

Annual Financial Report

***KONAMI HOLDINGS CORPORATION and
its subsidiaries***

***Consolidated Financial Statements
For the fiscal year ended March 31, 2017***

KONAMI HOLDINGS CORPORATION

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As used in this annual report, references to "the Company" and "the parent" are to KONAMI HOLDINGS CORPORATION and references to "Konami Group," "the Group," "we," "our" and "us" are to KONAMI HOLDINGS CORPORATION and its subsidiaries, unless the context otherwise requires.

"U.S. dollar" or "\$" means the lawful currency of the United States of America, "€" or "Euro" means the lawful currency of the member states of the European Union and "yen" or "¥" means the lawful currency of Japan.

"IFRS" means International Financial Reporting Standards and "Japanese GAAP" means accounting principles generally accepted in Japan.

1. Consolidated Financial Statements

Consolidated Financial Statements

(1) Consolidated Statement of Financial Position

	Note	As of March 31, 2016	As of March 31, 2017	Millions of Yen
Assets				
Current assets				
Cash and cash equivalents	5,22	¥113,907	¥134,743	
Trade and other receivables	6,22	23,401	25,951	
Inventories	7	9,170	7,430	
Income tax receivables	18	2,139	846	
Other current assets	13,22	5,618	5,978	
Total current assets		<u>154,235</u>	<u>174,948</u>	
Non-current assets				
Property, plant and equipment, net	8,10	80,264	75,598	
Goodwill and intangible assets	9	39,470	34,774	
Investments accounted for using the equity method	11	2,585	2,798	
Other investments	12,22	1,268	1,266	
Other financial assets	13,22	24,123	22,362	
Deferred tax assets	18	22,651	22,335	
Other non-current assets		3,591	3,063	
Total non-current assets		<u>173,952</u>	<u>162,196</u>	
Total assets		<u>¥328,187</u>	<u>¥337,144</u>	

	Note	As of March 31, 2016	As of March 31, 2017	Millions of Yen
Liabilities and equity				
Liabilities				
Current liabilities				
Bonds and borrowings	14,22	¥9,014	¥10,607	
Other financial liabilities	10,17,22	4,126	4,007	
Trade and other payables	15,22	24,757	25,852	
Income tax payables	18	9,261	2,745	
Other current liabilities	16,19	14,335	13,635	
Total current liabilities		61,493	56,846	
Non-current liabilities				
Bonds and borrowings	14,22	24,606	19,678	
Other financial liabilities	10,17,22	16,459	14,633	
Provisions	16	8,679	8,106	
Deferred tax liabilities	18	280	0	
Other non-current liabilities	19	3,195	2,689	
Total non-current liabilities		53,219	45,106	
Total liabilities		114,712	101,952	
Equity				
Share capital	20	47,399	47,399	
Share premium	20	74,426	74,426	
Treasury shares	20	(21,284)	(21,304)	
Other components of equity	26	2,407	2,157	
Retained earnings	20	109,802	131,763	
Total equity attributable to owners of the parent		212,750	234,441	
Non-controlling interests		725	751	
Total equity		213,475	235,192	
Total liabilities and equity		¥328,187	¥337,144	

The accompanying notes are an integral part of these financial statements.

(2) Consolidated Statements of Profit or Loss and Comprehensive Income

Consolidated Statement of Profit or Loss

	Note	Fiscal year ended March 31, 2016	Fiscal year ended March 31, 2017	Millions of Yen
Revenue				
Product sales revenue		¥118,795	¥90,787	
Service and other revenue		131,107	139,135	
Total revenue	4	249,902	229,922	
Cost of revenue				
Cost of product sales revenue		(70,974)	(46,813)	
Cost of service and other revenue		(91,476)	(94,378)	
Total cost of revenue	23	(162,450)	(141,191)	
Gross profit		87,452	88,731	
Selling, general and administrative expenses	23	(49,292)	(45,107)	
Other income and other expenses, net	24	(13,481)	(7,265)	
Operating profit		24,679	36,359	
Finance income	25	230	199	
Finance costs	25	(1,390)	(1,305)	
Profit from investments accounted for using the equity method	11	249	268	
Profit before income taxes		23,768	35,521	
Income taxes	18	(13,237)	(9,544)	
Profit for the year		10,531	25,977	
Profit attributable to:				
Owners of the parent		10,516	25,951	
Non-controlling interests		¥15	¥26	

	Note	Fiscal year ended March 31, 2016	Fiscal year ended March 31, 2017	Yen
Earnings per share (attributable to owners of the parent)				
Basic	27	¥76.44	¥191.89	
Diluted	27	¥76.13	¥189.08	

Consolidated Statement of Comprehensive Income

	Note	Fiscal year ended March 31, 2016	Fiscal year ended March 31, 2017	Millions of Yen
Profit for the year		¥10,531	¥25,977	
Other comprehensive income				
Items that may be reclassified to profit or loss:				
Exchange differences on foreign operations	26	(2,576)	(253)	
Net change in fair values of available-for-sale financial assets	26	(29)	2	
Share of other comprehensive income of entity accounted for using the equity method	26	(0)	1	
Total items that may be reclassified to profit or loss		(2,605)	(250)	
Total other comprehensive income		(2,605)	(250)	
Total comprehensive income for the year		7,926	25,727	
Comprehensive income attributable to:				
Owners of the parent		7,911	25,701	
Non-controlling interests		¥15	¥26	

The accompanying notes are an integral part of these financial statements.

(3) Consolidated Statement of Changes in Equity

								Millions of Yen	
	Note	Equity attributable to owners of the parent						Non-controlling interests	Total equity
		Share capital	Share premium	Treasury shares	Other components of equity	Retained earnings	Total		
Balance at March 31, 2015		47,399	74,175	(11,271)	5,012	102,474	217,789	710	218,499
Profit for the year					10,516	10,516		15	10,531
Other comprehensive income					(2,605)	(2,605)			(2,605)
Total comprehensive income for the year				-	(2,605)	10,516	7,911	15	7,926
Issuance of convertible bond-type bonds with subscription rights to shares	14,18		251			251			251
Purchase of treasury shares	20			(10,013)			(10,013)		(10,013)
Disposal of treasury shares	20		0	0			0		0
Dividends	21				(3,188)	(3,188)			(3,188)
Total transactions with the owners		-	251	(10,013)	-	(3,188)	(12,950)	-	(12,950)
Balance at March 31, 2016		47,399	74,426	(21,284)	2,407	109,802	212,750	725	213,475
Profit for the year					25,951	25,951		26	25,977
Other comprehensive income					(250)	(250)			(250)
Total comprehensive income for the year			-	-	(250)	25,951	25,701	26	25,727
Purchase of treasury shares	20			(20)			(20)		(20)
Disposal of treasury shares	20		0	0			0		0
Dividends	21				(3,990)	(3,990)			(3,990)
Total transactions with the owners		-	0	(20)	-	(3,990)	(4,010)	-	(4,010)
Balance at March 31, 2017		¥47,399	¥74,426	¥(21,304)	¥2,157	¥131,763	¥234,441	¥751	¥235,192

The accompanying notes are an integral part of these financial statements.

(4) Consolidated Statement of Cash Flows

	Note	Fiscal year ended March 31, 2016	Millions of Yen Fiscal year ended March 31, 2017
<i>Operating activities</i>			
Profit for the year		¥10,531	¥25,977
Depreciation and amortization		29,087	16,286
Impairment losses		9,062	6,401
Interest and dividends income		(217)	(195)
Interest expense		946	940
Loss on sale or disposal of property, plant and equipment		4,167	538
Profit from investments accounted for using the equity method		(249)	(268)
Income taxes		13,237	9,544
Decrease (increase) in trade and other receivables		5,999	(2,355)
Decrease in inventories		3,453	1,954
Increase in trade and other payables		93	1,521
(Increase) decrease in prepaid expense		(95)	84
(Decrease) increase in deferred revenue		(1,981)	388
Other, net		3,367	(1,475)
Interest and dividends received		190	166
Interest paid		(995)	(953)
Income taxes paid		(5,259)	(14,794)
<i>Net cash provided by operating activities</i>		71,336	43,759
<i>Investing activities</i>			
Capital expenditures		(19,079)	(14,969)
Decrease in lease deposits, net		262	1,192
Decrease (increase) in term deposits, net		(7)	143
Other, net		78	19
<i>Net cash used in investing activities</i>		(18,746)	(13,615)
<i>Financing activities</i>			
(Decrease) increase in short-term (within 3 months) borrowings, net		(5,904)	1,134
Proceeds from short-term (more than 3 months) borrowings		9,289	12,846
Repayments of short-term (more than 3 months) borrowings		-	(17,386)
Proceeds from issuance of bonds	14	10,050	-
Principal payments under capital lease and financing obligations		(2,082)	(2,011)
Dividends paid	21	(3,185)	(3,984)
Purchase of treasury shares	20	(10,013)	(20)
Other, net		(32)	1
<i>Net cash used in financing activities</i>		(1,877)	(9,420)
Effect of exchange rate changes on cash and cash equivalents		(1,460)	112
Net increase in cash and cash equivalents		49,253	20,836
Cash and cash equivalents at the beginning of the year	5	64,654	113,907
<i>Cash and cash equivalents at the end of the year</i>	5	¥113,907	¥134,743

The accompanying notes are an integral part of these financial statements.

Notes to Consolidated Financial Statements

1. Reporting Entity

KONAMI HOLDINGS CORPORATION (the "Company") is a public company located in Japan.

The accompanying consolidated financial statements consist of the Company and its consolidated subsidiaries (collectively, "Konami Group") as well as equity interests in its associates.

Konami Group engages in the following four business operations: Digital Entertainment, Health & Fitness, Gaming & Systems and Amusement businesses. The operations of each business segment are presented in Note 4 "Segment Information".

2. Basis of Preparation

(1) Compliance with IFRS

The Company prepares consolidated financial statements in accordance with International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board. The Company meets the requirements set out under Article 1-2 of the "Ordinance on Terminology, Forms and Preparation Methods of Consolidated Financial Statements" under which the Company is qualified as a "specified company" and duly adopted the provisions of Article 93 of the foregoing rules.

(2) Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis except for certain financial assets and liabilities measured at their fair values, as stated in Note 3 "Significant Accounting Policies."

(3) Functional currency and presentation currency

The individual financial statements of each group entity are presented in the currency of the primary economic environment in which the entity operates ("functional currency"). The consolidated financial statements are presented in Japanese yen, which is the Company's functional currency. All financial information presented in Japanese yen is rounded to the nearest million yen.

(4) Use of estimates and judgments

In preparing IFRS-compliant consolidated financial statements, management uses estimates and judgments. Judgments made by management, assumptions about the future and uncertainty in estimates may affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities and reported amounts of income and expenses as of the reporting date of the consolidated financial statements.

The estimates and underlying assumptions are reviewed on an ongoing basis. The impacts from revisions to accounting estimates are recognized in the period in which the estimate is revised and future periods that are affected.

Information about estimates and judgments made by management that would have significant effects on the amounts recognized in the consolidated financial statements is included in the following notes:

- Revenue recognition: Note 3 “Significant Accounting Policies- (14) Revenue”.
- Recognition of deferred tax assets: Note 18 “Income Tax Expense”.
- Impairment losses for property, plant and equipment, goodwill and intangible assets: Note 3 “Significant Accounting Policies- (9) Impairment (ii) Non-financial assets”, Note 8 “Property, Plant and Equipment, net” and Note 9 “Goodwill and Intangible Assets”.

(5) Early application of new accounting standards

There was no new accounting standards applied earlier than required.

(6) New accounting standards and interpretations issued but not yet applied

New or revised accounting standards and interpretations that were issued by the date of approval of the consolidated financial statements but have not yet been applied by the Company as of March 31, 2017, are principally as follows. The Company is currently assessing the impacts that application of these will have on the consolidated financial statements, and it is not possible to make estimates at this stage.

Standards and Interpretations	Title	Date of mandatory application (fiscal year beginning on or after)	Reporting periods of application by the Company (End date of the reporting period)	Overview of new/revised Standards and Interpretations
IFRS 15	Revenue from Contracts with Customers	January 1, 2018	March 31, 2019	Proposition of a single framework for accounting for revenue recognition
IFRS 9	Financial Instruments	January 1, 2018	March 31, 2019	Revision of classification, measurement and recognition of financial instruments
IFRS 16	Leases	January 1, 2019	March 31, 2020	Revision of lease accounting

3. Significant Accounting Policies

(1) Basis of consolidation

(i) Subsidiaries

“Subsidiaries” are entities that are controlled by Konami Group. Konami Group controls entities where it is exposed, or has rights, to variable returns from its involvement with those entities and has the ability to affect the amount of returns through its power over those entities.

A subsidiary’s financial statements are incorporated into the Company’s consolidated financial statements from the date when the Company obtains control of the subsidiary until the date when the Company loses control of the subsidiary. Appropriate adjustments are made to the subsidiary’s accounting policies as necessary to ensure the conformity with Konami Group’s accounting policies.

Changes in the Company’s ownership interest in a subsidiary that do not result in the Company losing control of the subsidiary are accounted for as equity transactions. Any difference between the amount by which the non-controlling interests are adjusted and the amount of the fair value of the consideration paid or received is recognized directly in equity as equity attributable to owners of the parent. If the Company loses control of a subsidiary, the Company recognizes the gain or loss associated with the loss of control in profit or loss.

All inter-group balances and transactions as well as unrealized gains or losses arising from intergroup transactions are eliminated.

(ii) Associates

Associates are entities over which the Company does not have control or joint control but has significant influence over the financial and operating or business policies. Significant influence is the power to participate in the financial and operating policy decisions of the investee but which does not amount to control or joint control over those policies.

Investments in associates are accounted for using the equity method and initially recognized at acquisition cost as of the date of acquisition. These investments include goodwill recognized at the date of acquisition.

The Company’s consolidated financial statements include the Company’s share of income, expense and other comprehensive income of the associate accounted for under the equity method from the date when the Company obtains significant influence over the associate until the date when such significant influence is lost. Appropriate adjustments are made to the associate’s accounting policies as necessary to ensure conformity with the Company’s accounting policies.

Unrealized gains arising from transactions with an entity accounted for under the equity method are deducted from the value of the investment in proportion to the Company’s interest in the investee.

(2) Business combinations

A business combination is accounted for using the acquisition method.

Goodwill is measured as the excess of the total amount of the consideration transferred, the amount of any non-controlling interests in the acquiree and, if a business combination is achieved in stages, the amount of the fair value at the date of acquisition of the Company's previously held equity interest in the acquiree over the net amounts recognized in respect of the identifiable acquired assets and assumed liabilities (which are primarily measured at fair value). If the amount determined by this calculation is negative (consideration is less than net assets acquired – i.e. a bargain purchase) the associated difference is recognized immediately as a credit to profit or loss.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation are measured at the fair value or at the proportionate share of the non-controlling interests in the recognized amounts of the acquiree's identifiable net assets on an acquisition-by-acquisition basis.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the business combination occurs, the Company reports provisional amounts for the items for which the accounting is incomplete. During the measurement period, which may not exceed one year from the acquisition date, the Company retrospectively adjusts provisional amounts recognized as at the acquisition date.

Acquisition-related costs are recognized as expenses in the period in which they are incurred.

A business combination of entities under common control is a business combination in which all of the combining entities or businesses are ultimately controlled by the same party or parties both before and after the business combination, and that control is not transitory. Such transactions are accounted for based on the carrying amounts.

(3) Foreign currency transactions

(i) Foreign currency transactions

Foreign currency transactions are translated into the functional currencies of each of Konami Group companies using the appropriate exchange rate at the date of the transactions. At the end of each reporting period, foreign currency monetary assets and liabilities are retranslated into the functional currencies using the prevailing exchange rates at that date. Non-monetary assets and liabilities measured at fair value in foreign currencies are retranslated into the functional currencies using the exchange rates at the date the fair value was determined.

Exchange differences arising from the re-measurement and the settlement of such items are recognized in profit or loss in the period in which they arise. However, exchange differences arising from the financial assets measured through other comprehensive income are recognized in other comprehensive income.

(ii) Foreign operations

Assets and liabilities of foreign operations, including goodwill arising from acquisitions and fair value adjustments, are translated into Japanese yen using the exchange rate at the reporting date. Income and expenses are translated into Japanese yen using the average exchange rate for the period, unless exchange rates fluctuate significantly.

Exchange differences arising from translating the financial statements of foreign operations are recognized in other comprehensive income, and included in "other components of equity" as exchange differences on translating foreign operations.

On the disposal of the entire or a partial interest in a foreign operation involving loss of control, significant influence or joint control, the cumulative amount of the exchange differences relating to that foreign operation is reclassified to profit or loss, as a part of gain or loss on disposal.

(4) Cash and cash equivalents

Cash and cash equivalents includes cash on hand, deposits at call with banks, and other short-term highly liquid investments with maturities of three months or less from the date they are acquired, that are readily convertible to known amounts of cash and which are subject to insignificant risk of changes in value.

(5) Inventories

Inventories consist of merchandise for resale, finished products, work-in-process, raw materials and supplies.

Inventories are measured at the lower of cost or net realizable value; the company uses the weighted average method to determine the cost of inventories.

Net realizable value is the estimated selling price of inventories in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

(6) Property, plant and equipment, net

(i) Recognition and measurement

Property, plant and equipment are recognized at cost less any accumulated depreciation and any accumulated impairment losses.

The cost includes any costs directly attributable to the acquisition of the assets, the initial estimate of the costs of dismantling and removing the items and restoring the site on which they are located, and borrowing costs eligible for capitalization. If components of an item of property, plant and equipment have different useful lives, each component is recognized as a separate item of property, plant and equipment.

(ii) Subsequent expenditures

Subsequent expenditures on property, plant and equipment for the ordinary repairs and maintenance are recognized as expenses when incurred. Expenditures on major

replacements or improvements are capitalized only if it is probable that future economic benefits associated with such expenditures will flow to Konami Group.

(iii) Depreciation

Depreciation of property, plant and equipment is calculated based on the depreciable amount. Depreciable amount is calculated as the cost of an asset less its residual value.

Depreciation of an asset is principally computed under the straight-line method, spread over the estimated useful life of each component of the asset. The straight-line method is adopted because the method is considered to best approximate the expected pattern of consumption of the future economic benefits generated by the asset.

Equipment leased under a finance lease is depreciated over the shorter of the lease term or its estimated useful life, unless there is reasonable certainty that ownership will transfer to the Konami Group at the end of the lease term. Land is not depreciated.

The estimated useful lives range from 10 to 50 years for buildings and structures and from 2 to 20 years for tools, furniture and fixtures.

The depreciation method, estimated useful life and residual value are reviewed at each financial year end, and amended as necessary.

(7) Goodwill and intangible assets

(i) Goodwill

(a) *Initial recognition*

Goodwill arising from acquisition of subsidiaries is included in "Goodwill and intangible assets" in the accompanying consolidated statement of financial position. Measurement of goodwill at the time of initial recognition is described in "(2) Business combinations" as above.

(b) *Measurement after initial recognition*

Goodwill is measured at its cost less any accumulated impairment losses. Goodwill is not amortized but is tested for impairment annually at a consistent time in the year, and whenever there is any indicator of impairment.

(ii) Intangible assets acquired in business combinations

Intangible assets, such as trademarks, memberships, patents and other merchandising contracts, acquired in business combinations and recognized separately from goodwill are initially recognized at fair value as at the acquisition date.

Subsequently, such intangible assets are measured at their cost less any accumulated amortization and any accumulated impairment losses.

(iii) Internally generated intangible assets arising from development

Expenditures on research activities to obtain new scientific or technical knowledge and understanding are recognized as an expense as incurred. Expenditures related to development activities are capitalized only if it is technically feasible to complete the

assets, it is probable that future economic benefits will be generated, expenditures are reliably measurable, and the Company has the intention, ability and adequate resources to use or sell them after completion.

The costs of internally generated intangible assets arising from the development are initially recognized at the sum of expenditures incurred from the date when they first meet all of the aforementioned criteria until the day the development is completed. Subsequent to the initial recognition, internally generated intangible assets arising from development are measured at their costs less any accumulated amortization and any impairment losses.

(iv) Other intangible assets

Other intangible assets with finite useful lives are measured at their costs less any accumulated amortization and any accumulated impairment losses.

(v) Amortization

Amortization charge is calculated based on the acquisition cost of an asset less its residual value.

Intangible assets with finite useful lives are amortized over their respective estimated useful lives using the straight-line method. They are tested for impairment when there is any indication that they may be impaired. The straight-line method is adopted because this method best reflects the expected pattern of consumption of the future economic benefits generated by the asset.

The estimated useful lives of the main intangible assets with finite useful lives are as follows:

• Internally generated intangible assets arising from development	Less than 5 years
• Patents and merchandising rights	3 to 20 years

The amortization method, the estimated useful life and the residual value are reviewed at each financial year end, and amended as necessary.

Intangible assets with indefinite useful lives, including trademarks and memberships, or intangible assets that are not yet available for use are not amortized. They are tested for impairment annually at a consistent time in the year, and whenever there is any indicator of impairment.

(8) Leases

At the inception of a lease arrangement, Konami Group determines whether the arrangement is, or contains, a lease. The substance of the arrangement is determined based on whether the fulfillment of the arrangement depends on the use of a specific asset or group of assets and whether the arrangement conveys the right to such an asset or group of assets.

(i) Finance leases

Leases are classified as finance leases when substantially all the risks and rewards incidental to ownership in a lease arrangement are transferred to Konami Group. Finance leases are recognized at amounts equal to the fair value of the leased property or, if lower, at the present value of the minimum lease payments. After initial recognition, leased assets are accounted for according to the accounting policies applicable to the category of assets.

Minimum lease payments are apportioned between finance charges and the reduction of the outstanding liability. Finance charges are allocated to each period during the lease term so as to produce a constant rate of interest on the remaining balance of the liability.

Contingent rents are recognized as expenses in the period in which they are incurred.

(ii) Operating leases

All leases other than finance leases are classified as operating leases. Such leased assets are not recorded in the accompanying consolidated statement of financial position.

Lease payments made under operating leases are recognized in profit or loss on a straight-line basis over the lease term.

Contingent rents are recognized as expenses in the period in which they are incurred.

(9) Impairment

(i) Impairment of non-derivative financial assets

Financial assets not classified as “financial assets at fair value through profit or loss” are assessed at the end of each reporting period to consider whether there is any objective evidence of impairment. A financial asset is determined to be impaired only when there is objective evidence of impairment that loss events have occurred after the initial recognition of the asset and when there is a negative impact on the estimated future cash flows of the financial asset from those events that can be reliably estimated.

Examples of objective evidence that a financial asset is impaired include a default or delinquency by the borrower, granting to the borrower a concession that Konami Group would not otherwise consider any indication that the borrower or issuer will enter bankruptcy, or the disappearance of an active market.

For available-for-sale financial assets, a significant or prolonged decline in the fair value of an asset below its historical cost should also be included as objective evidence of impairment.

(a) *Financial assets measured at amortized cost*

Konami Group assesses whether objective evidence of impairment exists individually for financial assets that are individually significant or collectively for financial assets that are not individually significant.

For financial assets measured at amortized cost, the amount of the impairment loss is measured as the difference between the carrying amount of the asset and the present value of estimated future cash flows discounted at the original effective interest rate of

the financial asset, and is recognized in profit or loss in an allowance account. If the asset is subsequently determined to be uncollectible, the allowance account is directly applied to the carrying amount. If in a subsequent period there is objective evidence that the amount of the impairment loss has decreased, the previously recognized impairment loss is reversed and the reversal is recognized in profit or loss.

(b) Available-for-sale financial assets

Impairment losses on available-for-sale financial assets are recognized by reclassifying the cumulative losses previously recognized in “net change in fair values of available-for-sale financial assets”, a component of equity, to profit or loss. The amount of cumulative losses reclassified from comprehensive income to profit or loss is the difference between the acquisition cost and the present fair value less the impairment losses previously recognized in profit or loss. Regarding debt instruments, if in a subsequent period the amount of the impairment loss previously recognized decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed and the reversal is recognized in profit or loss.

(c) Investment in entities accounted for using the equity method

Goodwill arising from an acquisition of interest in associates is included in the carrying amount of the investment, and the entire carrying amount of the investments accounted for using the equity method is tested for impairment. Konami Group assesses whether there is any objective evidence of an indication that an investment in an associate may be impaired at the end of each reporting period. If there is objective evidence that the investment is impaired, the investment is tested for impairment by comparing its recoverable amount (higher of value in use or fair value less costs of disposal) of the investment with its carrying amount. Previously recognized impairment losses are reversed only if there is a change in the estimates used to determine the recoverable amount of the investment after the impairment losses were recorded. In such a case, the reversal of the impairment loss is recognized to the extent that the recoverable amount of the net investment subsequently increases.

(ii) Impairment of non-financial assets

The carrying amounts of Konami Group’s non-financial assets, excluding inventories and deferred tax assets, are reviewed to determine whether there is any indication of impairment at the end of each reporting period. If there is any indication of impairment, the asset is tested for impairment based on its recoverable amount. Goodwill, intangible assets with indefinite useful lives are tested for impairment based on the recoverable amount annually at a consistent time in the year, and whenever there is any indicator of impairment.

The recoverable amount of an asset or cash-generating unit (“CGU”) is the higher of value in use or fair value less costs of disposal. In determining value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects the time value of money and the risks specific to the asset which are not considered in estimating the future cash flows.

If it is not possible to estimate the recoverable amount of each asset individually for the impairment test, such assets are integrated into the smallest CGU that generates cash

inflows from continuing use that are largely independent of cash inflows from other assets or groups of assets. Goodwill acquired in a business combination is allocated to the CGUs that are expected to benefit from the synergies of the business combination, and these CGUs represent the lowest level within the entity at which the goodwill is monitored for internal management purposes, and are not larger than an operating segment. Since corporate assets do not generate separate cash inflows, if there is an indication that corporate assets may be impaired, the corporate assets are tested for impairment based on the recoverable amount of the CGU to which the corporate assets belong.

If the carrying amount of an asset or a CGU exceeds the recoverable amount, an impairment loss is recognized in profit or loss for the period. Impairment losses recognized in relation to a CGU are allocated first to reduce the carrying amount of any goodwill allocated to the CGU, and then to reduce the carrying amount of the other assets of the CGU on a pro rata basis.

An impairment loss related to goodwill cannot be reversed in a subsequent period. Previously recognized impairment losses on other assets are assessed at the end of each reporting period as to whether there is any indication that the losses may no longer exist or may have decreased. Such impairment losses are reversed if there have been any indications of the reversal of the impairment and a change in estimates used to determine the recoverable amount of the asset. The carrying amount of the asset after the reversal cannot exceed the carrying amount less depreciation or amortization, which would have been recorded had no impairment loss been recognized for the asset in prior years.

(10) Employee benefits

The Company and certain subsidiaries offer the opportunity to participate in defined contribution plans to employees. Defined contribution plans are post-employment benefit plans in which the employer pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further contributions. The contributions under the defined contribution plans are recognized as expenses during the period in which an employee rendered services.

The Company and certain subsidiaries have participated in a multi-employer pension plan, which is a defined benefit plan. The contributions during the period are recognized as pension expense in profit or loss, and contributions payable are recognized as liabilities. This multi-employer pension plan was dissolved on July 1, 2016.

For short-term employee benefits including salaries, bonuses and paid annual leave, the amounts expected to be paid in exchange for those services are recognized as expenses in the period when the employees render related services.

(11) Provisions

Provisions are recognized when Konami Group has a present legal or constructive obligation arising from past events where it is probable that outflows of resources embodying economic benefits will be required to settle the obligations, and reliable estimates can be made of the amount of the obligations.

Where the effect of the time value of money is material, a provision is calculated as the present value of the expenditures discounted at a rate that reflects the risks specific to the liability.

Asset retirement obligations are recognized as provisions for the costs of dismantling and removing the assets and restoring the site, and they are included in the acquisition costs of the assets. The estimated future costs and the discount rates applied are annually reviewed and accounted for as a change in accounting estimates, if an adjustment is determined to be necessary.

(12) Financial instruments

Konami Group classifies non-derivative financial assets in two categories: loans and receivables, and available-for-sale financial assets. Non-derivative financial liabilities are classified as financial liabilities measured at amortized cost.

(i) Non-derivative financial assets and non-derivative financial liabilities- recognition and derecognition

Konami Group initially recognizes loans and receivables when they occur. All other financial assets and liabilities are initially recognized on the relevant transaction date.

Konami Group derecognizes a financial asset only if the contractual rights to the cash flows from the financial asset expire or if Konami Group transfers the contractual rights to receive the cash flows of the financial asset in a transaction where the Group transfers substantially all risks and rewards of ownership of the financial asset.

Konami Group derecognizes a financial liability when it is extinguished, that is, when the obligation specified in the contract is discharged, cancelled or expires.

(ii) Non-derivative financial assets- measurement

(a) *Loans and receivables*

Non-derivative financial assets with fixed or determinable payments that are not quoted in an active market are classified as loans and receivables.

Loans and receivables are initially recognized at fair values plus transaction costs which are directly attributable to the acquisition of the financial assets. After initial recognition, such financial assets are measured at amortized cost using the effective interest method, less impairment, and amortization is recognized as finance income in profit or loss.

(b) *Available-for-sale financial assets*

Non-derivative financial assets that are designated as available-for-sale or are not classified in other categories are classified as available-for-sale financial assets.

Available-for-sale financial assets are initially recognized at fair values plus transaction costs which are directly attributable to the acquisition of the financial assets. After initial recognition, such financial assets are measured at their fair values at the end of each reporting period with changes in fair value recognized in “net change in fair values of available-for-sale financial assets” in other comprehensive income.

When available-for-sale financial assets are derecognized, the cumulative gains or losses previously recognized in other comprehensive income are reclassified from equity to profit or loss.

(iii) Non-derivative financial liabilities - measurement

Non-derivative financial liabilities are initially recognized at fair value, less transaction costs that are directly attributable to the issue of the financial liabilities. After initial recognition, these financial liabilities are measured at amortized cost using the effective interest method.

(iv) Compound financial instruments

The liability component of a compound financial instrument is initially recognized at the fair value of a similar liability that does not have an equity conversion option. The equity component is initially recognized at the difference between the fair value of the compound financial instrument as a whole and the fair value of the liability component. Any directly attributable transaction costs are allocated to the equity and liability components of the compound financial instrument in proportion to their initial carrying values.

Subsequently, the liability component of the compound financial instrument is measured at amortized cost using the effective interest method; the equity component is not remeasured.

Interest related to the financial liability is recognized as financial expense in profit or loss. On conversion, the financial liability is reclassified to equity and no gain or loss is recognized.

(v) Derivatives and hedging activities

Konami Group may use derivative financial instruments including foreign exchange forward contracts to regularly hedge its foreign currency risks.

Such derivative financial instruments are initially recognized at their fair values, and transaction costs that are attributable to the acquisition of the derivatives are recognized in profit or loss as incurred. After initial recognition, derivative financial instruments are measured at their fair values with changes in the fair value taken recognized immediately in profit or loss.

Konami Group does not apply hedge accounting.

(13) Equity

(i) Ordinary shares

Issuance costs directly relating to equity instruments issued by Konami Group are recognized, net of tax, as a deduction from equity.

(ii) Treasury shares

When the Company repurchases treasury shares, the consideration paid, including transaction costs, net of tax, directly arising from the repurchase, is recognized as a

deduction from equity. No gain or loss is recognized in profit or loss on the purchase, disposal, issuance or cancellation of Konami Group's own equity instruments. Any difference between the carrying amount and the consideration given is recognized in share premium.

(14) Revenue

Konami Group measures revenue at the fair value of the consideration received or the receivables for the goods or services delivered, less sales related taxes.

Revenues from the sale of goods are recognized when all the following conditions have been satisfied:

- Konami Group has transferred to the buyer the significant risks and rewards of ownership of the goods;
- Neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold is retained;
- The amount of revenue can be measured reliably;
- It is probable that the economic benefits associated with the transaction will flow to Konami Group; and
- The costs incurred or to be incurred in respect of the transaction can be measured reliably.

When the outcome of a transaction involving the rendering services can be estimated reliably, revenues associated with the transactions are recognized by reference to the stage of completion of the transaction at the end of the reporting period. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:

- The amount of revenue can be measured reliably;
- It is probable that the economic benefits associated with the transaction will flow to Konami Group;
- The stage of completion of the transaction at the end of the reporting period can be measured reliably; and
- The costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

Konami Group set revenue recognition criteria for each of the major categories of revenue, including multiple deliverable arrangements and presentation of revenues on a gross or net basis as follows:

(i) Product sales revenue

Konami Group sells goods such as packaged game software and other products, amusement machines and related equipment, gaming machines and related casino management systems, and pachinko slot machines and pachinko machines. Konami Group recognizes revenue from product sales upon delivery to customers or acceptance by customers.

Generally, Konami Group does not permit exchanges nor accept returns of goods except in cases where an apparent defect exists. In certain limited circumstances, Konami Group

may allow returns. In case where a return or a discount is probable and the amount can be reasonably estimated, the amounts estimated are deducted from revenue.

(ii) Service and other revenues

Service and other revenues of Konami Group include revenue from game contents services, including mobile games, and membership fee revenue from health and fitness club members.

Revenue from the sale of virtual goods within mobile games is deferred when they are sold. When it is considered that the rendering of the services is completed, Konami Group recognizes such revenue, depending on the nature of the virtual goods, at the time they are consumed or over the period the player is expected to access the game.

Revenue from health and fitness club membership is derived primarily from monthly membership fees received from club members, and is recognized in the periods in which the services are rendered.

(iii) Multiple-element arrangements

Konami Group enters into arrangements with multiple elements of various products and services. Konami Group allocates the consideration of the transaction to each element in proportion to fair values and recognizes revenue individually for each element, if these elements satisfy the following criteria:

- each element has standalone value to the customer, and
- the fair value of each element can be measured reliably.

In case the above criteria are not satisfied, the entire revenue is deferred as a single accounting unit and is not recognized until all elements of products are delivered or services are rendered.

Konami Group sells packaged software with online functionality in its Digital Entertainment segment. Each element of these transactions, as multiple-element arrangements, has standalone value to the customer, but, if the fair value cannot be measured reliably, the entire revenue is considered as a single accounting unit and recognized over the period the player is expected to access the software on a straight-line basis.

In the Amusement segment, Konami Group renders a service which connects amusement machines and multiple amusement arcades by online and another service which shares user playing fees with customers (amusement arcade operators). These services are considered multiple-element arrangements. Since each element included in such an arrangement has standalone value to the customer and the fair value of each element can be measured reliably, these arrangements are considered as separate accounting units and revenues are recognized upon acceptance by customers or completion of the rendering of the services.

(iv) Presentation of revenue on gross basis or on net basis

In determining whether the revenue is presented on a gross or net basis, Konami Group determines whether it is acting as a principal or as an agent in the transaction for each arrangement, based on the criteria as below:

- whether Konami Group has the primary responsibility for providing the goods or services to the customer or for fulfilling the order,
- whether Konami Group has inventory risk before or after the customer order, during shipping or on return,
- whether Konami Group has latitude in establishing prices, either directly or indirectly, and
- whether Konami Group bears the customer's credit risk for the amount of receivable from the customer.

When Konami Group is determined to be acting as a principal in the transaction, revenue from the transaction is reported on gross basis, whereas, when Konami Group is determined to be an agent, revenue from the transaction is reported on net basis.

(15) Finance income and finance costs

Finance income mainly consists of interest income, dividend income, foreign currency exchange gains and gains on sales of available-for-sale financial assets. Interest income is recognized using the effective interest method as incurred. Dividend income is recognized on the date when the right of Konami Group to receive the dividend is established.

Finance costs mainly consist of interest expenses, foreign currency exchange losses and losses on sales of available-for-sale financial assets. Interest expenses are recognized using the effective interest method as incurred.

(16) Income tax expense

Income tax expenses consist of current taxes and deferred taxes. These are recognized in profit or loss, except to the extent that the taxes arise from items which are recognized either in other comprehensive income or directly in equity, or from business combinations.

Current taxes are measured at the amount expected to be recovered from or paid to the tax authorities, using the tax rates and tax laws that have been enacted or substantially enacted at the reporting date.

Deferred tax assets and liabilities are recognized for temporary differences between the tax base and the carrying amounts of assets and liabilities, the carryforward of unused tax losses and the unused tax credits, measured at the tax rates that are expected to apply to the period when the assets are realized or the liabilities are settled, based on tax rates and the tax laws that have been enacted or substantially enacted by the end of the reporting period. Deferred tax assets and liabilities are not recognized if:

- taxable temporary differences arise from the initial recognition of goodwill,
- temporary differences arise from the initial recognition of an asset or liability in a transaction which is not a business combination and, at the time of transaction, affects neither accounting profit or taxable profit (tax loss), or
- Konami Group is able to control the timing of the reversal of the temporary differences which are associated with investments in subsidiaries and associates, and it is probable that such differences will not be reversed in the foreseeable future.

Deferred tax assets and liabilities are offset if Konami Group has a legally enforceable right to offset current tax assets against current tax liabilities, and income taxes are levied by the same taxation authority on the same taxable entity.

Deferred tax assets are recognized only for the deductible temporary differences, the carryforward of unused tax losses and the unused tax credits, to the extent that it is probable that future taxable profit will be available against which they can be utilized. The carrying amount of deferred tax assets are reviewed at the end of each reporting period, and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow the benefit of those deferred tax assets to be utilized.

(17) **Earnings per share**

Basic earnings per share are calculated by dividing profit for the year attributable to owners of the parent, by the weighted average number of ordinary shares outstanding during the period that is adjusted for the number of treasury shares. Diluted earnings per share are calculated and adjusted for full effect of potentially dilutive ordinary shares.

4. Segment Information

Konami Group's reportable segments constitute units of the Konami Group for which separate financial information is available. The Chief Operating Decision Maker regularly conducts deliberations to determine the allocation of management resources and to assess performance of each segment.

Operating segments are components of business activities from which Konami Group may earn revenues and incur expenses, including revenues and expenses relating to transactions with other operating segments.

The operating segments are managed separately as each segment represents a strategic business unit that offers different products and serves different markets.

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

1. Digital Entertainment:	Production, manufacture and sale of digital content and related products including mobile games, card games and computer and video games.
2. Health & Fitness:	Operation of health and fitness clubs, and production, manufacture and sale of health and fitness related goods.
3. Gaming & Systems:	Production, manufacture, sale and service of gaming machines and casino management systems for overseas markets.
4. Amusement:	Production, manufacture and sale of arcade games and pachislot machines and pachinko machines.

Segment profit (loss) is determined by deducting “cost of revenue” and “selling, general and administrative expenses” from “revenue”. This does not include corporate expenses, finance income and finance costs, and certain non-regular expenses associated with each segment such as impairment losses on property, plant and equipment, goodwill and intangible assets. Corporate expenses primarily consist of administrative expenses not directly associated with specific segments. Intersegment eliminations primarily consist of eliminations of intercompany sales.

Assets of each segment including investments in associates and deferred tax assets are measured in the same manner as those included in the accompanying consolidated statements of financial position. Segment assets are based on those directly associated with each segment. Assets not directly associated with specific segments, except those of corporate assets, are allocated in a consistent manner which management believes to be reasonable.

Intersegment sales and revenues are generally recognized at values that represent arm's-length fair value.

Neither Konami Group nor any of its segments depended on any single customer for more than 10% of Konami Group's revenues for the years ended March 31, 2016 and 2017.

Effective from the six months ended September 30, 2016, we carried out a business restructuring to combine the arcade games business segment, which formed part of our Digital Entertainment Business, with another BtoB business, the Pachislot & Pachinko Machines Business, and the segment classification was changed to the “Amusement Business” in order to further strengthen our business operating structure. As a result, segment information for the fiscal year ended March 31, 2016 is disclosed with based on the new segment classification for the fiscal year ended March 31, 2017.

(1) Operating segment information

	Millions of Yen	
	Fiscal year ended March 31, 2016	Fiscal year ended March 31, 2017
Revenue:		
Digital Entertainment –		
External customers	¥114,970	¥105,151
Intersegment	67	422
Total	¥115,037	¥105,573
Health &Fitness –		
External customers	¥70,966	¥68,327
Intersegment	320	321
Total	¥71,286	¥68,648
Gaming & Systems –		
External customers	¥34,284	¥31,251
Intersegment	-	-
Total	¥34,284	¥31,251
Amusement –		
External customers	¥29,682	¥25,193
Intersegment	97	149
Total	¥29,779	¥25,342
Intersegment eliminations	(484)	(892)
Consolidated	¥249,902	¥229,922
	Millions of Yen	
	Fiscal year ended March 31, 2016	Fiscal year ended March 31, 2017
Segment profit:		
Digital Entertainment	¥29,843	¥33,759
Health & Fitness	2,689	4,224
Gaming & Systems	5,572	4,849
Amusement	4,705	5,239
Total segment profit	42,809	48,071
Corporate expenses and eliminations	(4,649)	(4,447)
Other income and other expenses, net	(13,481)	(7,265)
Finance income and finance costs, net	(1,160)	(1,106)
Profit from investments accounted for using the equity method	249	268
Profit before income taxes	¥23,768	¥35,521

Corporate expenses primarily consist of personnel costs, advertising expenses and rental expenses, which substantially relate to our administrative department.

	Millions of Yen	
	As of March 31, 2016	As of March 31, 2017
Segment assets:		
Digital Entertainment	¥138,999	¥150,218
Health & Fitness	68,909	67,489
Gaming & Systems	36,439	33,178
Amusement	49,428	52,304
Total	293,775	303,189
Corporate assets	34,412	33,955
Consolidated	¥328,187	¥337,144

- 1) Corporate assets primarily consist of cash and cash equivalents, financial assets, and property, plant and equipment.
- 2) Investments accounted for using the equity method in the Health & Fitness segment are discussed in Note 11 "Investments Accounted for Using the Equity Method".
- 3) Impairment losses for property, plant and equipment, goodwill and intangible assets included in each segment asset are shown in the table below. Also, impairment losses for property, plant and equipment, goodwill and intangible asset are further discussed in Note 8 "Property, Plant and Equipment, net" and Note 9 "Goodwill and Intangible Assets".

	Millions of Yen	
	Fiscal year ended March 31, 2016	Fiscal year ended March 31, 2017
Impairment losses:		
Digital Entertainment	¥750	¥2,387
Health & Fitness	726	1
Amusement	7,586	4,013
Total	¥9,062	¥6,401

	Millions of Yen	
	Fiscal year ended March 31, 2016	Fiscal year ended March 31, 2017
Depreciation and amortization:		
Digital Entertainment	¥16,594	¥5,057
Health & Fitness	3,047	3,562
Gaming & Systems	2,038	1,781
Amusement	6,002	4,507
Total	27,681	14,907
Corporate assets	1,406	1,379
Consolidated	¥29,087	¥16,286

	Millions of Yen	
	Fiscal year ended March 31, 2016	Fiscal year ended March 31, 2017
Investments in non-financial assets:		
Digital Entertainment	¥7,796	¥7,216
Health & Fitness	888	1,303
Gaming & Systems	3,098	1,340
Amusement	4,140	3,878
Total	15,922	13,737
Corporate assets	1,546	667
Consolidated	¥17,468	¥14,404

Investments in non-financial assets include expenditures for acquisitions of property, plant and equipment, net and intangible assets used in operations of each segment.

(2) Geographic Information

Revenue from external customers

	Millions of Yen	
	Fiscal year ended March 31, 2016	Fiscal year ended March 31, 2017
Revenue:		
Japan	¥167,858	¥172,448
United States	53,284	40,445
Europe	20,447	10,257
Asia/Oceania	8,313	6,772
Consolidated	¥249,902	¥229,922

	Millions of Yen	
	As of March 31, 2016	As of March 31, 2017
Non-current assets:		
Japan	¥107,027	¥98,882
United States	12,000	10,897
Europe	258	145
Asia/Oceania	449	448
Consolidated	¥119,734	¥110,372

Non-current assets consist of property and plant and equipment and intangible assets including goodwill.

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

(3) Information about sales by product and service category.

Since the reporting segment is determined to be by product and service, this information is not reproduced again here.

5. Cash and Cash Equivalents

The breakdown of cash and cash equivalents is as follows:

	Millions of Yen	
	As of March 31, 2016	As of March 31, 2017
Cash and cash equivalents:		
Cash and deposits	¥112,487	¥132,840
Short-term deposits with maturities of three months or less	1,420	1,903
Total cash and cash equivalents on the consolidated statements of financial position	¥113,907	¥134,743

The balances of cash and cash equivalents on the consolidated statements of financial position agreed with the respective balances in consolidated statements of cash flows as of March 31, 2016 and 2017.

6. Trade and Other Receivables

The breakdown of trade and other receivables is as follows:

	Millions of Yen	
	As of March 31, 2016	As of March 31, 2017
Notes receivables	¥863	¥651
Accounts receivables	22,389	25,477
Other receivables	249	6
Less: Allowance for doubtful accounts	(100)	(183)
Total	¥23,401	¥25,951

7. Inventories

The breakdown of inventories is as follows:

	Millions of Yen	
	As of March 31, 2016	As of March 31, 2017
Finished products	¥4,066	¥2,522
Work in process	307	173
Raw materials and supplies	4,797	4,735
Total	¥9,170	¥7,430

Inventories recognized as an expense for the fiscal years ended March 31, 2016 and 2017 were ¥44,561 million and ¥31,251 million, respectively.

Loss on valuation recognized as an expense for the fiscal years ended March 31, 2016 and 2017 were ¥1,057 million and ¥965 million, respectively.

8. Property, Plant and Equipment, net

(1) Reconciliations

Changes in acquisition cost, accumulated depreciation, accumulated impairment loss and the carrying amount on property, plant and equipment are as follows:

					Millions of Yen
	Land	Buildings and structures	Tools, furniture and fixtures	Construction in progress	Total
Acquisition cost					
Balance as of March 31, 2015	¥33,744	¥104,062	¥40,200	¥5,163	¥183,169
Acquisitions	971	562	2,639	1,959	6,131
Sales and disposal	-	(3,328)	(3,303)	-	(6,631)
Transfer from construction in progress	185	4,626	(2,010)	(6,446)	(3,645)
Effect of foreign currency	(29)	(252)	(684)	(363)	(1,328)
Others	-	5,675	(1,105)	79	4,649
Balance as of March 31, 2016	34,871	111,345	35,737	392	182,345
Acquisitions	-	698	2,114	601	3,413
Sales and disposal	(3)	(3,181)	(4,186)	-	(7,370)
Transfer from construction in progress	-	617	(1,175)	(408)	(966)
Effect of foreign currency	(2)	(97)	(59)	1	(157)
Others	-	(228)	289	65	126
Balance as of March 31, 2017	¥34,866	¥109,154	¥32,720	¥651	¥177,391

					Millions of Yen
	Land	Buildings and structures	Tools, furniture and fixtures	Construction in progress	Total
Accumulated depreciation and impairment losses					
Balance as of March 31, 2015	¥(141)	¥(72,101)	¥(31,666)	-	¥(103,908)
Depreciation expenses	-	(3,115)	(4,339)	-	(7,454)
Sales and disposal	-	2,894	3,105	-	5,999
Impairment losses	-	(745)	(866)	-	(1,611)
Transfer from construction in progress	-	(276)	3,398	-	3,122
Effect of foreign currency	-	88	542	-	630
Others	-	169	972	-	1,141
Balance as of March 31, 2016	(141)	(73,086)	(28,854)	-	(102,081)
Depreciation expenses	-	(3,936)	(2,989)	-	(6,925)
Sales and disposal	-	3,113	4,150	-	7,263
Impairment losses	-	(25)	(521)	-	(546)
Transfer from construction in progress	-	1	704	-	705
Effect of foreign currency	-	19	50	-	69
Others	-	59	(337)	-	(278)
Balance as of March 31, 2017	¥(141)	¥(73,855)	¥(27,797)	-	¥(101,793)

	Millions of Yen				
	Land	Buildings and structures	Tools, furniture and fixtures	Construction in progress	Total
Carrying amount					
Balance as of March 31, 2016	¥34,730	¥38,259	¥6,883	¥392	¥80,264
Balance as of March 31, 2017	¥34,725	¥35,299	¥4,923	¥651	¥75,598

Depreciation expenses on property, plant and equipment are included in “costs of revenue” and “selling, general and administrative expenses”.

(2) Impairment losses

The breakdown of accumulated impairment losses by asset type is as follows:

	Millions of Yen	
	As of March 31, 2016	As of March 31, 2017
Digital Entertainment segment		
Buildings and structures	¥46	¥1
Tools, furniture and fixtures	3	1
Health & Fitness segment		
Buildings and structures	699	-
Tools, furniture and fixtures	12	-
Amusement segment		
Buildings and structures	-	24
Tools, furniture and fixtures	851	520
Total	¥1,611	¥546

Impairment losses are included in the line item “other income and other expenses, net” in the consolidated statement of profit or loss.

Konami Group componentizes its property, plant and equipment into groups which are considered to be the smallest cash-generating unit (“CGU”) that generates largely independent cash inflows. Idle assets for which no future use is anticipated are considered individually as CGUs.

For the year ended March 31, 2016 and 2017, impairment losses were recognized related to idle assets (mainly “buildings and structures” and “tools, furniture and fixtures”) in the Digital Entertainment segment, Health & Fitness segment and Amusement segment. The recoverable amount of those assets was determined based on value in use, and the carrying value impaired to zero.

(3) Borrowing costs

During the fiscal years ended March 31, 2016 and 2017, Konami Group capitalized borrowing costs amounting to ¥82 million and ¥82 million, respectively. Borrowing costs on qualifying assets were capitalized at the weighted average rate for general borrowings of 0.55% in both the current and prior years.

9. Goodwill and Intangible Assets

(1) Reconciliations

Changes in the acquisition cost, accumulated amortization, accumulated impairment losses and the carrying amounts of goodwill and intangible assets are as follows:

	Millions of Yen					
	Goodwill	Internally generated intangible assets	Trademarks	Memberships	Others	Total
Acquisition cost						
<i>Balance as of March 31, 2015</i>	¥22,064	¥75,659	¥50,561	¥6,640	¥8,866	¥163,790
Acquisitions	-	524	-	-	156	680
Internally generated development costs	-	10,657	-	-	-	10,657
Sales and disposal	-	(29,232)	-	-	(149)	(29,381)
Effect of foreign currency	(37)	(79)	-	-	(197)	(313)
Others	-	39	-	-	(70)	(31)
<i>Balance as of March 31, 2016</i>	22,027	57,568	50,561	6,640	8,606	145,402
Acquisitions	-	837	-	-	142	979
Internally generated development costs	-	10,012	-	-	-	10,012
Sales and disposal	-	(22,047)	-	-	(59)	(22,106)
Effect of foreign currency	(3)	(18)	-	-	(12)	(33)
Others	-	62	-	-	(29)	33
<i>Balance as of March 31, 2017</i>	¥22,024	¥46,414	¥50,561	¥6,640	¥8,648	¥134,287

	Millions of Yen					
	Goodwill	Internally generated intangible assets	Trademarks	Memberships	Others	Total
Accumulated amortization and impairment losses						
<i>Balance as of March 31, 2015</i>	¥(4,127)	¥(51,349)	¥(41,690)	-	¥(5,587)	¥(102,753)
Amortization expenses	-	(21,115)	(11)	-	(507)	(21,633)
Sales and disposal	-	25,654	-	-	123	25,777
Impairment losses	-	(3,174)	-	¥(4,277)	-	(7,451)
Effect of foreign currency	-	84	-	-	101	185
Others	-	(43)	-	-	(14)	(57)
<i>Balance as of March 31, 2016</i>	(4,127)	(49,943)	(41,701)	(4,277)	(5,884)	(105,932)
Amortization expenses	-	(8,815)	(11)	-	(535)	(9,361)
Sales and disposal	-	21,601	-	-	58	21,659
Impairment losses	-	(3,492)	-	(2,363)	-	(5,855)
Effect of foreign currency	-	20	-	-	2	22
Others	-	(46)	-	-	-	(46)
<i>Balance as of March 31, 2017</i>	¥(4,127)	¥(40,675)	¥(41,712)	¥(6,640)	¥(6,359)	¥(99,513)

Millions of Yen

	Goodwill	Internally generated intangible assets	Trademarks	Memberships	Others	Total
Carrying amount						
Balance as of March 31, 2016	¥17,900	¥7,625	¥8,860	¥2,363	¥2,722	¥39,470
Balance as of March 31, 2017	¥17,897	¥5,739	¥8,849	-	¥2,289	¥34,774

The amortization expenses for intangible assets are included in “costs of revenue” or “selling, general and administrative expenses” in the accompanying consolidated statement of profit or loss.

(2) Intangible assets with indefinite useful lives

At March 31, 2016 and 2017, the carrying amounts of intangible assets with indefinite useful lives included in above were ¥11,376 million and ¥9,011 million, respectively. Since those identifiable intangible assets primarily consist of trademarks and memberships acquired in businesses combinations which will not expire for as long as the business continues, the Company determined that such assets have indefinite useful lives as of March 31, 2017.

(3) Impairment losses allocated to cash-generating units including goodwill

In an impairment-test, goodwill and intangible assets with an indefinite life are allocated to respective cash-generating units. The carrying amounts of goodwill and intangible assets with an indefinite life allocated to respective cash-generating units are as follows:

	Millions of Yen	
	As of March 31, 2016	As of March 31, 2017
Goodwill		
Digital Entertainment	¥15,334	¥15,331
Health & Fitness	2,441	2,441
Gaming & Systems	125	125
Total	¥17,900	¥17,897
Intangible assets with an indefinite life		
Health & Fitness	¥8,702	¥8,702
Gaming & Systems	311	309
Amusement	2,363	-
Total	¥11,376	¥9,011

Intangible assets with an indefinite useful life mainly consist of trademarks attributable to the Health & Fitness segment.

Impairment tests for major goodwill and intangible assets with an indefinite life are performed as follows:

(i) Digital Entertainment segment

In the Digital Entertainment segment, the recoverable amount is measured on the basis of its value in use based on the medium term management plans approved by management. For subsequent periods, the value in use is estimated in reference to the long-term anticipated growth rate of the market or the country the CGU belongs to, based on management's historical experiences and other available relevant external information. Konami Group concluded that it was unlikely to result in a significant impairment because the value in use calculated showed sufficient headroom over the carrying amount.

(ii) Health & Fitness segment

In Health & Fitness operations, items of goodwill and intangible assets are componentized into groups which are considered to be the smallest CGU that generate largely independent cash inflows. The recoverable amount of a CGU is calculated on the basis of its value in use, using the medium term management plans approved by management and which reflect the discounted present value of the future cash flows based on management's historical experiences and other available relevant external information. For subsequent periods, the value in use is calculated using a growth rate that does not exceed the long-term anticipated growth rate of the market or the country the CGU belongs to, based on historical experiences and external information.

(iii) Amusement segment

In the Amusement segment, the recoverable amount is measured on the basis of its value in use based on the medium term management plans approved by management and which reflect the discounted present value of the future cash flows based on management's historical experiences and other available relevant external information. For subsequent periods, the value in use is estimated in reference to the long-term anticipated growth rate of the market or the country the CGU belongs to.

During the fiscal year ended March 31, 2016, the total recoverable amount of intangible assets with indefinite useful lives based on value in use using a pre-tax discount rate of 11.0% was lower than the total carrying value, and as such impairment losses of ¥4,277 million were recognized and included in the line item "other income and other expenses, net" in the consolidated statement of profit or loss. The impairment was mainly attributable to rapid changes in the pachislot and pachinko machines environment and undertaking a selection process as part of our strategy to restructure the pachinko machine business through the concentration of the titles. As a result, we concluded the initial growth projection would not be achieved.

The aggregate recoverable amount of CGUs on which impairment losses were recognized was ¥2,599 million.

During the three months ended September 30, 2016 and March 31, 2017, the total recoverable amount of intangible assets with indefinite useful lives based on value in use using a pre-tax discount rate of 11.0% was lower than the total carrying value, and as such impairment losses of ¥2,363 million were recognized and included in the line item

“other income and other expenses, net” in the consolidated statement of profit or loss. The impairment was mainly attributable to reassessments made to the business plans of the pachinko machine business in light of rapid changes in the market structure such as the strengthening of regulations for pachislot and pachinko machines.

The aggregate recoverable amount of CGUs on which impairment losses were recognized was nil.

(4) Impairment of internally generated intangible assets

Internally generated intangible assets are grouped at the individual title level to determine the CGU, and tested at each reporting date to determine whether there is any indicator of impairment. If any indication of impairment is identified, including if estimated earnings fall below zero, or if the market value of the title's assets decline significantly below their carrying amounts, those internally generated intangible assets are tested for impairment. Impairment losses were recognized on certain internally generated intangible assets where the recoverable amounts fell below their carrying amounts. The recoverable amount of internally generated intangible assets is determined based on their value in use, which is calculated by using the estimated future cash flows expected to be generated from the future earnings of the titles.

Impairment losses recognized and included in the line item “other income and other expenses, net” in the consolidated statement of profit or loss for the fiscal years ended March 31, 2016 and 2017 were as follows:

	Millions of Yen	
	Fiscal year ended March 31, 2016	Fiscal year ended March 31, 2017
Digital Entertainment segment	¥701	¥2,385
Health & Fitness segment	15	1
Amusement segment	2,458	1,106
Total	¥3,174	¥3,492

(5) Research and development costs

Expenditure on research that does not meet the criteria for capitalization is recognized as an expense in the period in which the expenditure is incurred. For the fiscal years ended March 31, 2016 and 2017, research and development costs recognized as expense incurred were ¥3,369million and ¥2,761 million, respectively.

10. Leases

Lessee

(1) Finance leases

The Company leases, as lessee, certain buildings and structures and tools, furniture and fixtures under finance leases.

The carrying amounts (less cumulative amount of depreciation expenses and impairment losses) of assets leased under finance leases, which were included in property, plant and equipment in the accompanying consolidated statement of financial position, at March 31, 2016 and 2017 were as follows:

	Millions of Yen	
	As of March 31, 2016	As of March 31, 2017
Buildings and structures	¥9,250	¥8,191
Tools, furniture and fixtures	¥129	¥51

Future minimum lease payments under finance leases at March 31, 2016 and 2017 were as follows:

	Millions of Yen	
	As of March 31, 2016	As of March 31, 2017
Less than 1 year	¥2,687	¥2,437
More than 1 year and less than 5 years	8,892	8,184
More than 5 years	10,720	8,955
Less: future financial expenses	(3,907)	(3,153)
The present value of future minimum lease payments	¥18,392	¥16,423

The present value of future minimum lease payments under finance leases at March 31, 2016 and 2017 were as follows:

	Millions of Yen	
	As of March 31, 2016	As of March 31, 2017
Less than 1 year	¥1,933	¥1,790
More than 1 year and less than 5 years	6,861	6,461
More than 5 years	9,598	8,172
Total	¥18,392	¥16,423

Certain lease contracts include renewal or purchase options.

Contingent rents recognized as an expense were not material during the fiscal years ended March 31, 2016 and 2017.

(2) Operating leases

Konami Group occupies certain offices and lease equipment under operating lease arrangements.

Konami Group has obligations arising from non-cancelable operating leases. Future minimum lease payments under noncancelable operating leases at March 31, 2016 and 2017 were as follows:

	Millions of Yen	
	As of March 31, 2016	As of March 31, 2017
Less than 1 year	¥9,734	¥9,754
More than 1 year and less than 5 years	25,063	30,845
More than 5 years	26,227	21,333
Total	¥61,024	¥61,932

Certain lease contracts include renewal or purchase options.

Lease payments under operating leases recognized as an expense for the years ended March 31, 2016 and 2017 totaled ¥16,608 million and ¥15,990 million, respectively.

Contingent rents recognized as expenses were not material during the fiscal years ended March 31, 2016 and 2017.

11. Investments Accounted for Using the Equity Method

At March 31, 2016 and 2017, Konami Group held the following investments accounted for using the equity method:

Name	Location	Description of business	Relationship	Acquisition Date	Ownership %
RESOL HOLDINGS Co., Ltd.	Japan	Management of resort facilities	Investment at Health &Fitness segment Certain directors or officers of the Company concurrently serve as directors or officers	March 2006	20.4%

Note) Resort Solution Co., Ltd. changed its trade name to RESOL HOLDINGS Co., Ltd. on October 1, 2016.

At March 31, 2016 and 2017, the carrying amount and fair value of investments accounted for using the equity method with quoted prices published in active markets, are as follows:

	Millions of Yen	
	As of March 31, 2016	As of March 31, 2017
Carrying amount	¥2,585	¥2,798
Fair value	¥3,512	¥3,976

Summarized financial information is omitted since it is not material to the consolidated financial statements.

12. Other Investments

The breakdown of other investments is as follows:

	Millions of Yen	
	As of March 31, 2016	As of March 31, 2017
Equity securities	¥1,166	¥1,167
Others	102	99
Total	¥1,268	¥1,266

13. Other Financial Assets

The breakdown of other financial assets is as follows:

	Millions of Yen	
	As of March 31, 2016	As of March 31, 2017
Loans receivable	¥444	¥399
Lease deposits	23,275	22,340
Others	1,000	1,093
Less: allowance for doubtful accounts	(160)	(161)
Total	¥24,559	¥23,671
Current	436	1,309
Non-current	¥24,123	¥22,362

Other financial assets (current) are included in "other current assets" in the accompanying consolidated statements of financial position.

14. Bonds and Borrowings

At March 31, 2016 and 2017, the breakdown of short-term borrowings is as follows:

	Millions of Yen	
	As of March 31, 2016	As of March 31, 2017
Unsecured short-term borrowings from banks	¥9,014	¥5,610
Total	¥9,014	¥5,610

Weighted-average interest rates on short-term borrowings were 1.22% and 1.64% at March 31, 2016 and 2017, respectively. The above-mentioned unsecured short-term borrowings from banks included \$80,000 thousand (¥9,014 million) and \$50,000 thousand (¥5,610 million) of loans denominated in foreign currencies at March 31, 2016 and 2017, respectively.

At March 31, 2016 and 2017, the breakdown of bonds is as follows:

	Millions of Yen	
	As of March 31, 2016	As of March 31, 2017
Unsecured 0.46% per annum bonds due in September 2017	¥4,991	¥4,997
Unsecured 0.53% per annum bonds due in September 2018	4,986	4,992
Unsecured 0.66% per annum bonds due in September 2019	4,983	4,988
-% per annum euro-yen convertible bond-type bonds with subscription rights to shares due in December 2022	9,646	9,698
Total	24,606	24,675
Less: current portion	-	(4,997)
Long-term debt, non-current portion	¥24,606	¥19,678

Euro-yen convertible bond-type bonds with subscription rights to shares of ¥10,000 million were issued on December 22, 2015. At March 31, 2016 and 2017, Konami Group did not have any assets pledged as collateral for any of the debt obligations.

15. Trade and Other Payables

The breakdown of trade and other payables is as follows:

	Millions of Yen	
	As of March 31, 2016	As of March 31, 2017
Notes payables	¥170	¥246
Accounts payables	8,211	8,084
Accrued expenses	14,789	15,623
Other payables	1,587	1,899
Total	¥24,757	¥25,852

16. Provisions

The changes in provisions during the year ended March 31, 2017 were as follows:

	Asset retirement obligations	Others	Total
Balance as of March 31, 2016	¥9,280	¥1,201	¥10,481
Additional provisions	197	455	652
Amounts utilized	(676)	(785)	(1,461)
Unused amounts reversed	-	(4)	(4)
Discounted interest costs and effect of change in discount rate.	(238)	-	(238)
Effect of foreign currency	0	(58)	(58)
Balance as of March 31, 2017	¥8,563	¥809	¥9,372
Current liabilities	485	781	1,266
Non-current liabilities	¥8,078	¥28	¥8,106

Konami Group recognizes asset retirement obligations arising from the contractual requirements to perform certain asset retirement activities in case it disposes certain lease assets primarily relating to the office and the Health & Fitness facilities. The liability is measured using the best estimate of expenditures for the future asset retirements. The corresponding asset retirement costs are capitalized as part of the carrying amount of the related non-current asset and depreciated over the asset's estimated useful life. While these costs are expected to be paid after a period of more than one year has passed, this may be changed due to future changes in management plans.

For the year ended March 31, 2017, Konami Group changed its estimate of expenditures which will be incurred in respect of certain asset retirement obligations in cases where it disposes of certain lease assets, primarily relating to office buildings and the Health & Fitness facilities, after considering new information from its experience of the actual costs incurred in leaving facilities during the year.

Other provisions include a reserve for sales returns.

Those provisions (current) are included in "other current liabilities" in the accompanying consolidated statements of financial position.

17. Other Financial Liabilities

The breakdown of trade and other payables are as follows:

	Millions of Yen	
	As of March 31, 2016	As of March 31, 2017
Capital lease and financing obligations	¥18,392	¥16,423
Others	2,193	2,217
Total	¥20,585	¥18,640
Current liabilities	4,126	4,007
Non-current liabilities	¥16,459	¥14,633

18. Deferred Taxes and Income Tax Expense

Main components of deferred tax assets and liabilities are as follows:

	As of March 31, 2015	Recognized through profit or loss ⁽¹⁾	Recognized in other comprehensive income	Recognized in equity directly ⁽²⁾	Millions of Yen As of March 31, 2016
Deferred tax assets:					
Accrued expenses	¥3,069	¥963	-	-	¥4,032
Inventories	552	751	-	-	1,303
Net operating loss carryforwards	5,099	(2,988)	-	-	2,111
Property, plant and equipment basis differences	4,847	(1,750)	-	-	3,097
Asset retirement obligations	819	56	-	-	875
Intangible assets	9,728	2,069	-	-	11,797
Deferred revenue	1,782	(642)	-	-	1,140
Investments in associates	1,172	(63)	-	-	1,109
Others	3,326	127	¥(13)	-	3,440
Total	¥30,394	¥(1,477)	¥(13)	-	¥28,904
Deferred tax liabilities:					
Intangible assets	¥(6,048)	¥1,637	-	-	¥(4,411)
Investments in subsidiaries	(1,075)	48	-	-	(1,027)
Others	(960)	17	¥(18)	¥(134)	(1,095)
Total	¥(8,083)	¥1,702	¥(18)	¥(134)	¥(6,533)
Deferred tax assets, net	¥22,311	¥225	¥(31)	¥(134)	¥22,371

- 1) The difference between the total amount of "recognized through profit or loss" in the above and the total amount of deferred tax expenses is due to foreign exchange fluctuations.
- 2) Amounts recognized directly in equity relate to deferred tax liabilities arising from the allocation of the equity components of the compound financial instruments.

Millions of Yen

	As of March 31, 2016	Recognized through profit or loss ^(Note)	Recognized in other comprehensive income	Recognized in equity directly	As of March 31, 2017
Deferred tax assets:					
Accrued expenses	¥4,032	¥295	-	-	¥4,327
Inventories	1,303	867	-	-	2,170
Net operating loss carryforwards	2,111	857	-	-	2,968
Property, plant and equipment basis differences	3,097	(369)	-	-	2,728
Asset retirement obligations	875	282	-	-	1,157
Intangible assets	11,797	(1,867)	-	-	9,930
Deferred revenue	1,140	40	-	-	1,180
Investments in associates	1,109	-	-	-	1,109
Others	3,440	(1,005)	¥7	-	2,442
Total	¥28,904	¥(900)	¥7	-	¥28,011
Deferred tax liabilities:					
Intangible assets	¥(4,411)	¥856	-	-	¥(3,555)
Investments in subsidiaries	(1,027)	(80)	-	-	(1,107)
Others	(1,095)	83	¥(2)	-	(1,014)
Total	¥(6,533)	¥859	¥(2)	-	¥(5,676)
Deferred tax assets, net	¥22,371	¥(41)	¥5	-	¥22,335

Note) The difference between the total amount of "recognized through profit or loss" in the above and the total amount of deferred tax expenses is due to foreign exchange fluctuations.

Deferred tax assets and deferred tax liabilities included in the accompanying consolidated financial statements are as follows:

	Millions of Yen	
	As of March 31, 2016	As of March 31, 2017
Deferred tax assets	¥22,651	¥22,335
Deferred tax liabilities	¥280	¥0

When recognizing deferred tax assets, Konami Group considers whether it is probable that future taxable profit will be available against which a portion or all of the deductible temporary differences or the carryforward of unused tax losses can be utilized. Konami Group considers the scheduled reversal of deferred tax liabilities, projected future taxable income and tax planning strategies in the reassessment of recoverability of deferred tax

assets. Based upon the level of historical taxable income and projections for future taxable income over the periods in which the deferred tax assets can be recognized, Konami Group determines it is probable that deferred tax assets recognized relating to tax benefits will be realized. However, the amount of deferred tax assets recognized will be decreased if future taxable income decreases during the periods in which those tax benefits can be utilized.

At March 31, 2016 and 2017, the amount of deferred tax assets attributable to tax entities which had recognized operating losses in the previous fiscal year and the current year were ¥174 million and ¥761 million, respectively. Konami Group recognized these deferred tax assets after considering their recoverability including whether it is probable that future taxable profit will be available based on the nature of the tax entity's businesses or expiry date of unused tax losses carryforwards in the country where the entity is located.

The amounts of deductible temporary differences and unused tax losses for which deferred tax assets have not been recognized are as follows:

	Millions of Yen	
	As of March 31, 2016	As of March 31, 2017
Deductible temporary differences	¥23,340	¥22,877
Unused tax losses carryforwards	44,039	40,508
Total	¥67,379	¥63,385

The expiry dates of unused tax losses for which deferred tax assets have not been recognized are as follows:

	Millions of Yen	
	As of March 31, 2016	As of March 31, 2017
First year	¥4,661	¥6,326
Second year	6,326	10,122
Third year	9,600	1,457
Fourth year	1,457	8,260
Fifth year and thereafter	21,995	14,343
Total	¥44,039	¥40,508

Konami Group recognized assets or liabilities for the effect of uncertainty in income taxes based on a reasonable estimate. The amounts of unrecognized tax benefits at March 31, 2016 and 2017, which would affect the effective tax rate, are not material. The Company is not able to predict whether the total amount of unrecognized tax benefits will significantly increase or decrease during the next twelve months.

The breakdown of current and deferred tax expenses are as follows:

	Millions of Yen	
	Fiscal year ended March 31, 2016	Fiscal year ended March 31, 2017
Income taxes:		
Current tax expense		
Current tax on profits for the year	¥13,665	¥9,515
Total current tax expense	13,665	9,515
Deferred tax expense		
Origination and reversal of temporary difference	(5,730)	3,084
Changes in tax rates	782	(801)
Reassessment of recoverability of deferred tax assets	4,520	(2,254)
Total deferred tax expense	(428)	29
Total income tax expense	¥13,237	¥9,544

Current tax expense includes tax losses used to reduce tax expense for which tax effects were not recognized previously, or benefits arising from temporary differences in past years. The resulting decreases in current tax expense were ¥315 million and ¥3,007 million in the fiscal years ended March 31, 2016 and 2017, respectively.

The Company and its domestic subsidiaries were subject to various taxes on their income, and its foreign subsidiaries are subject to income taxes in the countries in which they operate.

For the fiscal year ended March 31, 2016, as a result of amendments to the Japanese corporate tax law that were enacted on March 29, 2016, the corporate tax rate and the local tax rate were reduced. As certain domestic subsidiaries also became excluded from application of the dual corporate tax system, their corporate enterprise tax rates were changed. As a result, the aggregate statutory income tax rate was reduced to 30.9% for fiscal years from April 1, 2016 to March 31, 2018, and to 30.6% for fiscal years from April 1, 2018 and thereafter.

For the fiscal year ended March 31, 2017, as a result of amendments to the Japanese consumption tax act, the local tax act and the local allocation tax act for fundamentally reforming the tax system to secure stable financial resources for social security that were enacted on November 18, 2016, the effective date of the planned increase in the consumption tax rate to 10% was postponed from April 1, 2017 to October 1, 2019. Accordingly, the abolition of the local corporation special tax, the application of the accompanying restoration of the corporate enterprise tax, and changes in statutory tax rates of the local corporation tax and corporate inhabitant tax were postponed from fiscal years beginning on or after April 1, 2017 to fiscal years beginning on or after October 1, 2019. Though these amendments to the tax laws did not change the aggregate statutory income tax rate used to calculate deferred tax assets and liabilities, the rate allocation between national tax and local tax was reclassified.

The Company and its domestic subsidiaries recognized deferred tax assets and liabilities based on the enacted tax rates that will be applied when temporary differences and loss and credit carryforwards are expected to reverse.

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

	Fiscal year ended March 31, 2016	Fiscal year ended March 31, 2017
Statutory income tax rate	33.1%	30.9%
Increase (reduction) in taxes resulting from:		
Non-deductible expenses	0.4	0.6
Non-taxable income	(0.0)	(0.4)
Changes of unrecognized deferred tax assets in previous years	19.0	(6.3)
Adjustment of estimated income tax accruals	(0.0)	0.2
Tax credit, principally research	(2.9)	(1.1)
Effect of tax law changes	3.3	(2.3)
Non-deductible local taxes	1.1	0.7
Other, net	1.7	4.6
Effective income tax rate	55.7%	26.9%

19. Employee Benefits

(1) Multi-employer pension plan

The multi-employer pension plan in which the Company and certain domestic subsidiaries participate, the Kanto IT Software Pension Fund (the Fund), was dissolved on July 1, 2016 with permission of the Minister of Health, Labour and Welfare. The Fund was established pursuant to a Japanese law, by multi-employers consisting mainly of Software and IT industry companies, and was a welfare pension fund for a multi-employer contributory plan. The Fund's benefits were retirement plans, lump-sum severance payments and lump-sum benefits for bereaved family.

The risks of participating in a multi-employer plan are different from a single-employer plan in the following aspects; assets contributed to the multi-employer plan by one employer may have been used to provide benefits to employees of other participating employers; and if a participating employer has stopped contributing to the plan, any unfunded obligations of the plan may have been borne by the remaining participating employers. With regard to the Company and certain domestic subsidiaries, additional costs do not expect to be borne following the Fund dissolution.

As of March 31, 2016, our participation in the Fund is outlined in the table below. The Fund financial information as at the date of dissolution is not currently available.

	Millions of Yen except percentage	
	Fiscal year ended March 31, 2015	Fiscal year ended March 31, 2016
Total plan assets	¥299,861	¥297,649
Total actuarial present value of accumulated benefit obligations	268,707	262,551
Overfunded / Underfunded	31,154	35,098
Percentage	111.6%	113.4%

Since plan assets and benefits to employees of a participating employer are affected by the status of the funds contributed by other participating employers, assets of this multi-employer pension plan that correspond to the contribution of each participating employer cannot be reasonably calculated. The Company therefore accounts for its contributions to this Fund as an employment benefit expense in the same manner as a defined contribution plan due to the lack of sufficient evidence to account for it as a defined benefit plan.

The employers make matching contributions to the Fund up to a certain percentage of each employee's standard pay. The contributions consist of standard contributions prepared for retirement plans or lump-sum payments, special contributions prepared for amortization of unamortized prior service costs and administrative fee contributions for managing the Fund. The employers assume an obligation for contributions to the Fund.

Under the relevant laws and the terms of the Fund, the Fund re-evaluates the amount of contributions at least every five years in order to ensure that the Fund will maintain its financial equilibrium now and in the future. The Fund verifies that the plan assets are reserved as planned and agreed with the benefit obligation for prior years of service on an annual basis. If the verification reveals a shortage in the reserve, the Fund shall resolve the shortage through the implementation of additional special contributions.

The Company and its domestic subsidiaries' contributions to the plan amounted to ¥835 million and ¥223 million for the years ended March 31, 2016 and the period to the date of dissolution in 2017, respectively. The contributions the Company and its domestic subsidiaries made to the Fund represent more than 5% of the total Fund. The expenses were reported as "cost of revenue" and "selling, general and administrative expenses" in the accompanying consolidated statements of profit or loss.

Due to the Fund dissolution, the Company and its domestic subsidiaries are not expected to contribute to the plan during the year ending March 31, 2018.

(2) Defined contribution plans

The Company and its domestic subsidiaries have adopted defined contribution plans.

Certain domestic subsidiaries began to offer participation in defined contribution plans to employees from the fiscal year ended March 31, 2012 and the Company and other domestic subsidiaries offered participation in defined contribution plans from the fiscal year ended March 31, 2014. Certain domestic subsidiaries terminated existing defined benefit plans and made a transition to defined contribution plans. Benefit obligations to be contributed to the defined contribution plans following this transition were determined to be ¥1,759 million and are to be settled over a period of 8 years. At March 31, 2016 and 2017, benefit obligations were included in "other current liabilities" and "other non-current liabilities" in the accompanying consolidated statements of financial position as follows:

	Millions of Yen	
	As of March 31, 2016	As of March 31, 2017
Other current liabilities	¥67	¥61
Other non-current liabilities	145	72
Total	¥212	¥133

The Company and certain domestic subsidiaries' contributions to the defined contribution plans amounted to ¥480 million and ¥478 million for the years ended March 31, 2016 and 2017, respectively. The expenses were reported as "cost of revenue" and "selling, general and administrative expenses" in the accompanying consolidated statement of profit or loss.

(3) Accrued pension and severance costs

The Company has accrued a liability for retirement benefits for directors and corporate auditors in the amount of ¥1,056 million and ¥1,056 million at March 31, 2016 and 2017, respectively, which are included in "other non-current liabilities" in the accompanying consolidated statements of financial position.

20. Shareholders' Equity

(1) Share capital

The total number of ordinary shares authorized to be issued and issued shares at March 31, 2016 and 2017 were as follows:

	Number of shares	
	Fiscal year ended March 31, 2016	Fiscal year ended March 31, 2017
Ordinary shares authorized to be issued:		
Ordinary share, no-par-value	450,000,000	450,000,000
Issued shares:		
<i>Balance at beginning of year</i>	143,500,000	143,500,000
Change during the year	-	-
<i>Balance at end of year</i>	143,500,000	143,500,000

Note) Shares issued by the Company are ordinary shares without par value.

(2) Treasury shares

The following table summarizes treasury shares activities for the fiscal years ended March 31, 2016 and 2017:

	Number of shares	Millions of Yen
<i>Balance as of March 31, 2015</i>	4,890,951	¥11,271
Acquisition resolved at the Board of Directors' meeting	3,362,800	10,000
Acquisition through purchase of odd-lot shares	5,008	13
Sell upon request for purchase of odd-lot shares	(142)	(0)
<i>Balance as of March 31, 2016</i>	8,258,617	21,284
Acquisition through purchase of odd-lot shares	4,783	20
Sell upon request for purchase of odd-lot shares	(44)	(0)
<i>Balance as of March 31, 2017</i>	8,263,356	¥21,304

(3) Share premium and retained earnings

(i) Share premium

The Companies Act of Japan (the "Companies Act") requires in principle that the amount of payment for shares and assets delivered shall be the amount of share capital. However, the Companies Act permits, as an exception, that an amount not exceeding 50% of such payments and assets to be incorporated into share premium.

(ii) Retained earnings

The Companies Act requires that an amount equal to 10% of dividends to be paid from retained earnings shall be appropriated and set aside as legal reserve until the total of share premium and legal reserve amounts to 25% of the share capital amount.

The Companies Act provides that a company may transfer amounts between share capital, reserves and surpluses, subject to certain conditions, such as a resolution at the shareholders' meeting.

At March 31, 2016 and 2017, retained earnings available for dividends recorded on the Company's books of account were ¥120,740 million and ¥126,653 million, respectively.

21. Dividends

(1) Dividends paid

Resolution	Class of shares	Amount of dividend (Millions of Yen)	Dividend per share (Yen)	Record date	Effective date
Board of Directors' meeting held on May 8, 2015	Ordinary shares	1,733	12.50	March 31, 2015	June 5, 2015
Board of Directors' meeting held on October 30, 2015	Ordinary shares	1,455	10.50	September 30, 2015	November 20, 2015
Board of Directors' meeting held on May 10, 2016	Ordinary shares	1,691	12.50	March 31, 2016	June 3, 2016
Board of Directors' meeting held on October 28, 2016	Ordinary shares	2,299	17.00	September 30, 2016	November 18, 2016

(2) Dividends whose record date is in the fiscal year under review but whose effective date is in the following fiscal year

Resolution	Class of shares	Source of dividend	Amount of dividend (Millions of Yen)	Dividend per share (Yen)	Record date	Effective date
Board of Directors' meeting held on May 18, 2017	Ordinary shares	Retained earnings	5,545	41.00	March 31, 2017	June 7, 2017

22. Financial Instruments

(1) Categories of financial instruments

(i) Financial assets

	Millions of Yen	
	As of March 31, 2016	As of March 31, 2017
Cash and cash equivalents	¥113,907	¥134,743
Loans and receivables		
Trade and other receivables	23,401	25,951
Other financial assets	24,559	23,671
Available-for-sale investments		
Other investments	1,268	1,266
Total	¥163,135	¥185,631

(ii) Financial liabilities

	Millions of Yen	
	As of March 31, 2016	As of March 31, 2017
Financial liabilities at amortized cost		
Bonds and borrowings	¥33,620	¥30,285
Other financial liabilities	20,585	18,640
Trade and other payables	24,757	25,852
Total	¥78,962	¥74,777

(2) Capital management

Konami Group's basic policy of capital management is to establish and maintain financial strength in order to sustain growth and maximize corporate value and shareholder return. Capital earned by carrying out this policy is used for investments in businesses and returned to shareholders through dividends.

The key metrics Konami Group uses for its capital management are as follows:

	Millions of Yen except percentage	
	As of March 31, 2016	As of March 31, 2017
Cash and cash equivalents	¥113,907	¥134,743
Interest-bearing borrowings	52,012	46,708
Capital	212,750	234,441
Net debt-to-equity ratio (%)	64.8%	69.5%

Interest-bearing borrowings: Total of long-term debt, short-term borrowings and capital lease and financing obligations.

Capital: Total equity attributable to owners of the parent.

Capital ratio: Capital / Total liabilities and equity

Konami Group is not subject to any externally imposed capital requirement, excluding general regulations including the Companies Act.

(3) Financial risk management

Konami Group conducts its business on a global scale, and is therefore exposed to credit risk, liquidity risk, foreign currency risk and interest rate risk. In order to avoid and reduce these financial risks, Konami Group conducts risk management according to certain policies.

(4) Credit risk management

Financial assets included in trade and other receivables are exposed to the credit risks of customers. Lease deposits included in other financial assets are exposed to the credit risks of depositors.

With respect to these risks, the due dates and outstanding balances are managed for each business partner. Past due receivables are periodically reported and individually monitored according to internal rules corresponding to internal ratings and the amount of credit. Konami Group intends to mitigate credit risks by conducting regular monitoring of the companies with which it does business for early detection of any worsening of their financial health. It also requires collateral or a guarantee depending on the credit profile of the counterparty.

Konami Group's standard policy is to enter into derivative transactions only with high rated financial institutions pursuant to the Company's risk management policies to hedge specific risks

The maximum exposure to credit risks of financial assets is the carrying value of financial assets after impairment presented in the consolidated financial statement of financial position.

When Konami Group initiates transactions where receivables will be generated on an ongoing basis, the finance department manages its risk exposure by setting credit limits and credit periods, as considered appropriate. It determines an amount of allowance for doubtful receivables based upon factors surrounding the collection history and length of the period past due. Konami Group also collectively evaluates some receivables and determines an amount of allowance for doubtful receivables based on past actual rates of credit losses, probability of future default and other information.

Allowance for doubtful receivables mainly consists of provisions for the recoverability of trade receivables to customers. The changes in allowance for doubtful receivables for the fiscal years ended March 31, 2016 and 2017 are as follows:

	Millions of Yen	
	Fiscal year ended March 31, 2016	Fiscal year ended March 31, 2017
<i>Balance at beginning of year</i>	¥450	¥260
Provision for credit losses	66	138
Utilization of allowance	(139)	(25)
Reversal	(106)	(22)
Effect of foreign currency	(11)	(7)
<i>Balance at end of year</i>	¥260	¥344

The following is an analysis of the age of receivables that are past due but not impaired individually at March 31, 2016 and 2017.

	Millions of Yen	
	As of March 31, 2016	As of March 31, 2017
Within 30 days	¥655	¥1,081
Over 30 days through 180 days	301	562
Over 180 days through 1 year	31	61
Over 1 year	56	51
Total	¥1,043	¥1,755

At March 31, 2016 and 2017, the balances of trade and other receivables impaired individually were ¥96 million and ¥167 million, respectively, and the corresponding allowances for doubtful receivables amounted to ¥78 million and ¥166 million, respectively.

(5) Liquidity risk management

Since Konami Group's sources of funds for operating transactions and capital expenditures include borrowings from banks and issuance of bonds, it is exposed to liquidity risks (the failure to make payments on due dates) due to deterioration in the financial environment.

In order to mitigate liquidity risks, Konami Group has entered into commitment line contracts with large, reputable banks, and prepares and updates monthly cash planning analyses.

The breakdown of financial liabilities (except for guarantee obligations) by due date at March 31, 2016 and 2017 is as follows:

	Millions of Yen								
	Carrying amount	Contractual cash flows	Within 1 year	More than 1 year but within 2 years	More than 2 years but within 3 years	More than 3 years but within 4 years	More than 4 years but within 5 years		Over 5 years
Balance at March 31, 2016									
Bonds	¥24,606	¥25,217	¥83	¥5,071	¥5,046	¥5,017	-	-	¥10,000
Borrowings	9,014	9,059	9,059	-	-	-	-	-	-
Capital lease and financing obligations	18,392	22,299	2,687	2,473	2,345	2,149	¥1,925	10,720	
Trade and other payables	24,757	24,757	24,757	-	-	-	-	-	-
Other financial liabilities	2,193	2,193	2,193	-	-	-	-	-	-
Total	¥78,962	¥83,525	¥38,779	¥7,544	¥7,391	¥7,166	¥1,925	¥20,720	

	Millions of Yen							
	Carrying amount	Contractual cash flows	Within 1 year	More than 1 year but within 2 years	More than 2 years but within 3 years	More than 3 years but within 4 years	More than 4 years but within 5 years	Over 5 years
Balance at March 31, 2017								
Bonds	¥24,675	¥25,134	¥5,071	¥5,046	¥5,017	-	-	¥10,000
Borrowings	5,610	5,637	5,637	-	-	-	-	-
Capital lease and financing obligations	16,423	19,576	2,437	2,345	2,149	¥1,925	¥1,765	8,955
Trade and other payables	25,852	25,852	25,852	-	-	-	-	-
Other financial liabilities	2,217	2,217	2,217	-	-	-	-	-
Total	¥74,777	¥78,416	¥41,214	¥7,391	¥7,166	¥1,925	¥1,765	¥18,955

While Konami Group has committed lines of credit with large, reputable banks available for immediate borrowing in the amount of ¥25,000 million, no amount had been drawn down under any of these agreements as of March 31, 2016 and 2017.

(6) Market risk management

(i) Foreign currency risk

(a) *Foreign currency risk management*

Konami Group conducts its business on a global scale, and is exposed to foreign currency risk mainly arising from trade receivables and payables denominated in currencies other than Japanese yen. For the purpose of mitigating the risks of foreign currency fluctuations on trade receivables and payables denominated in foreign currencies, Konami Group in principle hedges risk by using foreign currency forward contracts and other instruments. Konami Group manages derivative transactions according to transaction authorization limits contained in internal finance policies.

The balance of financial assets and liabilities denominated in foreign currencies, including inter-group-company transactions, at March 31, 2016 and 2017 was as follows:

	Millions of Yen	
	As of March 31, 2016	As of March 31, 2017
Financial assets denominated in foreign currencies	¥8,014	¥5,421
Financial liabilities denominated in foreign currencies	¥2,516	¥2,275

(b) *Foreign currency sensitivity analysis*

Below is an analysis of the impact a 1% increase in the value of the yen against the United States dollar and the Euro would have on Konami Group's income before income taxes for the year ended March 31, 2016 and 2017. In calculating these effects of amount, the

corresponding financial assets and financial liabilities in foreign currency and the respective currency's fluctuation range are used. These calculations assume no changes in the value of other foreign currencies not included herein.

	Millions of Yen	
	Fiscal year ended March 31, 2016	Fiscal year ended March 31, 2017
United States dollar	¥10	¥2
Euro	¥14	¥7

(ii) Interest rate risk

(a) *Interest rate risk management*

Konami Group's interest-bearing borrowings are mainly bonds, borrowings and capital lease and financing obligations with fixed interest rates, but the balance of cash and cash equivalents held exceeds the outstanding balance of its interest-bearing borrowings. Accordingly, its current level of interest rate risk is not material, and Konami Group has not performed any interest rate sensitivity analysis.

There were no interest-bearing borrowings with variable rates at March 31, 2016 and 2017.

(7) Fair value of financial instruments

(i) Measuring fair value of financial instruments

Methods for measuring the fair value of financial assets and liabilities are as follows:

(a) *Other financial assets*

The carrying amounts of other financial assets with short term maturities approximate their fair value. The fair value of other financial assets that do not have short-term maturities are calculated as the value of the total principal and interest discounted at interest rates reflecting the credit risks estimated by Konami Group.

(b) *Other investments*

The fair values of other investments are measured based on quoted market prices in equity markets of identical assets. For unlisted securities, Konami Group determines the fair value based on an approach using observable inputs such as the comparable company's share prices and unobservable inputs.

(c) *Bonds, borrowings and other financial liabilities*

The carrying amounts of financial liabilities with short term maturities approximate their fair value. The fair values of bonds, borrowings and other financial liabilities that do not have short-term maturities are calculated as the value of the total principal and interest, discounted at interest rates that would be applied to new borrowings of Konami Group with similar terms and the same remaining maturity.

(ii) Fair value hierarchy

Fair values are categorized within the fair value hierarchy as follows:

Level 1: Fair values measured at a price quoted in an active market.

Level 2: Fair values calculated directly or indirectly using an observable price except for level 1.

Level 3: Fair values calculated through valuation techniques, including inputs that are not based on observable market data.

(iii) Fair value of financial instruments

The table is a breakdown of financial instruments showing carrying amounts and fair values as at March 31, 2016 and 2017.

	Millions of Yen			
	As of March 31, 2016		As of March 31, 2017	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets:				
Other financial assets				
Lease deposits	¥23,275	¥23,735	¥22,340	¥22,506
Others	1,284	1,290	1,331	1,369
Other investments				
Securities	1,166	1,166	1,167	1,167
Others	102	102	99	99
Financial liabilities:				
Bonds and borrowings	¥33,620	¥33,258	¥30,285	¥30,001
Other financial liabilities				
Capital lease and financing obligations	18,392	20,709	16,423	18,275
Others	2,193	2,193	2,217	2,217

Other financial assets, bonds and borrowings and other financial liabilities are categorized as Level 2.

Other investments are categorized as Level 1 and Level 3.

(iv) Fair values measured and disclosed on the consolidated statements of financial position

The following is a breakdown of financial assets that are measured at fair value on a recurring basis at March 31, 2016 and 2017.

Balance at March 31, 2016	Millions of Yen			
	Level 1	Level 2	Level 3	Total
Financial assets:				
Other investments				
Securities	¥553	-	¥613	¥1,166
Others	-	-	102	102
Total	¥553	-	¥715	¥1,268

	Millions of Yen			
Balance at March 31, 2017	Level 1	Level 2	Level 3	Total
Financial assets:				
Other investments				
Securities	¥554	-	¥613	¥1,167
Others	-	-	99	99
Total	¥554	-	¥712	¥1,266

Fair values of other investments include marketable securities and unlisted securities. Marketable securities are measured based on quoted market prices on equity markets of identical assets, and classified as Level 1. Fair value of unlisted securities are determined based on an approach using observable inputs such as the comparable company's share prices and unobservable inputs, and are classified as Level 3.

Securities, which are classified as Level 3, have no significant changes for the year ended March 31, 2017.

23. Cost of Revenue and Selling, General and Administrative Expenses

Details of cost of revenue, selling and general and administrative expenses by nature are as follows:

	Millions of Yen	
	Fiscal year ended March 31, 2016	Fiscal year ended March 31, 2017
Employee benefit expenses	¥57,939	¥53,343
Depreciation and amortization expenses	¥29,087	¥16,286
Rental expenses	¥17,633	¥17,394
Royalties	¥13,047	¥12,451

24. Other Income and Other Expenses

The breakdown of other income and other expenses is as follows:

	Millions of Yen	
	Fiscal year ended March 31, 2016	Fiscal year ended March 31, 2017
Other income		
Gain on sale of property, plant and equipment, net	¥2	¥7
Total	¥2	¥7
Other expenses		
Impairment losses	¥9,062	¥6,401
Loss on sale of property, plant and equipment, net	4,169	545
Others	252	326
Total	¥13,483	¥7,272

Impairment losses are further discussed in Note 8 "Property, Plant and Equipment, net" and Note 9 "Goodwill and Intangible Assets".

25. Finance Income and Finance Cost

The breakdowns of finance income and finance costs are as follows:

	Millions of Yen	
	Fiscal year ended March 31, 2016	Fiscal year ended March 31, 2017
Finance income		
Dividend income		
Available-for-sale financial assets	¥33	¥26
Interest income		
Loans and receivables	184	169
Others	13	4
Total	¥230	¥199
Finance costs		
Interest expenses		
Financial liabilities measured at amortized cost	¥946	¥940
Foreign exchange losses	425	345
Others	19	20
Total	¥1,390	¥1,305

26. Other Components of Equity and Other Comprehensive Income

(1) Other components of equity

Changes in other components of equity consist of the following:

	Millions of Yen		
	Exchange differences on translation of foreign operations	Available-for- sale financial assets	Share of other comprehensive income of entity accounted for using the equity method
Balance as of March 31, 2015	¥4,873	¥139	¥(0)
Net change during the year	(2,576)	(26)	(0)
Transfer to retained earnings	-	(3)	-
Balance as of March 31, 2016	2,297	110	(0)
Net change during the year	(253)	2	1
Transfer to retained earnings	-	(0)	-
Balance as of March 31, 2017	¥2,044	¥112	¥1
			¥2,157

(2) Other comprehensive income

Each component of other comprehensive income and allocated tax effects are shown below:

	Millions of Yen					
	Fiscal year ended March 31, 2016			Fiscal year ended March 31, 2017		
	Pretax amount	Tax (expense) or benefit	Net of tax amount	Pretax amount	Tax (expense) or benefit	Net of tax amount
<i>Exchange differences on translation of foreign operations</i>						
Net unrealized gains (losses) during the year	¥(2,589)	¥13	¥(2,576)	¥(246)	¥(7)	¥(253)
Reclassification adjustments to profit for the year	-	-	-	-	-	-
Net change during the year	(2,589)	13	(2,576)	(246)	(7)	(253)
<i>Available-for-sale financial assets</i>						
Net unrealized gains (losses) during the year	(43)	17	(26)	0	2	2
Reclassification adjustments to profit for the year	(4)	1	(3)	(0)	0	(0)
Net change during the year	(47)	18	(29)	(0)	2	2
<i>Share of other comprehensive income of entity accounted for using the equity method</i>						
Net unrealized gains (losses) during the year	(0)	-	(0)	1	-	1
Reclassification adjustments to profit for the year	-	-	-	-	-	-
Net change during the year	(0)	-	(0)	1	-	1
<i>Total other comprehensive income</i>	¥(2,636)	¥31	¥(2,605)	¥(245)	¥(5)	¥(250)

27. Earnings per Share

The breakdown of the basic and diluted earnings per share attributable to owners of the parent for the years ended March 31, 2016 and 2017 is as follows:

	Fiscal year ended March 31, 2016	Fiscal year ended March 31, 2017
Profit attributable to owners of the parent	10,516 million yen	25,951 million yen
Adjustments for profit used in the calculation of diluted earnings per share	9 million yen	36 million yen
Profit used in the calculation of diluted earnings per share	10,525 million yen	25,987 million yen
Basic weighted average ordinary shares outstanding	137,572,041 shares	135,238,663 shares
Adjustments for convertible bond-type bonds with subscription rights to shares	675,801 shares	2,197,947 shares
Basic weighted average ordinary shares outstanding used in the calculation of diluted earnings per share	138,247,842 shares	137,436,610 shares
Earnings per share attributable to owners of the parent for the period		
Basic	76.44 yen	191.89 yen
Diluted	76.13 yen	189.08 yen

28. Non-cash Transactions

The components of the principal non-cash transactions are as follows:

	Millions of Yen	
	Fiscal year ended March 31, 2016	Fiscal year ended March 31, 2017
Increase in property, plant and equipment related to recognition of asset retirement obligations	¥5,855	¥197

29. Related Party Disclosures

For the fiscal years ended March 31, 2016 and 2017, the amounts of directors' remuneration were ¥365 million and ¥327 million, respectively. There was not any payment of remuneration other than basic remuneration to directors.

30. Major Subsidiaries

Major subsidiaries and associates of Konami Group are as follows:

Subsidiaries

Name	Location	Principal business	Ownership interest Voting rights (%)
Konami Digital Entertainment Co., Ltd.	Minato-ku, Tokyo, JAPAN	Digital Entertainment Business	100
Konami Sports Club Co., Ltd.	Shinagawa-ku, Tokyo, JAPAN	Health & Fitness Business	100
Konami Amusement Co., Ltd.	Ichinomiya, Aichi, JAPAN	Amusement Business	100
KPE, Inc.	Minato-ku, Tokyo, JAPAN	Amusement Business	100
Konami Sports Life Co., Ltd.	Zama, Kanagawa, JAPAN	Health & Fitness Business	100
Konami Real Estate, Inc.	Minato-ku, Tokyo, JAPAN	Intersegment	100
Internet Revolution, Inc.	Minato-ku, Tokyo, JAPAN	Digital Entertainment Business and Amusement Business	70
Konami Corporation of America	California, U.S.A	Intersegment	100
Konami Digital Entertainment, Inc.	California, U.S.A	Digital Entertainment Business and Amusement Business	100
Konami Gaming, Inc.	Nevada, U.S.A	Gaming & Systems Business	100
Konami Digital Entertainment B.V.	Berkshire, U.K.	Digital Entertainment Business and Amusement Business	100
Konami Digital Entertainment Limited	Hong Kong, PRC	Digital Entertainment Business and Amusement Business	100
Konami Australia Pty Ltd	New South Wales, Australia	Gaming & Systems Business	100

Associates

Name	Location	Principal business	Ownership interest Voting rights (%)
RESOL HOLDINGS Co., Ltd.	Shinjuku-ku, Tokyo, JAPAN	Health & Fitness Business	20

31. Commitments

Commitment for purchases of property, plant and equipment

Konami Group has placed firm orders for purchases of property, plant and equipment and other assets amounting to approximately ¥108 million and ¥280 million as of March 31, 2016 and 2017, respectively.

32. Contingencies

Konami Group is subject to pending claims and litigation. After review and consultation with counsel, management considered that any liability that may result from the disposition of such lawsuits would not be material.

33. Subsequent Events

There have been no events after March 31, 2017 that would require adjustments to the consolidated financial statements or disclosures in the notes to the consolidated financial statements.

34. Approval of Consolidated Financial Statements

The consolidated financial statements were approved by Representative Director, President, Takuya Kozuki, on June 28, 2017.



Independent Auditor's Report

June 30, 2017

To the Board of Directors of KONAMI HOLDINGS CORPORATION

We have audited the accompanying consolidated financial statements of KONAMI HOLDINGS CORPORATION ("the Company") and its consolidated subsidiaries, which comprise the consolidated statement of financial position as at March 31, 2017, and consolidated statement of profit or loss, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in Japan. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, while the purpose of the financial statements audit is not to express an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

PricewaterhouseCoopers Aarata LLC

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June 30, 2017
Board of Directors of KONAMI HOLDINGS CORPORATION
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Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company and its consolidated subsidiaries as at March 31, 2017, and their financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

PricewaterhouseCoopers Arata LLC

2. Business Review

(1) Business Overview

As for the economic environment surrounding the Konami Group, earnings performance of companies experienced negative pressure from a sharply rising yen owing to the impact of issues such as the U.K. leaving the European Union (EU) and an economic slowdown in emerging countries. Although the U.S. presidential election turned economic trends toward a lower yen at first, the direction of the U.S. economic policy and an additional raising of interest rates by the new U.S. government have led greatly fluctuating and severe business conditions, including an appreciation of the yen again.

In the entertainment market, game contents continue to diversify along with functional enhancement of various devices, including mobile devices and video game consoles, and development of information and telecommunications infrastructure. In conjunction with the changing times, the preference for enriching daily life through full and abundant experiences in personal spending has been strengthened. In that context, there are high hopes for the game industry in various situations, including in offering new experiences through game contents as points of contact between customers and games.

In connection with the health and fitness industry, there is a growing health consciousness throughout society, especially among senior citizens and women, who year after year have shown an increasing tendency to focus their leisure activities on improving health and physical strength. We continue to see growing a preference for sports, health-consciousness and an interest in preventing the need for nursing care in old age. In addition, we are seeing a steady increase in customers engaging in exercise to improve personal appearance, and other diversification of needs. Markets for household training machines continue to grow. This is because household health and fitness equipment has dropped in price, and because a wide variety of machines were released by primarily overseas manufacturers.

In the gaming industry, as the casino market worldwide continues to see its spread supported by the development and opening of new casino facilities and integrated resorts (IR) including casinos, the gaming market continues to grow further. Expectations concerning the availability of gaming at casinos in Japan have increased due to the enactment of the "Bill Promoting Implementation of Specified Integrated Resort Areas" (the 'IR Promotion Law') in December 2016 and the establishment of the "Headquarters for the Promotion of Designated Zones for Integrated Resorts" in March 2017. These expectations are also boosted by the beginning of the formulation of a "follow-up IR implementation bill" within one year, including detailed legislative measures for selections of operators for the establishment and operation of facilities and for the exclusion of members of anti-social forces. Furthermore, opportunities in the gaming business are expected to grow, including the legalization of skill factor loading to slot machines. This will enable the machines to reflect players' skill levels, as a countermeasure against young people's lack of interest in gaming slot machines.

In the Konami Group's businesses — Digital Entertainment, Health & Fitness, Gaming & Systems, and Pachislot & Pachinko Machines —, we have conducted business operations based on the management strategy of evolving into a flexible and sustainable entity responding appropriately to this rapidly changing market environment which includes diversifying consumer tastes and the revision and abolition of the various regulations surrounding the businesses. To further strengthen our business operating structure, we carried out a business restructuring to combine

the arcade games business segment, which formed part of our Digital Entertainment Business, with another BtoB business, the Pachislot & Pachinko Machines Business, and changed the business domains and name of the latter to the “Amusement Business” in the second quarter ended September 30, 2016. We are pursuing the utilization of our business knowhow in the arcade game business cultivated since the Konami Group’s foundation, provision of higher value-added products and services through the KONAMI brand and streamlining through business integration.

In terms of the overview of the Digital Entertainment segment for the fiscal year ended March 31, 2017, which reflected the restructuring of the business segment, we released the mobile game, *Yu-Gi-Oh! DUEL LINKS*, globally in approximately 150 countries and regions, which has received favorable reviews from many customers. Other mobile game titles, *JIKKYOU PAWAFURU PUROYAKYU*, *PROFESSIONAL BASEBALL SPIRITS A (Ace)* and *Winning Eleven CLUB MANAGER* (known overseas as *PES CLUB MANAGER*), also continued to enjoy steady sales. In regard to card games, the *Yu-Gi-Oh! TRADING CARD GAME* series, which is distributed worldwide, continued to perform well supported by steady popularity. As for computer and video games, *JIKKYOU PAWAFURU PUROYAKYU 2016* and *Winning Eleven 2017* (known overseas as *PES 2017 - Pro Evolution Soccer -*) continued to enjoy strong performance. *SUPER BOMBERMAN R* (known overseas as *Super Bomberman R*) was also released, which is available on the Nintendo Switch™ console.

In our Health & Fitness segment, we continued to develop our pricing and membership plans. These plans enable customers to select a pricing plan based on the number of times they use our facilities and to use more than one facility. We have intended to promote and spread the Konami Sports Club’s services supporting the concept of sustainable fitness. As for products related to health and fitness, we began to develop new products with the aim of enhancing its degree of recognition and increasing its market share in the health and fitness equipment market. This market is expanding centered on household machines.

In our Gaming & Systems segment, we have promoted sales of *Concerto*, a key product of the video slot machine series, the long-selling *Podium* series and the *SYNKROS* casino management system mainly in the U.S., Asian and Oceanian markets.

In our Amusement segment, our *e-AMUSEMENT* Participation system titles of arcade games, centered on *MAH-JONG FIGHT CLUB ZERO* and music genre games, continued to operate steadily. Among them, the music genre new game *NOSTALGIA*, which captures the feel and enjoyment of playing the piano, was launched and is receiving favorable reviews. In addition, the latest titles in the medal game machine *MAGICAL SHOOTER* and *Treasure Shoot* started fully operation.

As for pachislot and pachinko machines, we sold *SEVEN'S BEAT*, *METAL GEAR SOLID SNAKE EATER*, *MAH-JONG FIGHT CLUB 2*, *Boku-Shoujo Lovekyure* and *G1 Derby Club*.

In terms of the consolidated results for the fiscal year ended March 31, 2017, total revenue amounted to ¥229,922 million (a year-on-year decrease of 8.0%), operating profit was ¥36,359 million (a year-on-year increase of 47.3%), profit before income taxes was ¥35,521 million (a year-on-year increase of 49.5%), and profit attributable to owners of the parent was ¥25,951 million (a year-on-year increase of 146.8%).

(2) Performance by Business Segment

Summary of total revenue by business segment:

	Fiscal year ended March 31, 2016	Fiscal year ended March 31, 2017	Millions of Yen % change
Total revenue:			
Digital Entertainment	¥115,037	¥105,573	(8.2)
Health &Fitness	71,286	68,648	(3.7)
Gaming & Systems	34,284	31,251	(8.8)
Amusement	29,779	25,342	(14.9)
Intersegment eliminations	(484)	(892)	-
Total revenue	¥249,902	¥229,922	(8.0)

(Notes)

Reportable segment classifications have been changed effective from the six months ended September 30, 2016. For the purpose of comparison to the previous fiscal year, figures for the fiscal year ended March 31, 2016 have been reclassified under the new segment classification, and compared with those for the fiscal year ended March 31, 2017.

Digital Entertainment

The mobile games continued to perform strongly, including the global release of *Yu-Gi-Oh! DUEL LINKS* in 150 countries and regions in the fourth quarter ended March 31, 2017. Moreover, in the domestic market, various titles continued to receive favorable reviews, including *JIKKYOU PAWAFURU PUROYAKYU* and *PROFESSIONAL BASEBALL SPIRITS A (Ace)*. Above all, *JIKKYOU PAWAFURU PUROYAKYU*, which marked its second anniversary on December 2016, was promoted to boost popularity among more followers. This promotion included our holding of the "Nekketsu Spring Koshien (Japan's National High School Baseball Tournament)" in-game tournament. In overseas markets, *Winning Eleven CLUB MANAGER* (known overseas as *PES CLUB MANAGER*) and *Star Wars™: Force Collection* continued stable performance.

As for card games, the *Yu-Gi-Oh! TRADING CARD GAME* series continued to develop in the global market. Aiming for the global tournament to be held in summer 2017, the qualifying round began. In addition, thanks to the release of the animated cinematic version to the global market starting with the U.S. and the global release of the *Yu-Gi-Oh! DUEL LINKS* mobile game, there is a great deal of excitement among *Yu-Gi-Oh!* fans.

As for computer and video games, we released *JIKKYOU PAWAFURU PUROYAKYU 2016* and *Winning Eleven 2017* (known overseas as *PES 2017 - Pro Evolution Soccer -*). These games continued to remain robust. *SUPER BOMBERMAN R* (known overseas as *Super Bomberman R*) was also released for the Nintendo Switch™ console in March 2017 and has been available to provide enjoyment to many customers.

For the fiscal year ended March 31, 2017, sales from this business decreased and segment profit from this business increased compared with those for the fiscal year ended March 31, 2016. This is because the mobile games and card games enjoyed strong performance and it contributed to higher composition ratio of the mobile and card games.

In terms of financial performance, total revenue for the fiscal year ended March 31, 2017 in this segment amounted to ¥105,573 million (a year-on-year decrease of 8.2%) and segment profit for the fiscal year ended March 31, 2017 amounted to ¥33,759 million (a year-on-year increase of 13.1%).

Health & Fitness

With respect to the management of facilities that we operate directly, we continued to make efforts to develop the services to meet diversifying individual needs. In addition to pricing plans that customers can select based on their frequency of use, we have promoted a per-use plan for customers who are unable to visit facilities regularly. The service developments included improvements to facility settings and drastic replacements of studio programs and training machines. During the fiscal year ended March 31, 2017, we commenced a new franchise facility in Amakusa City, Kumamoto prefecture, in July 2016. In addition, we renovated three of our sports clubs — Iidabashi, Ebisu and Jiyugaoka-ekimae —in December 2016, including drastic replacements of training machines and expansions of spaces for personal training. We also reopened Konami Sports Club Yukarigaoka in January 2017, which was relocated into a large-sized shopping center. The renovation allowed the sports club to specialize in fitness machines and studio programs as a new type of fitness club. These renovations were intended to allow for favorable environments that enable customers to focus on their exercises more than before as well as to create facilities that are easier to go. We also renovated the gymnasium at Konami Sports Clubs Futakotamagawa and expanded the *Undo-jyuku* sports lesson program series for children in order to meet the growing demand for gymnastic schools that nurture the development of children's bodies, along with the changing environment surrounding children and so on. Through such efforts, we continued to encourage the fun and appeal of exercise to many children in order to support improving children's health. As a new measurement, we intend to encourage beginners and inexperienced people to try sport climbing. This includes our opening of a "bouldering" facility for sport climbing at Konami Sports Club Ikebukuro in March 2017 as well as our holding of free "beginner clinics" at this club from time to time. As the World Cup was held in Japan, bouldering has attracted attention. Through such measurements, we intend to contribute to popularize and develop sport climbing. Since we agree with the "Premium Friday" campaign, a collaboration between the public and private sectors promoted by the Ministry of Economy, Trade and Industry, we started a special service with no usage fees when trial users visit Konami Sports Clubs with members on applicable days beginning in February 2017.

In regard to the sports club facilities outsourced to us, we commenced management of 30 facilities outsourced to the Konami Group, as we utilize our expertise in operations and guidance that we have developed to enhance health promotion in local communities through management of commissioned facilities.

As for products relating to health and fitness, we featured three gold medalists affiliated with the Konami Sports Club Gymnastics team (Koji Yamamuro, Yusuke Tanaka, and Ryohei Kato) as ambassadors for *POWERFULGEAR SPORTS Support Underwear*. The full-fledged functional sports underwear series was newly developed and released by supervising instructors at Konami Sports Clubs.

For the fiscal year ended March 31, 2017, sales from this business decreased mainly due to closing of the facilities operated directly. On the other hand, segment profit from this business increased compared with those for the fiscal year ended March 31, 2016 due to improved quality

and operational efficiency of the facilities.

In terms of financial performance, total revenue for the fiscal year ended March 31, 2017 in this segment amounted to ¥68,648 million (a year-on-year decrease of 3.7%) and segment profit for the fiscal year ended March 31, 2017 amounted to 4,224 million (a year-on-year increase of 57.1%).

Gaming & Systems

Sales units of slot machines increased mainly in the North American market due to expansions of the *Concerto* series, which met various needs from players and casino operators. The long-selling *Podium* series, which has a richly diverse product lineup and continues to receive favorable reviews in the Central and South American, Africa and Asian markets, also enjoyed strong sales. In addition, we expanded our lineup of premium products and game contents which are subject to a participation agreement (in which profits are shared with casino operators), including the *Concerto* series. These premium products raised higher expectations and willingness from players. The *SYNKROS* casino management system performed well, which included the steady introduction into casino facilities in the various states of the U.S. and Australia, as well as the introduction into large cruise ships in service overseas. In addition, at the largest gaming expo in the Europe, ICE Totally Gaming Show 2017, held in London, the U.K., we introduced our rich product lineup, including mainly *SeleXion*, which has a multi-game function, and the *Concerto* video slot machine series *Concerto Slant*, *Concerto Stack* and *Concerto Crescent*. These exhibitions received considerable attention by visitors from all over the world.

For the fiscal year ended March 31, 2017, this business was strong mainly in the North American market, and total revenue in local currency basis increased. In Japanese yen of the Company's presentation currency, however, total revenue and segment profit decreased due to an increase in development costs for new products and the effect of exchange rate changes by the sharply rising yen.

In terms of financial performance, total revenue for the fiscal year ended March 31, 2017 in this segment amounted to ¥31,251 million (a year-on-year decrease of 8.8%) and segment profit for the fiscal year ended March 31, 2017 amounted to ¥4,849 million (a year-on-year decrease of 13.0%).

Amusement

In regards to arcade games, our *e-AMUSEMENT* Participation system titles, centered on *MAH-JONG FIGHT CLUB ZERO* and music genre games, continued to operate steadily. Among them, the music genre new game *NOSTALGIA*, which captures the feel and enjoyment of playing the piano, was launched and is receiving favorable reviews. As for medal games, the following titles and more started full-scale operations: *TwinkleDrop JUKE!*, the latest titles *FEATURE Premium* series; *Frozen Tower*; *MAGICAL SHOOTER*, the latest medal machines featuring a new sensation where players actually throw a ball and aim for a pocket; and *Treasure Shoot*, a game with new characteristics with a ball lottery that fly right and left and fun for everyone, from children to adults. We have also held "the 6th KONAMI Arcade Championship" since December 2016, which is the official tournament to decide the ultimate arcade game player, held annually since 2011.

This continued to perform strong at amusement facilities nationwide and selected regions in Asia and North America.

As for pachislot and pachinko machines, business in this industry was conducted in an unusual environment. This included the nationwide self-imposed moratorium on replacement of pachislot and pachinko machines over a period of one month due to the impact of the G7 Ise-Shima Summit in May 2016 and revisions of model test methods and rules of pachislot and pachinko machines. Against this background, additional orders were sold of *MAGICAL HALLOWEEN 5*, which maintained a top-class level of operation among the pachislot machine 5.5 units adapted to new standards. Furthermore, we distributed several pachislot machines, *SEVEN'S BEAT*, in collaboration with a popular music genre arcade game *beatmania*, *METAL GEAR SOLID SNAKE EATER*, a new 32-inch cabinet pachislot machine derived from the ultra large-scale video game series title *METAL GEAR*, and *MAH-JONG FIGHT CLUB 2*, the latest pachislot machine of the *MAH-JONG FIGHT CLUB* series which gained popularity with the previous title. During the fourth quarter ended March 31, 2017, *G1 Derby Club*, the first title for the pachislot machine industry where players groom and train racehorses that really exist, as well as *Boku-Shoujyo Lovekyure*, an original title, were released. These titles continued to maintain a long-term stable operation and have received favorable reviews from the market.

While the market environment surrounding the Amusement business has continued harsh conditions for the fiscal year ended March 31, 2017, we promoted business operation efficiency and profit structure improvement.

In terms of financial performance, total revenue for the fiscal year ended March 31, 2017 in this segment amounted to ¥25,342 million (a year-on-year decrease of 14.9%) and segment profit for the fiscal year ended March 31, 2017 amounted to 5,239 million (a year-on-year increase of 11.4%).

(3) Cash Flows

	Fiscal year ended March 31, 2016	Fiscal year ended March 31, 2017	Millions of Yen Change
Cash flow summary:			
Net cash provided by operating activities	¥71,336	¥43,759	¥(27,577)
Net cash used in investing activities	(18,746)	(13,615)	5,131
Net cash used in financing activities	(1,877)	(9,420)	(7,543)
Effect of exchange rate changes on cash and cash equivalents	(1,460)	112	1,572
Net increase in cash and cash equivalents	49,253	20,836	(28,417)
Cash and cash equivalents at end of the year	¥113,907	¥134,743	¥20,836

Comparison of fiscal year ended March 31, 2017 with fiscal year ended March 31, 2016

Cash and cash equivalents (hereafter, referred to as “Net cash”), as of March 31, 2017, amounted to ¥134,743 million, an increase of ¥20,836 million compared to the year ended March 31, 2016.

Net cash provided by operating activities amounted to ¥43,759 million for the year ended March 31, 2017, a year-on-year decrease of 38.7%. This primarily resulted from increases in trade and other receivables and income taxes paid.

Net cash used in investing activities amounted to ¥13,615 million for the year ended March 31, 2017, a year-on-year decrease of 27.4%. This mainly resulted from a decrease in capital expenditures for property, plant and equipment.

Net cash used in financing activities amounted to ¥9,420 million for the year ended March 31, 2017, a year-on-year increase of 401.9%. This primarily resulted from repayments of short-term borrowings in this fiscal year, while there were proceeds from short-term borrowings in the previous fiscal year.

3. Risk Factors

Special Note Regarding Forward-looking Statements.

This annual report contains forward-looking statements about our industry, our business, our plans and objectives, our financial condition and our results of operations that are based on our current expectations, assumptions, estimates and projections. These forward-looking statements are subject to various risks and uncertainties. Generally, these forward-looking statements can be identified by the use of forward-looking terminology such as "may", "will", "expect", "anticipate", "estimate", "plan" or similar words. These statements discuss future expectations, identify strategies, discuss market trends, contain projections of results of operations or of financial condition, or state other forward-looking information. Known and unknown risks, uncertainties and other factors could cause our actual results to adversely differ, materially, from those contained in or suggested by any forward-looking statement. We cannot promise that our expectations, projections, anticipated estimates or other information expressed in or underlying these forward-looking statements will be realized. We do not undertake any obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

Important risk factors that could cause our actual results to be materially different from those described in the forward-looking statements are set forth in this Item 3. or elsewhere in this annual report and include, without limitation:

- 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;
- changes in economic conditions affecting our operations or the way that individuals choose to spend their leisure time;
- our ability to successfully expand internationally with a focus on our Digital Entertainment segment and Gaming & Systems segment;
- our ability to successfully expand the scope of our business and broaden our customer base through our Health & Fitness segment;
- our ability to successfully generate cash flows on an individual club operation level sufficient to recover the carrying value of the related individual club operations;
- regulatory developments and changes, in particular in the gaming industry, and our ability to respond and adapt to those changes;
- the impact of natural disasters, such as earthquakes, on our facilities and personnel;
- our ability to successfully integrate current acquisitions and realize expected synergies and business benefits to recover the acquisition investment, including goodwill and separately identifiable intangible assets; and
- our expectations with regard to further acquisitions and the integration of any companies we may acquire.

Risks Relating to Our Overall Business

(1) *Timely introduction of new products to the market affects our revenues.*

The timely shipment of a new product depends on various factors, including the development process, approval by third-party licensors, production capacity and other factors such as debugging and approval by hardware licensors, in the case of software. If we are unable to release or ship our new products in a timely fashion in accordance with our plans, our financial condition, results of operations and profitability could be negatively affected.

(2) *Competition for market acceptance affects our revenues and profitability.*

The markets for our Digital Entertainment segment, Gaming & Systems segment and Amusement segment, as well as the markets for most of our other products, are intensely competitive, and new products, platforms and devices are regularly introduced. This may cause new competition and reduce demand in markets in which we have traditionally competed. As a result, our operations could be negatively impacted.

(3) *A decline in consumer spending due to unfavorable economic conditions could reduce our revenues.*

Our product sales are affected by customer's ability and desire to spend disposable income on the purchase of our products and services. Any significant downturn in general economic conditions which results in a reduction in consumers' discretionary spending could reduce demand especially for entertainment and health-oriented products and services like ours and may harm our business.

(4) *Our performance may be vulnerable to rapidly changing consumer preferences.*

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

(5) *Fluctuations in our quarterly operating results make our quarterly revenues and income difficult to predict.*

If we are unable to begin volume shipments of a significant new product and service during the scheduled quarter due to rapid changes in market environment and other factors, our revenues and earnings will be negatively affected in that quarter.

Our quarterly operating results also may be materially impacted by other factors, including the operating condition of our mobile games, the level of market acceptance or demand for video games, the timing of hardware platform introductions, and the level of development and/or promotion expenses for a video game title. Moreover, in a platform transition period, sales of our products can be significantly affected by the timeliness of introduction of video game systems by the manufacturers of those platforms.

(6) Our products and services may be subject to governmental restrictions, rating restrictions or to legal claims.

Our products and services may be subject to governmental restrictions and legal systems which are enforced in countries we sell and offer them and to self-imposed restrictions and guidelines regulated by each industry group that we concern. If those legal restrictions and systems in each country were to be changed significantly, we may have to change our products, marketing strategies and business models in order to observe new regulations. As a result, we may be required to modify our products or alter our marketing strategies to comply with new regulations, which could delay or cancel the release of our products in those relevant countries. Moreover, uncertainties regarding the rating systems may give rise to confusion in the marketplace, and we are unable to predict what effect, if any, such rating systems would have on our business.

(7) Inability to procure essential intellectual property licenses may prevent product manufacture and sales, and result in reduced product sales.

Products and services, that we manufacture, develop, sell, distribute and provide, use and incorporate a lot of patent technologies, copyrights and other intellectual properties which are owned by outside as well as us. Outside intellectual properties are licensed from the relevant third parties when we use them. These licensing terms usually limit the coverage and period. In some cases, renewal of the licenses could not be permitted. In addition, some intellectual properties we believe essential may not be licensed. These cases could harm our ability to implement and continue manufacturing, selling and distributing our products and providing our services, and adversely affect our business and financial results.

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

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

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

Our products are complex and may contain undetected errors when first introduced or when new versions are released. We cannot assure you that, despite extensive testing prior to release, errors will not be found in new products or releases after shipment, resulting in loss of or delay in market acceptance. This loss or delay could significantly harm our business and financial results.

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

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

- difficulty in assimilating the operations, technology and personnel of acquired companies;
- disruption in our business because of the allocation of financial and human resources to consummate the acquisitions;
- difficulty in retaining key technical and managerial personnel from acquired companies;
- dilution of our current shareholders if we issue equity to fund one or more of these acquisitions or investments;
- considerable efforts required to successfully integrate acquisitions and realize expected synergies and business benefits to recover acquisition investments, including any goodwill and separately identifiable intangible assets; and
- assumption of operating losses and increased expenses, charges and liabilities in connection with acquisitions.

While we will continually be searching for additional acquisition opportunities, we may not be successful in identifying suitable acquisitions. In addition, we face significant competition in seeking and consummating acquisition opportunities, we may not be able to consummate potential acquisitions or investments on terms acceptable to us or such an acquisition or investment may not enhance our business or may decrease rather than increase our earnings. This may adversely affect our financial and business results.

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

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

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

Sales in foreign countries may involve expenses incurred to customize products to comply with local laws, especially in the case of gaming machines. In addition, products that are successful in the domestic Japanese market may not be successful in foreign markets due to different consumer preferences. In addition, our costs will increase as a result of the need to conduct market research to discover local preferences and tastes and to develop foreign language versions or make product modifications in order to tailor our products to various local markets. In the case of video game software, we may have to grant price concessions to or accept returns from major retailers that control market access to consumers. International trade is also subject to general country risks, including suspension of currency exchange by governments, increases in tariffs, and forfeiture of property through expropriation by governments. International trade is also exposed to fluctuating exchange rates. We may become exposed to increased litigation risks or unexpected bankruptcy risks through product liabilities, facility liabilities, product defect or labor issues in the course of further expanding our business, enhancing our international network and increasing our vendors and customers. These and other factors specific to international trade may result in increased costs or reduced revenues.

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

The Japanese population of people in their teens, twenties and thirties, the traditional target market for our products and services, in particular with respect to our Digital Entertainment segment, is expected to decline. Accordingly, we may not be able to maintain revenues if we are unable to expand our customer base and product offerings to overseas markets.

(14) Wars, terrorism, pandemic, natural disasters and other incidents which may cause political, economic or social instability may disrupt our operations or otherwise result in a material adverse effect on our financial performance.

Incidents such as terrorism, riots, wars, pandemic and natural disasters may adversely affect the world economy. Resulting social and political instability may cause further economic and political uncertainty in each of the regions we conduct our operations. As a result, our and our suppliers' operations and financial performance as well as our customers' investment and consumption patterns may be adversely affected.

(15) Unexpected network interruptions or security breaches, including hacking, may cause delays, interruptions of service or leak of personal information, resulting in a material adverse effect on our business, financial condition and results of operations and damage to our reputation and brands.

Security breaches, including hacking and unauthorized access, affecting any of our systems may cause delays or other service interruptions or leaks of confidential information, such as personal information, and could result in significant damage to our hardware, software systems and databases, disruptions to our service and business activities, such as to our website, e-mail and other communication systems. While we

endeavor to maintain robust security protections to prevent security breaches, there have been cases of unauthorized access to our systems in the past. If we experience frequent or persistent service disruptions, whether caused by hackings or failures of our own systems or those of third-party service providers, our customers' experience with us may be negatively affected, which in turn, may have a material and adverse effect on our reputation and brands and our business, financial condition and results of operations.

Risks Relating to Our Digital Entertainment Segment

(1) Any event adversely affecting our operation of network-based games (network-based mobile games and video game software for home-use game consoles and PCs) may have a negative impact on our profitability and growth.

Our ability to achieve wide acceptance of our network-based games by users depends in part on whether we can provide attractive contents in a timely manner and efficiently operate our games. Even if our network-based games achieve wide acceptance, we may be unable to generate adequate revenue from such network-based games, provide attractive contents in a timely manner and efficiently operate our games, as most of the games in this category are free to play and generate revenue only from sales of virtual items to players. Such cases may have a negative impact on our business and financial results.

(2) If we are unable to take appropriate measures for dishonest actions, our business and financial results may be negatively impacted.

As for network-based games, virtual currencies are issued. The currencies are available use only on the site for the purpose of using to trade for various virtual items which are available use in games. Certain dishonest users may acquire items through illicit means and use or trade them in what is known as real money trading (RMT), and the possibility that such incidents may occur is not zero. We are not only putting systems in place to prevent such trades, but also prohibiting these acts in the Terms of Use and carrying out user awareness programs. In addition, we invoke serious penalties for violator of this policy, including suspensions of membership or compulsory termination of account. However, if by any chance the kind of dishonest actions should occur on a significant scale, our business and financial results could be adversely affected as trust in Konami Group and its brand could be impaired.

(3) Transitions in home-use video game consoles and technological change have a material impact on the relevant markets and may adversely affect our business and financial results.

The life cycle of existing home-use video game consoles and the market acceptance and popularity of new home-use video game consoles significantly affect the success of our products. Also, the introduction of new technologies could render our current products or products in development obsolete or unmarketable. In addition, if we cannot be successful in developing and releasing new video game software for new home-use video game consoles on a timely basis, we will generate opportunity loss. This could negatively impact our business and financial results.

Risks Relating to Our Health & Fitness Segment

(1) *A decline in membership levels of our fitness clubs could have a negative effect on our business.*

The performance of our fitness clubs is dependent on our ability to acquire and retain members. We cannot assure you that we will be successful in these efforts, or that the membership levels at one or more of our clubs will not decline. There are numerous factors that could lead to a decline in membership levels at established clubs or that could prevent us from increasing our membership at newer clubs, including our reputation, our ability to deliver quality service at a competitive cost, the presence of direct and indirect competition in the areas in which the clubs are located, general interest in sports and fitness clubs and general economic conditions. As a result of these factors, we cannot assure you that our membership levels will be adequate to maintain or permit the expansion of our operations. In addition, a decline in membership levels may have a material adverse effect on our performance, financial condition and results of operations.

(2) *Failure to compete effectively in the fitness club industry will have an adverse effect on our results of operations.*

The fitness club industry is highly competitive. We compete with other fitness clubs, physical fitness and recreational facilities established by local governments, hospitals and businesses for their employees, amenity and condominium clubs and, to a certain extent, with tennis clubs and other sports clubs, golf clubs, weight reducing salons and the home-use fitness equipment industry. We also compete with other entertainment and retail businesses for the discretionary income of our target markets. We cannot assure you that we will be able to compete effectively in the future in the markets in which we operate. In addition, we may face new competitors in the market that may be larger and have greater resources than us. These competitive conditions may limit our ability to increase dues without a material loss in membership, attract new members and attract and retain qualified personnel.

(3) *We could be subject to future claims related to our operation at our facilities.*

We may be subject to legal and compensation claims against us for our operation at our fitness clubs, including accidents which members are suffered by. We currently maintain general liability insurance coverage but there can be no assurance that such insurance will provide adequate coverage against potential claims. Any liability claim in excess of our insurance coverage may adversely affect our results of operations as well as damage our brand image.

(4) *We may be unable to get refunds of deposits and guarantee money relating to leases of land and buildings for the use of our fitness club facilities.*

In many cases, we rent land and buildings when we open new fitness clubs. Under the lease agreements that we enter into with landowners, we are often required to make deposits and to provide guarantee money in case we default in payment of rent or neglect to restore the property to its original state upon termination of the lease agreement. Under such lease agreements, if we pay our rent and restore the property as stipulated,

we are entitled to obtain refund of such deposits and guarantee money. However, if the owner of the property faces financial difficulty or is otherwise unable or unwilling to return these funds, we may not be able to obtain full refunds of such deposits and guarantee money.

Risks Relating to Our Gaming & Systems Segment

(1) *If our gaming products are not accepted in the competitive market for gaming machines, we may be unable to compete in the gaming machine market.*

Our success as a gaming machine manufacturer and supplier in overseas markets is dependent upon numerous factors, including our ability to design, manufacture, market and service gaming machines and casino management systems that achieve player and casino acceptance while maintaining product quality and acceptable margins and to obtain approvals for our products from gaming authorities.

In order to diversify and expand sales, we have obtained licenses in every state and territory in Australia, the majority of states and territories in the United States, and the majority of legal gaming provinces in Canada, and we are marketing and selling gaming products in those markets. If our games and our system products fail to be accepted by the market, and we are otherwise unable to develop products that offer technological advantages or unique entertainment features, we will be unable to generate the revenues necessary to compete effectively in the competitive gaming product market.

Consequently, the results of our operations could suffer.

Risks Relating to Our Amusement Segment

(1) *Our business and financial results may suffer if amusement arcade revenues and sales of products for amusement arcades (video game machines and token-operated game machines) continue to decline.*

Amusement arcades are the primary venue for video game machines and token-operated game machines in Japan. Amusement arcade revenues and sales of products for amusement arcades have recently been affected by the shrinking market for such games. In addition, due to the development of full-scale home video game systems that can rival amusement arcade games in play quality and the introduction of high-quality smartphones equipped with game functions, consumers now have an increasing number of entertainment platform alternatives outside of amusement arcades. As customer preferences diversify, if fewer people frequently visit amusement arcades and it results in amusement arcade operators reduce purchases of our products, our business and financial results could be adversely affected.

(2) *If our games are not accepted in the market for products for amusement arcades, our business and financial results may be adversely affected.*

Our success as a manufacturer of products for amusement arcades is dependent upon factors, including our ability to design, manufacture, market and service products that

achieve player acceptance with maintaining product quality. If any of competitors develops products for amusement arcades with obtaining popularity, our business and financial results may be adversely affected.

(3) *Our pachislot and pachinko machines may be adversely affected because of groups attempting to make money through illicit methods (commonly referred to as *goto-shi*) in the pachislot and pachinko slot industry.*

Our pachislot and pachinko machines may be adversely affected because of groups attempting to make money through illicit methods (commonly referred to as *goto-shi*) in the pachislot and pachinko industries. In the event of such manipulation by *goto-shi*, there may be a decline in sales volume due to the tarnishing of our brand image, and delays in the dates of release due to measures to prevent *goto-shi* manipulation of our other products.

Responsibility Statement

The following responsibility statement is made solely to comply with the requirements of DTR 4.1.12 of the United Kingdom Financial Conduct Authority's Disclosure Rules and Transparency Rules, in relation to KONAMI HOLDINGS CORPORATION as an issuer whose financial instruments are admitted to trading on the London Stock Exchange.

Takuya Kozuki, Representative Director, President, confirms that:

- to the best of his knowledge, the financial statements, prepared in accordance with International Financial Reporting Standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of KONAMI HOLDINGS CORPORATION and the undertakings included in the consolidation taken as a whole; and
- to the best of his knowledge, this annual financial information includes a fair review of the development and performance of the business and the position of KONAMI HOLDINGS CORPORATION and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.