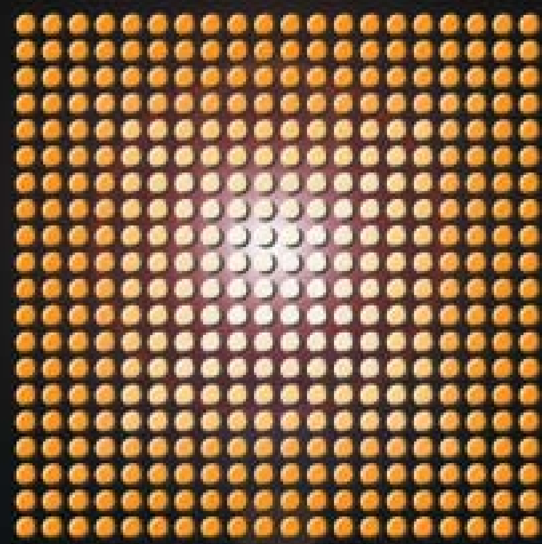


KONAMI

ANNUAL REPORT 2002

For the year ended March 31, 2002

KONAMI CORPORATION

PROFILE

KONAMI CORPORATION was founded in Osaka in 1969 by Kagemasa Kozuki, who currently serves as Chief Executive Officer. Originally named Konami Industry Co., Ltd., KONAMI began manufacturing amusement machines in 1973.

In the following years, we successively produced video game machines based on microcomputers, as well as video game software for personal computers and game consoles, combining hardware with software technologies to create leading-edge amusement scenarios.

Our shares were listed on the first section of the Tokyo Stock Exchange and the Osaka Securities Exchange in 1988. In 1991, KONAMI assumed its current name, establishing its Tokyo headquarters in the following year. Our shares were listed on the Stock Exchange of Singapore in 1997 and the London Stock Exchange in 1999.
In September 2002, we listed on the New York Stock Exchange (NYSE).

We are strengthening and making the most of our brand image and contents, and promoting well-balanced and diversified businesses. In this way, we will continue moving forward as a global entertainment enterprise.

CONTENTS

CAUTIONARY STATEMENT WITH RESPECT TO FORWARD-LOOKING STATEMENTS

Statements made in this report with respect to KONAMI's current plans, estimates, strategies and beliefs, including any forecasts, are forward-looking statements about the future performance of KONAMI. These statements are based on management's assumptions and beliefs in light of information currently available to it and, therefore, you should not place undue reliance on them. A number of important factors could cause actual results to be materially different from and 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 successfully expand internationally with a focus on 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.

Consolidated Financial Highlights (U.S. GAAP)

KONAMI CORPORATION AND CONSOLIDATED SUBSIDIARIES   Years ended March 31, 2002 and 2001

	(Yen in millions and U.S. dollars in thousands, except per share data)		
	2001 (Note 1)	2002	2002
Income Statement Data:			
Net revenues	¥171,481	¥225,580	$1,692,908
Cost of revenues	103,068	154,651	1,160,608
Selling, general and administrative expenses	30,502	52,842	396,563
Operating income	37,911	18,087	135,737
Other income (expenses), net	2,924	4,591	34,454
Income before income taxes and minority interest (Note 2)	40,835	22,678	170,191
Income taxes	19,203	11,667	87,557
Minority interest in income of consolidated subsidiaries	420	364	2,732
Equity in net income of affiliated companies	356	755	5,666
Net income	¥ 21,568	¥ 11,402	$ 85,568
Basic and diluted net income per share	¥ 189.04	¥ 89.32	$ 0.67
Cash dividends per share (Note 3)	¥ 54.00	¥ 54.00	$ 0.41
Balance Sheet Data:			
Total current assets	¥124,852	¥142,055	$1,066,079
Total assets	293,830	328,091	2,462,221
Total current liabilities	80,350	79,548	596,983
Total long-term liabilities	36,754	77,637	582,642
Total shareholders' equity	145,151	134,990	1,013,058

Notes: (1) In February 2001, we acquired 54.64% of the issued and outstanding shares of People Co., Ltd., a sports club operator in Japan, for total cash consideration of ¥69,415 million. The acquired company was then renamed Konami Sports Corporation. The assets, liabilities and results of operations of Konami Sports Corporation have been included in our consolidated financial statements since the acquisition date. See note 2 to the consolidated financial statements.

(2) Under U.S. GAAP, income before income taxes does not include equity in net income/losses of affiliated companies.

(3) Cash dividends per share have been adjusted to reflect the stock splits by way of free distributions made on May 19, 2000.

(4) The translations of Japanese yen amounts into U.S. dollar amounts are included solely for the convenience of readers outside Japan, and have been made at the rate of ¥133.25 to U.S.$1, the approximate rate of exchange on March 29, 2002.

We will continue moving forward as a global entertainment enterprise.

The environment surrounding the entertainment industry, in which KONAMI CORPORATION operates, has recently been experiencing rapid change. With the swift progress in digital technology, many areas that have been traditionally considered independent, such as games, film, music, sports, toys, publishing and communications, are creating an emerging new world through industry integration and consolidation. New possibilities that combine the fields of sports, fitness, health and education with the entertainment industry have been developing. At the same time, consumers have been making careful choices, and there is increasing polarization between products that sell and those that do not.

For KONAMI to respond to these developments while maintaining sustainable corporate growth, we believe that it is necessary to diversify and improve our corporate strategy, as well as strengthen our corporate structure. While striving to achieve such objectives as increased production, selling and financial power, KONAMI will aim to improve the power of its brand strength. Below, Kagemasa Kozuki, Chief Executive Officer, outlines KONAMI's performance in fiscal 2002, the year ended March 31, 2002. Also discussed are business strategies for the future, financial policies and other important matters.

Q1 What measures were addressed during fiscal 2002, and what were the results for the period?

A Consolidated net sales of KONAMI Group increased 31.5% to ¥225,580 million compared with the previous term. In the Character Products (CP) Business segment, sales of the Yu-Gi-Oh! official card game, which made a significant contribution in the preceding term, decreased significantly. However, in the Consumer Software (CS) Business segment, we launched a number of big titles, including METAL GEAR SOLID 2: SONS OF LIBERTY for PlayStation 2, which sold approximately 5 million copies worldwide, bringing sales of KONAMI titles to a record high 20.3 million copies. With the contribution of sales made by Konami Sports Corporation (formerly PEOPLE CO., LTD.), which joined the KONAMI Group in February 2001, Health & Fitness (HF) Business segment sales have also grown considerably during the fiscal year under review.

Conversely, consolidated operating income dropped 52.3% to ¥18,087 million. Although sales increased significantly in the CS Business segment and the

HF Business segment, this was unable to offset declining sales of the highly profitable Yu-Gi-Oh! official card game, leading to a decline in operating income.

In other income, KONAMI posted ¥3,526 million gain on revaluation of share holdings in Konami Computer Entertainment Japan, Inc. (Konami JPN), a subsidiary engaged in the production of video game software, in connection with its initial public offering. As a result of these factors, consolidated net income dropped 47.1% to ¥11,402 million compared with the previous term.

The environment surrounding the entertainment industry, in which KONAMI operates has recently been experiencing rapid changes.

In response to the rapid changes in its operating environment, KONAMI has focused management on product contents. We worked to develop additional contents and to build a structure in which they can be used in multifaceted ways. In addition to a broad line up of our own original contents, we have gathered a wide range of contents from sports, animation and other genres.

METAL GEAR SOLID 2: SONS OF LIBERTY, SILENT HILL, Castlevania: Circle of the Moon, and Frogger: The Great Quest in the CS Business segment and music simulation games in the Amusement Content (AC) Business segment have proven popular. KONAMI has also created a number of new products, such as MAH-JONG FIGHT CLUB and MARTIAL BEAT in the AC Business segment, and FORTUNE ORB and MONSTER GATE token-operated games in the Gaming Content (GC) Business segment.

In the sports genre, KONAMI acquired a wide range of contents, centering on football and baseball. Of those, the WINNING ELEVEN soccer game series has been a top seller. WORLD SOCCER WINNING ELEVEN 5: Final Evolution and Pro Evolution Soccer for PlayStation 2 made a strong contribution to both revenues and earnings for the fiscal year under review.

In animation-related products, Yu-Gi-Oh!, which has become the standard in its genre, still enjoys high popularity both in the area of video game software and card games, even though the frenzied boom has subsided in Japan. We launched Yu-Gi-Oh! in North America in March 2002, resulting in a brisk start in sales of video game software and card games in that market. KONAMI also plans to launch this product in Europe. In other titles, HIKARU NO GO and TENNIS NO OHJISAMA are showing steady growth.

In August 2001, KONAMI established a strategic tie-up, including capital participation, with HUDSON SOFT CO., LTD. This company has strong software products such as the MOMOTARO DENTETSU series and the Bomberman series. In January 2002, we also entered a tie-up with Genki Co., Ltd., whose strong software products include the Shutoko Battle series and the Kengo series. These partnerships will enable KONAMI to assert itself more in the domestic video game software market.

To use its successful contents in a multifaceted manner and to maximize earnings, KONAMI is building a structure that can expand into a number of business fields. In addition to the CS business segment and the CP business segment, we aim to build a framework that can promote gaming business overseas, as well as health entertainment business within the AC Business segment.

In the gaming business, KONAMI has developed businesses in Australia and North America, taking advantage of the expertise and contents it has cultivated from its amusement and video game software businesses, and this initiative is showing growth. In the future, KONAMI plans to convert token-operated machines, which have been highly successful in domestic arcades, into gaming machines and launch them in overseas gaming markets. In this way, we aim to expand our share of the world gaming market, which is believed to exceed ¥200 billion.

By combining KONAMI's expertise and contents in entertainment with the expertise of Konami Sports in exercise, we have addressed health entertainment business in the AC Business segment to provide unrivaled fitness machines. In fiscal 2002, we launched fitness machines featuring games with liquid crystal displays, such as EZBIKE and EZRUNNER for use at sports clubs as well as such products as FAMIMAT and MARTIAL BEAT for home-use. This is an emerging market, and we are still working to build sales. However, considering the potential future growth of this business, we will promote it strongly.

While continuing to implement the above measures in the coming years, we aim to be a comprehensive global entertainment company, continually developing new contents.

Q2 What is KONAMI's basic strategy in the global video game software market, and what is KONAMI's strategy regarding its video game software titles?

A KONAMI was the first in the industry to develop what we call a multiplatform strategy. This strategy seeks to ensure stable revenues, unaffected by changes in the market shares of individual game platforms. In addition, through a multi-genre strategy, KONAMI has built a framework that does not depend on specific titles, with the launch of many titles in the market covering diverse genres.

In console-type hardware during fiscal 2002, Sony's PlayStation 2 (PS2) entered a period of full-scale growth in market penetration in the United States, Nintendo GameCube and Microsoft's Xbox were released in November 2001, and business was brisk. In Europe as well, thanks in part to price discounting of PS2, business was also vigorous. In the domestic market, the growing popularity of PS2 accelerated from around December's year-end holiday sales campaigns, and Nintendo GameCube and Xbox were launched, resulting in gradual recovery of momentum. In the handheld video game field, Game Boy Advance (GBA), the latest model in Nintendo's Game Boy series, was launched in March 2001 and has maintained an overwhelming share of the market.

In this environment, KONAMI launched over 100 titles worldwide, driving sales of KONAMI's own titles to a record high of 20.3 million copies. The titles that made a strong contribution to revenues for the term under review included METAL GEAR SOLID 2: SONS OF LIBERTY for PS2, which recorded sales of approximately 5 million copies worldwide. In addition, KONAMI launched a number of original titles, such as SILENT HILL 2 and Frogger: The Great Quest for PS2, Castlevania: Circle of the Moon and Frogger's Adventures for GBA, and these titles also made a significant contribution to revenues. In the sports genre, which has been the KONAMI's strongest field, sales have moved steadily, centering on football and baseball. In particular, sales of the WINNING ELEVEN series launched in Japan and its European equivalent, Pro Evolution Soccer series have been brisk, reaching 1.3 million copies worldwide in the fiscal year under review. There have also been good sales of recently launched media-mix titles following Yu-Gi-Oh! series, such as HIKARU NO GO for GBA and TENNIS NO OHJISAMA for PS.

KONAMI's video game software can be generally classified into three types: original titles, sports titles and media-mix titles. We aim to develop the No. 1 title in each genre, launching high-quality products that respond positively to consumers' needs. KONAMI also aims to enter new genres and develop a line-up of products specifically for racing games, fighting games and original character games.

By region, while growth in the domestic market has been sluggish, the European and U.S. markets have been making positive growth. In step with the expectation that this trend will continue in the coming years, KONAMI will allocate resources accordingly, building a framework in which KONAMI plans to achieve and maintain global market share 10% or more.

In addition to producing software, KONAMI has begun levering its strong distribution network to provide software produced by other companies. In fiscal 2002, KONAMI started handling products for HUDSON SOFT CO., LTD., with which KONAMI joined forces in August 2001, and that company's software title, MOMOTARO DENTETSU X, sold very well. We plan to expand the number of titles distributed while increasing the number of our business partners.

In games for mobile phones, the rapid growth in mobile phone ownership, including the use of NTT DoCoMo's i-mode, has enabled a number of companies to distribute different kinds of contents. For KONAMI, the sales of mobile phone software service launched in December 1999 have been growing quickly.

Although the environment for on-line games has been established through the rapid diffusion of broadband, the business model has not been established yet, and so it appears that on-line games will not make a significant contribution to earnings over the short term. As it is clear that products in this category will account for certain share of profits in the future, we will continue to make strategic investments as we monitor this business.

KONAMI will further reinforce its efforts to strengthen its brand image and maintain its leading position in contents business in Japan. In addition, KONAMI will aim to expand its share of the overseas market.

Q3 Please describe your overseas business plans.

A In fiscal 2002, overseas sales grew significantly. The major factor for this growth was the sales increase of video game software, centering on METAL GEAR SOLID 2: SONS OF LIBERTY for PS2. However, from a company-wide perspective, we are still attaching too much importance to the domestic market and are still too dependent on our domestic business for revenues and earnings. For us to succeed globally in the future and to achieve stable growth and increased earnings, it will become increasingly important for us to gain larger market share overseas.

In the CS Business segment, the sales of such original titles as METAL GEAR SOLID 2: SONS OF LIBERTY and SILENT HILL 2 for PS2, Frogger's Adventures and Castlevania: Circle of the Moon for GBA, have been growing, as have sales of titles that are popular overseas, such as the soccer titles in Europe. The Yu-Gi-Oh! titles that were launched in the North American market in March 2002 have now started selling in increasing quantities. We will continue to launch competitive products in the future, particulary the strong products that sell overseas, including through such measures as cooperative arrangements with third parties. In this way, we will endeavor to maintain and expand our market share. In addition to our traditional markets in North America and Europe, we will also bring our products to Asia.

In the CP Business segment, KONAMI launched Yu-Gi-Oh! official card game in North America, which has been very successful in Japan. Since the animated Yu-Gi-Oh! TV program first aired in September 2001, the ratings have been very high, bolstering sales of both Yu-Gi-Oh! video game software and card games. Given the scale of the card game and trading card markets in North America, it appears that this business has high potential. We also plan to take it into the European market.

Following the development of gaming business in Australia, we had considered developing the business in North America—the world's largest gaming market. In January 2000, we obtained a license to manufacture and market gaming machines in the state of Nevada, and our first shipment arrived in December 2000. Since then, we have also acquired licenses in 15 states as of the end of July 2002 and have already shipped about 2,000 machines by the end of June 2002. In the short term, partly because of the sluggish market caused by the events of September 11 in the United States and a delay in obtaining licenses, sales growth has not matched our initial expectations. However, by asserting the strength of our products, we aim to expand our share in the North American market, the total size of which is estimated to exceed ¥100 billion. In the future, we plan to launch unique products using the know-how cultivated in token-operated games that have proven popular in amusement facilities in Japan. We will also develop our business with an eye on other nations and regions where casinos are legalized, the number of which is believed to exceed 110 worldwide.

Through these initiatives in each of our businesses, our medium-to-long-term goal is to increase the contribution of overseas sales to the same level as that of domestic sales. In addition, we plan to build a framework so our various businesses can independently generate profits.

Q4 What is the positioning of Health & Fitness Business, and what is the reason that KONAMI acquired Daiei Olympic Sports Club?

A With the rapid aging of the Japanese population society, people are getting more and more health conscious in Japan. Seizing this opportunity, KONAMI entered the health and fitness industry in February 2001, acquiring a 54.64% share in PEOPLE CO., LTD. (currently Konami Sports Corporation), the largest sports club operator in Japan, through a tender offer. In February 2002, to enhance the Group's position in this business, we acquired a 82.17% share in Daiei Olympic Sports Club, Inc. (currently Konami Olympic Sports Club Corporation)*, which has the fifth-largest market share of the sports club industry, making it one of our subsidiaries. This move enabled us to expand KONAMI hope to market share to approximately 23.4%. At present, there are approximately 1,700 sports clubs in Japan, and the number of clubs operated by the KONAMI Group was 219 as of the end of March 2002, including franchised clubs. Accordingly, KONAMI has a dominant position in the market.

Sports club operators increasingly approach Konami Sports with requests for advice about sports club management, and seek acquisition by Konami Sports. In the future, by opening our own clubs as well as taking over these facilities, we's expand the network and market share even more.

* On October 1, 2002, Konami Sports Corporation will merge with Konami Olympic Sports Club Corporation.

Amid the rapidly aging population and declining birthrate, the Japanese public is becoming increasingly health conscious. The percentage of Japanese adults who utilize fitness clubs is significantly lower than that in the United States. The more potential users interest in their health and exercise, the fitness business is expected to grow in the near future. Accordingly, we anticipate that the fitness business will be one of a few industries with the potential for significant development.

Sports club operation is a membership-based business that does not exist in KONAMI's other businesses, and consequently, is a relatively stable business. The presence in our portfolio of this kind of business will considerably enhance the stabilization of KONAMI's performance.

Our objective, however, for entering this business was not only to operate sports clubs, but also to combine our expertise in digital entertainment with the fitness expertise held by Konami Sports to provide unprecedented new fitness machines and fitness programs and create a new market. The installation of these new machines in our sports clubs will enable us to acquire a customer segment that we could not have otherwise acquired. In addition, with the installation of these machines in KONAMI's more than 200 clubs, we aim for the machines to set the new standard and, ultimately, diffuse into home-use market.

Q5 What are your strategies for business alliances in the future?

A To reinforce our business base, we have actively promoted business alliances. As part of our initiative to expand our area of business, we acquired a stake in TAKARA Co., Ltd., a prominent toy manufacturer, in August 2000. Since then, we have entered joint developments in the toy field, such as with our Micro IR series of remote-controlled cars.

As I mentioned previously, KONAMI acquired a majority of the shares of PEOPLE (currently Konami Sports Corporation), the largest sports club operator in Japan, in February 2001. In addition, KONAMI's position in the sports club market was strengthened by bringing Daiei Olympic Sports Club, Inc. (now Konami Olympic Sports Club Corporation), which has the fifth-largest market share of the sports club industry, into the Konami Group in February 2002. This business is now positioned as one of our most important businesses and comprises our HF Business segment.

In August 2001, as part of our initiative to expand our existing businesses, we acquired a stake in HUDSON SOFT CO., LTD, a video game software producer. In January 2002, we acquired a share of Genki Co., Ltd., another video game software producer. These tie-ups bring multiple benefits for all parties. For example, HUDSON and Genki bolster our strength in the video game software market, while enabling them to focus on production. This cooperation has been achieved owing to KONAMI's strong sales network, range of production support functions and financial resources, together with the fact that both acquired companies had an established reputation in the production of very high-quality products. MOMOTARO DENTETSU X, which HUDSON launched in December 2001 using KONAMI's distribution network, has sold well. The tie-up with HUDSON has already produced tangible results. In the future, we will maximize the effect of these tie-ups with an eye on creating new business together.

In August 2001, we purchased Paradigm Gaming Systems, Inc. of Las Vegas, building a framework that enables us to provide total solutions through gaming machines and gaming systems.

After carefully reviewing individual proposals in the coming years, we will continue to seize excellent opportunities as they arise.

Q6 What medium- to long-term issues does KONAMI face?

A KONAMI is still attaching too much importance to the domestic market and is heavily dependent on its domestic business for revenues and earnings. In the future, to become more competitive in the global market and to ensure stable growth and increased earnings, it will become increasingly important for us to gain larger market share overseas. In Japan, with the rapid aging of the population and declining birthrate, it is expected that KONAMI's main target on customers in their teens and 20s will start to decline. For KONAMI to grow further, it will become increasingly important to target new market segments across gender and generation.

We still have numerous challenges to address if we are to penetrate into new markets and gain overseas market share. In pursuit of these targets, we consider production capability, marketing strength, financial capability and brand image as key factors for success. To further reinforce these key factors, we will more effectively utilize the KONAMI Group's management resources and actively pursue business alliances and other initiatives.

In the meantime, we will aggressively strengthen management of the Group itself. In September 1999, the shares of KCEO Inc. (currently Konami Computer Entertainment Osaka, Inc.) were listed, followed in August 2000 by the listing of KCE Tokyo, Inc. (currently Konami Computer Entertainment Tokyo, Inc.). Then, in February 2002, Konami Computor Entertainment Japan, Inc. went public. With further enhanced disclosure by these companies, we will continue to solidify our management structure and financial foundation. We will also give consideration to a shift toward a holding-company structure as we monitor developments following the introduction of the consolidated taxation system in Japan.

Further, we listed our shares on the New York Stock Exchange (NYSE) in September 2002, to foster our globalization and reinforce our business foundations. Through the listing, we hope to take advantage of share swaps for M&A opportunities, as well as financing from all over the world. We also hope to gain the further confidence of investors in Japan and overseas by upgrading our disclosure level to meet NYSE accounting and corporate governance standards, which are among the strictest in the world. To this end, from the third quarter of fiscal 2001, we voluntarily started disclosure on a quarterly basis.

Q7 What are KONAMI's policies concerning return of profits to shareholders and contribution to society?

A KONAMI believes that stable dividends and increasing corporate value are the most important elements of returning profits to shareholders. Our target is to pay total dividends in an amount equal to or exceeding 30% of consolidated net income, and we strive to continuously raise per-share dividends each year. In addition, we aim to attain a consolidated return on equity (ROE) of 15% or higher.

In fiscal 2002, ROE declined to 8.1%, which is below KONAMI's target of 15%. This result reflected the fact that sales of our other products and services could not offset the impact of the decline in sales of the Yu-Gi-Oh! official card game. Consequently, KONAMI was unable to achieve its target for the short term. However, by strengthening our content and developing businesses in a multifaceted manner, we plan to regain 15% or more level as quickly as possible. Following a revision of the Japanese Commercial Code in October 2001, we commenced the buyback of our outstanding shares.

KONAMI has an important management philosophy, which is to contribute to society as a good corporate citizen in the entertainment industry. Specifically, we are promoting sports in our role as an official sponsor of Nippon Professional Baseball Organization (NPB), Japan Professional Football League (J. League), Japanese Olympic Committee (JOC), Nihon Sumo Kyokai (Japan Sumo Association), and Japan Golf Tour Organization (JGTO). We also foster culture as an official partner of the New National Theatre Tokyo Foundation. The KOZUKI FOUNDATION FOR HIGHER EDUCATION, a nonprofit organization established in 1982, is expanding its various scholarship programs for students of all ages, and provides venture capital support for business startups by students and scholarships for the development of athletes.

In addition, various programs offered by KOZUKI FOUNDATION FOR

ADVANCED INFORMATION TECHNOLOGY and support to Osaka Electro-Communication University, where I serve as visiting professor, make contribution to the advancement of information technology and related education.

The new century marks a new era for the KONAMI Group. In addition to conventional management objectives related to international standards, competitiveness and high profits, we will become increasingly conscious of our stakeholders, including shareholders, investors, users, business partners, employees and society. In these ways, we intend to foster progress in the industry as a good corporate citizen while contributing to social and economic prosperity as a whole. To be a company that contributes to the dreams, pleasure and personal enrichment of both children and adults, we will continue to develop products that offer an enhanced entertainment experience.

Q8 What are your comments about KONAMI's need for leadership?

A With the aim of expanding into the entertainment area, the KONAMI Group has been striving to reach the pinnacle in each of its business areas. To drive KONAMI's strategic success, leaders with the ability to take KONAMI in the right direction will play critical roles.

As of March 31, 2002, the Group had 4,422 employees. Naturally, it is necessary to improve the ability of each employee. But if the goals and directions for each employee were not clearly identified, the strength as an organization would be reduced by half. That is why leaders are very important for us to preserve our corporate strength.

In view of these requirements, KONAMI launched its Leadership Development Program in April 2002 to promote the full-scale training of its leaders. We selected individuals who currently head the Group, as well as key support staff and managers who may become leaders in the future, and created program objectives. These objectives are: (1) further improvement of the expertise of the current management team, (2) development of the current management team's key support staff, and (3) development of future leaders. We plan to maintain KONAMI's competitive advantage by improving the skills of its current leaders, and its future growth advantage by cultivating future leaders.

It is impossible for only a limited number of people to lead this large organization. I consider that cultivating the leaders at each echelon of KONAMI and reinforcing the organizational base will drive KONAMI's competitive edge.

Q9 Any comments on strengthening the KONAMI brand?

A A number of new companies have been brought into the KONAMI Group, most notably Konami Sports in February 2001, but also TAKARA, HUDSON and Genki. In this way, we are climbing the ladder toward more sophisticated Group management. To ensure our growth and development on this new stage, it is necessary to firmly establish the KONAMI brand, to promote clear and consistent messages, and to ensure that all of our stakeholders understand and support the management philosophy and the direction of the KONAMI Group.

In accordance with these ideas, we have established a new division that will manage the overall brand strategy of the KONAMI Group in a consistent manner. The objectives of the division will be to propose and implement brand strategy and to further strengthen the KONAMI brand, thereby expanding corporate value.

Q10 Please describe your corporate governance initiatives.

A At KONAMI, we have set the pursuit of long-term shareholder profit as our most important management goal, and in June 1999, we instituted an executive officer system and created a clear distinction between the responsibilities of directors and executive officers. In this way, we continue to invigorate and upgrade the functions of the Board of Directors. In the past, we have maintained an active policy of employing external directors. At the 28th General Meeting of Shareholders held on June 23, 2000, we adopted our current structure of four external directors, thereby strengthening corporate governance.

In December 2000 to enhance the objectivity of management, we set up the Management Advisory Committee consisting of experts and management specialists from outside KONAMI.

In the future, we will further raise management efficiency while pursuing shareholders' return by assuring better management transparency and objectivity.

Q 11 What is KONAMI's financial strategy?

A In the entertainment field, KONAMI has promoted the diversification of its businesses, but is also putting new business initiatives on track as part of new business development, and is building an even stronger framework for its existing businesses that already have a firmly established position.

To implement these measures and achieve further growth in earnings, we still have a number of issues to tackle, including strengthening our overseas presence. For KONAMI to take the next steps in a timely manner, including alliances, I consider it important to maintain a framework that enables us to respond with agility, while securing high liquidity in hand and strengthening our financial foundation.

Following financing through the issue of new shares in March 2001, KONAMI issued ¥45.0 billion in corporate bonds in September 2001. While securing appropriate liquidity in hand, we will always be concerned with the adequate allocation of funds.

We have commenced the buyback of our outstanding shares since October 2001, to offer stock options to employees and to be well prepared for timely implementation of business alliance strategy.

To promote further globalization of KONAMI's business and achieve one of its management objectives, we listed on the NYSE in September 2002. This follows our listing on the Singapore Exchange (SGX) in November 1997 and on the London Stock Exchange in September 1999. By doing so, we hope to further bolster our presence overseas in the future.

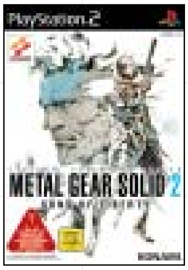
Management Focusing More on Contents
5 Business Areas for Multifaceted Use of Contents

The environment surrounding the entertainment industry, to which KONAMI belongs, has recently been experiencing rapid change. The advances being made in digital technology have brought together a range of areas that have traditionally been considered independent, such as games, film, music, sports, toys, publishing and communications. The entertainment industry is now entering a new age resulting from the integration and consolidation of these industries, which is creating new possibilities for the entertainment industry to combine with the fields of sports, fitness, health and education. During these changes, consumers have become more particular about the products they buy.

In response to the changes facing the entertainment industry, KONAMI has increased the emphasis of its management to focus on product contents. In addition to its exuberant original titles, such as METAL GEAR SOLID and SILENT HILL, KONAMI has expanded its range of contents by gathering a wide diversity of other influential titles in the sports and animation genres. While these activities have been underway, KONAMI has adopted a number of initiatives aimed at establishing a framework to enable it to use contents in a multifaceted way. At present, KONAMI is making diverse use of its wealth of proprietary contents in the five business domains shown in the figure at right.

The Ever-expanding KONAMI Contents Line-up

1



METAL GEAR SOLID 2: SONS OF LIBERTY (PS2)

WORLD SOCCER WINNING ELEVEN 6 (PS2)

2

Yu-Gi-Oh! TRADING CARD GAME LEGEND OF BLUE EYES WHITE DRAGON

3

BEAST SHOOTER

1 Video Game Software

In its video game software business, KONAMI has a great deal of content of longstanding popularity, and continues to hold very high domestic market share in this area. METAL GEAR SOLID series and WINNING ELEVEN series have won much praise both domestically and overseas.

(CS Business)

2 Card Games

Our popular card games, which combine the two recreational elements of competing and collecting, are a field in which Konami Group can employ its wealth of proprietary content. Yu-Gi-Oh! cards have been introduced in North America, and preparations are underway for commencement of sales in Europe.

(CP Business)

3 Toys and Hobbies

KONAMI is developing many kinds of products based on its rich store of contents.We have a wide-ranging product line-up, which includes more than just spin-off products from other business areas, and continually strive for new hit products. The Micro IR series is receiving widespread acclaim.

(CP Business)

In the fiscal year under review, our original contents including the established video game software titles, METAL GEAR SOLID 2: SONS OF LIBERTY and SILENT HILL 2 for PS2, Castlevania: Circle of the Moon and Frogger's Adventures for GBA and music simulation games in the AC Business segment have continued to prove popular. KONAMI has produced a number of new products, such as MAH-JONG FIGHT CLUB and MARTIAL BEAT in the AC Business segment, and FORTUNE ORB and MONSTER GATE, token-operated games in the GC Business segment, further strengthening our line-up of titles.

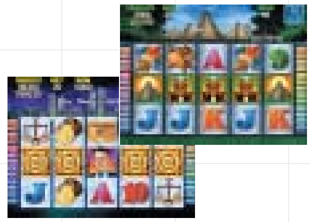
In the sports genre, our titles based on football and baseball, where we have obtained licenses to use the players' actual names, have continued to be popular in the market. In particular, the soccer game series WINNING ELEVEN has been a No. 1 seller, while WORLD SOCCER WINNING ELEVEN 5: Final Evolution and Pro Evolution Soccer for PS2 in the same series made a great contribution to both revenues and earnings for the fiscal year under review. We plan to continue acquiring high-profile licenses in the sports genre, and with improvements in the quality of the games, we aim for these titles to be strong.

In animation-related products, Yu-Gi-Oh!, which has become the standard in its genre, still enjoys high popularity both in video game software and card games, though the fevered boom the title enjoyed has subsided in Japan.

We launched Yu-Gi-Oh! in North America in March 2002, resulting in a brisk start in video game software and card games in that market, and this title has already won support among children. We also plan to take it into the European market. The titles also based on animation, HIKARU NO GO and TENNIS NO OHJISAMA, which we launched as animation-related titles following Yu-Gi-Oh!, are showing steady growth.

In August 2001, KONAMI established a strategic partnership with HUDSON SOFT CO., LTD., a deal that included capital participation. HUDSON has strong products such as the MOMOTARO DENTETSU series and Bomberman series. In January 2002, we also set up a strategic partnership with Genki Co., Ltd., whose leading products include the Shutoko Battle

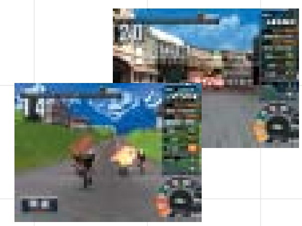
4 SYUTSUGEKI! SENGOKUKAKUMEI



5 INCAN PYRAMID SAFE MONEY

EZRUNNER

EZBIKE



6

4 Arcade Games

In the field of arcade games, KONAMI offers both virtual games and on-line contents that are innovative and fascinating. In particular, KONAMI's e-AMUSEMENT on-line service is gaining great acceptance in the marketplace.

(AC Business)

5 Gaming Machines

KONAMI's gaming business in the GC Business segment was developed in Australia and began to be marketed in 2000 in the United States, where it has already received licensing approval in more than 15 states and is making progress. We will continue to nurture and grow this business as one of the pillars of KONAMI Group.

(GC Business)

6 Exertainment

"Exertainment" is a new way to improve health by exercising and having fun at the same time. KONAMI aims to develop the market for this new business, which combines entertainment with exercise.

(AC Business)

series and the Kengo series. These partnerships will enable KONAMI to assert itself more in the domestic video game software market.

To enable KONAMI to find multiple applications for its leading titles and thereby to maximize earnings, we plan to establish a structure to develop business opportunities in a range of different areas. In addition to the area of video game software and character products centering on card games, we will create a framework that will enable us to enter the gaming business overseas as well as the health entertainment business. Currently we have five business segments: Consumer Software (CS), Character Products (CP), Amusement Content (AC), Gaming Content (GC) and Health & Fitness (HF).

In the GC Business segment, we have taken advantage of our expertise and the contents that we have developed in the areas of amusement machines and video game software to develop businesses in the gaming area in Australia and North America, and these businesses are growing. In the future, KONAMI plans to convert token-operated machines well-received by domestic arcades into gaming machines and launch them in overseas gaming markets. In this way, we aim to expand our share of the world gaming market, which is believed to exceed ¥200 billion.

In the AC Business segment, by combining KONAMI's expertise and content in the entertainment area with the expertise of Konami Sports in the fitness area, we have entered the health entertainment business, producing a new kind of fitness machine. In fiscal 2002, we launched fitness machines featuring games with liquid crystal displays, such as EZBIKE and EZRUNNER for use at sports clubs, as well as such products as FAMIMAT and MARTIAL BEAT for home-use. This field is a market that has just begun to emerge, and we are still working to build sales. However, considering the potential future growth of this business, we plan to promote it strongly.

While continuing to implement the above measures in the coming years, we aim to be a comprehensive global entertainment company, continually developing new contents.

The environment surrounding the entertainment industry, of which KONAMI is a part, has recently been experiencing rapid change. The advances being made in digital technology have brought together a range of areas that have traditionally been considered independent, such as games, film, music, sports, toys, publishing and communications. The entertainment industry is now entering a new age resulting from the integration and consolidation of these industries, which is creating new possibilities for the entertainment industry to combine with the fields of sports, fitness, health and education.

In such environment, KONAMI has been shifting the emphasis of its management to focus on product contents. To utilize our rich contents in a multifaceted manner and maximize earnings, KONAMI has been working to build a structure capable of multiple business developments. As a result, there are five business segments. They are CS Business (Consumer Software), CP Business (Character Products), AC Business (Amusement Content), GC Business (Gaming Content), and HF Business (Health & Fitness).

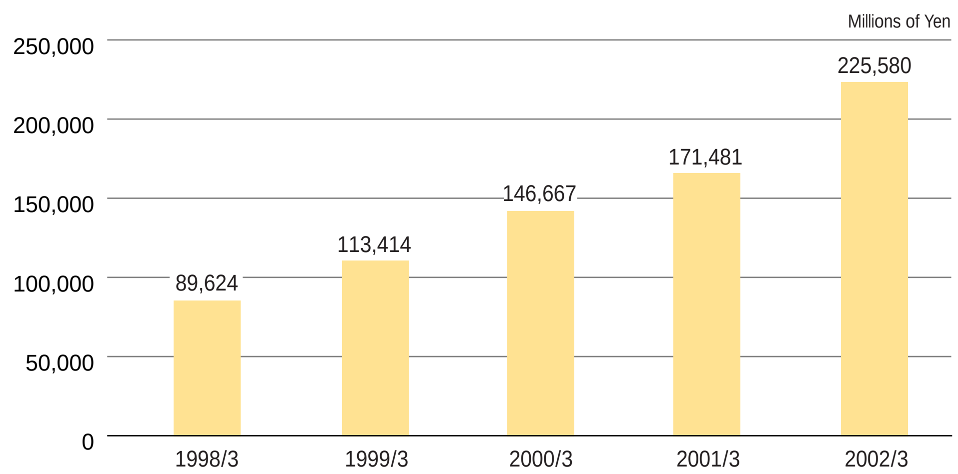
* Our business segment information included in this report is derived from Konami and its subsidiaries' management reports which are based on accounting principles and practices generally accepted in Japan ("Japanese GAAP").

Net Sales by Business Segment

Millions of Yen

	1998/3	1999/3	2000/3	2001/3	2002/3	(Composition ratio)
CS Business	40,662	62,928	62,277	60,887	90,129	(38.0%)
CP Business	6,416	9,297	27,985	60,591	25,601	(10.8%)
AC Business	19,712	21,345	38,711	32,747	38,733	(16.3%)
GC Business	11,656	13,752	13,310	8,882	13,646	(5.7%)
HF Business	—	—	—	4,480	60,546	(25.5%)
Other	12,869	10,618	8,980	8,877	8,896	(3.7%)
Subtotal	91,314	117,939	151,263	176,463	237,551	(100.0%)
Elimination of Intersegment transactions	–1,690	–4,526	–4,596	–4,983	–11,971	
Total	89,624	113,414	146,667	171,481	225,580	

Notes 1. Figures for the fiscal year ended March 31, 1998 through the fiscal year ended March 31, 2000 are not audited.
2. Net sales of each business segment includes intersegment transactions



CS Business
Consumer Software

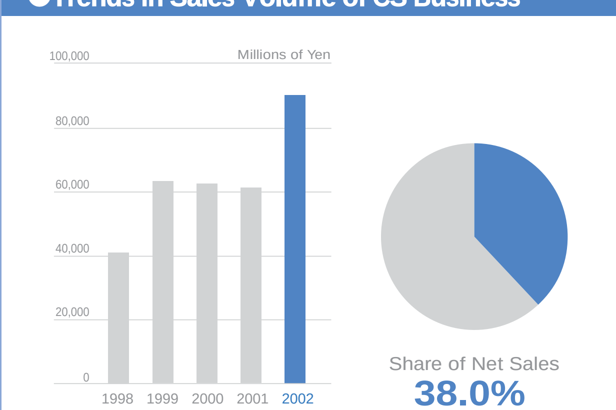
Executive Corporate Officer, CS Business
Kazumi Kitaue

The Consumer Software Business segment is involved in the production, manufacture and sale of video game software.

The creative and topic making game titles created by KONAMI's industry-leading production division bring joy and excitement to customers all over the world. KONAMI also distributes contents to mobile phones and is developing the on-line game business in anticipation of the growth in this business area in the near future.

In fiscal 2002, consolidated sales of the business were ¥90,129 million, an increase of 48.0% over the previous term, and operating income amounted to ¥18,231 million, a surge of 144.5%. The consolidated operating income ratio was 20.2%, which increased from 12.2% a year earlier.

●Trends in Sales Volume of CS Business



METAL GEAR SOLID 2: SONS OF LIBERTY for PS2

MARKET ENVIRONMENT

In the Japanese console-type hardware platform market, the Nintendo GameCube (GC) was released in September 2001 and in February 2002 Microsoft Corporation launched its Xbox. At the end of November 2001, the price reduction for PlayStation 2 (PS2), which had been released beforehand, made an impact on the market. This partly led to a steady increase in the number of game consoles installed from around the time of December's year-end sales campaigns, and the market finally emerged from a period of stagnation as a new-platform generation was ushered in.

In the handheld video game field, Nintendo's Game Boy Advance (GBA), the successor to Game Boy, which achieved more than 100 million units shipped worldwide, was released in March 2001 and the Game Boy platform continued to hold an overwhelming share of the market. Besides the existing platforms, new types of entertainment also appeared in the form of games for mobile phones and on-line games.

Overseas, the Nintendo GameCube and Xbox were successively released in the United States in November 2001, leading to favorable market penetration, while PS2 substantially increased its installed base in Europe and North America through the period of year-end sales campaigns. In further developments, Game Boy Advance also experienced a steady increase in sales while establishing its own market segment, and the overseas market showed a strong upsurge in growth.

PERFORMANCE

Both in Japan and overseas, we introduced a wide range of new titles in various genres aimed at several platforms. In the process, we impressed customers with our comprehensive lineup and powerful brand image. As a result, we posted sales of ¥90,129 million an all-time high. In terms of the number of copies, we sold a total of 22.8 million, comprising 20.3 million copies of KONAMI titles and 2.5 million of other companies' titles based on our distribution business, which also marked a record high.

Among these titles, METAL GEAR SOLID 2: SONS OF LIBERTY for PS2 achieved record sales, totaling approximately 5 million copies following its launch in Japan, North America and Europe. We also released several other titles that recorded strong sales. These included SILENT HILL 2 for PS2 as well as the original title Frogger's Adventures and Castlevania: Circle of the Moon for GBA, and the ever-popular sports series WINNING ELEVEN and JIKKYO POWERFUL PRO BASEBALL. In our "media-mix" titles, in addition to Yu-Gi-Oh! Duel Monsters Series for GBA, we also launched HIKARU NO GO and TENNIS NO OHJISAMA.

On a regional basis, sales were particularly robust overseas. We attribute this to our release of powerful content such as METAL GEAR SOLID 2: SONS OF LIBERTY for PS2, with a focus on the European and North American markets where demand has been buoyant, and to our success in developing a sales organization in North America.

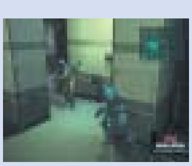
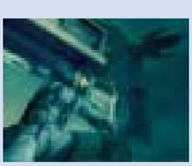
In Japan, especially during the first half of the fiscal year under review, video game software sales were weak for several reasons. First, the generational change in hardware did not proceed as expected; second, no new-concept games were produced; and third, the battle intensified over time and money spent by consumers on mobile phones, the Internet, traditional toys, movies and music. However, from around the time of December's year-end sales campaigns, hardware steadily penetrated the market and the business environment showed signs of a favorable turnaround. On the other hand, the gap between strong- and weak-selling titles became distinct. It is therefore important that KONAMI grasp user needs more precisely, enhance the quality of its products and offers those that customers really demand.

During the fiscal year under review, KONAMI formed capital alliances with HUDSON SOFT CO., LTD. and Genki Co., Ltd.

In Japan, there are many companies like the above two with very strong creative capabilities and brand images. However, to succeed in the current video game software market, it is also necessary to have comprehensive strengths in financial and marketing capabilities. The objective

PS2 METAL GEAR SOLID 2: SONS OF LIBERTY

In this game, players avoid combat and hide from their enemies in a surreal, cinematic environment. Elaborate graphics and a high degree of reality leave players of this game spellbound and breathless.

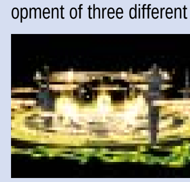



PS2 WORLD SOCCER WINNING ELEVEN 6

Realistic movement, exceptional maneuverability and detailed formation setups make this soccer game popular with numerous fans, with more than one million copies shipped in the first six weeks of release. The product of uncompromising development, is perhaps the most powerful soccer game ever.

PS2 SUIKODEN III

This is the newest title in our highly popular series, featuring scores of beloved characters interwoven with stories of drama and grandeur. It is the first time that full 3D polygon characters have appeared in the SUIKODEN series. SUIKODEN III incorporates a new battle system, and a storyline that supports the development of three different leading characters.




behind investing capital in HUDSON and Genki was to complement their respective operations by letting them use our financial strength, marketing power and production support functions. In addition, by marketing the video game software the two companies produce through our powerful distribution network, we aim to reinforce our Group capabilities. We therefore intend to engage in joint business development with HUDSON and Genki in various fields.

KONAMI's distribution business is buying video game software produced by other companies and delivering it through the Group's powerful distribution network. During the fiscal year under review, there was an increase in the number of such companies and titles not only in the case of software houses with whom KONAMI has a capital relationship, but also in the case of other software developers. This factor contributed to an increase in our sales.

In software for mobile phones, we delivered a wide range of contents, including software for NTT DoCoMo's i-mode platform. This software has gained an excellent reputation through KONAMI Net DX service, with the number of subscribers of this service increasing steadily. Although on-line games have not yet become a business that generates profits, we expect it to grow substantially in the near future and are allocating investment to it accordingly.

As a result, during the fiscal year under review, consolidated sales of the business reached ¥90,129 million, an increase of 48.0% over the previous term, and operating income jumped 144.5% to ¥18,231 million. The consolidated operating income ratio was 20.2%, which increased from 12.2% in fiscal 2001.

OUTLOOK

We will continue pursuing our multiplatform and multi-genre strategies, but following the launch of Xbox, Nintendo GameCube and other equipment, will monitor market trends for each platform more closely and allocate our management resources appropriately. As the distinction between products that sell well and those that do not has become clearer, KONAMI will expand its lineup of original contents in a wide range of fields. Furthermore, we will more actively pursue license acquisitions and business alliances to reinforce our product lineup and strengthen our brand image. At the same time, we will offer topic making high-value-added products across multiple genres.

To hold down costs despite the rising level of hardware capabilities, we will make more use of Konami Software Shanghai, Inc. that operates at a much lower production cost.

We will also tailor products for the Japanese, North American and European markets, and this will require the strengthening of production and planning capabilities in North America and Europe. Moreover, since the field of on-line games has the potential to become a large market force in the near future, we will redouble our efforts in this area to solidify our leading market position.

With the changing times, various types of video game equipment have appeared on the market. However, in tune with the needs of users, we will continually produce games that are compatible with the various types of available game machines and will endeavor to acquire more than 10% of the market in all regions.

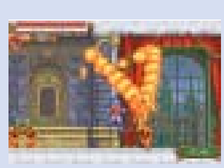
PS2・GC JIKKYO POWERFUL PRO BASEBALL 9

This newest edition of our baseball game series was released simultaneously for the PS2 and GameCube. Players' data after the opening of the season were added and various modes such as "Success" mode and "Home Run Competition" were upgraded and further enhanced the fun of baseball game.

Official Licensed Product of NPB

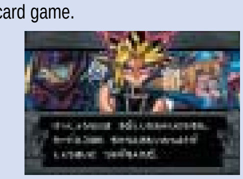
GBA Castlevania: Harmony of Dissonance

Set in medieval Europe, the game is about the actions of a vampire-hunting clan. The game has new features including "Spell Fusion", generating more powerful attacks depending on the choice of weapons, and the roleplaying game element has been enhanced.



GBA Yu-Gi-Oh! Duel Monsters 7: The Duelcity Legend

The game is based on the latest scenario of an animated TV, putting more weight on the story line than earlier editions so that the players can experience what they have seen on TV. It is the first edition of the series that incorporates an element of a roleplaying game on top of the fun of a playing card game.



CP Business
Character Products

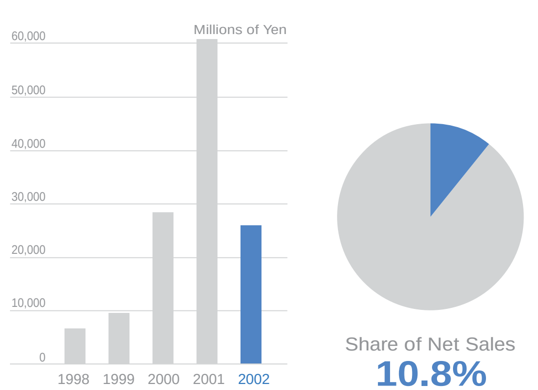
Executive Corporate Officer, CP Business
Akihiko Nagata

The Character Products Business segment is engaged in the production, manufacture and sale of various toys, especially card games.

In fiscal 2002, sales declined partly because of a lull in sales of the Yu-Gi-Oh! official card game in Japan, which made a strong contribution to profits in the previous fiscal year. During the fiscal year under review, we focused on expanding our sales of the Yu-Gi-Oh! official cards in overseas markets. At the same time we launched a number of new toys with the aim of producing a hit product to follow Yu-Gi-Oh!, avoiding reliance on a single product and ensuring stable earnings.

In the period under review, consolidated sales of the business decreased 57.7% to ¥25,601 million, and operating income declined 76.5% to ¥7,200 million. The consolidated operating income ratio was 28.1%, which decreased from 50.5% in the previous fiscal year.

●Trends in Sales Volume of CP Business



MARKET ENVIRONMENT

In Japan, the toy market is currently on a flat growth trend because of the country's declining birth rate and increasingly aging society. In spite of this, the amount of expenditure per child is increasing. In other words, the tendency to buy high-quality products and services is supporting the market. Furthermore, it has become crucial to offer products that appeal not only to children, but also to a broader range of age groups. It has also become important to develop business with a focus on overseas markets.

TOY Yu-Gi-Oh! Official Card Game-Duel Monsters

We regularly release new editions of our Yu-Gi-Oh! official card game, which enjoys high popularity. We align these new product introductions with video game software products for synergistic effects, and use the same name because of high recognition value.

DigiQ Train

This toy train series is based on Micro IR technology. Using infra-red signals, the train can be controlled remotely. The designs of the cars are based on real train car bodies, but also have unique shapes. Regardless of its small size, the train is powerful and has great precision.

Combat DigiQ

This new highly sophisticated series of vehicles offers extremely small, realistic, full-action features and high-level combat capabilities. Micro IR technology is contained within the tiny bodies, allowing them to move like caterpillars and carry out realistic combat actions.

PERFORMANCE

The Yu-Gi-Oh! official card game series, the mainstay product in this business, experienced decelerated sales growth during the period under review compared with the previous term, but has remained a hit product in Japan. Although repeat sales fell, the introduction of new products has allowed us to maintain constant sales revenue.

To avoid depending merely on one type of content, namely Yu-Gi-Oh!, we launched several other card games during the fiscal year under review. These included PRIME NINE, a professional baseball card game that followed the launch of a previous version in fiscal 2001, HIKARU NO GO, TENNIS NO OHJISAMA and CAPTAIN TSUBASA. We also released various other products that target a wide range of users, including Micro IR Series, candy toys, and *menko* (card flinging game). Among these, robust sales have been recorded for the DigiQ, the first product in the new Micro IR series, which incorporates the Micro IR technology developed by KONAMI in the body of ChoroQ, a miniature car made by TAKARA Co., Ltd.

In March 2002, we began to develop our Yu-Gi-Oh! business in North America, together with video game software. This business has been performing favorably, with the Yu-Gi-Oh! animated TV series winning high viewer ratings, and sales of the official card game and video game software expanding smoothly.

As a result of the above, consolidated sales of the business decreased 57.7% to ¥25,601 million; operating income declined 76.5% to ¥7,200 million; and the consolidated operating income ratio was 28.1%, which decreased from 50.5% in the previous term.

OUTLOOK

KONAMI will continue to introduce products that meet the needs of diversifying customers tastes. In addition, we will increasingly pursue synergies with such other businesses as video game software while attempting to build a high-earnings structure. We also will bolster the toy business and further expand the base of the business by strengthening our strategic alliance with TAKARA.

Since Yu-Gi-Oh! official card game is enjoying an upsurge in popularity in North America, we will study the development of this business in Europe while monitoring conditions in the marketplace, with a view to commencing European sales at the end of the year.

TOY MICRO iR™ Series (DigiQ)

The Micro IR remote-controlled car series using infrared signals (IR) technology, is extremely small and versatile, and can be operated by remote control. People of all ages can enjoy next-generation DigiQ entertainment.

BOOK Official Guide Book

KONAMI publishes many books in conjunction with its game software. These publications help customers to better understand how to play the game, and build customer support for and interest in the games.

TOY Menko Stadium

This is an oversized trading card version of the traditional Japanese pastime of *menko*. Both friends and family can have fun playing this game.

TOY Candy Toys

These elaborate figurines are based on beloved characters from around the world. They combine the cuteness, lovability, and nostalgia of candy toys with the highest manufacturing quality, and satisfy customers of all ages.

AC Business
Amusement Content

Executive Corporate Officer, AC Business
Fumiaki Tanaka

The Amusement Content Business segment produces, manufactures and markets games for amusement arcades in Japan and overseas.

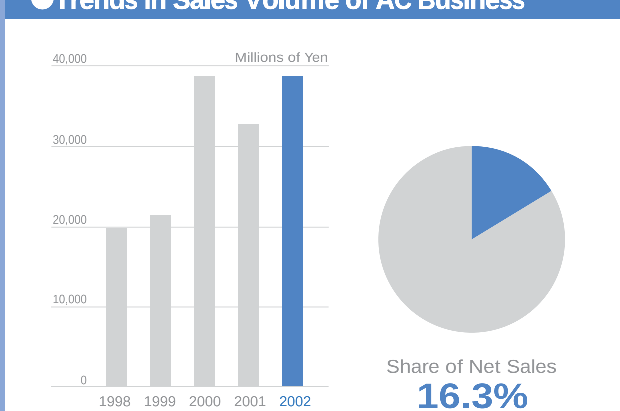
Applying our advanced creative capabilities, we continue to deliver original, innovative music simulation games, and video games to customers all over the world.

Using LCDs, the heart of LCD pachinko machines, we will offer enjoyable new ways of playing in the large pachinko market.

In addition, we have begun work on new products that blend entertainment and exercise.

In the period under review, consolidated sales of the business were ¥38,733 million, an increase of 18.3%, and operating income decreased 21.8% to ¥6,392 million. The consolidated operating income ratio was 16.5%, which decreased from 25.0% in the previous fiscal year.

●Trends in Sales Volume of AC Business



MARKET ENVIRONMENT

In the past several years, while the facilities for arcade games in Japan have tended to grow in size and become more integrated, their overall number has been declining.

The market has accepted games that can be played by several people at once or only at amusement arcades, such as machines that award prizes, machines that print stickers, or music simulation games. On the other hand, demand for video game machines has remained stagnant due to the diversification of consumer preferences resulting from the increasing diffusion and sophistication of home-use games, as well as the penetration of mobile phones and the Internet. Moreover, the purchasing capability of amusement arcade operators has declined.

To be successful in such a market environment, KONAMI must create highly innovative, topic making products such as music simulation games we originated that are designed to achieve clear differentiation from other existing products.

The pachinko industry is experiencing a slightly contracting market due to the influence of the pachinko slot machine market, which has been expanding for several years. In this market environment, the popularity of machines with entertainment or game value has been rising, and KONAMI is drawing on its creative and technical skills accumulated as a long-time leader in the entertainment industry to produce more highly competitive products. Since pachinko machines and pachinko slot machines in Japan must be licensed by the Security Electronics and Communications Technology Association (SECTA), an auxiliary organization of the National Police Agency, licensing trends exert a significant influence on the market. Also, because the availability of liquid crystal components (the primary materials out of which pachinko LCDs are made) is sensitive to marketplace supply and demand forces, the monitoring of marketplace trends is important.

MAH-JONG FIGHT CLUB

KONAMI has introduced a service called e-AMUSEMENT, which connects directly with on-line amusement services and allows people all over the country to enjoy realistic mahjong. Associations of people playing this game are springing up nationwide, and its popularity is on the increase.

KONAMI also plans to add entertainment features to existing equipment as it strives to introduce totally new types of fitness equipment currently unavailable on the market. KONAMI intends to further develop this business by focusing on fitness-at-home, an undeveloped market that is expected to grow steadily.

PERFORMANCE

During the fiscal year under review, we launched several highly innovative products including HIE HIE PENTA, the industry's first-ever ice cream vending machine; Celebrity Studio, a sticker printing machine that makes one's skin look beautiful; as well as Boxing Mania: Ashita no Jo, TSURUGI and Mocapboxing, which are games that players physically experience.

These games won acclaim for their innovative ideas but have not generated the kind of boom formerly enjoyed by music simulation games.

On the other hand, conversion kits for the music simulation game series Beatmania, Dance Dance Revolution, drummania and GUITAR FREAKS, as well as for the shooting game THE KEISATSUKAN, registered favorable sales, which underscores the fact that the market is continuing to support KONAMI's advanced creative capabilities.

In terms of new product proposals, we endeavored to invigorate amusement arcades by releasing products designed to cultivate new game genres. These include MAH-JONG FIGHT CLUB, a mahjong game equipped with a system that recognizes the player's skill level and is designed to allow battles between players in other locations; dogstation, a game that allows players to raise an original simulated pet; and MARTIAL BEAT, a fitness game with a martial-arts element.

In the face of slackening growth in the overall pachinko market, the LCD unit business recorded increased sales as a result of both pursuing LCD designs rich in entertainment and game value, and introducing distinctive products into the marketplace. We believe that this success is the result of having created a variety of popular products that offer superior game and entertainment value, since introducing our first game console 10 years ago.

During fiscal 2002, as a part of our efforts to combine entertainment with exercise, KONAMI introduced new core products that add digital entertainment features to the existing lineup of commercial fitness machines. In March 2002, KONAMI installed EZRUNNER and EZBIKE on a trial basis at Konami Sports Clubs. We will continually upgrade these products, which are revolutionary next-generation fitness equipment, and work to position them as market standards.

KONAMI introduced the commercial and home-use MARTIAL BEAT and home-use FAMIMAT, which provides dancing fun when hooked into the TV set. These products combine Konami Sports' abundant know-how and experience in promoting good health with KONAMI's high-quality entertainment features, and have attracted widespread attention in the market.

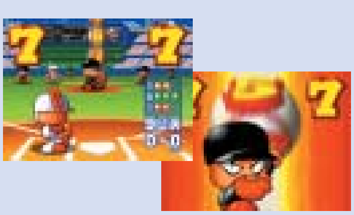
Consolidated sales of the business amounted to ¥38,733 million, an increase of 18.3% from fiscal 2001. Consolidated operating income was ¥6,392 million, a decline of 21.8% from the previous term. The consolidated operating income ratio was 16.5%, which decreased from 25.0% in the previous fiscal year.

OUTLOOK

Customer preferences are diversifying even more with the increasing popularity of video game software, mobile phones and the Internet. KONAMI will therefore endeavor to release highly innovative and original products that set them further apart from the competition. In addition, we will work aggressively to distribute contents through the use of networks and to provide games that several people can play simultaneously. We will also actively continue our efforts to offer other new types of products such as games that incorporate a high sense of realism and virtual communication, which can be enjoyed only at amusement arcades, as well as games that are customizable by players.

The LCD unit business will work to further exploit KONAMI's brand recognition and contents capabilities in terms of entertainment and game value, actively introducing new and more attractive products in line with KONAMI's understanding of market needs. We will be working to continue to increase the number of customers and to achieve an even more consistent revenue flow.

As health consciousness grows, KONAMI believes that the slogan, "Fun and Active! Fun and Healthy!", will become increasingly accepted throughout society. KONAMI has high hopes for large growth of this business, in which it will strive to combine entertainment with exercise.

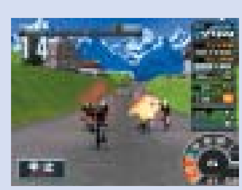


Liquid Crystal Displays for Pachinko Machines

KONAMI manufactures sophisticated, highly acclaimed entertainment products. We will continue to work with pachinko machine manufacturers to develop products in response to market demand. We will also use our own wealth of contents to maintain the excellent reputation we already enjoy in the market.

MARTIAL BEAT (PlayStation)

This is a fitness action game that uses a popular martial arts and music simulation game employed at Konami Sports Clubs. This product represents a new genre, which combines exercise with entertainment.



EZBIKE

This product combines an exercise bike with a racing game, and allows the easy combination of fun and training. Along with the EZRUNNER, which evolved from the traditional treadmill, the EZBIKE represents a new style of exercise.

GC Business
Gaming Content

Executive Corporate Officer, GC Business
Shuji Kido

The Gaming Content Business segment is involved in the production, manufacture and sale of both token-operated game machines for the domestic Japanese market and gaming machines for the North American and Australian markets.

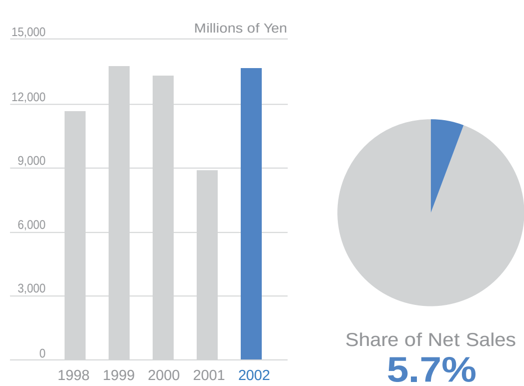
In addition to maintaining our sound position in the Japanese large-scale token-operated game machine market, where our products already enjoy an excellent reputation, we are looking to increase the competitiveness of our single-token machines as well.

Despite a slackening of sales in the North American market due in part to the events of September 11, KONAMI is continuing to make steady improvements in its business position through such actions as the strengthening of KONAMI's product lineup.

In October 2001, Konami Australia Pty Ltd became a new subsidiary charged with conducting the division's operations in Australia. We will continue to foster overseas operations of the GC business segment as one of KONAMI's primary businesses.

In fiscal 2002, consolidated sales of the business jumped 53.6% to ¥13,646 million. This business posted an operating loss of ¥714 million.

●Trends in Sales Volume of GC Business



MARKET ENVIRONMENT

Despite several years of horizontal movement in the domestic token-operated game machine market, KONAMI has successfully established a dominant position thanks both to the trend among operators toward larger facilities and to the strength of KONAMI's large-scale token-operated game machine lineup. We are currently planning an improved single-token-machine lineup and aim to use our status as an industry leader to revitalize the market.

In the overseas market, the number of countries and regions that permits casino operation is increasing annually, with parlors currently authorized to operate in over 110 countries and regions. The market for gaming machines is estimated to be ¥200 billion and is increasing. The increasingly high-tech wizardry of gaming machines is prompting the popularization of consoles

MONSTER GATE Series

This industry's first roleplaying game coin-operated game is receiving attention at amusement facilities throughout Japan. With the success of Monster Gate II, in July 2002 we opened a new world with the introduction of the GameBoy Advance version.

FORTUNE ORB

This token-operated game uses the largest cabinet of all KONAMI machines yet, features figures in 3D computer graphics on a liquid crystal monitor and provides a rich range of stage effects. It is being very well received at amusement facilities.

that offer superior entertainment and game value, and we are confident that this trend will allow us to maximize our exceptional production capabilities.

PERFORMANCE

During the fiscal year under review, KONAMI worked to strengthen its large-scale token-operated game machine lineup by actively introducing new products into the marketplace. Among the new offerings receiving a favorable market reception were FORTUNE ORB, with its rich range of stage effects; MONSTER GATE, the industry's first role-playing token-operated game; and GI-WINNING SIRE, which surpasses previous GI series games with its evolved game experience and realistic "right there in the midst of it" feel.

In the North American market, in addition to enhancing our product lineup, we have been actively acquiring licenses to expand our sales base. After receiving a license to manufacture and sell gaming machines in Nevada in January 2000, we acquired licenses in a total of 15 states including Mississippi, California and New Mexico as of July 2002.

Despite these promising developments, curbs in investment for facilities accompanying decreases in casino usage after the events of September 11 resulted in lower-than-expected performance during the 2002 fiscal year. While waiting for market conditions to improve, we will be working to improve the KONAMI brand and increase sales by expanding our product lineup.

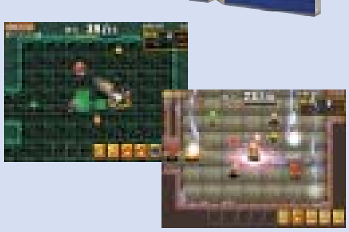
In Australia in October 2001, we made our local product development, manufacturing and sales base a full-fledged consolidated subsidiary. We have already won high acclaim and earned certain amount of share of the market and we will strive to expand these operations in the future.

As a result of the above factors, consolidated sales of the business soared 53.6% to ¥13,646 million, but recorded an operating loss of ¥714 million.

OUTLOOK

We will be working to further enhance our products in both the large-scale token-operated game machine category, where we have already obtained a dominant market share, and in the single-token machine category. At the same time, we will be moving toward the introduction of new kinds of products while striving to use our status as one of the industry's top manufacturers to revitalize the market. In manufacturing, we will be aiming to improve profitability by increasing the efficiency of our production operations as well as by reducing costs through the standardization of parts shared among products.

We will also be seeking to strengthen our overseas development, manufacturing and sales operations to expand our share in that ¥200 billion gaming machines market. Ultimately, we will work to apply our domestically well-regarded token-operated machine technologies to gaming machines for release in the overseas casino market. In the future, we will position the GC Business's operations as one of KONAMI's primary overseas businesses, proceeding with efforts in the United States to acquire licenses in all states with legalized gambling while continuing to increase our share in the Australian market, where we are already making inroads. We will accompany this aggressive business expansion with constant attention to new possibilities in other countries and regions that allow casino operation.



GI-WINNING SIRE

This is the ninth in our token-operated game series of highly popular horse racing, and is enjoying even greater popularity than the previous version. The pleasing associations connoted by the name of this game enable it to make contributions to amusement facilities everywhere.

Gaming Machines

KONAMI has introduced high-quality and superbly entertaining gaming machines in the U.S. and Australia. They are the outcome of KONAMI know-how of amusement machines and advanced digital expertise.

HF Business
Health & Fitness

At the end of March 2002, KONAMI operated 219 directly-managed and franchised sports clubs under the “eg-zas,” “people” and GRANCISE brand names.

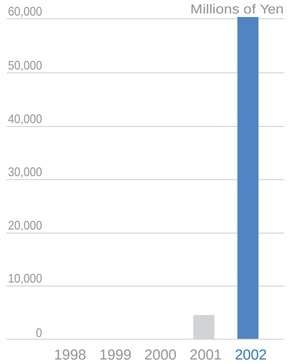
Today, with the rising average age in Japan, people are becoming increasingly aware of the importance of maintaining good health. Responding to this environment, and judging that this field is promising over the medium to long term, we entered the sports club business in February 2001 by bringing Konami Sports Corporation into the KONAMI Group. Konami Sports, (formerly PEOPLE CO., LTD.), commands the largest share of the sports club market in Japan.

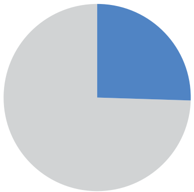
In February 2002, Daiei Olympic Sports Club, Inc. (now Konami Olympic Sports Club Corporation)*, which has the fifth-largest share in the sports club industry, also became a part of the KONAMI Group. This is expected to have a large and immediate impact on our business results.

In fiscal 2002, consolidated sales of the business jumped 1,251.5% to an all-time high of ¥60,546 million. Operating income was ¥4,081 million, and the consolidated operating income ratio was 6.7%.

* On October 1, 2002, Konami Sports Corporation will merge with Konami Olympic Sports Club Corporation.

●Trends in Sales Volume of HF Business





MARKET ENVIRONMENT

There are approximately 1,700 sports clubs across Japan, and the size of the market for sports clubs is approximately ¥300 billion. Over the short term, the market for sports clubs has been sluggish due to such factors as the slowdown of the Japanese economy. The percentage of the adult population participating in sports clubs in Japan is low compared with the United States. Nevertheless, there has been a growing health consciousness in Japan over the past several years, a trend that suggests growth in the sports club market in the medium to long term.

PERFORMANCE

During the fiscal year under review, continued growth in sports club sales and memberships was restrained by the sluggish economy. The total number of sports clubs in Japan, however, was approximately 1,700—one-tenth the number in the United States. Accordingly, KONAMI plans to aggressively open new outlets. As another approach to developing our sports club business, we have increased our network of outlets by taking over the operations of Nissan Sports Plaza Co., Ltd. (currently Konami Sports Plaza) and Tosei Sports Club (currently GRANCISE Otemachi). Through these efforts, we have achieved growth in sales on a total outlet basis, which includes new outlets.

In February 2002, we acquired an 82.17% share in Daiei Olympic Sports Club, Inc., which has the fifth-largest market share of the sports club industry. By




integrating the operations of this sports club into the Konami Sports Group, the total number of outlets in the Group amounted to 219 (including franchise operations) at the end of March 31, 2002.

Reflecting the previously mentioned factors, consolidated sales of the business rose 1,251.5% to an all-time high of ¥60,546 million, operating income amounted to ¥4,081 million, and consolidated operating income ratio was 6.7%.

OUTLOOK

The rate of participation in sports clubs by adults in Japan is exceedingly low compared with the United States. Despite this statistic, the market for sport clubs is expected to grow in the years ahead in tandem with a current rise in health consciousness. KONAMI plans to maintain or expand its current overwhelmingly large share of the market. With the restructuring of the sports club industry progressing, the KONAMI Group will continue to pursue a strategy of aggressively expanding its network, which includes carrying out M&A activities.

In addition, KONAMI plans to differentiate itself from its competitors by installing fitness machines that integrate entertainment features, providing unique programs, issuing membership cards that can be used nationwide, increasing the number of 24-hour facilities and offering programs that combine exercise with diet. This is expected to attract patrons who already participate in sports clubs as well as persons who have not yet joined a sports club.

eg-zas

Containing such programs as “body pump” and “body combat”, “eg-zas” can be enjoyed at sports clubs by beginners and advanced users alike. This is a leading brand making exercise more fun and accessible.

KONAMI SPORTS CLUB

people

The division of Konami Sports with the longest history, “people” sports clubs are aimed mainly at children, and concentrate on swimming and training as a means of achieving fitness. The swimming school takes into account customers’ ages and ability levels to create an ideal, tailor-made swimming program and curriculum for each individual. Many children have fun while exercising, and not only gain improved health but also knowledge and ability in sports.

people KONAMI SPORTS CLUB

GRANCISE

Established in March 2002, this flagship sports club of KONAMI features top-class facilities and the most modern exercise equipment. GRANCISE offers one-on-one instruction from highly trained fitness experts who give private lessons in total body management and support, swimming, golf and other activities. Offering an spectrum of training regimes from beginner to expert, GRANCISE provides business-class service “one rank above” competitors

KONAMI SPORTS CLUB
for EXECUTIVE
GRANCISE

Introduction of Nationwide Membership System from August 1

From August 1, 2002, the KONAMI Group introduced a new nationwide membership system allowing use of all of its sports clubs nationwide (some clubs excluded). Aiming at offering even higher levels of service in the future, we want to make the use of our sports clubs as convenient as possible for members. We are directly operating sports clubs in 29 municipalities and prefectures, and will expand this number to 47 to actively promote our sports club presence.

Corporate Planning Division, Finance and Accounting Division, and Business Affairs Solutions Division-Human Resources, Capital and Materials

Since adopting the divisional business structure in 1996, KONAMI has promoted the transfer of authority to each division while clarifying the responsibilities of each. We have built a framework in which divisions work hard independently while contributing to the growth of the entire the KONAMI Group. The KONAMI Group companies and business divisions are clearly divided into five business segments, each controlled by a general manager. KONAMI also has three key administrative divisions—the Corporate Planning Division, Finance and Accounting Division, and Business Affairs Solutions Division-each focusing on its respective domain of human resources, capital and materials. These three divisions work from the basic concept of our most important management objective-maximizing shareholder value-supporting KONAMI's return on equity (ROE) and backing up the Group as a whole.

Corporate Planning Division

Executive Corporate Officer,
Corporate Planning Division
Toshiro Tateno

The Corporate Planning Division is in charge of formulating the corporate vision and strategic planning for the entire Group.

It also proposes effective ways of allocating human resources within the Group and formulating incentive programs, thus stimulating organizations and preventing rigidity. In these ways, we are building personnel and remuneration systems conducive to the improvement of employee morale. Realizing the importance of leadership, we are also strengthening our education system for cultivating leaders.

The environment in the entertainment industry, where KONAMI does business, is undergoing significant change. Amid this vortex of change, there has been a diversification in business methods that include M&A, corporate alliances and outsourcing. Following such developments in the previous fiscal period as the forming of strategic business tie-up with TAKARA Co., Ltd. and the purchase of equity share in that company, as well as the acquisition of PEOPLE CO., LTD. (now Konami Sports Corporation), we formed strategic capital tie-up with HUDSON SOFT CO., LTD. and Genki Co., Ltd. during the fiscal year under review. In the future, we will also pursue M&A and business alliances as a means of providing the flexibility necessary to branch out into new markets and accelerate our business development overseas, where our market share is not large.

In addition to conventional management objectives related to international standards, competitiveness, and high profits, KONAMI will become more conscious of its various stakeholders, including shareholders, investors, users, business partners, employees and society. In this pursuit, management places high importance on further upgrading its disclosure practices and strengthening its compliance systems.

Finance and Accounting Division

Executive Corporate Officer,
Chief Financial Officer
Noriaki Yamaguchi

We consider stable dividends and improvement of corporate value to be the most important means of returning profits to shareholders. Specifically, our objective is to set total dividends at an amount equal to 30% of consolidated net income, and are continuing to work to increase dividend payments. We also set a target for consolidated ROE of at least 15%, with 8.1% achieved in fiscal 2002.

To further promote the globalization of its businesses, KONAMI continues to list its shares on major overseas markets. We listed on the Stock Exchange of Singapore in November 1997 and the London Stock Exchange in September 1999, respectively. We listed on the New York Stock Exchange (NYSE) in September 2002. As a result, we will be required to make disclosure based on U.S. GAAP in a timely and appropriate manner. The importance of compliance will also increase, including the disclosure to gaming authorities with the development of our overseas gaming business. KONAMI has already been voluntarily reporting its results on a quarterly basis since the third quarter of the previous fiscal year as it works to upgrade its information disclosure. In the future, we will further accelerate our reporting level and upgrade division-specific financial information, which will allow us to earn the trust of investors in Japan and overseas. In the short term, we will also strive to raise the ratings given to us by domestic credit-rating agencies while trying to obtain ratings from appropriate U.S. agencies. In these ways, we intend to reinforce our global fund-raising capabilities and diversify our global fund-raising methods.

In order to achieve further growth in profits, we need to address a number of issues, such as speeding up advances into overseas markets. Accordingly, as a part of efforts to use such methods as M&A and business alliances in a timely manner, we believe it is important to keep healthy liquid reserves and solidify our financial structure while maintaining a flexible organization. Therefore, following capital increase through a public offering made in March 2001, we issued corporate bonds worth ¥45 billion in September 2001.

Business Affairs Solutions Division

Executive Corporate Officer,
Business Affairs Solutions Division
Hidetoshi Inatomi

The operating environment surrounding KONAMI is changing dramatically. In addition to increasing profit, we are expected to act socially responsible and contribute to communities. Both in Japan and overseas, issues related to legal and intellectual property are attracting widespread attention. The importance of such issues to KONAMI will grow more than ever as it targets overseas market penetration and lists on the NYSE.

Amid this environment, the Business Affairs Solutions Division is building a business support system that incorporates the perspective of global standards. Accordingly, the division performs an important role for the KONAMI Group as a backup.

Our specific goal is to promote further management awareness of our various stakeholders, including shareholders, investors, users, business partners, employees and society, while fortifying our legal compliance system. We are also strengthening human resources, organizations and operating systems related to legal and intellectual property, including those operations overseas. In addition, we are working to build a management structure for strategic licensing operations to reinforce our contents. Equally important, we will further increase the speed of our in-house e-mail system and upgrade to multiplexing capabilities, which is an important measure from the perspective of providing an infrastructure conducive to efficient management of the KONAMI Group.

CONTENTS

Consolidated Financial Review

Fiscal 2002 and 2001 indicate the years ended March 31, 2002 and 2001 respectively.

RESULTS OF OPERATIONS

Net Revenues

Net revenues increased ¥54,099 million, or 31.5%, to ¥225,580 million in fiscal 2002 from ¥171,481 million in fiscal 2001 due primarily to robust sales of action and sports related video game software and the addition of a full year of revenues from our new fitness club business.

Cost of Revenues

Cost of revenues increased ¥51,583 million, or 50.0%, to ¥154,651 million in fiscal 2002 from ¥103,068 million in fiscal 2001, mirroring the rise in sales, and the inclusion of a full year of cost of revenues from our new health and fitness club business.

Selling, General and Administrative Expenses

Selling, general and administrative expenses increased ¥22,340 million, or 73.2%, to ¥52,842 million in fiscal 2002 from ¥30,502 million in fiscal 2001 due primarily to a write-off of lease deposits amounting to ¥4,137 million owed to us by a fitness club facility lessor that entered corporate reorganization proceedings in fiscal 2002, a ¥5,732 million increase in amortization of goodwill and identifiable intangible assets, ¥5,556 million of which was associated with the acquisition of Konami Sports Corporation, and a ¥4,995 million increase in directors' compensation and employees' salaries.

Operating Income

As a result of the foregoing, our operating income decreased ¥19,824 million, or 52.3%, to ¥18,087 million in fiscal 2002 from ¥37,911 million in fiscal 2001. As a percentage of net revenues, operating income decreased 14.1% to 8.0% in fiscal 2002 from 22.1% in fiscal 2001.

Other Income (Expenses), net

Other income (expenses), net increased ¥1,667 million, or 57.0%, to ¥4,591 million in fiscal 2002 from ¥2,924 million in fiscal 2001 due primarily to gains on the sale of subsidiary shares which increased by ¥707 million. We had a ¥3,526 million gain on the sale of shares in Konami Computer Entertainment Japan, Inc. during fiscal 2002 as compared to a gain of ¥3,948 million on the sale of shares in Konami Computer Entertainment Tokyo, Inc. in fiscal 2001. Interest expense decreased by ¥499 million during fiscal 2002 reflecting repayment of long-term debt. We currently do not have plans to raise additional cash from the issuance of subsidiary shares in the near future.

Income Before Income Taxes, Minority Interest and Equity in Net Income of Affiliated Companies

As a result of the foregoing, our income before income taxes and minority interest decreased ¥18,157 million, or 44.5%, to ¥22,678 million in fiscal 2002 from ¥40,835 million in fiscal 2001.

Income Taxes

In spite of an increase in our effective income tax rate from 47.0% to 51.5% resulting primarily from non-deductible amortization of goodwill, income taxes decreased ¥7,536 million, or 39.2%, to ¥11,667 million in fiscal 2002 from ¥19,203 million in fiscal 2001 due primarily to the 52.3% decrease in operating income.

Minority Interest in Income of Consolidated Subsidiaries

Minority interest in income of consolidated subsidiaries decreased ¥56 million, or 13.3%, to ¥364 million in fiscal 2002 from ¥420 million in fiscal 2001 due primarily to a write-off of lease deposits by Konami Sports Corporation discussed in Selling, General and Administrative Expenses above, which more than offset an overall increase in income of consolidated subsidiaries.

Equity in Net Income of Affiliated Companies

Equity in net income of affiliated companies increased ¥399 million, or 112.1%, to ¥755 million in fiscal 2002 from ¥356 million in fiscal 2001. Our share of the improved net income of Takara Co., Ltd. accounted for ¥442 million of this increase.

Net Income

As a result of the foregoing, our net income decreased ¥10,166 million, or 47.1%, to ¥11,402 million in fiscal 2002 from ¥21,568 million in fiscal 2001.

SEGMENT INFORMATION

Industry Segments

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 131, we have five 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 Japanese GAAP financial statements, with a reconciliation to U.S. GAAP. Therefore, the following discussion of segment information is based on our Japanese GAAP results of operations.

The following two tables present net revenues, operating expenses and operating income/loss for the two years ended March 31, 2001 and 2002, 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.

	Millions of Yen								
Year Ended March 31, 2002	CS	CP	AC	GC	HF	Other	Total	Eliminations and Corporate	Consolidated
Net revenues:									
Customers	¥88,762	¥25,213	¥31,641	¥13,264	¥60,426	¥6,274	¥225,580	—	¥225,580
Intersegment	1,367	388	7,092	382	120	2,622	11,971	¥(11,971)	—
Total	90,129	25,601	38,733	13,646	60,546	8,896	237,551	(11,971)	225,580
Operating expenses	71,898	18,401	32,341	14,360	56,465	9,021	202,486	(3,783)	198,703
Operating income (loss)	¥18,231	¥ 7,200	¥ 6,392	¥ (714)	¥ 4,081	¥ (125)	¥ 35,065	¥ (8,188)	¥ 26,877

	Millions of Yen								
Year Ended March 31, 2001	CS	CP	AC	GC	HF	Other	Total	Eliminations and Corporate	Consolidated
Net revenues:									
Customers	¥59,176	¥60,526	¥32,046	¥8,511	¥4,480	¥6,742	¥171,481	—	¥171,481
Intersegment	1,711	65	701	371	—	2,135	4,983	¥(4,983)	—
Total	60,887	60,591	32,747	8,882	4,480	8,877	176,464	(4,983)	171,481
Operating expenses	53,432	29,975	24,569	9,307	4,926	8,672	130,881	1,954	132,835
Operating income (loss)	¥ 7,455	¥30,616	¥ 8,178	¥ (425)	¥ (446)	¥ 205	¥ 45,583	¥(6,937)	¥ 38,646

Consumer Software

Net revenues of our Consumer Software segment increased ¥29,586 million, or 50.0%, to ¥88,762 million in fiscal 2002 from ¥59,176 million in fiscal 2001 due primarily to an increase of approximately ¥28,600 million in sales of video game software including hit titles such as *Metal Gear Solid 2: Sons of Liberty* of which five million DVDs were shipped worldwide, *Silent Hill 2 and World Soccer Winning Eleven 5 Final Evolution* for the PlayStation2 and *Yu-Gi-Oh! Duelmonsters 5 Expert 1* for the Game Boy Advance. The active global hardware systems market contributed to this increase as the release of Nintendo GameCube and Microsoft Xbox together with the rapid increase in sales of PlayStation2 stimulated the software market. Revenues from other products and services such as tuition fees for the Konami School increased by approximately ¥1,100 million.

Operating expenses increased ¥18,466 million, or 34.6%, to ¥71,898 million in fiscal 2002 from ¥53,432 million in fiscal 2001. The majority of this increase in operating expenses, or ¥15,005 million, was due to cost of revenues and the remaining ¥3,461 million increase was due to a rise in selling, general and administrative expenses, both of which rose in line with the increase in revenues.

Operating income increased ¥10,776 million, or 144.5%, to ¥18,231 million in fiscal 2002 from ¥7,455 million in fiscal 2001, reflecting the fact that revenues grew more quickly than expenses.

Character Products

Net revenues of our Character Products segment decreased ¥35,313 million, or 58.3%, to ¥25,213 million in fiscal 2002 from ¥60,526 million in fiscal 2001 due primarily to a decline of approximately ¥34,600 million in sales of card games such as the *Yu-Gi-Oh! Trading Card Game* from its peak during fiscal 2001. However, the series still generated approximately ¥20,400 million in sales during fiscal 2002. Sales of other character products decreased by approximately ¥700 million on a net basis although we experienced an increase in sales of our new *DigiQ* remote controlled cars which were sold through Takara Co., Ltd.

Operating expenses decreased ¥11,574 million, or 38.6%, to ¥18,401 million in fiscal 2002 from ¥29,975 million in fiscal 2001. Almost all of this decline in operating expenses, or ¥11,721 million, was due to decreased cost of revenues in line with the decline in revenues. This decrease was offset in part by a ¥147 million increase in selling, general and administrative expenses.

Operating income decreased ¥23,416 million, or 76.5%, to ¥7,200 million in fiscal 2002 from ¥30,616 million in fiscal 2001, reflecting the fact that revenues decreased more than costs.

Amusement Contents

Net revenues of our Amusement Contents segment decreased ¥405 million, or 1.3%, to ¥31,641 million in fiscal 2002 from ¥32,046 million in fiscal 2001 due primarily to a decline in the sales of our music-related amusement arcade games such as *Dance Dance Revolution* and *Guitar Freaks, whi*ch experienced very high sales in previous fiscal years. The decrease was offset in part by the sales of new amusement arcade games such as *Celebrity Studio*, an automatic photo machine and *Hie Hie Penta*, the first prize-awarding machine to provide frozen prizes. Overall, while revenues from amusement arcade games declined by approximately ¥6,100 million to ¥11,000 million, revenues from pachinko LCD units increased by approximately ¥700 million to approximately ¥15,400 million and revenues from fitness equipment sales increased by approximately ¥5,000 million to approximately ¥5,200 million.

Operating expenses increased ¥7,772 million, or 31.6%, to ¥32,341 million in fiscal 2002 from ¥24,569 million in fiscal 2001. This increase in operating expenses is mainly attributable to a ¥8,435 million increase in cost of revenues and a ¥1,367 million increase in selling, general and administrative expenses reflecting the addition of Konami Sports Life, which we acquired in February 2001, to our consolidated results. The increase was partially offset, however, by the decrease in operating expenses associated with amusement arcade games due to a decline in sales.

Operating income decreased ¥1,786 million, or 21.8%, to ¥6,392 million in fiscal 2002 from ¥8,178 million in fiscal 2001, reflecting the fact that operating expenses increased while revenues decreased.

Gaming Contents

Net revenues of our Gaming Contents segment increased ¥4,753 million, or 55.8%, to ¥13,264 million in fiscal 2002 from ¥8,511 million in fiscal 2001 due primarily to favorable sales of large-sized token-operated games such as *Fortune Orb, Monster Gate*, and *GI-Winning Sire* in the domestic market.

Revenues from sales of our token-operated games increased by approximately ¥1,400 million to approximately ¥8,700 million. Revenues from our sales of gaming machines increased by approximately ¥1,900 million to approximately ¥3,100 million due mostly to the acquisition of Konami Australia Pty. Ltd., our Australian sales agent and producer of gaming machines, which became a consolidated subsidiary in October 2001.

Operating expenses increased ¥5,053 million, or 54.3%, to ¥14,360 million in fiscal 2002 from ¥9,307 million in fiscal 2001 due primarily to increased sales and the addition of Konami Parlor Research, Inc. and Konami Australia to our consolidated results. The consolidation resulted in a ¥1,228 million and ¥668 million increase in cost of revenues and a ¥231 million and ¥507 million increase in selling, general and administrative expenses from Konami Parlor Research and Konami Australia, respectively.

Operating loss increased ¥289 million, or 68.0%, to ¥714 million in fiscal 2002 from ¥425 million in fiscal 2001, reflecting the fact that operating expenses increased more than revenues.

Health and Fitness

Net revenues of our Health and Fitness segment increased ¥55,946 million to ¥60,426 million in fiscal 2002 from ¥4,480 million in fiscal 2001 due primarily to the fact that only one full month of revenues was recorded for the segment in fiscal 2001 and the segment experienced substantial growth in fiscal 2002 through the acquisition of various competitors. Konami Sports was responsible for approximately ¥53,300 million of this increase in revenues.

Operating expenses increased ¥51,539 million, or 1,046.3%, to ¥56,465 million in fiscal 2002 from ¥4,926 million in fiscal 2001. Cost of revenues increased by ¥46,360 million and selling general and administrative expenses increased by ¥5,179 million due mainly to the addition of Konami Sports to our consolidated results, which we acquired in February 2001 and a write-off of lease deposits amounting to ¥4,137 million owed to us by a fitness club facility lessor that entered corporate reorganization proceedings in fiscal 2002. The addition of Konami Sports accounted for ¥38,080 million of the increase in cost of revenues and ¥5,036 million of the increase in selling, general and administrative expenses.

Operating income increased ¥4,527 million to ¥4,081 million in fiscal 2002 from a loss of ¥446 million in fiscal 2001 due primarily to the addition of Konami Sports to our consolidated results.

Other

Net revenues of our Other segment decreased ¥468 million, or 6.9%, to ¥6,274 million in fiscal 2002 from ¥6,742 million in fiscal 2001 due primarily to a decrease in revenues of approximately ¥300 million from the operation of amusement arcade centers.

Operating expenses increased ¥349 million, or 4.0%, to ¥9,021 million in fiscal 2002 from ¥8,672 million in fiscal 2001 due to a ¥288 million increase in selling, general and administrative expenses and a ¥121 million increase in cost of revenues.

The other segment had operating income in the amount of ¥205 million for the year ended March 31, 2001 but operating loss in the amount of ¥125 million, for the year ended March 31, 2002, reflecting the fact that operating expenses increased while revenues decreased.

Geographic Segments

The following two tables set forth our geographic segments during fiscal 2002 and fiscal 2001:

	Millions of Yen						
Year Ended March 31, 2002	Japan	Americas	Europe	Asia/Oceania	Total	Eliminations	Consolidated
Net revenues:							
Customers	¥177,618	¥ 26,002	¥19,320	¥2,640	¥225,580	—	¥225,580
Intersegment	31,446	2,860	6	199	34,511	¥(34,511)	—
Total	209,064	28,862	19,326	2,839	260,091	(34,511)	225,580
Operating expenses	185,089	30,438	14,944	2,695	233,166	(25,673)	207,493
Operating income (loss)	¥ 23,975	¥ (1,576)	¥ 4,382	¥ 144	¥ 26,925	¥ (8,838)	¥ 18,087

	Millions of Yen						
Year Ended March 31, 2001	Japan	Americas	Europe	Asia/Oceania	Total	Eliminations	Consolidated
Net revenues:							
Customers	¥153,269	¥8,499	¥8,172	¥1,541	¥171,481	—	¥171,481
Intersegment	11,911	398	2	42	12,353	¥(12,353)	—
Total	165,180	8,897	8,174	1,583	183,834	(12,353)	171,481
Operating expenses	119,043	12,156	7,515	1,633	140,347	(6,777)	133,570
Operating income (loss)	¥ 46,137	¥(3,259)	¥ 659	¥ (50)	¥ 43,487	¥ (5,576)	¥ 37,911

Japan

Net revenues in Japan for fiscal 2002 increased ¥24,349 million, or 15.9%, to ¥177,618 million compared with fiscal 2001. This increase was primarily the result of the positive market reception for our new video game software title, *Metal Gear Solid 2: Sons of Liberty* (PlayStation2 edition), continued success of our standard sports game titles and continued solid revenue from our fitness club facilities. However, due mainly to a decrease in sales of our highly profitable card games, operating income decreased ¥22,162 million, or 48.0%, to ¥23,975 million from fiscal 2001.

Americas

Net revenues in the Americas for fiscal 2002 increased ¥17,503 million, or 205.9%, to ¥26,002 million compared with fiscal 2001. This increase was due primarily to the success of *Metal Gear Solid 2: Sons of Liberty* in our Consumer Software segment. However, mainly as a result of expenses associated with the establishment of our gaming business, we recorded an operating loss of ¥1,576 million for fiscal 2002. This figure, however, was a result of an improvement of ¥1,683 million, or 51.6%, compared with the operating loss recorded for fiscal 2001.

Europe

Net revenues in Europe for fiscal 2002 increased ¥11,148 million, or 136.4%, to ¥19,320 million compared with fiscal 2001. Despite a decrease in net revenues in our Amusement Contents segment, video game software titles *Metal Gear Solid 2: Sons of Liberty* and *Silent Hill 2* of our Consumer Software segment recorded big hits and made significant contributions to our operating results. Operating income increased ¥3,723 million, or 564.9%, to ¥4,382 million compared with fiscal 2001.

Asia/Oceania

Net revenues in Asia/Oceania for fiscal 2002 increased ¥1,099 million, or 71.3%, to ¥2,640 million compared with fiscal 2001. Although net revenues in our Amusement Contents segment was down from fiscal 2001, the increase in revenues was mainly the result of solid performance in the gaming business of our Gaming Contents segment, which made Konami Australia Pty. Ltd. a consolidated subsidiary during the year. Operating income for fiscal 2002 was ¥144 million, up from an operating loss of ¥50 million in fiscal 2001.

FINANCIAL POSITION AND CASH FLOWS

Assets, liabilities and shareholders' equity

Current assets on March 31, 2002 increased ¥17,203 million, or 13.8%, to ¥142,055 million compared with the previous fiscal year-end due primarily to an ¥8,375 million increase in cash and cash equivalents, and a ¥3,572 million increase in deferred income taxes. This increase in deferred income taxes was due mainly to an increase in eliminations of intercompany profits on inventories.

Net property and equipment increased ¥5,491 million, or 14.4%, to ¥43,562 million. The main element of this increase was the fact that Konami Olympic Sports Club Corporation (formerly Daiei Olympic Sports Club, Inc.) became our consolidated subsidiary as of the end of February 2002.

Investments and other assets increased ¥11,567 million, or 8.8%, to ¥142,474 million due primarily to an increase of ¥9,280 million in investments in affiliates, especially in Hudson Soft Co., Ltd.

As a result, total assets on March 31, 2002 increased ¥34,261 million, or 11.7%, to ¥328,091 million compared with the previous fiscal year-end.

The total of current and long-term liabilities on March 31, 2002 increased ¥40,081 million, or 34.2%, to ¥157,185 million compared with the previous fiscal year-end. This increase in total liabilities was primarily the result of the issuance of bonds that totaled ¥45,000 million, the redemption of bonds that totaled ¥10,000 million and a ¥5,262 increase in short-term borrowings.

Shareholders' equity on March 31, 2002 decreased ¥10,161 million, or 7.0%, to ¥134,990 compared with the previous fiscal year-end due primarily to repurchases of treasury stock, which totaled ¥15,006 million. The equity ratio decreased 8.3% to 41.1% compared with the previous fiscal year-end.

Capital expenditure, depreciation and amortization, and R&D expenses

Capital expenditures for fiscal 2002 decreased ¥56,917 million, or 73.3%, to ¥20,681 million compared with fiscal 2001, reflecting the fact that we invested ¥69,415 million in Konami Sports Corporation (formerly PEOPLE Co., LTD.) in fiscal 2001.

Depreciation and amortization expenses for fiscal 2002 increased ¥10,353 million, or 202.7%, to ¥15,460 million compared with fiscal 2001. This increase resulted from the fact that Konami Sports Corporation (formerly PEOPLE CO., LTD.) became a subsidiary in February 2001 and, therefore, fiscal 2002 was the first accounting period in which full 12 months of depreciation and amortization expenses were applicable toward it.

R&D expenses for fiscal 2002 increased ¥25 million, or 2.3%, to ¥861 million, almost equivalent to those in fiscal 2001.

Cash Flows

The following table sets forth certain information about our cash flows during fiscal 2002 and fiscal 2001:

	Millions of Yen	
Fiscal year ended March 31	2001	2002
Net cash provided by operating activities	¥ 22,398	¥ 11,119
Net cash used in investing activities	(72,788)	(16,024)
Net cash provided by financing activities	59,261	12,613
	8,871	7,708
Effect of exchange rate changes on cash and cash equivalents	576	667
Net increase in cash and cash equivalents	9,447	8,375
Cash and cash equivalents at beginning of period	57,366	66,813
Cash and cash equivalents at end of period	¥ 66,813	¥ 75,188

Net cash provided by operating activities amounted to ¥22,398 million in fiscal 2001 and ¥11,119 million in fiscal 2002. In fiscal 2002, a ¥10,166 million decrease in net income was offset by a ¥10,353 million increase in depreciation and amortization expenses. Net cash provided by operating activities decreased principally due to a ¥12,377 million decrease in trade notes and accounts payable as compared to fiscal 2001, which was caused in large part by bill payments from the previous year being credited on the first day of fiscal 2002 due to a banking holiday.

Cash used in investing activities in recent periods includes acquisitions of several subsidiaries and investments in affiliates, as well as investments in property and equipment. There was a decrease in cash used in investing activities to ¥16,024 million in fiscal 2002, from ¥72,788 in fiscal 2001, due primarily to a substantially smaller amount of expenditures on investments and acquisitions in fiscal 2002 as compared to fiscal 2001. In fiscal 2001, we acquired the business that is now Konami Sports Corporation. In fiscal 2002, we made further acquisitions of smaller fitness clubs and investments in strategic partners in the video game software industry such as Hudson Soft Co., Ltd. and Genki Co., Ltd. During fiscal 2002, we also sold outstanding shares of Konami TYO for ¥1,797 million, which resulted in a gain of ¥1,129 million.

Cash provided by financing activities totaled ¥12,613 million in fiscal 2002 as compared to ¥59,261 in fiscal 2001. During fiscal 2001, cash in the amount of ¥6,013 million was provided by the issuance of shares by Konami Computer Entertainment Tokyo, Inc. from its initial public offering. We also received ¥62,824 million from the issuance of our own shares in a global equity offering. During fiscal 2002, we received cash in the amount of ¥7,035 million in the initial public offering of Konami Computer Entertainment Japan, Inc. As a result, net proceeds from the issuance of common stock decreased ¥61,802 million as compared to fiscal 2001, but this was partially offset by a ¥44,509 increase in proceeds from long-term debt issued during fiscal 2002. Cash provided by financing activities in fiscal 2002 was further reduced by repurchases of treasury stock and repayments of long-term debt. We currently do not have plans to raise additional cash from the issuance of shares in the near future.

Consolidated Balance Sheets

KONAMI CORPORATION AND SUBSIDIARIES
March 31, 2001 and 2002

	Millions of Yen		Thousands of U.S. Dollars
	2001	2002	2002
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents	¥ 66,813	¥ 75,188	$ 564,263
Trade notes and accounts receivable, net of allowance for doubtful accounts of ¥529 million and ¥636 million ($4,773 thousand) at March 31, 2001 and 2002, respectively	33,342	34,275	257,223
Inventories	13,997	15,990	120,000
Deferred income taxes, net	6,136	9,708	72,856
Prepaid expenses and other current assets	4,564	6,894	51,737
Total current assets	124,852	142,055	1,066,079
PROPERTY AND EQUIPMENT, net	38,071	43,562	326,919
INVESTMENTS AND OTHER ASSETS:			
Investments in marketable securities	761	204	1,531
Investments in affiliates	4,179	13,459	101,006
Identifiable intangible assets	61,798	60,169	451,550
Goodwill	36,913	36,825	276,360
Lease deposits	21,697	24,654	185,021
Other assets	5,559	7,163	53,755
Total investments and other assets	130,907	142,474	1,069,223
TOTAL ASSETS	¥293,830	¥328,091	$2,462,221

See accompanying notes to consolidated financial statements.

	Millions of Yen		Thousands of U.S. Dollars
	2001	2002	2002
LIABILITIES AND SHAREHOLDERS' EQUITY			
CURRENT LIABILITIES:			
Short-term borrowings	¥ 5,686	¥ 10,948	$ 82,161
Current portion of long-term debt and capital lease obligations	14,062	4,751	35,655
Trade notes and accounts payable	24,651	20,292	152,285
Income taxes payable	14,881	13,224	99,242
Accrued expenses	15,699	21,120	158,499
Deferred revenue	2,018	3,866	29,013
Other current liabilities	3,353	5,347	40,128
Total current liabilities	80,350	79,548	596,983
LONG-TERM LIABILITIES:			
Long-term debt and capital lease obligations, less current portion	6,469	48,031	360,458
Accrued pension and severance costs	2,849	2,607	19,565
Deferred income taxes, net	25,702	22,986	172,503
Other long-term liabilities	1,734	4,013	30,116
Total long-term liabilities	36,754	77,637	582,642
MINORITY INTEREST IN CONSOLIDATED SUBSIDIARIES	31,575	35,916	269,538
SHAREHOLDERS' EQUITY:			
Common stock, no par value — Authorized 450,000,000 shares;			
issued 128,737,566 shares at March 31, 2001 and 2002	47,399	47,399	355,715
Additional paid-in capital	46,736	46,736	350,739
Legal reserve	1,770	2,163	16,233
Retained earnings	49,220	53,149	398,867
Accumulated other comprehensive income	26	546	4,097
Total	145,151	149,993	1,125,651
Treasury stock, at cost —			
28 shares and 4,257,751 shares at March 31, 2001 and 2002, respectively	—	(15,003)	(112,593)
Total shareholders' equity	145,151	134,990	1,013,058
COMMITMENTS AND CONTINGENCIES	—	—	—
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	¥293,830	¥328,091	$2,462,221

Consolidated Statements of Income

KONAMI CORPORATION AND SUBSIDIARIES
Years ended March 31, 2001 and 2002

	Millions of Yen		Thousands of U.S. Dollars
	2001	2002	2002
NET REVENUES:			
Product sales revenue	¥167,001	¥165,154	$1,239,430
Service revenue	4,480	60,426	453,478
Total net revenues	171,481	225,580	1,692,908
COSTS AND EXPENSES:			
Costs of products sold	99,016	104,192	781,929
Costs of services rendered	4,052	50,459	378,679
Selling, general and administrative	30,502	52,842	396,563
Total costs and expenses	133,570	207,493	1,557,171
Operating income	37,911	18,087	135,737
OTHER INCOME (EXPENSES):			
Interest income	468	244	1,831
Interest expense	(1,266)	(767)	(5,756)
Gain on sale of subsidiary shares	3,948	4,655	34,934
Other, net	(226)	459	3,445
Other income (expenses), net	2,924	4,591	34,454
INCOME BEFORE INCOME TAXES, MINORITY INTEREST AND EQUITY IN NET INCOME OF AFFILIATED COMPANIES	40,835	22,678	170,191
INCOME TAXES:			
Current	20,902	17,276	129,651
Deferred	(1,699)	(5,609)	(42,094)
Total	19,203	11,667	87,557
INCOME BEFORE MINORITY INTEREST AND EQUITY IN NET INCOME OF AFFILIATED COMPANIES	21,632	11,011	82,634
MINORITY INTEREST IN INCOME OF CONSOLIDATED SUBSIDIARIES	420	364	2,732
EQUITY IN NET INCOME OF AFFILIATED COMPANIES	356	755	5,666
NET INCOME	¥ 21,568	¥ 11,402	$ 85,568

	Yen		U.S. Dollars
	2001	2002	2002
PER SHARE DATA:			
Basic and Diluted Net Income per Share	¥189.04	¥89.32	$0.67
Weighted-Average Common Shares Outstanding	114,093,518	127,647,120	

See accompanying notes to consolidated financial statements.

Consolidated Statements of Shareholders' Equity and Accumulated Other Comprehensive Income

KONAMI CORPORATION AND SUBSIDIARIES

Years ended March 31, 2001 and 2002

	Millions of Yen						
	Common Stock	Additional Paid-in Capital	Legal Reserve	Retained Earnings	Accumulated Other Comprehensive Income	Treasury Stock, at Cost	Total Shareholders' Equity
Balance at March 31, 2000	¥15,794	¥15,517	¥1,162	¥34,174	¥(388)	¥ (32)	¥ 66,227
Net income				21,568			21,568
Cash dividends, ¥54.0 per share				(5,914)			(5,914)
Net unrealized losses on available-for-sale securities					(26)		(26)
Foreign currency translation adjustments					440		440
New stock issuance for cash	31,605	31,219					62,824
Exercise of stock option						31	31
Reissuance of treasury stock						1	1
Transfer from retained earnings			608	(608)			—
Balance at March 31, 2001	47,399	46,736	1,770	49,220	26	—	145,151
Net income				11,402			11,402
Cash dividends, ¥54.0 per share				(7,080)			(7,080)
Net unrealized losses on available-for-sale securities					(189)		(189)
Foreign currency translation adjustments					709		709
Reissuance of treasury stock						3	3
Repurchase of treasury stock						(15,006)	(15,006)
Transfer from retained earnings			393	(393)			—
Balance at March 31, 2002	¥47,399	¥46,736	¥2,163	¥53,149	¥ 546	¥(15,003)	¥134,990

	Thousands of U.S. Dollars						
	Common Stock	Additional Paid-in Capital	Legal Reserve	Retained Earnings	Accumulated Other Comprehensive Income	Treasury Stock, at Cost	Total Shareholders' Equity
Balance at March 31, 2001	$355,715	$350,739	$13,284	$369,381	$ 195	—	$1,089,314
Net income				85,568			85,568
Cash dividends, $0.41 per share				(53,133)			(53,133)
Net unrealized losses on available-for-sale securities					(1,418)		(1,418)
Foreign currency translation adjustments					5,320		5,320
Reissuance of treasury stock						$ 22	22
Repurchase of treasury stock						(112,615)	(112,615)
Transfer from retained earnings			2,949	(2,949)			—
Balance at March 31, 2002	$355,715	$350,739	$16,233	$398,867	$ 4,097	$(112,593)	$1,013,058

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows

KONAMI CORPORATION AND SUBSIDIARIES
Years ended March 31, 2001 and 2002

	Millions of Yen		Thousands of U.S. Dollars
	2001	2002	2002
Cash flows from operating activities:			
Net income	¥21,568	¥11,402	$ 85,568
Adjustments to reconcile net income to net cash provided by operating activities —			
Depreciation and amortization	5,107	15,460	116,023
Provision for doubtful receivables	36	4,189	31,437
Loss on sale or disposal of property and equipment, net	747	924	6,934
Gain on sale of subsidiary shares	(3,948)	(4,655)	(34,934)
Equity in net income of affiliated companies	(356)	(755)	(5,666)
Minority interest	420	364	2,732
Deferred income taxes	(1,699)	(5,609)	(42,094)
Change in assets and liabilities:			
Increase in trade notes and accounts receivable	(7,552)	(3,930)	(29,493)
Increase in inventories	(1,053)	(1,594)	(11,962)
Increase (decrease) in trade notes and accounts payable	6,443	(5,934)	(44,533)
Increase (decrease) in income taxes payable	2,026	(1,722)	(12,923)
Increase in accrued expenses	2,050	2,305	17,298
Increase in deferred revenue	142	805	6,041
Other, net	(1,533)	(131)	(983)
Net cash provided by operating activities	22,398	11,119	83,445
Cash flows from investing activities:			
Purchases of investments in affiliates	(3,887)	(8,115)	(60,901)
Proceeds from sales of investments in subsidiaries	—	1,797	13,486
Capital expenditures	(4,043)	(8,095)	(60,750)
Proceeds from sales of property and equipment	1,274	444	3,332
Acquisition of new subsidiaries, net of cash acquired	(68,656)	692	5,194
Decrease in time deposits	1,415	90	675
Decrease (increase) in lease deposits, net	28	(1,877)	(14,086)
Other, net	1,081	(960)	(7,205)
Net cash used in investing activities	(72,788)	(16,024)	(120,255)
Cash flows from financing activities:			
Net decrease in short-term borrowings	(1,220)	(1,108)	(8,315)
Proceeds from long-term debt	721	45,230	339,437
Repayments of long-term debt	(1,983)	(13,172)	(98,852)
Principal payments under capital lease obligations	(1,180)	(2,407)	(18,064)
Net proceeds from issuance of common stock	62,824	—	—
Net proceeds from issuance of common stock by subsidiaries	6,013	7,035	52,795
Dividends paid	(5,991)	(7,652)	(57,426)
Purchases of treasury stock	—	(15,006)	(112,615)
Other, net	77	(307)	(2,303)
Net cash provided by financing activities	59,261	12,613	94,657
Effect of exchange rate changes on cash and cash equivalents	576	667	5,005
Net increase in cash and cash equivalents	9,447	8,375	62,852
Cash and cash equivalents, beginning of year	57,366	66,813	501,411
Cash and cash equivalents, end of year	¥66,813	¥75,188	$564,263

See accompanying notes to consolidated financial statements.

1 DESCRIPTION OF BUSINESS AND ORGANIZATION, BASIS OF ACCOUNTING, TRANSLATION INTO U.S. DOLLARS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Business and Organization

KONAMI CORPORATION ("Konami") was founded in 1969 and was incorporated under the laws of Japan in March 1973. Konami and its subsidiaries engage in production and sale of 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 and its subsidiaries' 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 and its subsidiaries' 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 and its subsidiaries 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 and its subsidiaries 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 and its subsidiaries have always obtained extensions or new agreements with the platform manufacturers. 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 and its subsidiaries' costs and the timing of release of new game titles.

In the United States, Canada and Australia, the manufacture and distribution of Konami and its subsidiaries' gaming machines are subject to numerous federal, state and local regulations. In addition, Konami and its subsidiaries 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 and its subsidiaries can generate revenues. Konami and its subsidiaries and their key personnel are subject to an extensive investigation before each jurisdictional gaming license is issued. Also, Konami and its subsidiaries' 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

Konami 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 them with accounting principles generally accepted in the United States of America ("U.S. GAAP").

Translation into U.S. Dollars

The accompanying consolidated financial statements are stated in Japanese yen, the currency of the country in which Konami 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, Ltd. as of March 29, 2002 of ¥133.25 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 Konami 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 and its subsidiaries classify their debt and equity securities into one of the 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 and its subsidiaries have 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 holding 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 earned. As of March 31, 2001 and 2002, all equity securities held by Konami are classified as available-for-sale.

d. Investments in Affiliates

For those investments in affiliates in which Konami's voting interest is between 20% and 50% and it has the ability to exercise significant influence over the affiliate's operations, the equity method of accounting is used. Under this method, the investment originally recorded at cost is adjusted to recognize Konami's share of the net earnings or losses of the affiliates, including amortization of the excess of Konami's cost over its percentage interest in the net assets of each affiliate. All significant intercompany profits from these affiliates have been eliminated.

Investments in non-marketable equity securities in which Konami's ownership is less than 20% are carried at cost. A decline in the 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 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 3 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 present value of minimum lease payments and is amortized on a straight-line basis over the shorter of the lease term or estimated useful life of the asset, which ranged from 2 to 7 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.

g. Intangible Assets Other Than Goodwill

Under the provisions of Statement of Position ("SOP") 98-1, "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use," Konami and its subsidiaries have 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 two to five years. Konami and its subsidiaries expense costs incurred during the preliminary project stage which include costs for making strategic decisions about the project, and determining performance and system requirements. Konami and its subsidiaries also expense costs incurred for internal-use software in the post-implementation stage such as training and maintenance costs.

Identifiable intangible assets represent intangible assets related to trademarks, membership lists, gaming licenses, existing technology, customer relationships and franchise contracts acquired in connection with acquisitions of subsidiaries. Intangible assets related to trademarks, gaming licenses, and franchise contracts are determined to have an indefinite useful life. Intangible assets with an indefinite life acquired prior to June 30, 2001 have been amortized using the straight-line method over 40 years in accordance with the requirements under Accounting Principles Board Opinion ("APB") No. 17, "Intangible Assets". Intangible assets with an indefinite life acquired after June 30, 2001 have not been subject to amortization according to the non-amortization provisions of Statement of Financial Accounting Standards ("SFAS") No. 142 which is discussed in (h) below. Intangible assets related to membership lists, existing technology, and customer relationships have been amortized over their estimated useful lives of 2 to 5 years. Konami and its subsidiaries assess the recoverability of these intangible assets according to SFAS No.121, "Accounting for the Impairment of Long-lived Assets and for Long-lived Assets to be Disposed of," as described in (i).

h. Goodwill

Goodwill represents the difference between the cost of acquired companies and amounts allocated to the estimated fair value of their net assets.

In June 2001, the Financial Accounting Standards Board ("FASB") issued SFAS No. 141, "Business Combinations," which supercedes APB No. 16. SFAS No. 141 requires all business combinations initiated after June 30, 2001 to be accounted for under the purchase method of accounting. In addition, SFAS No. 141 establishes criteria for the recognition of intangible assets separately from goodwill. Konami and its subsidiaries adopted SFAS No. 141 on June 30, 2001 and the adoption did not have a material effect on Konami and its subsidiaries' results of operations, financial position or cash flows.

In June 2001, the FASB issued SFAS No. 142, "Goodwill and Other Intangible Assets". Under SFAS No. 142, unamortized goodwill and certain other intangible assets are no longer subject to amortization over their useful lives, but are subject at least annually to assessments for impairment based on fair value. Goodwill and intangible assets acquired after June 30, 2001 are subject immediately to the non-amortization and amortization provisions of SFAS No. 142. Goodwill and other intangible assets acquired prior to June 30, 2001, were not subject to the non-amortization and amortization provisions until SFAS No. 142 was fully adopted by Konami and its subsidiaries on April 1, 2002. Konami and its subsidiaries expect that the adoption of SFAS No. 142 will have a significant impact on future operating results as income will increase as a result of reduced amortization expense. Konami and its subsidiaries recorded approximately ¥3,280 million ($24,615 thousand) of amortization on goodwill and identifiable intangible assets with indefinite lives for the year ended March 31, 2002 and would have recorded approximately ¥3,280 million ($24,615 thousand) of amortization for the year ending March 31, 2003.

Prior to the adoption of SFAS No. 142, the recoverability of goodwill was assessed according to SFAS No. 121 as described in (i).

Goodwill acquired prior to June 30, 2001 has been amortized on a straight-line basis over the estimated useful life of 20 years in accordance with the requirements under APB No. 17. Goodwill acquired after June 30, 2001 has not been subject to amortization according to the non-amortization provisions of SFAS No. 142.

i. Impairment of Long-Lived Assets and Long-Lived Assets to Be Disposed Of

Konami and its subsidiaries' long-lived assets are reviewed for impairment according to SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of," whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Factors Konami and its subsidiaries 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. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell.

j. Derivative Financial Instruments

From time to time, Konami and its subsidiaries use certain derivative financial instruments to manage its foreign currency risks. Konami and its subsidiaries 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.

Effective April 1, 2001, Konami and its subsidiaries adopted SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities." 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 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 period of change. The adoption of SFAS No. 133 did not have a material impact on Konami and its subsidiaries' consolidated financial position and results of operations. To date, there has been no derivative instrument designated as a hedge by Konami and its subsidiaries.

k. Severance and Retirement Plans

Konami and its domestic subsidiaries have defined benefit severance and retirement plans which are accounted for in accordance with SFAS No. 87, "Employers' Accounting for Pensions." It was not feasible to obtain actuarial information necessary to implement the standard as of the effective date as specified in the standard of April 1, 1989. Upon adoption, Konami and its subsidiaries recognized the entire amount of the transition obligation of ¥199 million as a direct deduction to beginning shareholders' equity to reflect the effect of the retroactive adoption as of April 1, 1989.

l. Income Taxes

Konami and its subsidiaries account 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 and its subsidiaries derive revenue from primarily two sources: (i) product revenue, which includes packaged game software and other products, game machines and related equipment and components, and (ii) membership fee revenue from health and fitness club members.

Konami and its subsidiaries' revenue recognition criteria are as follows:

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

For Konami and its subsidiaries' 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.

Delivery Has Occurred.
Packaged game software and other products are physically delivered to customers. Also, Konami and its subsidiaries' game machines and related equipment are physically delivered to customers as a fully-assembled, ready to be installed unit. Accordingly, Konami and its subsidiaries recognize revenue from product sales upon delivery since the terms of the sale are based on free on board ("FOB") destination. Generally, Konami and its subsidiaries do not permit exchanges or accept returns of unsold merchandise except in the case of obvious defects. In certain limited circumstances Konami and its subsidiaries may allow returns, for which Konami and its subsidiaries estimate 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 are 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. Initial membership fee revenue is deferred and recognized over the estimated period of the related membership.

The Price is Fixed or Determinable.
The price customers pay for Konami and its subsidiaries' 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 and its subsidiaries' membership fee for health and fitness clubs is fixed at the time of admission of the member.

Collection is Probable.
Probability of collection is assessed on a customer-by-customer basis. Konami and its subsidiaries typically sell to customers with whom Konami and its subsidiaries 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 Konami and its subsidiaries' health and fitness clubs, the collectibility of membership fees is assured as it generally charges members' accounts one-month in advance.

n. Software Development Costs

Research and development expenses are charged to income as incurred. Research and development expenses included in selling, general and administrative expenses amounted to ¥836 million and ¥861 million ($6,462 thousand) for the years ended March 31, 2001 and 2002, respectively, in the accompanying consolidated statements of income.

SFAS No. 86, "Accounting for the Cost 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 and its subsidiaries' current practice of developing new game software products, the 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 and its subsidiaries capitalize these costs and begin to expense them upon release of the product through cost of revenues or 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 cost 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 ¥941 million and ¥1,005 million ($7,542 thousand) at March 31, 2001 and 2002, respectively, and were included in Prepaid expenses and other current assets in the accompanying consolidated balance sheets.

p. 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 ¥6,572 million and ¥6,973 million ($52,330 thousand) for the years ended March 31, 2001 and 2002, respectively.

q. Stock-based Compensation

Konami accounts for its stock-based compensation plan to directors and employees using the intrinsic value based method prescribed by APB No. 25, "Accounting for Stock Issued to Employees" and FASB Interpretation No. 44, "Accounting for Certain Transactions Involving Stock Compensation — an Interpretation of APB No. 25." ("FIN No. 44"). As such, compensation expense is recorded on the date of grant only if the current fair value of the underlying stock exceeds the exercise price. SFAS No. 123, "Accounting for Stock-Based Compensation," allows companies to continue to apply the provisions of APB No. 25, where applicable, and provide pro forma disclosure for employee stock option grants as if the fair value based method defined in SFAS No. 123 had been applied. Konami and its subsidiaries have elected to continue to apply the provisions of APB No. 25 for their stock-based compensation plans to directors and employees.

r. Issuance of Stock by Subsidiaries

The change in Konami's proportionate share of subsidiary equity resulting from issuance of stock by the subsidiary is accounted for as gain or loss, including the related income tax effect, in the period such shares are issued provided the sale of such shares by the subsidiary is not a part of a broader corporate reorganization contemplated or planned by the registrant. If such transaction is considered to be a part of a broader corporate reorganization, it is accounted for as a capital transaction in the consolidated financial statements.

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 includes primarily foreign currency translation adjustments and unrealized gains (losses) from marketable securities considered available-for-sale.

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/loss charged to income.

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. Earnings Per Share

Earnings per share ("EPS") is presented in accordance with the provisions of SFAS No. 128, "Earnings Per Share." Under SFAS No. 128, basic EPS excludes dilution for potential common stock and is computed by dividing consolidated net income by the weighted-average number of common shares outstanding. Diluted EPS 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.

Konami has no dilutive securities outstanding at March 31, 2001 and 2002, and therefore there is no difference between basic and diluted EPS.

v. Use of Estimates

Preparation of these consolidated financial statements requires management of Konami and its subsidiaries 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.

w. Recent Pronouncements

In June 2001, the Financial Accounting Standards Board, issued SFAS No. 143, "Accounting for Asset Retirement Obligations". SFAS No. 143 is effective for Konami and its subsidiaries beginning April 1, 2003. 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. Konami and its subsidiaries are in the process of determining the impact, if any, that SFAS No. 143 will have on the results of operations and financial position.

In August 2001, the Financial Accounting Standards Board issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets". SFAS No. 144 supercedes SFAS No. 121, but retains SFAS No. 121's fundamental provisions for (a) recognition and measurement of impairment of long-lived assets held and used and (b) measurements of long-lived assets disposed of by sale. SFAS No. 144 also supercedes Accounting Principle Board Opinion No. 30 "Reporting the Results of Operation—Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions" for segments of a business to be disposed of but retains APB No. 30's requirement to report discontinued operations separately from continuing operations. SFAS No. 144 also extends reporting of discontinued operations to a part of a company that either has been disposed of or is classified as held for sale. SFAS No. 144 is effective for fiscal years beginning after December 15, 2001, and interim periods within those fiscal years. Konami and its subsidiaries adopted SFAS No. 144 on April 1, 2002 and the adoption did not have a material effect on the results of operations, financial position or cash flows.

In April 2002, the Financial Accounting Standards Board issued SFAS No. 145, "Rescission of FASB Statements No. 4, 44 and 64, Amendment of FASB Statement No. 13, and Technical Corrections". SFAS No. 145 provides for the rescission of several previously issued accounting standards, new accounting guidance for the accounting for certain lease modifications and various technical corrections that are not substantive in nature to existing pronouncements. SFAS No. 145 will be adopted beginning April 1, 2003, except for the provisions relating to the amendment of SFAS No.13, which will be adopted for transactions occurring subsequent to May 15, 2002. Adoption of SFAS No. 145 will not have a material impact on the consolidated financial statements.

2 ACQUISITIONS

Konami has acquired varying interests in subsidiaries during the periods presented. Konami has used the purchase method of accounting for all such acquisitions and, accordingly, has allocated the purchase price based on the estimated fair value of net assets of the acquired companies. Such companies have been included in the accompanying consolidated financial statements since the dates of acquisition.

a. Konami Olympic Sports Club

In February 2002, Konami acquired 82.17% of the issued and outstanding shares of Daiei Olympic Sports Club, Inc., a non-public health and fitness club operator in Japan and a subsidiary of The Daiei Inc., for the total cash consideration of ¥3,604 million ($27,047 thousand) including direct acquisition costs. The acquired company was then renamed Konami Olympic Sports Club Corporation ("Konami Olympic"). The acquisition of Konami Olympic was made for the purpose of expanding the health and fitness club operation of Konami Sports discussed in (b) below.

Konami used the purchase method of accounting to account for the acquisition of Konami Olympic, and accordingly, the purchase price has been allocated to the tangible and intangible net assets of Konami Olympic based on the estimated fair value of such net assets. The allocation of the purchase price is based on analyses and valuations that are currently being finalized given that the acquisition occurred near Konami and its subsidiaries' fiscal year end. Konami, however, does not expect that the final allocation will produce materially different results than those reflected below. The amount of consideration paid in excess of the estimated fair value of the net assets acquired of ¥1,647 million ($12,360 thousand) has been recorded as goodwill. Management of Konami believes that the solid growth history and potential of Konami Olympic have contributed to the purchase price that has resulted in recognition of such goodwill. The Konami Olympic assets, liabilities and operations have been included in the consolidated financial statements since the acquisition date.

The following table reflects the February 28, 2002 condensed balance sheet of Konami Olympic, as adjusted to give effect to the preliminary purchase method accounting adjustments:

	Millions of Yen	Thousands of U.S. Dollars
Cash, receivables and other assets	¥ 7,786	$ 58,432
Property and equipment	4,607	34,574
Identifiable intangible assets	1,596	11,977
Goodwill	1,647	12,360
Debt and capital lease obligations	(6,257)	(46,957)
Minority interest	(424)	(3,182)
Other liabilities	(5,351)	(40,157)
	¥ 3,604	$ 27,047

Identifiable intangible assets of Konami Olympic include intangible assets related to trademarks of ¥767 million ($5,756 thousand) and membership lists of ¥829 million ($6,221 thousand) acquired. Intangible assets related to trademarks are determined to have an indefinite useful life while membership lists are estimated to have a useful life of 2 years. Goodwill arising from the acquisition of Konami Olympic has all been allocated to the Health and Fitness ("HF") segment of Konami and its subsidiaries.

The following unaudited pro forma condensed combined results of operations for Konami and its subsidiaries is prepared assuming that the foregoing acquisition were completed as of the beginning of the respective period in which the acquisition occurred, as well as of the beginning of the immediately preceding period. This pro forma condensed combined financial information does not purport to represent what Konami and its subsidiaries' results of operations would actually have been if such transaction had in fact occurred on such dates. The pro forma adjustments are based upon available information and upon certain assumptions that management believes are reasonable.

(Unaudited)	Millions of Yen, except for per share data 2001	2002	Thousands of U.S. Dollars, except for per share data 2002
Net revenue	¥184,609	¥238,070	$1,786,642
Net income	21,400	10,780	80,901
Basic and diluted net income per share	187.56	84.45	0.63

b. Konami Sports

In February 2001, Konami acquired 54.64% of the issued and outstanding shares of People Co., Ltd., a public company and a large health and fitness club operator in Japan, in a tender offer for the total cash consideration of ¥69,415 million ($520,938 thousand) including direct acquisition costs. The acquired company was then renamed Konami Sports Corporation ("Konami Sports"). The acquisition of Konami Sports was made for the purpose of starting up a health and fitness related business line by obtaining a controlling interest in a large, established health and fitness club operator in Japan. The purchase price was determined based on the market value of stock of the acquired company adjusted for the control premium. Konami used the purchase method of accounting to account for the acquisition, and, accordingly, the purchase price has been allocated to the tangible and intangible net assets of Konami Sports using an independent, third-party appraisal. The amount of consideration paid in excess of the estimated fair value of the net assets acquired of ¥37,064 million ($278,154 thousand) has been recorded as goodwill in the accompanying consolidated balance sheets. Management of Konami believes that the significant market presence of Konami Sports, as well as its solid growth history and potential, have contributed to the purchase price that has resulted in recognition of such goodwill. The Konami Sports assets, liabilities and operations have been included in the accompanying consolidated financial statements since the acquisition date.

The following table reflects the February 28, 2001 condensed balance sheet of Konami Sports, as adjusted to give effect to the purchase method accounting adjustments:

	Millions of Yen
Cash, receivables and other assets	¥ 26,200
Property and equipment	18,000
Identifiable intangible assets	62,148
Goodwill	37,064
Debt and capital lease obligations	(6,911)
Minority interest	(26,965)
Other liabilities	(40,121)
	¥ 69,415

Identifiable intangible assets of Konami Sports include intangible assets related to trademarks of ¥50,277 million ($377,313 thousand), membership lists of ¥5,086 million ($38,169 thousand) and franchise contracts of ¥6,785 million ($50,919 thousand) acquired. Intangible assets related to trademarks and franchise contracts are determined to have an indefinite useful life while membership lists are estimated to have a useful life of 2 years. Goodwill arising from the acquisition of Konami Sports has all been allocated to the HF segment of Konami.

The following unaudited pro forma condensed combined results of operations for Konami are prepared assuming that the foregoing acquisition was completed as of the beginning of the respective period in which the acquisition occurred. This pro forma condensed combined financial information does not purport to represent what Konami's results of operations would actually have been if such transaction had in fact occurred on such date. The pro forma adjustments are based upon available information and upon certain assumptions that management believes are reasonable.

(Unaudited)	Millions of Yen, except for per share data 2001
Net revenue	¥224,866
Net income	19,140
Basic and diluted net income per share	167.76

3 INVESTMENTS IN AFFILIATES

Konami has acquired varying interests in affiliated companies during the periods presented. The carrying amount of investments in affiliates as of March 31, 2001 and 2002 is ¥4,179 million and ¥13,459 million ($101,006 thousand), respectively, and includes ¥738 million and ¥5,016 million ($37,644 thousand), respectively, of the excess cost of investments over Konami's equity in net assets of the affiliates ("equity method goodwill"). Equity method goodwill acquired prior to June 30, 2001 has been amortized on a straight-line basis over 5 years, while the equity method goodwill acquired after June 30, 2001 has not been subject to amortization according to the provisions of SFAS No. 142. Under SFAS No. 142, equity method goodwill is not amortized but continues to be reviewed for impairment in accordance with APB No. 18, which requires an other than temporary decline in value of an 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, 2002, Konami held investments in the equity method affiliates as follows:

	Description of Business	Acquisition Date	Ownership %
Mobile 21 Co., Ltd.	Game software producer	October 1999	50.0%
Takara Co., Ltd. ("Takara")	Toy manufacturer	July 2000	23.0%
Hudson Soft Co., Ltd. ("Hudson")	Game software producer	August 2001	45.5%
Genki Co., Ltd.	Game software producer	January 2002	37.2%

Condensed financial information of Konami's unconsolidated affiliates at March 31, 2001 and 2002 and for each of the two years ended March 31, 2002 are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2001	2002	2002
Combined Financial Position:			
Property and equipment, net	¥12,849	¥ 8,351	$ 62,672
Other assets, net	41,099	62,349	467,910
Total assets	53,948	70,700	530,582
Debt	26,411	23,055	173,021
Other liabilities	9,804	15,989	119,992
Minority interest	—	455	3,415
Shareholders' equity	17,733	31,201	234,154
Total liabilities and equity	¥53,948	¥70,700	$530,582

	Millions of Yen		Thousands of U.S. Dollars
	2001	2002	2002
Combined Operations:			
Sales	¥54,073	¥75,020	$563,002
Cost of revenues	40,131	52,284	392,375
Selling, general and administrative expenses	11,969	16,484	123,708
Operating income	1,973	6,252	46,919
Interest expense, net	(25)	(272)	(2,041)
Other, net	(449)	(2,635)	(19,775)
Net income	¥ 1,499	¥ 3,345	$ 25,103

Konami's share of undistributed earnings of affiliated companies included in consolidated retained earnings was (deficit) earnings of ¥(885) million and ¥491 million ($3,685 thousand) as of March 31, 2001 and 2002, respectively.

Affiliated companies accounted for under the equity method with an aggregate carrying amount of ¥4,172 million and ¥12,708 million ($95,370 thousand) as of March 31, 2001 and 2002, respectively, were traded on established markets and were quoted at an aggregate value of ¥9,016 million and ¥23,336 million ($175,129 thousand) as of March 31, 2001 and 2002, respectively.

4 INVENTORIES

Inventories at March 31, 2001 and 2002 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2001	2002	2002
Finished products	¥ 4,255	¥ 4,136	$ 31,039
Work in process	8,002	9,566	71,790
Raw materials and supplies	1,740	2,288	17,171
Total	¥13,997	¥15,990	$120,000

5 MARKETABLE AND INVESTMENT SECURITIES

Marketable and investment securities at March 31, 2001 and 2002 consisted of the following:

	Millions of Yen			
	March 31, 2001			
	Cost	Gross unrealized gains	Gross unrealized losses	Fair value
Available-for-sale:				
Marketable equity securities	¥496	¥140	¥ 1	¥635
Other securities	200	—	74	126
Total	¥696	¥140	¥75	¥761

	Millions of Yen				Thousands of U.S. Dollars			
	March 31, 2002				March 31, 2002			
	Cost	Gross unrealized gains	Gross unrealized losses	Fair value	Cost	Gross unrealized gains	Gross unrealized losses	Fair value
Available-for-sale:								
Marketable equity securities	¥191	¥ 6	¥107	¥ 90	$1,433	$45	$ 803	$ 675
Other securities	200	—	86	114	1,501	—	645	856
Total	¥391	¥ 6	¥193	¥204	$2,934	$45	$1,448	$1,531

6 PROPERTY AND EQUIPMENT

Property and equipment at March 31, 2001 and 2002 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2001	2002	2002
Property and equipment, at cost:			
Land	¥ 5,323	¥ 7,797	$ 58,514
Buildings and structures	46,332	52,733	395,745
Tools, furniture and fixtures	22,460	24,802	186,131
Construction in progress	212	175	1,313
Total	74,327	85,507	641,703
Less-Accumulated depreciation	(36,256)	(41,945)	(314,784)
Net property and equipment	¥ 38,071	¥ 43,562	$ 326,919

Depreciation expense for the years ended March 31, 2001 and 2002 amounted to ¥4,124 million and ¥7,688 million ($57,696 thousand), respectively.

7 IDENTIFIABLE INTANGIBLE ASSETS

Identifiable intangible assets at March 31, 2001 and 2002 primarily representing intangible assets acquired in connection with acquisitions of subsidiaries consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
Amortized intangible assets, net of accumulated amortization:	2001	2002	2002
Goodwill	¥ 37,064	¥ 37,064	$278,154
Trademarks	50,277	50,277	377,313
Membership lists	5,086	5,915	44,390
Existing technology	—	800	6,004
Customer relationships	—	93	698
Franchise contracts	6,785	6,785	50,919
Total	99,212	100,934	757,478
Less-Accumulated amortization	(501)	(6,734)	(50,536)
Net identifiable intangible assets	¥ 98,711	¥ 94,200	$706,942

	Millions of Yen		Thousands of U.S. Dollars
Unamortized intangible assets:	2001	2002	2002
Goodwill	¥ —	¥1,772	$13,298
Trademarks	—	767	5,756
Gaming licenses	—	255	1,914
Total	¥ —	¥2,794	$20,968

Trademarks, franchise contracts and gaming licenses are determined to have an indefinite useful life while membership lists, existing technology and customer relationships are estimated to have useful lives of 2 to 5 years. Intangible assets with an indefinite life acquired prior to June 30, 2001 have been amortized using the straight-line method over 40 years in accordance with the requirements under APB No. 17. Intangible assets with an indefinite life acquired after June 30, 2001 have not been subject to amortization according to the non-amortization provisions of SFAS No. 142. Aggregate amortization expense for the years ended March 31, 2001 and 2002 was ¥501 million and ¥6,233 million ($46,777 thousand), respectively.

8 LEASE DEPOSITS

Lease deposits at March 31, 2001 and 2002 representing refundable deposits for office and facility leases, primarily related to health and fitness clubs of Konami Sports, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2001	2002	2002
Lease deposits	¥21,697	¥28,791	$216,068
Less: Allowances for uncollectible amounts	—	(4,137)	(31,047)
Lease deposits, net	¥21,697	¥24,654	$185,021

During the year ended March 31, 2002, Konami and its subsidiaries provided an allowance for uncollectible amounts for deposits related to certain facility leases of Konami Sports that were considered to be uncollectible due to a bankruptcy of the lessor.

9 OTHER ASSETS

Other assets at March 31, 2001 and 2002, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2001	2002	2002
Capitalized computer software, net	¥1,369	¥2,639	$19,805
Investments in non-marketable securities	950	1,556	11,677
Other	3,240	2,968	22,273
Total other assets	¥5,559	¥7,163	$53,755

Amortization expense of capitalized computer software and intangible assets included in Other for the years ended March 31, 2001 and 2002 amounted to ¥482 million and ¥1,539 million ($11,550 thousand), respectively.

10 RELATED PARTY TRANSACTIONS

Konami and its subsidiaries engage in sale and purchase transactions in the normal course of business with its equity method affiliates. Such transactions for the years ended March 31, 2001 and 2002 are summarized as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2001	2002	2002
Sales to Takara	—	¥1,458	$10,942
Purchases from Takara	¥28	¥2,121	$15,917
Sales to Hudson	—	¥ 36	$ 270
Purchases from Hudson	—	¥3,061	$22,972

The related notes and accounts receivable from Takara were ¥594 million ($4,458 thousand) at March 31, 2002, and were included in "Trade notes and accounts receivable" in the accompanying consolidated balance sheets. The related notes and accounts payable to Takara were ¥28 million and ¥83 million ($623 thousand) at March 31, 2001 and 2002, respectively, and were included in "Trade notes and accounts payable" in the accompanying consolidated balance sheets. The related accounts receivable from Hudson was ¥2 million ($15 thousand) at March 31, 2002 and was included in "Trade notes and accounts receivable" in the accompanying consolidated balance sheets. The related accounts payable to Hudson was ¥104 million ($780 thousand) at March 31, 2002 and was included in "Trade notes and accounts payable" in the accompanying consolidated balance sheets.

In October 2001, Konami acquired, based on an approval by its board of directors, 100% equity interest in Konami Australia Pty. Ltd. ("Konami Australia") for 27.2 million Australian dollars (¥1,662 million) from its sole owner who was, and currently is, the CEO and major shareholder of Konami. Konami Australia was established in November 1996 for manufacturing and sales of Konami gaming machines in Australia, and has obtained the licenses to sell and service gaming machines in Australia, as well as similar licenses in South Africa.

Konami used the purchase method of accounting to account for the acquisition of Konami Australia, and accordingly, the purchase price was allocated to the tangible and intangible net assets of Konami Australia based on the estimated fair value of such assets. The amount of consideration paid in excess of the estimated fair value of the net assets acquired of ¥125 million ($938 thousand) has been recorded as goodwill. Management of Konami believes that the growth potential of Konami Australia in the Australian gaming industry have contributed to the purchase price that has resulted in recognition of such goodwill. The Konami Australia assets, liabilities and operations have been included in the consolidated financial statements since the acquisition date. Pro forma financial information has not been presented as the effects of the acquisition were not significant to Konami and its subsidiaries' results of operations.

11 SHORT-TERM BORROWINGS AND LONG-TERM DEBT

A summary of short-term borrowings at March 31, 2001 and 2002 is as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2001	2002	2002
Unsecured bank loans consisting of notes to banks and bank overdrafts with interest rates ranging from 0.63% to 6.41% and from 0.62% to 3.015% per annum at March 31, 2001 and 2002	¥5,686	¥10,948	$82,161
Total	¥5,686	¥10,948	$82,161

Weighted-average interest rate on short-term borrowings was 3.38% and 1.08% at March 31, 2001 and 2002, respectively. Those unsecured short-term bank loans included loans denominated in foreign currencies amounting to $17,500 thousand (¥2,168 million) and DM10,000 thousand (¥559 million) at March 31, 2001, and $13,740 thousand (¥1,831 million) at March 31, 2002.

A summary of long-term debt at March 31, 2001 and 2002 is as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2001	2002	2002
Series #1 unsecured 2.64% per annum bonds due in September 2001	¥ 5,000	—	—
Series #2 unsecured 2.64% per annum bonds due in September 2001	5,000	—	—
Series #3 unsecured 0.70% per annum bonds due in September 2005	—	¥15,000	$112,570
Series #4 unsecured 0.92% per annum bonds due in September 2006	—	15,000	112,570
Series #5 unsecured 1.05% per annum bonds due in September 2007	—	15,000	112,570
Unsecured loans from banks due serially to 2005 with interest rates ranging from 1.46% to 6.62% and from 1.46% to 3.64% per annum at March 31, 2001 and 2002	5,265	2,838	21,299
Total long-term debt	15,265	47,838	359,009
Less: current portion	(12,002)	(2,585)	(19,399)
Long-term debt, non-current portion	¥ 3,263	¥45,253	$339,610

Unsecured long-term loans from banks included loans denominated in U.S. dollars amounting to $3,200 thousand (¥396 million) and $2,400 thousand (¥320 million) at March 31, 2001 and 2002, respectively. At March 31, 2002, Konami and its subsidiaries did not have any assets that were pledged as collateral for any of the debt obligations.

Konami and its subsidiaries have unused committed lines of credit amounting to ¥12,000 million ($90,056 thousand) with certain financial institutions at March 31, 2002.

The aggregate annual maturities of long-term debt outstanding at March 31, 2002 are as follows:

	Millions of Yen	Thousands of U.S. Dollars
Year ending March 31,		
2003	¥ 2,585	$ 19,399
2004	146	1,096
2005	107	804
2006	15,000	112,570
2007	15,000	112,570
Thereafter	15,000	112,570

12 LEASES

Konami and its subsidiaries are obligated under various capital leases and noncancelable operating leases which expire at various dates during the next 19 years.

At March 31, 2001 and 2002, the amounts of assets and related accumulated depreciation recorded under capital leases were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2001	2002	2002
Tools, furniture and fixtures, at cost	¥10,170	¥10,564	$ 79,280
Accumulated depreciation	(5,026)	(5,763)	(43,250)
Net leased property	¥ 5,144	¥ 4,801	$ 36,030

Amortization of capitalized leases is included in depreciation expense.

Future minimum lease payments under capital leases and noncancelable operating leases as of March 31, 2002 are as follows:

	Millions of Yen		Thousands of U.S. Dollars	
	Capital Leases	Operating Leases	Capital Leases	Operating Leases
Year ending March 31,				
2003	¥2,295	¥ 2,411	$17,223	$ 18,094
2004	1,643	2,319	12,330	17,403
2005	763	2,282	5,726	17,126
2006	378	2,188	2,837	16,420
2007	88	1,842	661	13,824
Thereafter	1	18,893	8	141,786
Total minimum lease payments	5,168	¥29,935	38,785	$224,653
Less: amount representing interest (rates ranging from 1.548% to 7.536% per annum)	224		1,681	
Present value of net minimum lease payments	4,944		37,104	
Less: current portion	2,166		16,256	
Non-current portion	¥2,778		$20,848	

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 and its subsidiaries occupy certain offices and lease equipment under cancelable lease arrangements. Rental expenses for such leases for the years ended March 31, 2001 and 2002, totaled ¥1,216 million and ¥14,361 million ($107,775 thousand), respectively, and were included in selling, general and administrative expenses in the accompanying consolidated statements of income.

13 GAIN ON SALE OF SUBSIDIARY SHARES

In August 2000, Konami Computer Entertainment Tokyo, Inc. (“Konami TYO”), a consolidated subsidiary, completed its initial public offering in Japan. In such offering, Konami TYO issued 2,000,000 common shares at a price of ¥3,030 ($22.74) per share, which was in excess of Konami’s carrying amount of Konami TYO shares. As a result of such share issuance, Konami’s interest in Konami TYO decreased from 85.0% to 69.6%, resulting in recognition of a gain of ¥3,948 million ($29,629 thousand) which was included in gain on sale of subsidiary shares in the accompanying consolidated statement of income for the year ended March 31, 2001. A deferred tax liability of ¥1,657 million was recorded for with respect to gain.

In February 2002, Konami Computer Entertainment Japan, Inc. (“Konami JPN”), a consolidated subsidiary, completed its initial public offering in Japan. In such offering, Konami JPN issued 2,000,000 common shares at a price of ¥3,572 ($26.81) per share, which was in excess of Konami’s carrying amount of Konami JPN shares. As a result of such share issuance, Konami’s interest in Konami JPN decreased from 78.8% to 62.4%, resulting in recognition of a gain of ¥3,526 million ($26,461 thousand) which was included in gain on sale of subsidiary shares in the accompanying consolidated statement of income for the year ended March 31, 2002. A deferred tax liability of ¥1,480 million ($11,107 thousand) was recorded for such gain. The remaining balances of gain on sale of subsidiary shares of ¥4,655 million ($34,934 thousand) in the accompanying consolidated statements of income primarily represented realized gains on sale of subsidiary shares.

In 2002, Konami sold outstanding shares of Konami TYO for ¥1,797 million ($13,486 thousand) in the market. The sale resulted in a gain of ¥1,129 million ($8,473 thousand). As a result of the sale of such shares, Konami's interest in Konami TYO decreased from 69.6% to 62.1%.

14 INCOME TAXES

Konami and its domestic subsidiaries are subject to Japanese national, regional and municipal taxes based on income. The aggregate normal tax rate was approximately 42% for the years ended March 31, 2001 and 2002. Deferred income taxes are principally calculated at the rate of 42%.

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

	2001	2002
Statutory tax rate	42.0%	42.0%
Increase (reduction) in taxes resulting from:		
Non-deductible expenses and non-taxable income, net	2.0	3.2
Amortization of goodwill	0.1	3.6
Tax benefits not recognized on operating losses of subsidiaries	4.5	5.4
Utilization of net operating loss carry forwards of subsidiaries	(1.5)	(2.3)
Other — net	(0.1)	(0.4)
Effective income tax rate	47.0%	51.5%

The effects of temporary differences that give rise to deferred tax assets and liabilities at March 31, 2001 and 2002 are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2001	2002	2002
Deferred tax assets:			
Property and equipment — intercompany profit elimination	¥ 1,238	¥ 1,183	$ 8,878
Accrued enterprise taxes	1,297	1,100	8,255
Liability for retirement benefits	1,240	1,538	11,542
Allowance for doubtful accounts	37	3,066	23,009
Inventories — intercompany profit elimination	3,907	7,327	54,987
Net operating loss carryforwards	6,310	7,390	55,460
Property and equipment basis differences	1,427	1,418	10,642
Other	1,267	1,864	13,988
Gross deferred tax assets	16,723	24,886	186,761
Less valuation allowance	(7,346)	(9,232)	(69,283)
Total deferred tax assets	9,377	15,654	117,478
Deferred tax liabilities:			
Intangible assets	(25,955)	(24,922)	(187,032)
Gain on sales of subsidiary shares	(2,286)	(3,588)	(26,927)
Other	(702)	(422)	(3,166)
Gross deferred tax liabilities	(28,943)	(28,932)	(217,125)
Net deferred tax liabilities	¥(19,566)	¥(13,278)	$ (99,647)

A valuation allowance is provided to reduce certain deferred tax assets with respect to certain deductible temporary differences and net operating loss carryforwards. Based on the level of historical taxable income and projections for future taxable income over the periods in which the net deductible temporary differences are expected to reverse, management believes it is more likely than not that Konami and its subsidiaries will realize the benefits of the deferred tax assets, net of the existing valuation allowance, at March 31, 2002. The net changes in the total valuation allowance for the years ended March 31, 2001 and 2002 were increases of ¥943 million and ¥1,886 million ($14,154 thousand), respectively.

Foreign subsidiaries are subject to income taxes of the countries in which they operate. At March 31, 2001 and 2002, no deferred tax liabilities were recognized for undistributed earnings of foreign subsidiaries aggregating ¥2,874 million and ¥7,034 million ($52,788 thousand), respectively, because Konami currently does not intend to repatriate such earnings and/or believes no material additional tax would result should they be repatriated to Konami.

At March 31, 2002, certain subsidiaries had operating loss carryforwards aggregating approximately

¥22,591 million ($169,538 thousand), which may be used to offset taxable income in future periods. The operating loss carryforwards of approximately ¥18,840 million ($141,388 thousand) relate to certain foreign subsidiaries and will expire in varying amounts through the year 2022, while the remainder relates to domestic companies and will expire during the period from 2003 through 2007.

As the income tax regulations in Japan do not permit filing of a consolidated tax return by a parent company, certain portions of the above loss carryforwards may not be realizable.

15 SEVERANCE AND RETIREMENT PLANS

Konami 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 determined by reference to their rate of pay at the time of termination, years of service and certain other factors. Konami also has a fixed annual compensation system under which employees are to receive all compensation currently during their employment, thereby eliminating separate severance and retirement benefits upon their termination or retirement. Employees become eligible to participate in such compensation system generally after three years of service. An eligible employee can make an election either to remain in the defined benefit plans or to withdraw from the plans and enroll under such system.

Net periodic cost of Konami and its domestic subsidiaries' plans accounted for in accordance with SFAS No. 87 for the years ended March 31, 2001 and 2002, included the following components:

	Millions of Yen		Thousands of U.S. Dollars
	2001	2002	2002
Service cost — benefits earned during the year	¥178	¥345	$2,589
Interest cost on projected benefit obligation	24	83	623
Expected return on plan assets	(69)	(94)	(705)
Recognized actuarial gain	(12)	(7)	(53)
Net periodic cost	¥121	¥327	$2,454

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

	Millions of Yen		Thousands of U.S. Dollars
	2001	2002	2002
Change in benefit obligation:			
Benefit obligation, beginning of year	¥1,121	¥2,982	$22,379
Service cost	178	345	2,589
Interest cost	24	83	623
Effect of acquisition (Note 2)	1,780	23	172
Actuarial gain	(99)	(60)	(450)
Benefits paid	(22)	(68)	(510)
Benefit obligation, end of year	¥2,982	¥3,305	$24,803
Change in plan assets:			
Fair value of plan assets, beginning of year	¥1,328	¥2,107	$15,812
Actual return on plan assets	(85)	(359)	(2,694)
Effect of acquisition (Note 2)	761	—	—
Employer contribution	126	282	2,116
Benefits paid	(23)	(24)	(180)
Fair value of plan assets, end of year	2,107	2,006	15,054
Funded status	875	1,299	9,749
Unrecognized actuarial gain (loss)	236	(178)	(1,336)
Net amount recognized	¥1,111	¥1,121	$8,413
Weighted-average assumptions:			
Discount rate	3.3%	2.9%	
Assumed rate of increase in future compensation levels	2.6%	2.4%	
Expected long-term rate of return on plan assets	4.7%	4.7%	

Konami 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 and its subsidiaries' contributions to the plan amounted to ¥37 million and ¥45 million ($338 thousand) for the years ended March 31, 2001 and 2002, respectively, and were recorded as compensation expense and included in Selling, general and administrative in the consolidated statements of income.

Konami and certain of its subsidiaries have accrued the liability for retirement benefits for their directors and corporate auditors in the amount of ¥1,738 million and ¥1,486 million ($11,152 thousand) at March 31, 2001 and 2002, respectively, which is included in accrued pension and severance cost in the accompanying consolidated balance sheets.

16 SHAREHOLDERS' EQUITY

Dividends

Under the Japanese Commercial Code (the "Code"), the amount available for dividends is based on retained earnings as recorded on the books of Konami maintained in conformity with Japanese GAAP. Certain adjustments not recorded on Konami's books are reflected in the consolidated financial statements for reasons described in Note 1. At March 31, 2002, the retained earnings recorded on Konami's books of account was ¥50,908 million ($382,049 thousand).

The Code, as amended effective October 1, 2001, provides that earnings in an amount equal to at least 10% of appropriations of retained earnings that are paid in cash shall be appropriated as a legal reserve until an aggregated amount of capital surplus and the legal reserve equals 25% of stated capital.

Stock Split

On May 19, 2000, Konami completed a 2-for-1 stock split by means of a free share issuance and issued 56,868,783 shares to the shareholders of record on March 31, 2000. Accordingly, the historical number of common shares outstanding, the number of common shares issued, the weighted-average number of common shares outstanding and per share data in the accompanying consolidated financial statements have been retroactively adjusted giving effect to such stock split.

Stock-based Compensation Plan

On June 27, 1997, Konami's shareholders approved a subscription-rights option plan and the grant of subscription rights exercisable for an aggregate of up to 34,000 shares to Konami's 10 directors and an aggregate of up to 76,000 shares to 151 employees at an exercise price of ¥1,565 per share. These subscription rights were exercisable from April 1, 1998 through March 31, 2001. Konami accounted for the subscription rights according to APB No. 25 and FIN No. 44 and recorded no compensation expense as there was no intrinsic value to the subscription rights at the date of grant. All subscription rights had been exercised, including 30,000 shares during the years ended March 31, 2001, prior to their expiration.

On June 29, 2000, the board of directors and shareholders of Konami Computer Entertainment Osaka, Inc. ("Konami OSA") approved a subscription-rights option plan and the grant of subscription rights for directors and employees of Konami OSA ("OSA Plan") exercisable for an aggregate of up to 47,250 shares at an exercise price of ¥1,160 per share. Subscription rights for 47,250 ordinary shares were granted under the OSA Plan. Those subscription rights will vest on August 4, 2003 and will expire on August 2, 2005. During the year ended March 31, 2001 and 2002, 3,750 shares and 5,250 shares, respectively, expired under the OSA Plan. Konami OSA completed 2.5 for 1 stock split by means of a free share issuance on May 20, 2002. The above information reflects the effect from the stock split.

On June 28, 2001, Konami TYO's board of directors and shareholders approved a subscription-rights option plan and the grant of subscription rights exercisable for an aggregate of up to 113,300 ordinary shares of Konami TYO at an exercise price of ¥1,778 per share to directors and employees of Konami TYO ("TYO Plan"). Subscription rights for 105,050 ordinary shares were granted under the TYO Plan. Those subscription rights will vest in four equal installments beginning on July 1, 2004 through April 1, 2006 and will expire on June 30, 2006. None of those subscription rights have expired under the TYO Plan. Konami TYO declared 10% stock dividends on May 20, 2002. The above information reflects the effect from the stock dividends.

Under both TYO Plan and OSA Plan, the number of ordinary shares issuable will be adjusted for stock splits, reverse stock splits and certain other recapitalizations. After the initial grant of subscription rights under both the plans, no additional subscription rights were granted, none of the subscription rights were exercised and none of the subscription rights were exercisable at March 31, 2002.

Konami and its subsidiaries have accounted for the subscription rights granted under those plans according to APB No. 25 and FIN No. 44 and has recorded no compensation charge as there was no intrinsic value to the subscription rights at the date of grant based on the market value of the respective stock. The fair value of the subscription rights granted, which have been accounted for under APB No. 25, during the years ended March 31, 2001 and 2002 was ¥24 million and ¥66 million ($495 thousand), respectively, using the Black-Scholes option-pricing model with the following assumptions: for OSA Plan for the years ended March 31, 2001 and 2002, expected dividends of 3.04%, expected volatility of 81.11% and 72.30%, respectively, risk-free interest rate of 0.54% and 0.37%, respectively, and an expected life of 4.53 years; for TYO Plan for the year ended March 31, 2002, expected dividends of 2.28%, expected volatility of 53.27%, risk-free interest rate of 0.37% and an expected life of 4.44 years. Had Konami and its subsidiaries determined compensation expense based on the fair value at the grant date for these subscription rights under SFAS No. 123, Konami and its subsidiaries' net income and net income per share would have been reduced to the pro forma amounts indicated below:

	Millions of Yen, except for per share data		Thousands of U.S. Dollars, except for per share data
	2001	2002	2002
Net income:			
As reported	¥21,568	¥11,402	$85,568
Pro forma	21,567	11,394	85,508
Basic and diluted net income per share:			
As reported	189.04	89.32	0.67
Pro forma	189.03	89.26	0.67

Treasury Stock Transactions

In October 2001, the Board of Directors approved a plan to purchase up to 5 million shares of Konami's common stock. For the year ended March 31, 2002, Konami repurchased 4,256,800 shares for approximately ¥15,000 million under this program. For the fiscal year ended March 31, 2002, there were no shares reissued. When treasury shares are reissued, any excess of the average acquisition cost of the shares over the proceeds from reissuance will be charged to retained earnings.

17 OTHER COMPREHENSIVE INCOME (LOSS)

Accumulated other comprehensive income (loss) at March 31, 2001 and 2002 is as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2001	2002	2002
Foreign currency translation adjustments:			
Balance, beginning of year	¥(392)	¥ 48	$ 360
Aggregate adjustment for the year resulting from translation of foreign currency financial statements	440	709	5,320
Balance, end of year	¥ 48	¥ 757	$ 5,680
Net unrealized gains (losses) on securities available-for-sale:			
Balance, beginning of year	¥ 4	¥ (22)	$ (165)
Net decrease	(26)	(189)	(1,418)
Balance, end of year	¥ (22)	¥(211)	$(1,583)
Total accumulated other comprehensive income:			
Balance, beginning of year	¥(388)	¥ 26	$ 195
Adjustments for the year	414	520	3,902
Balance, end of year	¥ 26	¥ 546	$ 4,097

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
2001			
Foreign currency translation adjustments	¥ 440	—	¥ 440
Net unrealized losses on available-for-sale securities:			
Unrealized losses arising during the year	(45)	¥ 19	(26)
Less: reclassification adjustment for (gains) or losses included in net income	—	—	—
Net unrealized losses	(45)	19	(26)
Other comprehensive income (loss)	¥ 395	¥ 19	¥ 414
2002			
Foreign currency translation adjustments	¥ 709	—	¥ 709
Net unrealized losses on available-for-sale securities:			
Unrealized losses arising during the year	(370)	¥ 155	(215)
Less: reclassification adjustment for (gains) or losses included in net income (loss)	46	(20)	26
Net unrealized losses	(324)	135	(189)
Other comprehensive income	¥ 385	¥ 135	¥ 520

	Thousands of U.S. Dollars		
	Pretax amount	Tax (expense) or benefit	Net of tax amount
2002			
Foreign currency translation adjustments	$ 5,320	—	$ 5,320
Net unrealized gains on available-for-sale securities:	(2,776)	$ 1,163	(1,613)
Unrealized gains or (losses) arising during the year			
Less: reclassification adjustment for (gains) or losses included in net income (loss)	345	(150)	195
Net unrealized losses	(2,431)	1,013	(1,418)
Other comprehensive income	$ 2,889	$ 1,013	$ 3,902

18 DERIVATIVE FINANCIAL INSTRUMENTS

Konami and its subsidiaries use 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, 2001 and 2002 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2001	2002	2002
Forward exchange contracts:			
To sell foreign currencies	¥3,017	¥6,793	$50,979

Konami and its subsidiaries do not designate the forward exchange contracts as hedges. Accordingly the foreign currency losses of ¥113 million and ¥49 million ($368 thousand) arising from these forward exchange contracts at March 31, 2001 and 2002, respectively, were included in earnings under the caption Other, net in the accompanying consolidated statements of income. Foreign exchange net gains and (losses), including those on these forward exchange contracts, for the years ended March 31, 2001 and 2002 were ¥(218) million and ¥335 million ($2,514 thousand), respectively.

Effects of exchange rate changes subsequent to March 31, 2002 on fair value of those forward exchange contracts have not been significant as of the reporting date.

19 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 and its subsidiaries' 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 and its subsidiaries' 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 Konami'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 and its subsidiaries' financial instruments at March 31, 2001 and 2002 are as follows:

	Millions of Yen				Thousands of U.S. Dollars	
	2001		2002		2002	
	Carrying amount	Estimated fair value	Carrying amount	Estimated fair value	Carrying amount	Estimated fair value
Nonderivatives:						
Investment in marketable securities	¥ 761	¥ 761	¥ 204	¥ 204	$ 1,531	$ 1,531
Long-term debt, including current installments	(15,265)	(15,455)	(47,838)	(45,329)	(359,009)	(340,180)
Derivatives:						
Foreign exchange forward contracts:						
Assets	9	9	8	8	60	60
Liabilities	(122)	(122)	(57)	(57)	(428)	(428)

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.

20 SUPPLEMENTAL DISCLOSURES TO CONSOLIDATED STATEMENTS OF CASH FLOWS

	Millions of Yen		Thousands of U.S. Dollars
	2001	2002	2002
Cash paid during the year for:			
Interest	¥ 899	¥ 691	$ 5,186
Income taxes	18,875	19,010	142,664
Cash acquisitions of new subsidiaries:			
Fair value of assets acquired	105,589	30,849	231,512
Liabilities assumed	(47,032)	(29,048)	(217,996)
Goodwill	37,064	1,772	13,298
Minority interest	(26,965)	(4,265)	(32,008)
Cash paid, net of cash acquired	68,656	(692)	(5,194)
Property acquired under capital leases during the year	2,476	1,923	14,432

21 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.

Konami and its subsidiaries operate on a worldwide basis principally with the following five business segments:

- Consumer Software ("CS") — production and sale of home-use video game software
- Character Products ("CP") — production and sale of character related products
- Amusement Contents ("AC") — manufacture and sale of amusement arcade games and related components
- Gaming Contents ("GC") — manufacture and sale of gaming machines for overseas market and token-operated games for domestic market
- Health and Fitness ("HF") — operation of health and fitness clubs

"Other" includes operations of amusement center and financial and real estate management services provided primarily to our subsidiaries. The following table summarizes revenue, operating income/loss and total assets by operating segment which are the primary measures used by Konami and its subsidiaries' chief operating decision maker to measure Konami and its subsidiaries' operating results and to measure segment profitability and performance. This information is derived from Konami and its subsidiaries' management reports which are based on Japanese GAAP.

a. Operations in Different Industries

(1) Revenue and operating income (loss)

	Millions of Yen								
Year Ended March 31, 2001	CS	CP	AC	GC	HF	Other	Total	Eliminations and Corporate	Consolidated
Net revenue:									
Customers	¥59,176	¥60,526	¥32,046	¥8,511	¥4,480	¥6,742	¥171,481	—	¥171,481
Intersegment	1,711	65	701	371	—	2,135	4,983	¥(4,983)	—
Total	60,887	60,591	32,747	8,882	4,480	8,877	176,464	(4,983)	171,481
Operating expenses	53,432	29,975	24,569	9,307	4,926	8,672	130,881	1,954	132,835
Operating income (loss)	¥ 7,455	¥30,616	¥ 8,178	¥ (425)	¥ (446)	¥ 205	¥ 45,583	¥(6,937)	¥ 38,646

Year Ended March 31, 2002	CS	CP	AC	GC	HF	Other	Total	Eliminations and Corporate	Consolidated
	Millions of Yen								
Net revenue:									
Customers	¥88,762	¥25,213	¥31,641	¥13,264	¥60,426	¥6,274	¥225,580	—	¥225,580
Intersegment	1,367	388	7,092	382	120	2,622	11,971	¥(11,971)	—
Total	90,129	25,601	38,733	13,646	60,546	8,896	237,551	(11,971)	225,580
Operating expenses	71,898	18,401	32,341	14,360	56,465	9,021	202,486	(3,783)	198,703
Operating income (loss)	¥18,231	¥ 7,200	¥ 6,392	¥ (714)	¥ 4,081	¥ (125)	¥ 35,065	¥ (8,188)	¥ 26,877

Year Ended March 31, 2002	CS	CP	AC	GC	HF	Other	Total	Eliminations and Corporate	Consolidated
	Thousands of U.S. Dollars								
Net revenue:									
Customers	$666,131	$189,216	$237,456	$ 99,542	$453,478	$47,085	$1,692,908	—	$1,692,908
Intersegment	10,259	2,912	53,223	2,867	901	19,677	89,839	$(89,839)	—
Total	676,390	192,128	290,679	102,409	454,379	66,762	1,782,747	(89,839)	1,692,908
Operating expenses	539,572	138,094	242,709	107,767	423,752	67,701	1,519,595	(28,390)	1,491,205
Operating income (loss)	$136,818	$ 54,034	$ 47,970	$ (5,358)	$ 30,627	$ (939)	$ 263,152	$(61,449)	$ 201,703

Intersegment revenues primarily consists of sub-licensing of intellectual property rights from CS and CP to AC and GC, sales of hardware and components from AC and GC to CS and HF, and administrative services provided by shared-service subsidiaries included in other. Eliminations and corporate primarily consist of eliminations of intercompany profits on inventories and expenses for corporate headquarters.

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

Year Ended March 31, 2001	CS	CP	AC	GC	HF	Other	Total	Eliminations and Corporate	Consolidated
	Millions of Yen								
Assets	¥46,193	¥9,719	¥20,440	¥11,932	¥93,466	¥36,828	¥218,578	¥31,445	¥250,023
Depreciation and amortization	1,106	98	395	380	242	302	2,523	600	3,123
Capital expenditures	1,889	465	424	608	71,026	486	74,898	796	75,694

Year Ended March 31, 2002	CS	CP	AC	GC	HF	Other	Total	Eliminations and Corporate	Consolidated
	Millions of Yen								
Assets	¥72,336	¥8,014	¥26,821	¥17,580	¥107,112	¥33,131	¥264,994	¥25,154	¥290,148
Depreciation and amortization	2,238	137	513	697	1,950	388	5,923	431	6,354
Capital expenditures	2,369	103	358	3,438	10,283	2,018	18,569	512	19,081

Year Ended March 31, 2002	CS	CP	AC	GC	HF	Other	Total	Eliminations and Corporate	Consolidated
	Thousands of U.S. Dollars								
Assets	$542,859	$60,143	$201,283	$131,932	$803,842	$248,639	$1,988,698	$188,773	$2,177,471
Depreciation and amortization	16,795	1,028	3,850	5,231	14,634	2,912	44,450	3,235	47,685
Capital expenditures	17,779	773	2,687	25,801	77,171	15,144	139,355	3,842	143,197

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.

(3) Reconciliations to consolidated financial statement totals

The tables that follow present reconciliations of segment operating revenues, operating expenses, operating income, assets and depreciation and amortization from the management reports information shown above, to U.S. GAAP amounts included in the accompanying consolidated financial statements.

An explanation of the significant reconciling items is as follows:

1) Effect of business combinations

Represents differences in carrying amounts of assets and liabilities acquired in business combinations and the related depreciation and amortization due to application of the purchase method of accounting and accounting for goodwill and other intangible assets under U.S. GAAP.

2) Capital leases

Konami and its subsidiaries account for all leases as operating leases in its management reports. Under U.S. GAAP, certain leases meeting specified criteria are accounted for as capital leases.

3) Long-lived assets basis differences

Long-lived assets are carried at cost less applicable depreciation or amortization in Konami and its subsidiaries' management reports. Under U.S. GAAP, long-lived assets are carried at cost less applicable depreciation or amortization and impairment losses recognized upon certain events or changes in circumstances.

4) Deferred income taxes

Represents deferred tax effects of the differences between Konami and its subsidiaries' management reports and the consolidated U.S. GAAP financial statements.

5) Other reconciling items

Other reconciling items consist of differences in accounting for pension and retirement plans, impairment of certain prepaid assets, directors' bonuses, and internal-use software, none of which are considered individually significant. Further, certain items such as gain/loss on disposal of fixed assets which are classified as non-operating in management reports have been included in operating income (loss) for U.S. GAAP purposes.

Adjustments to reconcile segment net revenue to U.S. GAAP net revenue:	Millions of Yen		Thousands of U.S. Dollars
	2001	2002	2002
Segment net revenue	¥171,481	¥225,580	$1,692,908
Consolidated net revenue under U.S. GAAP	¥171,481	¥225,580	$1,692,908

Adjustments to reconcile segment operating expenses to U.S. GAAP operating expenses:	Millions of Yen		Thousands of U.S. Dollars
	2001	2002	2002
Segment operating expenses	¥132,835	¥198,703	$1,491,205
1) Effect of business combinations	¥ 260	¥ 3,130	$ 23,490
2) Capital leases	(128)	(179)	(1,343)
5) Other	603	5,839	43,819
Consolidated operating expenses under U.S. GAAP	¥133,570	¥207,493	$1,557,171

Adjustments to reconcile segment operating income to U.S. GAAP operating income:	Millions of Yen		Thousands of U.S. Dollars
	2001	2002	2002
Segment operating income	¥38,646	¥26,877	$201,703
1) Effect of business combinations	¥ (260)	¥ (3,130)	$ (23,490)
2) Capital leases	128	179	1,343
5) Other	(603)	(5,839)	(43,819)
Consolidated operating income under U.S. GAAP	¥37,911	¥18,087	$135,737

Adjustments to reconcile segment assets to U.S. GAAP total assets:	Millions of Yen		Thousands of U.S. Dollars
	2001	2002	2002
Segment assets	¥250,023	¥290,148	$2,177,471
1) Effect of business combinations	¥ 46,351	¥ 44,078	$ 330,792
2) Capital leases	5,144	4,801	36,030
3) Long-lived assets basis differences	(3,595)	(3,571)	(26,799)
4) Deferred income taxes	(3,167)	(4,781)	(35,880)
5) Other	(926)	(2,584)	(19,393)
Consolidated total assets under U.S. GAAP	¥293,830	¥328,091	$2,462,221

Adjustments to reconcile segment depreciation and amortization to U.S. GAAP depreciation and amortization:	Millions of Yen 2001	Millions of Yen 2002	Thousands of U.S. Dollars 2002
Segment depreciation and amortization	¥3,123	¥ 6,354	$ 47,685
1) Effect of business combinations	¥ 517	¥ 5,960	$ 44,728
2) Capital leases	1,743	2,768	20,773
5) Other	(276)	378	2,837
Consolidated depreciation and amortization under U.S. GAAP	¥5,107	¥15,460	$116,023

Adjustments to reconcile segment capital expenditures to U.S. GAAP capital expenditures:	Millions of Yen 2001	Millions of Yen 2002	Thousands of U.S. Dollars 2002
Segment capital expenditures	¥75,694	¥19,081	$143,197
2) Capital leases	¥ 2,476	¥ 1,923	$ 14,432
5) Other	(572)	(323)	(2,424)
Consolidated capital expenditures under U.S. GAAP	¥77,598	¥20,681	$155,205

b. Operations in Geographic Areas

Year Ended March 31, 2001 (Millions of Yen)	Japan	Americas	Europe	Asia/Oceania	Total	Eliminations	Consolidated
Net revenue:							
Customers	¥153,269	¥ 8,499	¥8,172	¥ 1,541	¥171,481	—	¥171,481
Intersegment	11,911	398	2	42	12,353	¥(12,353)	—
Total	165,180	8,897	8,174	1,583	183,834	(12,353)	171,481
Operating expenses	119,043	12,156	7,515	1,633	140,347	(6,777)	133,570
Operating income (loss)	¥ 46,137	¥ (3,259)	¥ 659	¥ (50)	¥ 43,487	¥ (5,576)	¥ 37,911
Assets	¥291,962	¥ 8,753	¥6,664	¥ 1,015	¥308,394	¥(14,564)	¥293,830

Year Ended March 31, 2002 (Millions of Yen)	Japan	Americas	Europe	Asia/Oceania	Total	Eliminations	Consolidated
Net revenue:							
Customers	¥177,618	¥26,002	¥19,320	¥2,640	¥225,580	—	¥225,580
Intersegment	31,446	2,860	6	199	34,511	¥(34,511)	—
Total	209,064	28,862	19,326	2,839	260,091	(34,511)	225,580
Operating expenses	185,089	30,438	14,944	2,695	233,166	(25,673)	207,493
Operating income (loss)	¥ 23,975	¥ (1,576)	¥ 4,382	¥ 144	¥ 26,925	¥ (8,838)	¥ 18,087
Assets	¥323,470	¥ 7,779	¥16,897	¥3,474	¥351,620	¥(23,529)	¥328,091

Year Ended March 31, 2002 (Thousands of U.S. Dollars)	Japan	Americas	Europe	Asia/Oceania	Total	Eliminations	Consolidated
Net revenue:							
Customers	$1,332,968	$195,137	$144,991	$19,812	$1,692,908	—	$1,692,908
Intersegment	235,993	21,463	45	1,493	258,994	$(258,994)	—
Total	1,568,961	216,600	145,036	21,305	1,951,902	(258,994)	1,692,908
Operating expenses	1,389,036	228,427	112,150	20,225	1,749,838	(192,667)	1,557,171
Operating income (loss)	$ 179,925	$ (11,827)	$ 32,886	$ 1,080	$ 202,064	$ (66,327)	$ 135,737
Assets	$2,427,542	$ 58,379	$126,807	$26,071	$2,638,799	$(176,578)	$2,462,221

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

22 COMMITMENTS AND CONTINGENCIES

Konami and its subsidiaries are 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 and its subsidiaries have placed firm orders for purchases of property, plant and equipment and other assets amounting to approximately ¥1,359 million ($10,199 thousand) as of March 31, 2002.

23 SUBSEQUENT EVENTS

On April 19, 2002, the Board of Directors of Konami approved a plan to sell an amusement facility operation business. The amusement facility operation business consists of 18 amusement facilities and is a part of the Other segment of Konami and its subsidiaries. All respective assets and liabilities of the amusement facility operation business were transferred to a wholly owned subsidiary of Konami, KAO Co., Ltd. ("KAO") which was established on May 11, 2002 to facilitate the sale. On May 13, 2002, Konami entered into an agreement to sell its amusement facility operation business to a third-party purchaser. As of March 31, 2002, the total and net assets of the portion representing KAO was ¥3,352 million and ¥2,000 million, respectively. Revenue from such business for the year ended March 31, 2002 was ¥6,779 million, representing approximately 3% of the total consolidated revenue of Konami and its subsidiaries for the year. The sale was closed on May 31, 2002 for ¥2,239 million, resulting in recognition of a gain of ¥239 million.

24 SUMMARY OF CERTAIN SIGNIFICANT DIFFERENCES BETWEEN GENERALLY ACCEPTED ACCOUNTING PRINCIPLES IN THE U.S. AND JAPAN (UNAUDITED)

The accompanying consolidated financial statements of Konami have been prepared in accordance with U.S. GAAP which differ from Japanese GAAP in certain material respects. The following table sets forth the reconciliation to Japanese GAAP of net income and shareholders' equity as of and for the year ended March 31, 2002:

	Millions of Yen	
	Net income	Shareholders' equity
Amounts reported in the consolidated financial statements under U.S. GAAP	¥11,402	¥134,990
Adjustments:		
(a) Effect of business combinations	1,680	666
(b) Long-lived assets	(24)	3,571
(c) Accrued pension and severance costs	504	640
(d) Directors' bonuses	274	198
(e) Software development costs	(7)	789
(f) Impairment of prepaid assets	1,124	1,124
(g) Revaluation of land	—	(153)
(h) Deferred taxes	1,319	3,605
(i) Other	200	542
Total Japanese GAAP adjustments	5,070	10,982
Income tax effect of Japanese GAAP adjustments	(2,899)	(4,674)
Effect of Japanese GAAP adjustments	2,171	6,308
Amount determined in conformity with Japanese GAAP	¥13,573	¥141,298

An explanation of the significant reconciling items is as follows:

a. Effect of business combinations

Under U.S. GAAP, the Company accounted for its business combinations initiated prior to June 30, 2001 using the purchase method of accounting in accordance with APB Opinion No. 16 "Business Combinations". Acquisitions initiated after June 30, 2001 are accounted for in accordance with SFAS No. 141. The purchase method of accounting in APB Opinion 16 and SFAS 141 requires recording acquired assets, including identifiable intangible assets, and liabilities at their respective estimated fair value at the date of acquisition. Japanese GAAP does not provide specific accounting standards for business combinations.

In accordance with SFAS No. 142 under U.S. GAAP, goodwill and certain intangible assets acquired after June 30, 2001 are not subject to amortization but are subject to assessments for impairment based on fair value. Under Japanese GAAP, the Company recorded the difference between its share of net equity of the acquired entity and purchase price as goodwill, which is amortized over a period not exceeding 20 years. The difference between U.S. GAAP and Japanese GAAP results from the amortization periods used for goodwill and identifiable intangible assets.

b. Long-lived assets basis differences

Under U.S. GAAP, long-lived assets are carried at cost less applicable depreciation or amortization and impairment losses recognized. Under U.S. GAAP, recognition of impairment losses is required when events and circumstances indicate that the carrying amount of those long-lived assets will not be recoverable. Japanese GAAP does not have impairment accounting similar to that of U.S. GAAP and long-lived assets are generally carried at cost less applicable depreciation or amortization.

c. Accrued pension and severance costs

Under U.S. GAAP, the Company accounts for its pension plans in accordance with SFAS No. 87, “Employers’ Accounting for Pensions”. Under U.S. GAAP, the Company has a multiemployer defined benefit plan and recognizes as net pension cost the amount of required contribution for the period. Under Japanese GAAP, this plan is accounted for based upon an actuarially determined present value of benefit obligations.

d. Directors’ bonuses

Under U.S. GAAP, directors’ bonuses are charged to earnings. Under Japanese GAAP, directors’ bonuses are accounted for as an appropriation of retained earnings when approved by the shareholders.

e. Software development costs

Under U.S. GAAP, the Company accounts for software development costs for internal use in accordance with SOP 98-1, “Accounting for the Costs of Computer Software Developed or Obtained for Internal Use”, which requires expensing of costs incurred during the preliminary planning stage as well as post-implementation stage, and capitalization of costs incurred during the application development stage. Under Japanese GAAP, it is permissible to capitalize all costs incurred during all stages.

f. Impairment of prepaid assets

Under U.S. GAAP, the Company accounts for loss contingencies in connection with the impairment of certain prepaid assets in accordance with SFAS No. 5, “Accounting for Contingencies”. Under Japanese GAAP, the Company did not record a portion of the loss contingency as an impairment.

g. Revaluation of land

Under U.S. GAAP, revaluation of land is not allowed. Under Japanese GAAP, land revaluation that meets certain criteria is directly charged to shareholders’ equity.

h. Deferred taxes

Under U.S. GAAP, the Company accounts for income taxes in accordance with SFAS No. 109, “Accounting for Income Taxes”, which requires an asset and liability approach for financial accounting and reporting for income taxes. Under Japanese GAAP, a deferred tax liability arising from a gain on sale of subsidiary shares was not recognized.

i. Other reconciling items

Other reconciling items consist of differences in accounting for capital leases, bond issuance costs, and stock issuance costs, none of which are considered individually significant.

Independent Auditors' Report

The Board of Directors and Shareholders
Konami Corporation:

We have audited the accompanying consolidated balance sheets of Konami Corporation and subsidiaries as of March 31, 2001 and 2002, and the related consolidated statements of income, shareholders' equity and accumulated other comprehensive income and cash flows for each of the years in the two-year period ended March 31, 2002. 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 auditing standards generally accepted in the United States of America. 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, 2001 and 2002, and the results of their operations and their cash flows for each of the years in the two-year period ended March 31, 2002, in conformity with accounting principles generally accepted in the United States of America.

The accompanying consolidated financial statements have been translated into United States dollars solely for the convenience of the reader. We have recomputed the translation and, in our opinion, the consolidated financial statements expressed in yen have been translated into United States dollars on the basis set forth in note 1 of the notes to consolidated financial statements.

KPMG

Tokyo, Japan
June 28, 2002

Appendix: Selected Financial Data (Japanese GAAP)

KONAMI CORPORATION AND CONSOLIDATED SUBSIDIARIES
Fiscal year ended/as of March 31

	(Yen in millions and U.S. dollars in thousands, except per share data)					
	1998	1999	2000 (1)	2001 (2)	2002	2002
Income Statement Data:						
Net revenues	¥ 89,624	¥ 113,414	¥146,667	¥171,481	¥225,580	$1,692,908
Cost of revenues	61,072	75,029	90,755	103,210	154,371	1,158,507
Selling, general and administrative Expenses	20,959	21,650	24,973	29,625	44,332	332,698
Operating income	7,593	16,735	30,939	38,646	26,877	201,703
Other income (expenses), net	(1,050)	(2,090)	3,471	946	2,322	17,426
Income before income taxes and minority interest (3)	6,543	14,645	34,410	39,592	29,199	219,129
Income taxes	1,490	9,326	15,650	17,307	13,248	99,422
Minority interest in income of consolidated subsidiaries	50	214	415	503	2,378	17,846
Net income	¥ 5,003	¥ 5,105	¥ 18,345	¥ 21,782	¥ 13,573	$ 101,861
Net income per share–basic (4)	¥46.86	¥48.13	¥164.26	¥190.91	¥107.24	$0.80
Net income per share–diluted (4)	¥44.10	¥45.33	¥163.33	¥190.91	¥107.24	$0.80
Cash dividends per share	¥30.00	¥43.00	¥97.00	¥54.00	¥54.00	$0.41
Balance Sheet Data:						
Total current assets	¥ 69,135	¥ 80,797	¥102,953	¥125,278	¥142,133	$1,066,664
Total assets	107,660	117,383	136,081	250,023	290,148	2,177,471
Total current liabilities	44,441	45,166	46,647	77,571	75,645	567,692
Total long-term liabilities	21,758	24,605	16,348	8,554	53,111	398,582
Total shareholders' equity	41,262	46,908	70,844	149,875	141,298	1,060,398

Notes: (1) Effective April 1, 1999, we adopted the new Japanese GAAP accounting standard for deferred income taxes, which required recognition of deferred income taxes 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. As a result of the adoption, net income increased by ¥783 million for the year ended March 31, 2000 compared with what would have been recorded under the previous standard.

(2) In February 2001, we acquired 54.64% of the issued and outstanding shares of People Co., Ltd., a health and fitness club operator in Japan, for total cash consideration of ¥69,415 million. The acquired company was then renamed Konami Sports Corporation. The assets, liabilities and results of operations of Konami Sports Corporation have been included in our consolidated financial statements since the acquisition date.

(3) Under Japanese GAAP, income before income taxes includes equity in net income/losses of affiliated companies.

(4) Net income per share information is calculated by dividing net income by the weighted average number of shares outstanding during the relevant period after adjusting to reflect the stock splits by way of free distributions made on May 20, 1999 and May 19, 2000.

KONAMI's History

March 1969	• Kagemasa Kozuki (current chairman of the board and Chief Executive Officer) founded a jukebox rental/repair business in Osaka.
March 1973	• Konami Industries Co., Ltd. (current KONAMI CORPORATION) was established and started manufacturing amusement machines.
January 1978	• KONAMI's first game machine using a microcomputer was produced; manufacture and sales began.
January 1979	• KONAMI began exporting products to the United States; laid foundations for business expansion in that country.
May 1980	• Headquarters was moved to a new office building in Toyonaka City, Osaka.
March 1982	• Osaka Small and Medium Business Investment & Consultation Co., Ltd. invested in KONAMI. • Headquarters was moved to Osaka Ekimae Dai 4 Building in Osaka.
June 1982	• Technology Development Center opened in Toyonaka City, Osaka.
October 1982	• KONAMI began manufacture and sales of game software for PCs.
November 1983	• Manufacture and sales of game software for MSX PCs commenced.
March 1984	• New building was constructed for Technology Development Center in Toyonaka City, Osaka.
October 1984	• KONAMI stock was listed on the Second Section of the Osaka Securities Exchange (capitalized at ¥2.94 billion).
April 1985	• KONAMI began manufacture and sales of game software for Nintendo's Family Computer.
August 1986	• KONAMI Software Development Building was completed in Port Island, Kobe, and KONAMI headquarters (current Kobe Building) was moved there.
November 1986	• New production control department and distribution center (current KSC Osaka Service Center) opened.
August 1988	• KONAMI stock was listed on the First Sections of the Tokyo Stock Exchange and Osaka Securities Exchange.
May 1991	• KONAMI Technology Development Center (current Amusement Content Business's Kobe Office) opened in Kobe.
June 1991	• Company name was changed from Konami Industries Co., Ltd., to Konami Co., Ltd.
June 1992	• KONAMI set up Tokyo Headquarters.
April 1993	• Headquarter functions were moved from Kobe to Tokyo Headquarters.
August 1994	• Tokyo Technical Center (current Gaming Content Business) opened in Zama, Kanagawa Prefecture.
April 1995	• Konami Computer Entertainment Osaka Co., Ltd. (currently Konami Computer Entertainment Osaka, Inc.) was established. • Konami Computer Entertainment Tokyo Co., Ltd. (currently Konami Computer Entertainment Tokyo, Inc.) was established.
December 1995	• Konami Music Entertainment Co., Ltd. (current Konami Music Entertainment, Inc.) was established.
April 1996	• Konami Computer Entertainment Japan Co., Ltd. (current Konami Computer Entertainment Japan, Inc.) and Konami Service Co., Ltd. (current Konami Service, Inc.) were established.
May 1996	• KONAMI shifted to a business divisional organization.
October 1996	• Konami Finance Co., Ltd. (current Konami Capital, Inc.) was established.
March 1997	• Amusement Content Business plant was constructed in Kobe. • Konami Computer Entertainment School Co., Ltd. (currently Konami School, Inc.) was established.
April 1997	• KONAMI's domestic sales functions were transferred to network of 13 regional exclusive dealers.
November 1997	• KONAMI's stock was listed on the Stock Exchange of Singapore.
September 1999	• Konami Computer Entertainment Osaka Co., Ltd. stock was listed on the over-the-counter market. • KONAMI's stock was listed on the London Stock Exchange.
December 1999	• The official registered address of KONAMI's headquarters was changed from Kobe to Tokyo.
January 2000	• A license was received related to the manufacture and sales of gaming machines from the U.S. states of Nevada.
March 2000	• KONAMI restructured domestic sales routes for its products, reducing the number of exclusive dealerships to 11, from 13.
June 2000	• Konami Software Shanghai, Inc. was established.
August 2000	• KONAMI took third-party allocation from TAKARA Co., Ltd., implementing a strategic capital tie-up. • Konami Computer Entertainment Tokyo, Inc., registered its shares on the OTC market. • Konami Computer Entertainment Sapporo, Inc. merged with Konami Computer Entertainment Yokohama, Inc., and the new company was named Konami Computer Entertainment Studios, Inc.

October 2000	• Konami Marketing, Inc., was established and began operations. • A license was received related to gaming machines from the U.S. states of Nevada. • A license was received related to the manufacture and sale of gaming machines from the U.S. state of Mississippi. • A license was received related to the sales of gaming machines to a INDIAN casino from the U.S. states of California.
December 2000	• KONAMI's first shipment of gaming machines for the United States was sent. • A license was received related to the sales of gaming machines to a INDIAN casino from the U.S. state of New Mexico.
February 2001	• Outstanding shares of PEOPLE CO., LTD. (currently Konami Sports Corporation) were purchased through a tender offer (TOB), and the company became a KONAMI subsidiary.
May 2001	• KONAMI made a capital investment in Success Corporation. • A license was received related to the production and sales of gaming machines from the U.S. state of Indiana.
June 2001	• Konami Sports Corporation acquired Nissan Sports Plaza Co., Ltd. (currently Konami Sports Plaza Co., Ltd.) from Nissan Motor Co., Ltd. • A license was received related to the manufacture and sales of gaming machines to a INDIAN casino from the U.S. state of Iowa.
July 2001	• A license was received related to the sales of gaming machines to a INDIAN casino from the U.S. state of Michigan.
August 2001	• KONAMI made a strategic investment in HUDSON SOFT CO., LTD. • Konami Gaming, Inc. acquired shares of the U.S. casino management system company Paradigm Gaming Systems, Inc. and integrated that company's operations. • A license was received related to the manufacture and sale of gaming machines from the Canadian province of Ontario.
September 2001	• A license was received related to the sale of gaming machines to a INDIAN casino from the U.S. state of New York.
October 2001	• Konami Marketing, Inc. acquired 11 distributors. • Konami Mobile Online, Inc. was established. • KONAMI fully consolidated Konami Australia Pty Ltd. through the purchase of all outstanding shares, and received a license related to the sale of gaming machines in all the states of Australia. • A license was received related to the manufacture and sale of gaming machines from the U.S. state of Oregon. • A license was received related to the manufacture and sale of gaming machines from the U.S. state of Arizona.
December 2001	• HUDSON SOFT CO., LTD. acquired the Sapporo Division of Konami Computer Entertainment Studios, Inc. • A license was received related to the manufacture and sale of gaming machines from the U.S. state of Michigan.
January 2002	• KONAMI made a strategic investment in Genki Co., Ltd.
February 2002	• Konami Computer Entertainment Japan, Inc. was listed on the OTC market. • Konami Sports Corporation acquired the shares of Daiei Olympic Sports Club, Inc. (currently Konami Olympic Sports Club Corporation, which will be merged by Konami Sports Corporation in October 2002.) and made that company a subsidiary. • A license was received related to the manufacture and sale of gaming machines from the U.S. state of Illinois.
May 2002	• The operation of amusement facilities was transferred to AmLead Co., Ltd. in order to streamline operations and focus managerial resources. • A license was received related to the manufacture and sales of gaming machines from the U.S. state of Kansas.
June 2002	• A license was received related to the manufacture and sales of gaming machines from the U.S. state of Minnesota.
July 2002	• A license was received related to the manufacture and sales of gaming machines from the U.S. state of Puerto Rico (the Dominion of U.S.).
August 2002	• Corporate Headquarters moved from Minato Ward in Tokyo to Chiyoda Ward in Tokyo.
September 2002	• KONAMI's stock was listed on the New York Stock Exchange.

Major Subsidiaries and Affiliates

(As of September 30, 2002)

Konami Sports Corporation
Paid-in Capital: ¥5,040.95 million
10-1, Higashi-Shinagawa 4-chome, Shinagawa-ku, Tokyo 140-0002, Japan
TEL: (03) 6688-0573 FAX: (03) 6688-5743

Konami Computer Entertainment Osaka, Inc.
Paid-in Capital: ¥1,213.05 million
5-25, Umeda 2-chome, Kita-ku, Osaka 530-0001, Japan
TEL: (06) 6343-0573 FAX: (06) 6343-0574

Konami Computer Entertainment Tokyo, Inc.
Paid-in Capital: ¥2,323.1 million
8-10, Harumi 1-chome, Chuo-ku, Tokyo 104-6041, Japan
TEL: (03) 5144-0573 FAX: (03) 5144-0574

Konami Computer Entertainment Japan, Inc.
Paid-in Capital: ¥3,366.52 million
(WEST)
20-3,Ebisu 4-chome, Shibuya-ku, Tokyo 150-6006, Japan
TEL: (03) 5475-0573 FAX: (03) 5475-0574
(EAST)
15-3, Nishi-Shinjuku 4-chome, Shinjuku-ku, Tokyo 160-0023, Japan
TEL: (03) 3375-0573 FAX: (03) 3379-4568

Konami Computer Entertainment Studios, Inc.
Paid-in Capital: ¥300 million
1-23, Shiba 4-chome, Minato-ku, Tokyo 108-0014, Japan
TEL: (03) 3456-0573 FAX: (03) 3456-0574

Konami Marketing, Inc.
Paid-in Capital: ¥1,058.65 million
1-1, Nishi-Shinjuku 2-chome, Shinjuku-ku, Tokyo 163-0448, Japan
TEL: (03) 3342-0573 FAX: (03) 3342-3457

Konami Mobile & Online, Inc.
Paid-in Capital: ¥300 million
6-1, Nishi-Shinjuku 1-chome, Shinjuku-ku, Tokyo 163-1525, Japan
TEL: (03) 4355-0573 FAX: (03) 4355-5731

Konami Music Entertainment, Inc.
Paid-in Capital: ¥60 million
12-1, Dogenzaka 1-chome, Shibuya-ku, Tokyo 150-0043, Japan
TEL: (03) 3780-0573 FAX: (03) 5458-6430

Konami Parlor Entertainment, Inc.
Paid-in Capital: ¥100 million
6-1, Nishi-Shinjuku 1-chome, Shinjuku-ku, Tokyo 163-1525, Japan
TEL: (03) 3342-1573 FAX: (03) 3349-0574

Konami Sports Life Corporation
Paid-in: ¥300 million
10-13, Higashi-Shinagawa 4-chome, Shinagawa-ku,
Tokyo 140-0002, Japan
TEL: (03) 4426-0573 FAX: (03) 4426-0580

Konami Capital, Inc.
Paid-in Capital: ¥480 million
7-16, Kyobashi 2-chome, Chuo-ku, Tokyo 104-0031, Japan
TEL: (03) 6800-0573 FAX: (03) 6800-0574

Konami Service, Inc.
Paid-in Capital: ¥100 million
10-3, Shimotsuruma 2-chome, Yamato-shi, Kanagawa 242-0001, Japan
TEL: (046) 264-0573 FAX: (046) 262-7769

Konami Career Management, Inc.
Paid-in Capital: ¥60 million
7-16, Kyobashi 2-chome, Chuo-ku, Tokyo 104-0031, Japan
TEL: (03) 6800-2573 FAX: (03) 6800-2574

Konami School, Inc.
Paid-in Capital: ¥360 million
12-15, Shibuya 2-chome, Shibuya-ku, Tokyo 150-0002, Japan
TEL: (03) 5467-0573 FAX: (03) 5467-0574

Konami Olympic Sports Club Corporation
Paid-in Capital: ¥2,029.73 million
10-1, Higashi-Shinagawa 4-chome, Shinagawa-ku, Tokyo 140-0002, Japan
TEL: (03) 5783-0761 FAX: (03) 5783-0760

Konami Corporation of America
Paid-in Capital: US$34.9 million
900 Deerfield Parkway, Baffalo Grove, Illinois 60089, U.S.A.
TEL: (847) 793-0573 FAX: (847) 215-5122

Konami of America, Inc.
Paid-in Capital: US$21.5 million
1400 Bridge Parkway, Redwood City, CA 94065, U.S.A.
TEL: (650) 654-5600 FAX: (650) 654-5690

Konami Gaming, Inc.
Paid-in Capital: US$1.7 million
7140 South Industrial Rd. Suite 700, Las Vegas, NV 89118, U.S.A.
TEL: (702) 367-0573 FAX: (702) 367-0007

Konami Computer Entertainment Hawaii, Inc.
Paid-in Capital: US$2.2 million
2222 Kalakaua Ave. Suite 1500, Honolulu, HI 96815, U.S.A.
TEL: (808) 923-0573 FAX: (808) 921-2244

Konami Corporation of Europe B.V.
Paid-in Capital: EURO 9.01 million
Officina 1, de Boelelaan 7, 1083 HJ Amsterdam, The Netherlands
TEL: 020-64-65 996 FAX: 020-64-27 675

Konami of Europe GmbH
Paid-in Capital: EURO 5.11 million
Berner Str. 103-105, 60437 Frankfurt am Main, Germany
TEL: (069) 985 573-0 FAX: (069) 985 573-77

Konami Amusement of Europe Ltd.
Paid-in Capital: £4 million
Konami House, 54A Cowley Mill Road, Uxbridge, Middlesex, UB8 2QE, U.K.
TEL: 01895-200 573 FAX: 01895-200 500

Konami Asia (Singapore) Pte. Ltd.
Paid-in Capital: S$1.5 million
138 Robinson Road, #17-00 The Corporate Office, Singapore 068906
TEL: 6227-6660 FAX: 6223-1735

Konami Marketing (Asia) Ltd.
Paid-in Capital: HK$1.5 million
Suite 2007, Tower 1, The Gateway, 25 Canton Road, Tsim Sha Tsui, Kowloon, HongKong
TEL: 2956-0573 FAX: 2956-2300

Konami Software Shanghai, Inc.
Paid-in Capital: US$2.0 million
No.88 Century Boulevard, Pu-Dung New Area, Shanghai 200121, P.R.China
TEL: (86) 21-5047-0573 FAX: (86) 21-5047-0140

Konami Australia Pty Ltd.
Paid-in Capital: A$3 million
28 Load ST., Botany, NSW, Australia 2019
TEL: 2-9666-5731 FAX: 2-9666-3695

* On October 1, 2002, Konami Sports Corporation will merge with Konami Olympic Sports Club Corporation.

Board of Directors, Corporate Auditors and Corporate Officers

■Board of Directors and Corporate Auditors (As of June 20, 2002)

Position	Name	In Charge
Representative Director	Kagemasa Kozuki	
Representative Director	Kagehiko Kozuki	
Representative Director	Noriaki Yamaguchi	
Director	Toshiro Tateno	
Director	Hidetoshi Inatomi	
Director (external)	Tomokazu Godai	
Director (external)	Takuya Iwasaki	
Director (external)	Satoshi Akagi	
Director (external)	Hiroyuki Mizuno	
Standing Corporate Auditor	Noboru Onuma	
Standing Corporate Auditor	Tetsuro Yamamoto	
Corporate Auditor	Minoru Nagaoka	
Corporate Auditor	Masataka Imaizumi	

■Corporate Officers (As of June 3, 2002)

Position	Name	In Charge
President, Corporate Officer	Kagemasa Kozuki	Chief Executive Officer
Executive Corporate Officer	Noriaki Yamaguchi	Chief Financial Officer, Finance and Accounting Division
Executive Corporate Officer	Kazumi Kitaue	CS Business
Executive Corporate Officer	Fumiaki Tanaka	AC Business
Executive Corporate Officer	Akihiko Nagata	CP Business
Executive Corporate Officer	Shuji Kido	GC Business
Executive Corporate Officer	Toshiro Tateno	Corporate Planning Division
Executive Corporate Officer	Hidetoshi Inatomi	Business Affairs Solutions Division
Corporate Officer	Shinichi Furukawa	Sales (Domestic)
Corporate Officer	Seiji Ito	Secretary Office
Corporate Officer	Hiroo Ogino	HR Strategy
Corporate Officer	Seiichi Ishigaki	Public Relations Office General Manager
Corporate Officer	Kimihiko Higashio	Kansai Region Operation

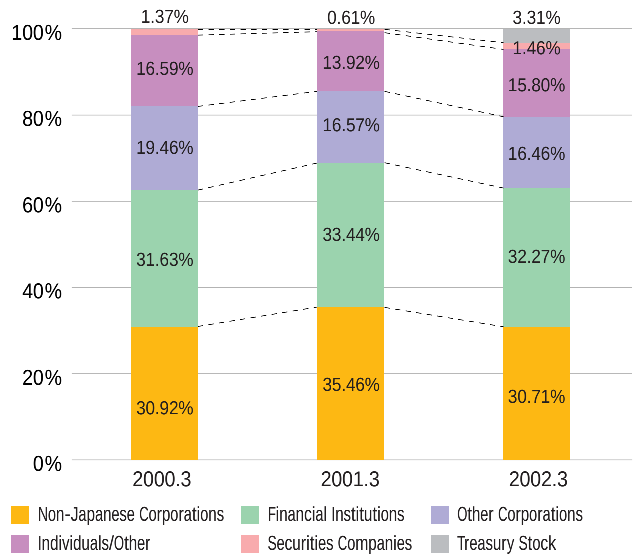
■Common Stock (As of March 31, 2002)

Authorized:	450,000,000 shares
Outstanding:	128,737,566 shares
Shareholders:	52,858
Stock listings:	Tokyo Stock Exchange (First Section)
	Osaka Securities Exchange (First Section)
	London Stock Exchange
	Singapore Stock Exchange (Main Board)

■Main Banks

Sumitomo Mitsui Banking Corporation
The Bank of Tokyo-Mitsubishi, Ltd.
UFJ Trust Bank Limited
Mizuho Corporate Bank, Ltd.

■Composition of Shareholders



■Principal Shareholders

Shareholders' Name	Shares (Thousands)	(% of total)
Kozuki Holding B.V.	13,530	10.50
Japan Trustee Services Bank, Ltd. (Trust Account)	7,415	5.76
KOZUKI FOUNDATION FOR HIGHER EDUCATION	7,314	5.68
Kozuki Capital Corporation	7,000	5.43
The Mitsubishi Trust and Banking Corporation (Trust Account)	6,670	5.18
KOZUKI FOUNDATION FOR ADVANCED INFORMATION TECHNOLOGY	5,880	4.56
Sumitomo Mitsui Banking Corporation	4,826	3.74
KONAMI CORPORATION	4,257	3.30
UFJ Trust Bank Limited (Trust Account A)	3,034	2.35
THE CHASE MANHATTAN BANK, N.A. LONDON SECLL	1,938	1.50
THE CHASE MANHATTAN BANK, N.A. LONDON	1,828	1.42
Lehman Brothers Inc.	1,480	1.15
STATE STREET BANK AND TRUST COMPANY	1,478	1.14
Mitsui Asset Trust and Banking Company, Limited Pension Trust Account No.2	1,438	1.11
J.P. Morgan Trust Bank Ltd. (Non-Taxable Account)	1,382	1.07
JADIF	1,328	1.03
The Dai-ichi Mutual Life Insurance Company, Special Account	1,308	1.01
ASAD	1,273	0.98
WADI	1,226	0.95
Trust & Custody Services Bank, Ltd. (Pension Trust Account)	1,054	0.81
Trust & Custody Services Bank, Ltd. (Trust Account B)	986	0.76
Mitsui Asset Trust and Banking Company, Limited Pension Trust Account No.3	908	0.70
The Norinchukin Trust & Banking Co., Ltd.	907	0.70
MORGAN STANLEY & CO. INTERNATIONAL LIMITED	794	0.61
The Dai-ichi Mutual Life Insurance Company	754	0.58
UFJ Trust Bank Limited	750	0.58
Nippon Life Insurance Company	714	0.55
Trust & Custody Services Bank, Ltd. (Investment Trust Account)	706	0.54
Trust & Custody Services Bank, Ltd. (Pension Tokkin Account)	702	0.54
NOMURA SECURITIES CO., LTD.	683	0.53

Corporate Data (As of March 31, 2002)

Founded:	March 21, 1969	
Incorporated:	March 19, 1973	
Paid-in capital:	¥47,398 million	
Representative:	Kagemasa Kozuki, Chairman of the Board and Chief Executive Officer	
Employees:	Consolidated:	4,422
	Non-Consolidated:	951
Average age:	Consolidated:	31.5 years
	Non-Consolidated:	30.3 years

Principal businesses:

Consumer Software*
- Design, manufacture and sale of video game software, and design of video game software for mobile phones
- Distribution of video game software and design of on-line games

Character Products
- Design, manufacture and sale of card games and character goods, and design and sale of mobile games

Amusement Content
- Design, manufacture and sale of amusement games and related content
- Design, manufacture and sale of LCDs for pachinko machine manufacturers
- Design, manufacture and sale of fitness machines with entertainment elements

Gaming Content
- Design, manufacture and sale of gaming machines for casinos
- Design, manufacture and sale of token-operated machines for arcade facilities

Health & Fitness
- Management of fitness centers

Headquarters
4-1, Marunouchi 2-chome, Chiyoda-ku, Tokyo
100-6330, Japan
Tel: (03) 5220-0573 Fax: (03) 5220-9900

Kobe Building
3-2, Minatojimanakamachi 7-chome, Chuo-ku,
Kobe-shi, Hyogo 650-0046, Japan
Tel: (078) 303-0573 Fax: (078) 303-1230

Consumer Software Business's Head Office
4-1, Marunouchi 2-chome, Chiyoda-ku, Tokyo
100-6330, Japan
Tel: (03) 4333-0573 Fax: (03) 5220-9907

Character Products Business's Head Office
12-1, Dogenzaka 1-chome, Shibuya-ku,
Tokyo 150-0043, Japan
Tel: (03) 5458-0573 Fax: (03) 5458-1040

Amusement Content Business's Head Office
5-1, Nishi-Shinjuku 6-chome, Shinjuku-ku,
Tokyo 163-1334, Japan
Tel: (03) 5339-0573 Fax: (03) 5339-0574

Amusement Content Business's Kobe Office
3, Takatsukadai 6-chome, Nishi-ku, Kobe-shi,
Hyogo 651-2271, Japan
Tel: (078) 993-0573 Fax: (078) 993-2520

Gaming Content Business's Head Office
1-1, Higashihara 5-chome, Zama-shi,
Kanagawa 228-0004, Japan
Tel: (046) 298-0573 Fax: (046) 298-0574

KONAMI CORPORATION