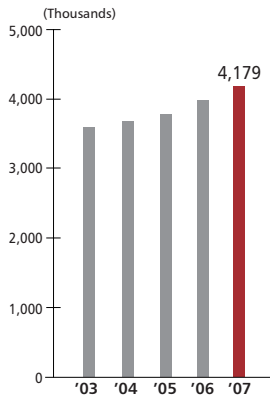
Net revenues grew on the back of further efforts to establish large fitness clubs near railway stations and in other prime locations, increased membership of fitness clubs stemming from strengthened initiatives to offer services that enhance customer satisfaction, higher membership fees per member, and growth in revenues other than membership fees. In an effort to offer services that heighten member satisfaction, we improved and expanded such appealing pay programs as the lifestyle disease prevention program *6WEEKS* and the *Biometrics* diet program. Moreover, we continued to introduce our original IT enabled health management system *e-XAX* in fitness clubs.

Aside from the effect of higher net revenues, the upturn in operating income mainly resulted from a significant improvement in the profitability of directly managed facilities. We achieved this by bolstering a scrap-and-build strategy carried out in the past several years, increasing the operational efficiency of fitness clubs, and revamping pay programs. Also, operations for managing fitness clubs on behalf of companies and local public-sector organizations as well as local support operations, in which we dispatch personnel from Konami sports clubs to provide exercise instruction on behalf of municipal authorities, grew favorably and contributed positively to the segment's business results.



## Health &amp; Fitness Segment

Number of Fitness Club Members



Source: Fitness Club Business Japan 2006

As of March 31, 2007, the segment had 208 directly managed facilities, and membership of directly managed facilities was up 3.0%, to 989,512 members. Sports facilities outsourced to KONAMI increased by 37, to 104 facilities.

Further, aiming to expand our lineup of health-related devices, we made Combi Wellness Corporation into a wholly owned subsidiary by acquiring all its outstanding shares in May 2006. Our new subsidiary manufactures and markets health care products, fitness machines, and nursing-care products.

### ■ Growth Strategy

The segment will embark on a strategy of expanding into a wide variety of business areas in the health and fitness industry. To this end, in addition to its long-standing operation of fitness clubs, the segment will expand its product development capabilities and strengthen marketing capabilities to increase product sales.

Amid growing interest in health, we will strive to step up sales of such health-related products as commercial-use fitness machines, home-use fitness products, nutritional supplements, and health maintenance machines for seniors. In addition to marketing through Konami sports clubs, we will promote sales through such far-reaching channels as convenience stores and through the Internet on such Web sites as *KONAMI SPORTS-CLUB ONLINE*.

Further, we will extend the penetration of our services by increasing the operation of fitness clubs and the provision of exercise instruction on behalf of municipal authorities as well as strengthening our tie-ups with a range of facilities, including resort, recreation, and hot spring spa facilities.

In the operation of fitness clubs, we will continue to develop and improve facilities and equipment while adhering to the fundamentals of safety, cleanliness, and comfort. We will also improve fitness clubs by expanding and enhancing our menu of pay programs, introducing e-XAX to additional sports clubs, offering such digital studio programs as *GROOVE MOTION DDR*, and developing the skills of our personnel. We hope these efforts will attract further members and foster member loyalty.

With societal demand becoming heavier for the services of the Health & Fitness Segment due to the graying of Japanese society and the need to prevent lifestyle-related diseases and maintain the health of seniors, KONAMI will optimally and rapidly leverage long-cultivated expertise to increase sales of its products and services. These efforts will establish steady profitability in all market sectors, thereby further stabilizing the segment's business results.



AROMA@FITNESS



*Kenshin Keisoku*, a body composition measuring machine that offers stretching exercise functions

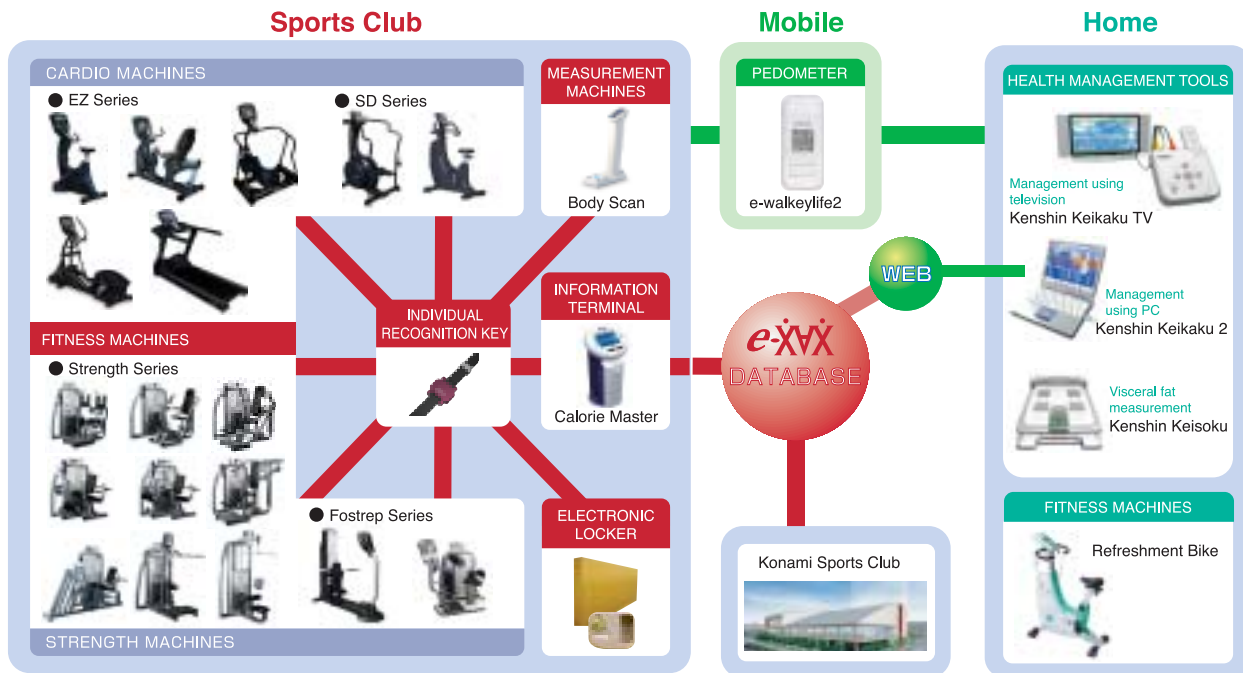


### Close Up Initiatives for Maintaining Health and Popularizing Regular Exercise

#### Proprietary IT Enabled Health Management System e-XAX

Aiming to offer a new type of comprehensive health management that seamlessly becomes a part of everyday life, the KONAMI Group undertook the in-house development of e-XAX as a next-generation network system. Enabling the ongoing management of health improvement data and exercise in a range of different everyday activities—at fitness clubs, at home, and in other locations—this system is a representative example of our strategies to differentiate Konami sports clubs.

At Konami sports clubs, when an individual recognition key—a locker key—is held up to fitness machines or *Body Scan*, a leading-edge body composition measuring machine, these



machines automatically recognize the individual, and the amount of exercise completed using the fitness machine or body composition measurement data is recorded in a database. Further, our customers can keep track of the amount they exercise every day by inputting into the database the *e-walkeylife2* pedometer's record of the number of steps they have taken at home and at other locations. Customers can also view the database via the Internet using their PCs.

Nationwide, approximately 25% of our directly managed facilities, or 56 fitness clubs in 18 prefectures, had introduced the e-XAX system as of March 31, 2007. We plan to introduce the system in stages at all our directly managed facilities in Japan.

### Strengthening and Expanding Original Pay Programs

At Konami sports clubs, we are enhancing and increasing our unique pay programs to offer members further value. Adding to our menu of appealing programs with scientifically proven efficacy contributes to increase in membership, membership fees per member, and revenues other than membership fees. Our flagship program is *6WEEKS*.

A unique program that KONAMI designed to prevent lifestyle-related diseases, *6WEEKS* is targeted toward individuals with concerns regarding high blood pressure, high cholesterol, or high blood sugar levels. Under the program, customers receive one-on-one instruction from our instructors three times a week. Offering customers support in their everyday lives with respect to exercise and diet, the program aims, over six weeks, to improve the lifestyles of middle-aged and senior customers that have unbalanced diets or that do not exercise on a regular basis. The feedback that we have received from customers using the program has been very positive.



# Gaming & System Segment

# Moving Up

— Preparing to Take Further Strides Forward —

We will cater to the worldwide growth of gaming markets.



**Satoshi Sakamoto**

Konami Gaming, Inc. (Americas)  
Konami Australia Pty Ltd (Australia)  
President

The Gaming & System Segment has established solid sales bases in mainstay markets in North America and Australia following the acquisition of casino licenses in 8 states in Australia, 27 states in the United States, and 6 provinces in Canada.

Regarding overall conditions in casino markets worldwide, two defining trends are the incorporation of information technology and globalization. North American casino operators are in large part driving up globalization by making forays into markets worldwide to tap the vigorous growth expected in new markets in Asia, Europe, and South America.

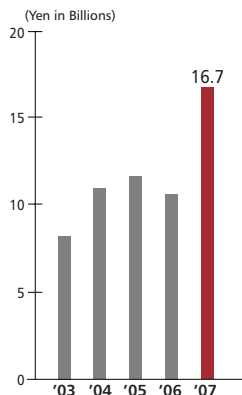
In response to globalization and the increasing adoption of information technology, KONAMI has developed a production and sales system centered on operating bases in North America and Australia that provides a stable supply of high-quality products and services to casino markets worldwide. Also, having completed a round of investment to establish operational foundations through the acquisition of licenses and the development of production and sales bases, we are poised to shift toward more aggressive management that will further expand the segment's business.

Going forward, we will make maximum use of these operational foundations by expanding information sharing and business collaborations among operating bases to cater to the growth of gaming markets worldwide. By providing novel gaming machines and casino management machines that feature leading-edge technologies, we will build an unshakable standing as a dependable supplier in casino markets all over the world.

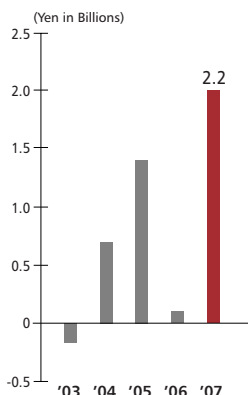
## Market Environment

The casino market promises further growth. Casinos are legal in more than 130 countries and regions, and this number increases annually as authorities seek the tax revenue and employment creation benefits that casinos bring to local economies. In estimated global gaming machine unit sales by country or continent, North America accounted for roughly 60%, Australia, 20%; South America, 10%; Europe, 7%; Asia, 1%; and Africa, 1%. The largest market, North America continues to show robust growth due to a shortening of machine replacement cycles, the expansion of existing casinos, and an increasing number of states in which casinos are legal. The size of Australia's casino market, the world's second largest, remains stable due to the establishment of a ceiling on the number of gaming machines that can be installed in major states and moves toward an amendment of the tax system.

### Net Revenues



### Operating Income (Loss)



## ■ Fiscal 2007 Performance

In fiscal 2007, the business segment achieved new records for net revenues and operating income, with increases of 57.6% in net revenues, to ¥16.7 billion, and 3,516.7% in operating income, to ¥2.2 billion. This significant jump in operating income resulted from the completion of a round of investment needed for license acquisition and the development of production and sales bases.

In North America, the new platform K2V registered favorable machine sales and penetrated the market. Sales of the *KONAMI Casino Management System* remained upbeat, and monthly revenues from maintenance and other related services grew as we connected additional machines in Canada. As we install machines, our earnings structure becomes even more stable since we receive regular income in line with the number of machines installed based on profit-sharing agreements. Further, initial sales were brisk and continued to grow in newly opened markets in such U.S. states as Oklahoma, Pennsylvania, and Rhode Island.

In response to the maturity and stability of the Australian market, we enhanced services for existing customers in Australia while launching initiatives to acquire new customers and develop new markets in Australia and overseas.

## ■ Growth Strategy

Presently, globalization and the introduction of information technology through technological innovations characterize the casino market. Regarding globalization, casino markets around the world will likely see stepped-up growth, with the North American market leading the way. Because overseas business development by casino operators based in North America is expected to set the pace for globalization, strengthening our operational foundations in North America and catering to North American-style casinos are pressing issues. In products, we expect the increased use of information technology in slot machines will lead to a shift in demand away from self-contained slot machines toward network-based casino management systems that link slot machines to heighten their efficiency and dynamism.

To cater to globalization and the increasing prevalence of information technology, in 2005 we built an office building and plant in Las Vegas in the United States to strengthen our production and sales bases for the North American market. At the same time, this new facility has raised production capacity, thus enabling us to provide casino markets worldwide with a stable supply of high-quality products and services.

As globalization of the casino industry continues, Asian casino markets will likely experience particularly rapid growth. KONAMI has met stringent license acquisition requirements in the United States, a country with a sophisticated casino industry. Therefore, we are confident that we can draw on this experience and track record to replicate the successes in Asian markets that North America casino operators enter.

Moreover, numerous North American casino operators hold KONAMI gaming machines and casino management systems in high regard. This reputation stems from the superiority of our line-ups, which are based on the outstanding durability and entertainment value offered by our gaming machines and our ability to develop readily extendable management systems that incorporate state-of-the-art technologies. We are certainly positioned to continue giving full play to these advantages in the future. Also, we have built a reputation in the casino market as a reliable supplier, and a growing number of casinos in the North American market are introducing our systems.

Aiming to develop the Gaming & System Segment as a global venture, we will fully exploit our operational foundations while promoting further information sharing and business collaborations among operating bases to cater to growing casino markets worldwide. By supplying gaming machines and casino management systems that earn the trust of casino operators around the world, KONAMI will reinforce its status in casino markets worldwide as a reliable supplier.



*Mega Wild*



*Egyptian Prince*



*Eleven Pearls*



Noriaki Yamaguchi: CFO, KONAMI Group

Our fundamental management philosophy calls for maintaining a shareholder-driven approach to management and sound relationships with all stakeholders while fulfilling our obligations as a responsible corporate citizen. Based on stringent corporate governance systems, we always ensure strict compliance. At the same time, the Company undertakes activities to contribute to society in ways that reflect KONAMI's identity.

### ■ Corporate Governance

KONAMI is strengthening corporate governance to realize open and transparent management, which is essential to upholding its overriding management philosophy and developing favorable, trusting relationships with stakeholders. Further, we are cultivating a corporate culture that discourages impropriety by fostering a uniform awareness of compliance and a strong sense of ethics among employees.

#### • Measures in Response to the U.S. Sarbanes-Oxley Act

Establishing sound corporate governance is essential for companies to maintain favorable relationships with all stakeholders and earn trust as a good corporate citizen. Since our 2002 listing on the New York Stock Exchange—which has the most stringent listing standards—we have developed systems in response to the U.S. Sarbanes-Oxley Act, enacted with a view to strengthening regulations for corporate governance and disclosure. In particular, the construction of concrete internal control systems was required in fiscal 2007, and the Company made concerted efforts to develop internal controls. As a result of these system-building efforts, the Company constructed functional systems to prevent improprieties and errors. The Company will continue to heighten the accuracy of these systems.

#### • Acquisition and Renewal of Gaming Licenses

In 2000, KONAMI became the first Japanese company to obtain a license from the state of Nevada, in the United States, for the manufacture and sale of casino gaming machines. As of March 2007, we had obtained licenses in 33 states and provinces in North America. These licenses not only entail thorough investigations of companies but also require strict compliance by individual executives.

To maintain the Company's listing on the New York Stock Exchange and licenses to manufacture casino gaming machines, KONAMI must thoroughly educate all employees on the importance of compliance and the construction of internal control systems. We will continue strengthening corporate governance as we go forward.

## ■ The KONAMI Group's Social Contribution Activities

In line with its corporate philosophy of contributing to society as a good corporate citizen, KONAMI and its related foundations support a variety of activities undertaken by sports and cultural organizations.

### Support for Sports Activities

#### ● Special Sponsorship of the KONAMI CUP Asia Series 2006

KONAMI supported the internationalization of Japanese and Asian baseball by acting as a special sponsor of the KONAMI CUP Asia Series 2006, which was held to determine the champion among teams from four Asian baseball leagues. Under the slogan, "The Pinnacle of Asia, To the World," this officially accredited international tournament is held annually to decide the top team in Asia and promote the development of baseball in Japan and Asia. In continuing its support of the development of baseball, KONAMI will be the special sponsor for the third tournament, which is scheduled for November 2007.



#### ● Support for Japan's Olympic Team

As an official sponsor of the Japanese Olympic Committee (JOC), Konami Sports & Life Co., Ltd. supports the honing of competitors' sporting abilities by allowing athletes that JOC trains for the Olympics and members of the Japanese Olympic team to use KONAMI sports clubs. Aiming to continue our contributions to the growth of sport in Japan, we will support the Japanese Olympic team participating in the 2008 Beijing Olympics.



#### ● KONAMI's "Let's Play Baseball 2007" Series

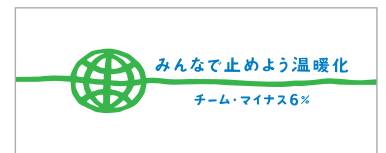
We sponsor KONAMI's "Let's Play Baseball 2007," an elementary school visiting program organized by the Japan Professional Baseball Players Association (JPBPA). JPBPA-accredited instructors hold baseball classes at elementary schools throughout Japan to show children the fun of baseball. Now in its third year, the program enables children to experience the pleasure of throwing and hitting balls. Through such sponsorship, KONAMI supports sports initiatives for children.



### Environment Conservation Activities

#### ● Participation in Team Minus 6%

More than two years have elapsed since the Kyoto Protocol came into force on February 16, 2005. However, global warming is becoming an increasingly serious issue. Under the protocol, Japan has committed to reducing emissions of CO<sub>2</sub> and other greenhouse gases by 6%. As a member of Team Minus 6%, KONAMI will contribute to the protection of the environment by striving to ensure that its operations do not damage the environment.



### Cultural Supportive Activities

#### ● Backing the New National Theatre, Tokyo, and the NHK Symphony Orchestra

As a special sponsor of the New National Theatre, Tokyo, and the NHK Symphony Orchestra, KONAMI is a patron of the arts. We contribute to the popularization of the arts through our support of the NHK Symphony Orchestra and New National Theatre, Tokyo, which hosts a wide range of cultural performances, including opera, ballet, contemporary dance, and theater.

## Board of Directors, Corporate Auditors and Corporate Officers

## The 36th Board of Directors and Corporate Auditors, KONAMI CORPORATION

(As of June 28, 2007)

Position	Name	
Representative Director	Kagemasa Kozuki	
Representative Director	Kagehiko Kozuki	
Representative Director	Noriaki Yamaguchi	
Director	Kimihiko Higashio	
Director (External)	Tomokazu Godai	Chairman, MAYATEC Co., Ltd.
Director (External)	Hiroyuki Mizuno	Director, Hiroshima Prefectural Institute of Industrial Science and Technology (Former Vice President, Matsushita Electric Industrial Co., Ltd.)
Director (External)	Akira Gemma	Senior Advisor, Shiseido Co., Ltd. (Former President, Shiseido Co., Ltd.)
Standing Corporate Auditor (External)	Noboru Onuma	(Former Director, Sumitomo Mitsui Banking Corporation)
Corporate Auditor (External)	Tachio Ohori	Director, Institute for Traffic Accident Research and Data Analysis (Former Superintendent-General of the Metropolitan Police Department)
Corporate Auditor (External)	Masaru Mizuno	Senior Advisor, Japan Tobacco Inc. (Former Commissioner, National Tax Agency, Former Representative Director and President, Japan Tobacco Inc.)
Corporate Auditor (External)	Shogo Sasabe	Senior Advisor, BANDO CHEMICAL INDUSTRIES, LTD. (Former Representative Director and President, BANDO CHEMICAL INDUSTRIES, LTD.)

## Employment History of Newly Appointed Corporate Auditors

## Tachio Ohori

Jan. 1988	Superintendent-General of the Metropolitan Police Department
Jan. 2001	Director, Institute for Traffic Accident Research and Data Analysis (to present)

## Masaru Mizuno

Dec. 1988	Commissioner, National Tax Agency
Jun. 1994	Representative Director and President, Japan Tobacco Inc.
Jun. 2000	Representative Director and Chairman of the Board
Jun. 2005	Senior Advisor (to present)

## Shogo Sasabe

Jun. 1988	Representative Director and President, BANDO CHEMICAL INDUSTRIES, LTD.
Jun. 1998	Representative Director and Chairman of the Board
Jun. 2006	Senior Advisor (to present)

## Corporate Officers, KONAMI CORPORATION

(As of April 1, 2007)

Position	Name	Position	Name
President, Director, CEO	Kagemasa Kozuki	Corporate Officer	Toshimitsu Oishi
Vice President, Director, CFO	Noriaki Yamaguchi	Corporate Officer	Satoshi Sakamoto
Director, CAO	Kimihiko Higashio	Corporate Officer	Shuji Kido
Executive Corporate Officer	Fumiaki Tanaka	Corporate Officer	Shigeo Niwa
Executive Corporate Officer	Kazumi Kitaue	Corporate Officer	Akira Tamai
Executive Corporate Officer	Akihiko Nagata		

■ **Konami Digital Entertainment Co., Ltd.**

Paid-in Capital: ¥26,000 million  
7-2, Akasaka 9-chome, Minato-ku,  
Tokyo 107-8324, Japan  
TEL: 81-3 5771-0573 FAX: 81-3 5412-3310

■ **Konami Sports & Life Co., Ltd.**

Paid-in Capital: ¥11,000 million  
7-2, Akasaka 9-chome, Minato-ku,  
Tokyo 107-8325, Japan  
TEL: 81-3 3746-0573 FAX: 81-3 5412-3380

■ **Konami Real Estate, Inc.**

Paid-in Capital: ¥10,000 million  
7-2, Akasaka 9-chome, Minato-ku,  
Tokyo 107-8326, Japan  
TEL: 81-3 5772-0200 FAX: 81-3 5412-3400

■ **Konami Manufacturing and Service, Inc.**

Paid-in Capital: ¥200 million  
1-1, Higashihara 5-chome, Zama City,  
Kanagawa 228-0004, Japan  
TEL: 81-46 298-0573 FAX: 81-46 256-3404

■ **Combi Wellness Corporation**

Paid-in Capital: ¥285 million  
7-2, Akasaka 9-chome, Minato-ku,  
Tokyo 107-8329, Japan  
TEL: 81-3 5772-0300 FAX: 81-3 5412-3394

■ **Konami Corporation of America**

Paid-in Capital: US\$35.5 million  
1400 Bridge Parkway, Suite 101, Redwood City,  
CA 94065-1567 U.S.A.  
TEL: 1-888-212-0573 FAX: 1-650-654-5690

■ **Konami Digital Entertainment, Inc.**

Paid-in Capital: US\$21.5 million  
2381 Rosecrans Ave., Suite 200, El Segundo,  
CA 90245-4922 U.S.A.  
TEL: 1-310-228-1573 FAX: 1-310-228-4677

■ **Konami Gaming, Inc.**

Paid-in Capital: US\$25 million  
585 Trade Center Drive, Las Vegas,  
NV 89119 U.S.A.  
TEL: 1-702-367-0573 FAX: 1-702-367-0007

■ **Konami Digital Entertainment B.V.**

Paid-in Capital: Euro 9.01 million  
389 Chiswick High Road, Chiswick, London,  
W4 4AL U.K.  
TEL: 44-20-8987-5733 FAX: 44-20-8987-5734

■ **Konami Digital Entertainment GmbH**

Paid-in Capital: Euro 5.11 million  
Bernstr. 103-105, 60437 Frankfurt am Main,  
Germany  
TEL: 49-69-985573-0 FAX: 49-69-985573-62

■ **Konami Digital Entertainment Limited**

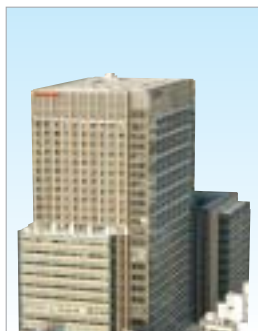
Paid-in Capital: HK\$19.5 million  
Unit 1506, Grand Millennium Plaza,  
No. 181 Queen's Road Central, Hong Kong  
TEL: 852-2956-0573 FAX: 852-2956-2300

■ **Konami Software Shanghai, Inc.**

Paid-in Capital: US\$2 million  
17F Raffles City, No. 268 Xi Zang Zhong Road,  
Shanghai, China 200001  
TEL: 86-21-50470573 FAX: 86-21-63403793

■ **Konami Australia Pty Ltd**

Paid-in Capital: A\$3 million  
28 Lord Street, Botany, NSW, Australia 2019  
TEL: 61-2-9666-5731 FAX: 61-2-9666-3695



Konami Digital Entertainment Co., Ltd.  
Konami Sports & Life Co, Ltd.



Konami Gaming, Inc.

# AR 07 KONAMI Milestones

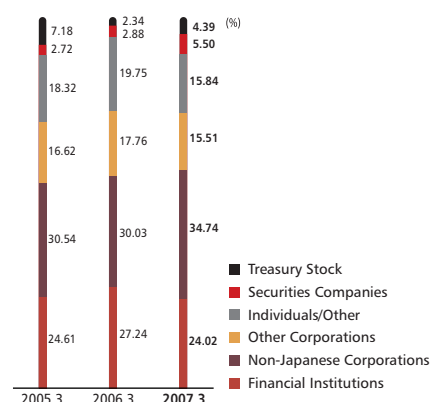
Mar. 1969	Kagemasa Kozuki (current Chairman of the Board and Chief Executive Officer) founded a jukebox rental and repair business at 148 Kozushima, Toyonaka, Osaka.
Mar. 1973	KONAMI INDUSTRY CO., LTD., (KONAMI) was established at 3-124-1 Meishinguchi, Toyonaka, Osaka, with capital of ¥1 million. KONAMI began to manufacture amusement machines for arcades.
Jan. 1978	KONAMI created and began to market video games using microcomputers.
Jun. 1979	KONAMI exported products to the U.S. for the first time (marked the first step towards expansion into the U.S.).
May 1980	Headquarters was transferred to the newly constructed office building at 2-11-1 Shonai-Sakaemachi, Toyonaka, Osaka.
Mar. 1982	KONAMI entered the toy game business. Headquarters was transferred to Osaka Ekimae Daiyon Building at 1-11-4 Umeda, Kita-ku, Osaka.
Oct. 1982	KONAMI entered the PC game business.
Nov. 1982	Konami of America, Inc. (currently Konami Digital Entertainment, Co., Ltd.) was established in the US.
Mar. 1984	Construction was completed on the new building for the Technology Development Center in Toyonaka, Osaka.
May 1984	Konami Ltd. (currently Konami Digital Entertainment B.V.) was established in the U.K.
Oct. 1984	KONAMI was listed on the Second Section of the Osaka Securities Exchange (specially designated stocks in the second section) and increased capital to ¥2.94 billion.
Dec. 1984	Konami GmbH (currently Konami Digital Entertainment GmbH) was established in Germany.
Apr. 1985	KONAMI entered the Nintendo ENTERTAINMENT SYSTEM (called "FAMILY COMPUTER" in Japan) game business.
Aug. 1986	Headquarters was transferred to the newly constructed Konami Software Development Building (currently Kobe Building) at 7-3-2 Minatojima-Nakamachi, Chuo-ku, Kobe, Hyogo.
Oct. 1986	Construction was completed on the new building for the production control department and distribution center in Toyonaka, Osaka.
Dec. 1987	Konami Kosan Co., Ltd. (currently Konami Real Estate, Inc.), was established.
Feb. 1988	KONAMI was listed on the Second Section of the Tokyo Stock Exchange.
Aug. 1988	KONAMI was listed on the First Section of the Tokyo Stock Exchange and the Osaka Securities Exchange.
May 1991	Construction was completed on the Konami Technology Development Center (currently Kobe Office) in Nishi-ku, Kobe, Hyogo.
Jun. 1991	KONAMI INDUSTRY CO., LTD., changed its trade name to KONAMI CO., LTD.
Jun. 1992	The Tokyo Headquarters was set up at 4-3-1 Toranomom, Minato-ku, Tokyo.
Aug. 1994	Construction was completed on the Tokyo Technical Center (currently Zama Office) in Zama, Kanagawa.
Sep. 1994	Konami (Hong Kong) Limited (currently Konami Digital Entertainment Limited) was established in Hong Kong.
Dec. 1994	KONAMI entered the PlayStation game business.
Jan. 1995	The Kobe Building in Minatojima, Chuo-ku, Kobe, received some damage due to the Great Hanshin-Awaji Earthquake.
Apr. 1995	Konami Computer Entertainment Osaka Co., Ltd. (merged with KONAMI in April 2005), was established. Konami Computer Entertainment Tokyo Co., Ltd. (merged with KONAMI in April 2005), was established.
Dec. 1995	Konami Music Entertainment Co., Ltd. (merged with KONAMI in April 2005), was established.
Apr. 1996	Konami Computer Entertainment Japan Co., Ltd. (merged with KONAMI in April 2005), was established.
May 1996	KONAMI shifted to an organization based on business divisions.
Nov. 1996	US holding company, Konami Corporation of America was established in the US. Konami Australia Pty Ltd was established in Australia.
Jan. 1997	Konami Gaming, Inc. was established in the US.
Mar. 1997	Konami Computer Entertainment School Co., Ltd. (Konami School, Inc., merged with Konami Digital Entertainment Co., Ltd., in April 2007), was established. Construction was completed on the Amusement Machine Division Plant (currently merged with Kobe Office) in Kobe, Hyogo.
Apr. 1997	Control of domestic sales was transferred to 12 regional KONAMI distributing agents.
Nov. 1997	KONAMI was listed on the Singapore Exchange. European holding company, Konami Europe B.V. (currently Konami Digital Entertainment B.V.), was established in the Netherlands.
Feb. 1999	KONAMI entered the card game business and released the <i>Yu-Gi-Oh! TRADING CARD GAME</i> .
Jun. 1999	Konami Parlor Entertainment Co., Ltd. (currently KPE, Inc.), began to create, manufacture, and market LCD games for pachinko manufacturers.
Sep. 1999	KONAMI was listed on the London Stock Exchange.
Dec. 1999	The registered office of KONAMI was transferred to 4-3-1 Toranomom, Minato-ku, Tokyo, from Kobe, Hyogo.
Jan. 2000	KONAMI obtained a license from Nevada, U.S.A., to manufacture and sell gaming machines. KONAMI became the first Japanese company to enter the world's largest gaming machines market, in the US.
Jun. 2000	Konami Software Shanghai, Inc., was established in China.
Jul. 2000	The corporate name was changed from KONAMI CO., LTD., to KONAMI CORPORATION. KONAMI invested in TAKARA CO., LTD., and made it an affiliated company.
Oct. 2000	Konami Marketing, Inc. (merged with KONAMI in October 2005), was established and took control of the sales department of KONAMI.
Nov. 2000	Konami Parlor Entertainment, Inc. (currently KPE, Inc.), passed a type test for pachinko slot machines issued by the Security Electronics and Communications Technology Association.

Feb. 2001	PEOPLE CO., LTD., became a subsidiary through a friendly TOB (takeover bid) (currently Konami Sports & Life Co., Ltd.).
Mar. 2001	The Zama Office of Konami Parlor Entertainment, Inc. (currently KPE, Inc.), was registered as a manufacturer of pachinko slot machines with The Japan Crime Prevention Association.
	NAPS CORPORATION became a wholly owned subsidiary (Konami Sports & Life Co., Ltd., and merged with Konami Sports Corporation in February 2006).
Jun. 2001	PEOPLE CO., LTD., changed its trade name to Konami Sports Corporation.
	Konami (Hong Kong) Limited changed its trade name to Konami Marketing (Asia) Limited.
	Konami Sports Corporation acquired entire stake in NISSAN SPORTS PLAZA, CO., LTD., and made it a subsidiary (merged with Konami Sports Corporation in January 2003).
Aug. 2001	Konami Gaming, Inc., acquired entire stake in Paradigm Gaming Systems, Inc. and made it a subsidiary that was subsequently absorbed into Konami Gaming, Inc.
	KONAMI invested in HUDSON SOFT CO., LTD., and made it an affiliated company.
Sep. 2001	KONAMI donated the Konami Multimedia Hall to Osaka Electro-Communication University (Neyagawa, Osaka).
Oct. 2001	Konami Mobile Online, Inc. (merged with KONAMI in April 2005), was established.
	Eleven Konami distributing agents nationwide were merged together and absorbed into Konami Marketing, Inc.
Jan. 2002	KONAMI invested in Genki Co., Ltd., and made it an affiliated company.
Feb. 2002	Konami Sports Corporation transformed Daiei Olympic Sports Club, Inc., into a subsidiary through a share purchase (merged with Konami Sports Corporation in October 2002).
Mar. 2002	KONAMI launched e-AMUSEMENT (online service for arcade machines).
May 2002	The operation of amusement facilities was transferred to AmLead Co., Ltd.
Aug. 2002	Headquarters was transferred to 2-4-1 Marunouchi, Chiyoda-ku, Tokyo.
Sep. 2002	KONAMI was listed on the New York Stock Exchange.
Nov. 2002	Konami Parlor Entertainment, Inc., changed its trade name to KPE, Inc.
Mar. 2003	Konami Sports Corporation acquired entire stake in NISSAY ATHLETICS COMPANY and made it a subsidiary (merged with Konami Sports Corporation in May 2003).
Apr. 2003	KONAMI acquired stake in Traumer, Inc., and made it a subsidiary (merged with KONAMI in June 2005).
Oct. 2003	KONAMI was added to the Nikkei Stock Average (Nikkei 225).
	Konami of America, Inc., changed its trade name to Konami Digital Entertainment, Inc.
Mar. 2005	KONAMI dissolved its capital tie-up with Genki Co., Ltd.
Apr. 2005	Konami Computer Entertainment Studios, Inc., Konami Computer Entertainment Tokyo, Inc., Konami Computer Entertainment Japan, Inc., Konami Online, Inc., and Konami Media Entertainment, Inc. were merged together and absorbed into KONAMI.
	KONAMI dissolved capital ties with and sold all shares in TAKARA CO., LTD.
	KONAMI accepted new third-party shares issued by HUDSON SOFT CO., LTD., and made it a consolidated subsidiary.
Jun. 2005	Construction was completed on the new offices and production facility for casino machines in Las Vegas, Nevada, U.S.A.
Oct. 2005	Konami Marketing Japan, Inc., divided its distribution and customer service departments and established Konami Logistics and Service, Inc.
	Konami Marketing Japan, Inc., was merged with and absorbed into KONAMI.
	Konami Marketing, Inc., was merged with and absorbed into Konami Digital Entertainment, Inc.
	KONAMI was selected as the supplier of casino management systems in Quebec, Canada, and concluded a sales agreement.
Feb. 2006	Internet Revolution, Inc., was established as a joint venture company with Internet Initiative Japan Inc.
	Konami Sports Life Corporation was merged with and absorbed into Konami Sports Corporation.
Mar. 2006	Konami Sports Corporation became a wholly owned subsidiary through a share exchange.
	Konami Marketing (Asia) Limited changed its trade name to Konami Digital Entertainment Limited.
	KONAMI acquired capital in Resort Solution Co., Ltd. (equity method affiliate and business alliance).
	Konami of Europe GmbH changed its trade name to Konami Digital Entertainment GmbH.
	Konami Corporation of Europe B.V. changed its trade name to Konami Digital Entertainment B.V.
	Konami Digital Entertainment Co., Ltd., was newly established to take over KONAMI's digital entertainment business and KONAMI shifted to a pure holding company.
	Konami Sports Corporation changed its trade name to Konami Sports & Life Co., Ltd.
May 2006	KONAMI acquired entire stake in Combi Wellness Corporation and made it a subsidiary.
Jul. 2006	The manufacturing department of Konami Digital Entertainment Co., Ltd., was transferred to Konami Logistics and Service, Inc., and changed its trade name to Konami Manufacturing and Service, Inc.
Oct. 2006	KONAMI acquired entire stake in Megacyber Corporation (merged with Konami Digital Entertainment Co., Ltd. in April 2007) and made it a subsidiary.
Apr. 2007	Konami School, Inc., Konami Career Management, Inc. and Megacyber Corporation were merged together and absorbed into Konami Digital Entertainment Co., Ltd.
	Headquarters was transferred to Midtown East, 9-7-2, Akasaka, Minato-ku, Tokyo.
	The offices of Konami group in Tokyo moved together to "Tokyo Midtown".

### Common Stock

- Authorized: 450,000,000 shares
- Outstanding: 143,555,786 shares  
(including 6,300,970 treasury shares)
- Number of Shareholders: 52,718

### Composition of Shareholders



### Principal Shareholders

Shareholder's Name	Shares (Thousands)	% of Total
Kozuki Foundation For Sports and Education	14,330	9.98
Kozuki Holding B.V.	13,530	9.42
THE MASTER TRUST BANK OF JAPAN, LTD. (TRUST ACCOUNT)	9,238	6.44
JAPAN TRUSTEE SERVICES BANK, LTD. (TRUST ACCOUNT)	8,581	5.98
Kozuki Capital Corporation	7,036	4.90
KONAMI CORPORATION	6,300	4.39
The Chase Manhattan Bank N.A. London	4,963	3.46
SUMITOMO MITSUI BANKING CORPORATION	4,135	2.88
BNP PARIBAS SECURITIES (JAPAN) LTD.	3,488	2.43
State Street Bank and Trust Company	2,417	1.68
CALYON DMA OTC	2,312	1.61
Deutsche Securities Inc.	2,114	1.47
NOMURA SECURITIES CO., LTD.	1,836	1.28
TRUST & CUSTODY SERVICES BANK, LTD. (INVESTMENT TRUST ACCOUNT)	1,765	1.23
JAPAN TRUSTEE SERVICES BANK, LTD. (TRUST ACCOUNT 4)	1,535	1.07
KONAMI SHAIN MOCHIKABUKAI	1,362	0.95
CREDIT SUISSE SECURITIES LIMITED	1,356	0.95
Moxley and Company	1,167	0.81
Societe Generale Paris O.B.E. Dept	1,108	0.77
Morgan Stanley & Co. Inc.	1,107	0.77

<b>Company Name:</b>	KONAMI CORPORATION
<b>Founded:</b>	March 21, 1969
<b>Incorporated:</b>	March 19, 1973
<b>Paid-in Capital:</b>	¥47,399 million
<b>Representative:</b>	Kagemasa Kozuki, Chairman of the Board and Chief Executive Officer
<b>Headquarters:</b>	7-2, Akasaka 9-chome, Minato-ku, Tokyo 107-8323, Japan TEL: 81-3-5770-0573 FAX: 81-3-5412-3300
<b>Employees:</b>	Consolidated: 5,181
<b>Principal Businesses:</b>	<ul style="list-style-type: none"><li>■ Digital Entertainment Segment<ul style="list-style-type: none"><li>• Production, manufacture, and sale of home video game software. Purchase and distribution of home video game software produced by third parties.</li><li>• Planning, production, and sale of card games, electronic toys, toys for boys, candy toys, action figures, character goods, and other products.</li><li>• Production, manufacture, and sale of content for amusement arcades, such as video games and token-operated games.</li><li>• Production of online games. Creation of systems for online games. Management and operation of online servers. Production and distribution of content for mobile phones.</li><li>• Planning, production, and sale of products related to music and video. Planning, production, and sale of books and magazines.</li></ul></li><li>■ Health &amp; Fitness Segment<ul style="list-style-type: none"><li>Management of sports clubs.</li><li>Production, manufacture, and sale of fitness machines and health-related products.</li></ul></li><li>■ Gaming &amp; System Segment<ul style="list-style-type: none"><li>Development, manufacture, and sale of gaming machines for casinos and casino management systems and provision of related services.</li></ul></li></ul>
<b>Home Page:</b>	URL: <a href="http://www.konami.co.jp/en">www.konami.co.jp/en</a>

**KONAMI**



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