

Consolidated Financial Results
for the Six Months Ended September 30, 2016
(Prepared in Accordance with IFRS)

October 28, 2016

KONAMI HOLDINGS CORPORATION

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 Stock code number, TSE: 9766
 Ticker symbol, LSE: KNM
 URL: <https://www.konami.com/>
 Shares listed: Tokyo Stock Exchange and London Stock Exchange
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 Beginning date of dividend payment: November 18, 2016

(Amounts are rounded to the nearest million, except percentages and per share amounts)

1. Consolidated Financial Results for the Six Months ended September 30, 2016

(1) Consolidated Results of Operations

	Revenue	Operating profit	Profit before income taxes	Profit for the period	Profit attributable to owners of the parent	Total comprehensive income for the period
Six months ended September 30, 2016	101,401	17,040	16,248	12,233	12,217	8,685
% change from previous year	(5.9)%	36.9%	33.3%	55.9%	55.7%	19.9%
Six months ended September 30, 2015	107,718	12,444	12,186	7,847	7,847	7,243
% change from previous year	9.1%	92.1%	78.5%	99.7%	101.6%	38.1%

	Basic earnings per share (attributable to owners of the parent) (yen)	Diluted earnings per share (attributable to owners of the parent) (yen)
Six months ended September 30, 2016	90.33	89.02
Six months ended September 30, 2015	56.61	56.61

(2) Consolidated Financial Position (Millions of Yen, except percentages and per share amounts)

	Total assets	Total equity	Total equity attributable to owners of the parent	Ratio of equity attributable to owners of the parent
September 30, 2016	326,049	220,458	219,717	67.4%
March 31, 2016	328,187	213,475	212,750	64.8%

2. Cash Dividends

Record Date	Cash dividends per share (yen)				
	First quarter end	Second quarter end	Third quarter end	Year end	Annual
Year ended March 31, 2016	-	10.50	-	12.50	23.00
Year ending March 31, 2017	-	17.00			
Year ending March 31, 2017 -Forecast-			-	17.00	34.00

Note: Recently announced change in dividend forecasts for the fiscal year ending March 31, 2017 during the three months ended September 30, 2016: None

3. Consolidated Earnings Forecast for the Year Ending March 31, 2017

(Millions of Yen, except percentages and per share data)

	Revenue	Operating profit	Profit before income taxes	Profit attributable to owners of the parent	Basic earnings per share (attributable to owners of the parent) (yen)
Year ending March 31, 2017	210,000	25,000	24,000	15,000	110.91
% change from previous year	(16.0)%	1.3%	1.0%	42.6%	

Note: Recently announced change in earnings forecasts for the fiscal year ending March 31, 2017 during the three months ended September 30, 2016: None

Noted Items

(1) Changes in significant consolidated subsidiaries during the period (status changes of subsidiaries due to changes in the scope of consolidation): None

(2) Changes in accounting policies and accounting estimate

1. Changes in accounting policies required by IFRS: No
2. Other changes: No
3. Changes in accounting estimate: No

(3) Number of shares issued (Share capital)

1. Number of shares issued: (Treasury shares included)
 - As of September 30, 2016 143,500,000 shares
 - As of March 31, 2016 143,500,000 shares
2. Number of treasury shares:
 - As of September 30, 2016 8,261,409 shares
 - As of March 31, 2016 8,258,617 shares
3. Average number of shares outstanding:
 - Six months ended September 30, 2016 135,239,654 shares
 - Six months ended September 30, 2015 138,608,132 shares

Information regarding the audit review procedure:

This report is outside the scope of the procedures for review of quarterly consolidated financial statements as required under the Financial Instruments and Exchange Act of Japan. The aforementioned procedures have not been completed for the quarterly financial statements included in this document as of the time of disclosure of this document.

Cautionary statement with respect to forward-looking statements and other matters:

Statements made in this document with respect to our current plans, estimates, strategies and beliefs, including the above forecasts, are forward-looking statements about our future performance. These statements are based on management's assumptions and beliefs in light of information currently available to it and, therefore, you should not place undue reliance on them. A number of important factors could cause actual results to be materially different from and worse than those discussed in forward-looking statements. Such factors include, but are not limited to: (i) changes in economic conditions affecting our operations; (ii) fluctuations in currency exchange rates, particularly with respect to the value of the Japanese yen, the U.S. dollar and the Euro; (iii) our ability to continue to win

acceptance of our products, which are offered in highly competitive markets characterized by the continuous introduction of new products, rapid developments in technology and subjective and changing consumer preferences; (iv) the timing of the release of new game titles and products, especially game titles and products that are part of historically popular series; (v) our ability to successfully expand internationally with a focus on our Digital Entertainment business and Gaming & Systems business; (vi) our ability to successfully expand the scope of our business and broaden our customer base through our Health & Fitness business; (vii) regulatory developments and changes and our ability to respond and adapt to those changes; (viii) our expectations with regard to further acquisitions and the integration of any companies we may acquire; and (ix) the outcome of existing contingencies.

Please refer to pages 12, 13, 14 and 15 for further information regarding our business forecasts.

The Company disclosed the supplemental data for the consolidated financial statements via the Company's website on October 28, 2016.

1. Business Performance

(1) Analysis of Business Performance

(i) Business Overview

The economic environment surrounding the Konami Group in Japan continues to stall mainly due to concerns over prospects for capital investments and personal consumption, which have been affected by declining corporate earnings triggered by the sharply rising yen since the beginning of 2016. The global economy also remained under uncertain conditions owing to the impact of issues such as the U.K. leaving the European Union (EU) and an economic slowdown in emerging countries.

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. As device markets utilizing virtual reality (VR) grow further, various VR software and contents are being developed. Business opportunities in the game industry are also increasing. 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, game industry is also placing emphasis on providing opportunities to share experience, such as video streaming services and e-Sports. Points of contact between customers and games are expanding further and contributing to the increasing popularity of game contents.

In the gaming industry, opportunities of gaming business are expected to grow as the casino market worldwide continues to see the spread supported by development of resources related to tourism and opening new casino facilities.

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 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.” 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 six months ended September 30, 2016, which reflected the restructuring of the business segment, mobile games, including *JIKKYOU PAWAFURU PUROYAKYU*, *PROFESSIONAL BASEBALL SPIRITS A (Ace)* and *Winning Eleven CLUB MANAGER* (known in overseas as *PES CLUB MANAGER*), continued to enjoy steady sales. Meanwhile, card games continue to receive favorable reviews from many customers, including its holding of the global tournament of the *Yu-Gi-Oh! TRADING CARD GAME* in August 2016. As for computer and video games, we released *Winning Eleven 2017* (known in overseas as *PES 2017 - Pro Evolution Soccer -*) in September 2016. *JIKKYOU PAWAFURU PUROYAKYU 2016*, released in April 2016, also continued to enjoy strong performance and be available to provide the enjoyment to many customers.

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* the new cabinet of the video slot machine as well as the *Podium* cabinet 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. As for pachislot and pachinko machines, we released a new pachislot machine, *SEVEN'S BEAT*, in collaboration with *beatmania*, a music genre game from the Konami Group.

In terms of the consolidated results for the six months ended September 30, 2016, total revenue amounted to ¥101,401 million (a year-on-year decrease of 5.9%), operating profit was ¥17,040 million (a year-on-year increase of 36.9%), profit

before income taxes was ¥16,248 million (a year-on-year increase of 33.3%), and profit attributable to owners of the parent was ¥12,217 million (a year-on-year increase of 55.7%).

(ii) Performance by Business Segment

Summary of total revenue by business segment:

	Millions of Yen, except percentages		
	Six months ended September 30, 2015	Six months ended September 30, 2016	% change
Total revenue:			
Digital Entertainment	¥43,718	¥44,894	2.7
Health & Fitness	35,889	35,023	(2.4)
Gaming & Systems	14,979	13,789	(7.9)
Amusement	13,376	7,938	(40.7)
Intersegment eliminations	(244)	(243)	-
Total revenue	¥107,718	¥101,401	(5.9)

(Notes)

Reportable segment classifications have been changed effective from the six months ended September 30, 2016. For the purpose of comparison to the six month ended September 30, 2015, figures for the six month ended September 30, 2015 have been reclassified under the new segment classification, and compared with those for the six month ended September 30, 2016.

Digital Entertainment

As for mobile games, *JIKKYOU PAWAFURU PUROYAKYU* saw more excitement than the previous time, surpassing 26 million downloads, ran a campaign to mark “the day of PAWAPURO” on August 26, and held a “PAWAPURO Festival 2016” tournament. It continues to enjoy popularity among its many followers. Moreover, in domestic market, various titles continued to receive favorable reviews, including *PROFESSIONAL BASEBALL SPIRITS A (Ace)*, reproduced the real experience of a professional baseball game with top-quality graphics. In overseas markets, *Winning Eleven CLUB MANAGER* (known in overseas as *PES CLUB MANAGER*) and *Star Wars™: Force Collection* continued stable operation.

As for card games, the *Yu-Gi-Oh! TRADING CARD GAME* series continued to develop in the global market. In August 2016, the global tournament, “Yu-Gi-Oh! World Championship 2016,” was held in the U.S, with heated DUEL match-ups seen gaining, showing a great deal of excitement.

As for computer and video games, following of the releases in April 2016 of *JIKKYOU PAWAFURU PUROYAKYU 2016*, the latest title in the series, and *UEFA EURO 2016/Winning Eleven 2016*, we released *Winning Eleven 2017* (known in overseas as *PES 2017 - Pro Evolution Soccer -*) in September 2016, the latest title in the series. The latest game has been determined by its concept of “Control reality,”

with particular emphasis on the sheer fun of playing competitively against other users, which has always been a hallmark of the series. In addition, we signed a partnership agreement with a renowned soccer team in Europe to enhance reproducibility in-game. We are planning various measures to provide the most fun and exciting soccer game experiences to customers.

In terms of financial performance, total revenue for the six months ended September 30, 2016 in this segment amounted to ¥44,894 million (a year-on-year increase of 2.7%) and segment profit for the six months ended September 30, 2016 amounted to ¥15,469 million (a year-on-year increase of 52.1%).

Health & Fitness

With respect to the management of facilities that we operate directly, we developed 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, regardless of whether they are individual or corporate customers.

At the Rio de Janeiro Olympics held in August 2016, six athletes affiliated with the Konami Sports Club Gymnastics and Swimming Teams participated as representatives of Japan and brought home many medals. These Olympians' achievements contributed to acquisitions in new members of gymnastics and swimming school programs for children and tennis school programs since it increased the value of the KONAMI brand and broadened recognition of the Konami Sports Club.

In regard to studio programs provided by sports club facilities, we completely renewed them in September 2016 to support customers' "sustainable fitness." We developed various studio programs, including *Core Cross*, a self-developed program to make core training fun even for beginners who train at sports clubs. Also, we have developed various studio programs for the purpose of relaxation, shaping-up, and more to meet customers' demands.

In regard to the management of sports club facilities, we commenced a new franchise facility in Amakusa City, Kumamoto prefecture, in July 2016. In addition, Konami Sports Club Kumamoto reopened in August 2016, which had been temporary closed due to the 2016 Kumamoto Earthquake. We will contribute to local restoration and development and offer friendly services so that we can deliver energy and smiles to customers and surrounding communities.

In regard to the sports club facilities outsourced to us, we commenced management of 29 facilities outsourced to the Konami Group since this first quarter, 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 intended to improve brand value and expand our market share including distribution of the home fitness bike *AEROBIKE S-BODY* through e-commerce site and display-sales at each Konami Sports Club facility.

For the six months ended September 30, 2016, sales from this business decreased mainly due to the previous fiscal year closing of facilities operated directly. On the other hand, expenses were reduced due to improved operational efficiency.

In terms of financial performance, total revenue for the six months ended September 30, 2016 in this segment amounted to ¥35,023 million (a year-on-year decrease of 2.4%) and segment profit for the six months ended September 30, 2016 amounted to 2,641million (a year-on-year increase of 75.4%).

Gaming & Systems

The North American market environment saw harsh conditions due to the entry of European manufacturers and the resulting intensified competition, and increasingly prudent investments by casino operators when purchasing machines. On the other hand, the *Podium* series, including *Concerto* the new cabinet for video slot machine, continued to have strong sales. We also committed a wider offering in the Central and South American and European markets. 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). These products raised higher expectations and willingness from players, and contributed stable earnings. The *SYNKROS* casino management system performed well, including the steady introduction into BARONA Casino, which is one of the major tribal casinos located in the suburbs of San Diego in the state of California in the U.S., as well as the introduction into large cruise ships in service overseas.

In the Asian and Oceanian markets, we developed a richly diverse product lineup, including *Concerto* the new cabinet and the *Podium* series.

In addition, we presented the *Castlevania* series, which was its second title utilizing our Digital Entertainment business' intellectual properties following KONAMI's popular content *Frogger* series, at the largest gaming expo in the Oceania, Australasian Gaming Expo 2016, held in Sydney, Australia and at the world's largest gaming expo, Global Gaming Expo 2016 (G2E), held in Las Vegas in the U.S. At G2E, we also exhibited more for the first time, including *Fortune Cup*, a horserace betting station with a model track, *Crystal Cyclone*, a ball-drawing game, and *Beat Square*, a slot machine which loads a skill factor that enables the machine to reflect players' skill based on *jubeat* of the *BEMANI* series. We showed new

genres and concepts to the gaming industry through products utilizing experience and techniques developed by KONAMI's arcade games, and the exhibitions received considerable attention from visitors.

For the six months ended September 30, 2016, this business was strong mainly in the North American market, and total revenue and segment profit in local currency basis increased. In Japanese yen of the Company's presentation currency, however, total revenue and segment profit decreased due to the effect of exchange rate changes by the rising yen.

In terms of financial performance, total revenue for the six months ended September 30, 2016 in this segment amounted to ¥13,789 million (a year-on-year decrease of 7.9%) and segment profit for the six months ended September 30, 2016 amounted to ¥1,589 million (a year-on-year decrease of 8.3%).

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. As for the online match quiz game *Quiz Magic Academy Tokyo Grimoire*, QMA JAPAN TOUR 2016 which has been held since June 2016 with given official certification, continued to receive favorable reviews. This has contributed to its strong operation.

As for pachislot and pachinko machines, business in this industry was conducted in an unusual environment, including 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. Against this background, *MAGICAL HALLOWEEN 5*, a pachislot machine released in the previous fiscal year, was sold with additional orders. In the previous fiscal year, it maintained a top-class level of operation among the pachislot machines adapted to new standards after the test methods changed. Furthermore, we released a new pachislot machine, *SEVEN'S BEAT*, in collaboration with *beatmania*, a music genre game from the Konami Group.

Meanwhile, sales in this second quarter were limited because new product releases for this fiscal year are concentrated for the third quarter or later.

In terms of financial performance, total revenue for the six months ended September 30, 2016 in this segment amounted to ¥7,938 million (a year-on-year decrease of 40.7%) and segment profit for the six months ended September 30, 2016 amounted to 1,799 million (a year-on-year decrease of 35.1%).

During the six months ended September 30, 2016, in light of rapid changes in market structure such as strengthening the regulations for pachislot and pachinko

machines, impairment losses on intangible assets were recognized of ¥2,102 million which is included in other income and other expenses, net in the consolidated statement of profit. This is mainly due to reconsiderations for business plans of the pachislot and pachinko machines' business.

(2) Consolidated Financial Position

(i) Total Assets, Total Liabilities and Total equity

Total Assets:

Total assets amounted to ¥326,049 million as of September 30, 2016, decreasing by ¥2,138 million compared with March 31, 2016. This mainly resulted from decreases in trade and other receivables and property, plant and equipment, net, which offset an increase in inventories.

Total Liabilities:

Total liabilities amounted to ¥105,591 million as of September 30, 2016, decreasing by ¥9,121 million compared with March 31, 2016. This primarily resulted from decreases in trade and other payables and income tax payables.

Total Equity:

Total equity amounted to ¥220,458 million as of September 30, 2016, increasing by ¥6,983 million compared with March 31, 2016. This mainly resulted from a decrease in other components of equity including foreign currency translation adjustments, which offset an increase in retained earnings due to recognition of profit for the period.

Total equity attributable to owners of the parent was 67.4%, increasing by 2.6 points compared with March 31, 2016.

(ii) Cash Flows

	Millions of Yen		
	Six months ended September 30, 2015	Six months ended September 30, 2016	Change
Cash flow summary:			
Net cash provided by operating activities	¥30,584	¥12,278	¥(18,306)
Net cash used in investing activities	(11,391)	(6,791)	4,600
Net cash used in financing activities	(2,406)	(2,724)	(318)
Effect of exchange rate changes on cash and cash equivalents	(426)	(1,958)	(1,532)
Net increase in cash and cash equivalents	16,361	805	(15,556)
Cash and cash equivalents at the end of the period	¥81,015	¥114,712	¥33,697

Cash and cash equivalents (hereafter, referred to as “Net cash”), as of September 30, 2016, amounted to ¥114,712 million, an increase of ¥805 million compared to the year ended March 31, 2016.

Cash flow summary for each activity for the six months ended September 30, 2016 is as follows:

Cash flows from operating activities:

Net cash provided by operating activities amounted to ¥12,278 million for the six months ended September 30, 2016, a year-on-year decrease of 59.9%. This primarily resulted from a reduction of deferred revenue increasing and an increase in income tax paid, which offset a decrease in trade and other receivable.

Cash flows from investing activities:

Net cash used in investing activities amounted to ¥6,791 million for the six months ended September 30, 2016, a year-on-year decrease of 40.4%. This mainly resulted from a decrease in capital expenditures for property, plant and equipment.

Cash flows from financing activities:

Net cash used in financing activities amounted to ¥2,724 million for the six months ended September 30, 2016, a year-on-year increase of 13.2%. This primarily resulted from proceeds from short-term (within 3 months) borrowings during the six months ended September 30, 2015.

(3) Outlook for the Fiscal Year Ending March 31, 2017

Digital Entertainment

With the spread of smartphones and tablet PCs worldwide, the available means of providing games continue to diversify, and opportunities to reach an even greater audience for games are increasing. Against this background, we intend to develop ways of playing games that match the characteristics of each device.

As for mobile games, the total number of registered users of all contents we developed continues to increase steadily. *JIKKYOU PAWAFURU PUROYAKYU*, surpassed 26 million downloads, and *Winning Eleven CLUB MANAGER* (known in overseas as *PES CLUB MANAGER*), being distributed worldwide, are expected to continue contributing toward our earnings. We are further focusing our managerial resources on the development of contents that we believe will become major hits in order to produce more hit contents, especially in the native application market. Looking ahead, we will continue to expand our lineup, utilizing previously established production and operational expertise and rich content resources. In addition, we are currently preparing for the new titles of native applications, *Yu-Gi-Oh! DUEL LINKS*, *JIKKYOU POWERFUL SOCCER* and *Winning Eleven 2017* (known in overseas as *PES 2017 - Pro Evolution Soccer -*). Furthermore, *Yu-Gi-Oh! DUEL LINK* has surpassed 0.7 million in advance registrations and seen high expectations toward its launch.

As for card games, we will continue aggressive promotion of various measures for the *Yu-Gi-Oh! TRADING CARD GAME* series, to provide the enjoyment to players, not only in Japan, but in various regions of the world, with this year marking the twentieth anniversary of the start of the *Yu-Gi-Oh!* manga series.

As for computer and video games, we globally released *Winning Eleven 2017* (known in overseas as *PES 2017 - Pro Evolution Soccer -*) in September 2016, the latest title in the *Winning Eleven* series (known in overseas as the *Pro Evolution Soccer* series). The game mode *myClub*, adopted for the *Winning Eleven* series, is expected to provide a sustained enjoyment to our customers. In addition, *JIKKYOU PAWAFURU PUROYAKYU Heroes*, the latest title in the *JIKKYOU PAWAFURU PUROYAKYU* series, will be released in December 2016.

As we continue to move with the times and take on new challenges, we aim to create and provide “Valuable Time” to customers, including through the production of new games that utilize virtual reality (VR) and the serious development of e-Sports.

Health & Fitness

In our Health and Fitness business, we will continue striving to accurately grasp the needs of our increasingly diverse customer base and to increase the value of Konami Sports Clubs by offering a new lifestyle. We will strive to revitalize

business by showing the appeal not only of payment plans based on customers' selected frequency of use of Konami Sports Clubs, but also continue to provide an abundant lineup of programs for pay-as-you-go members, provide programs suited to the purpose of exercise, and provide services that support customers' "sustainable fitness."

As Japan's population continues to age, the government continues to take measures to combat lifestyle diseases and also develop new plans for boosting sports clubs and other aspects of the healthy prolonged life industry as part of the governmental growth strategy. As part of an integrated approach from national and private organizations, we intend to continue to promote fitness club operation, and intend to develop and market health and fitness equipment. The aim of these efforts is to enhance customer satisfaction for a variety of users with diverse lifestyles and age ranges as the leading company in the health and fitness industry.

In regard to the management of sports club facilities, we intend to continue taking full advantage of our strengths as one of the largest operators of a large number of sports facilities in Japan by leveraging our expertise in operations and guidance for not only our directly operated facilities, but also franchise facilities and those outsourced to us. As for facilities operated directly, we will renovate three of our sports clubs—Iidabashi, Jiyugaoka and Ebisu—in December 2016, including replacements of training machines and installations of single purpose spaces for personal training. This is intended to prepare for favorable environments to meet the demands of urbanites who are interested in improving personal appearances.

As for health and fitness related products, the home fitness bike *AEROBIKE* products and various new products are to be released. We intend to promote these to members of our sports clubs and the general public through e-commerce site and new sales channels, as well as improve brand value and expand our market share. We also intend to distinguish ourselves through coordinated product development with facilities.

Gaming & Systems

In regard to slot machine sales, especially focusing on *Concerto* the new cabinet for video slot machine, which has received positive reviews, we will promote various product expansions of the *Podium* series, including *Podium Monument*, *Podium Stack* and *Rapid Revolver*, to develop our rich product lineup and strengthen sales. We will also promote participation agreements by addressing the needs of casino operators and continuing to expand our product lineup in order to stabilize our operational results by increasing periodical income.

We introduced the *SYNKROS* casino management system and its many functions at various trade shows and business conferences, including *SYNKROS Dashboards*, loaded with the latest feature allowing casino operators to analyze information for their businesses, and *SYNKROS Offers Management*, loaded with marketing

features allowing casinos to offer benefits and various approaches to players. They received positive reviews from major operators. Looking ahead, we intend to actively pursue the distribution and make efforts to enhance product strength while developing new product features.

Amusement

As for arcade games, Konami Group intends to work to revitalize the amusement arcade industry by providing new entertainment that can be enjoyed only at an amusement facility through “interpersonal communication” using the e-AMUSEMENT system. This will involve promoting the continual development of equipment compatible with the PASELI e-money service and e-AMUSEMENT Participation, as well as enhancements to and the expansion of various services. In addition, a multi-electronic money service for amusement machines, which is a solution that combines electronic money for the PASELI and transportation into one system and a set of payment devices, is scheduled to be rolled out to amusement centers nationwide. We also continue to promote medal games that are enjoyed by wide range of users including the release of *TwinkleDrop JUKE!*, additional lineup of the single medal *FEATURE Premium* series, *Frozen Tower* and *ELDORA CROWN*, the latest title in the *Monster Gate* series of medal RPG games. In overseas markets, we intend to develop various measures towards expanding the arcade game business centered in Asia.

As for the pachislot and pachinko machine, since October 2016, we launched a new pachislot machine, *METAL GEAR SOLID SNAKE EATER*, which was derived from the ultra large-scale video game title *METAL GEAR series* (surpassed 49.2 million copies sold worldwide as of end of March 2016). This is the first model loaded on the next-generation cabinet *BIGBOSS*, featuring the industry’s first full-HD surface 32-inch LCD, and equipped with a 124 GB large-capacity ROM for the LCD. *MAH-JONG FIGHT CLUB 2*, the latest pachislot machine of the *MAH-JONG FIGHT CLUB* series, is also scheduled to be released. This is a major title for pachislot machines, which gained popularity with the previous title among pachislot and mah-jong fans.

Although it is expected that the pachislot and pachinko machine market may continue to face challenging conditions due to a decrease in the number of customers and strengthening of the self-restrictions promulgated by pachislot and pachinko machine manufacturers’ unions and other factors, we intend to stabilize profitability in the business to boost our market presence by working integrally with production, manufacture and sales.

Projected consolidated results for the fiscal year ending March 31, 2017 are as follows: total revenue of ¥210,000 million; operating profit of ¥25,000 million; profit before income tax of ¥24,000 million; and profit attributable to owners of the parent of ¥15,000 million. Thus, there is no change from the forecast figures released in the “Consolidated Financial Results for the Year Ended March 31, 2016” dated May 10, 2016.

Special Note:

This document contains “forward-looking statements,” or statements related to future events that are based on management’s assumptions and beliefs in light of information currently available. These statements are subject to various risks and uncertainties.

When relying on forward-looking statements to make investments, you should not place undue reliance on such forward-looking statements. Actual results may be affected by a number of important factors and may be materially different from those discussed in forward-looking statements. Such factors include, but are not limited to, changes in economic conditions affecting our operations, market trends and fluctuations in currency exchange rates, particularly with respect to the value of the Japanese yen, the U.S. dollar and the Euro.

2. Other

(1) Changes in significant consolidated subsidiaries during the period (status changes of subsidiaries due to changes in the scope of consolidation):

None

(2) Changes in accounting principles, procedures and reporting policies:

None

3. Quarterly Condensed Consolidated Financial Statements

(1) Quarterly Condensed Consolidated Statement of Financial Position

	Millions of Yen	
	As of March 31, 2016	As of September 30, 2016
Assets		
Current assets		
Cash and cash equivalents	¥113,907	¥114,712
Trade and other receivables	23,401	20,975
Inventories	9,170	11,698
Income tax receivables	2,139	3,442
Other current assets	5,618	6,162
Total current assets	154,235	156,989
Non-current assets		
Property, plant and equipment, net	80,264	77,487
Goodwill and intangible assets	39,470	40,278
Investments accounted for using the equity method	2,585	2,678
Other investments	1,268	1,207
Other financial assets	24,123	22,836
Deferred tax assets	22,651	21,237
Other non-current assets	3,591	3,337
Total non-current assets	173,952	169,060
Total assets	328,187	326,049
Liabilities and equity		
Liabilities		
Current liabilities		
Bonds and borrowings	9,014	13,084
Other financial liabilities	4,126	4,024
Trade and other payables	24,757	22,210
Income tax payables	9,261	1,684
Other current liabilities	14,335	17,486
Total current liabilities	61,493	58,488
Non-current liabilities		
Bonds and borrowings	24,606	19,647
Other financial liabilities	16,459	15,557
Provisions	8,679	8,687
Deferred tax liabilities	280	155
Other non-current liabilities	3,195	3,057
Total non-current liabilities	53,219	47,103
Total liabilities	114,712	105,591
Equity		
Share capital	47,399	47,399
Share premium	74,426	74,426
Treasury shares	(21,284)	(21,295)
Other components of equity	2,407	(1,141)
Retained earnings	109,802	120,328
Total equity attributable to owners of the parent	212,750	219,717
Non-controlling interests	725	741
Total equity	213,475	220,458
Total liabilities and equity	¥328,187	¥326,049

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

Quarterly Condensed Consolidated Statements of Profit or Loss

	Millions of Yen	
	Six months ended September 30, 2015	Six months ended September 30, 2016
Revenue		
Product sales revenue	¥43,988	¥37,093
Service and other revenue	63,730	64,308
Total revenue	107,718	101,401
Cost of revenue		
Cost of product sales revenue	(24,767)	(16,928)
Cost of service and other revenue	(44,136)	(44,057)
Total cost of revenue	(68,903)	(60,985)
Gross profit	38,815	40,416
Selling, general and administrative expenses	(24,491)	(20,768)
Other income and other expenses, net	(1,880)	(2,608)
Operating profit	12,444	17,040
Finance income	132	92
Finance costs	(548)	(1,032)
Profit from investments accounted for using the equity method	158	148
Profit before income taxes	12,186	16,248
Income taxes	(4,339)	(4,015)
Profit for the period	7,847	12,233
Profit attributable to:		
Owners of the parent	7,847	12,217
Non-controlling interests	¥0	¥16

	Yen	
	Six months ended September 30, 2015	Six months ended September 30, 2016
Earnings per share (attributable to owners of the parent)		
Basic	¥56.61	¥90.33
Diluted	¥56.61	¥89.02

Quarterly Condensed Consolidated Statement of Comprehensive Income

	Millions of Yen	
	Six months ended September 30, 2015	Six months ended September 30, 2016
Profit for the period	¥7,847	¥12,233
Other comprehensive income		
Items that may be reclassified to profit or loss:		
Exchange differences on foreign operations	(574)	(3,510)
Net change in fair values of available-for-sale financial assets	(30)	(38)
Total items that may be reclassified to profit or loss	(604)	(3,548)
Total other comprehensive income	(604)	(3,548)
<i>Total comprehensive income for the period</i>	7,243	8,685
Comprehensive income attributable to:		
Owners of the parent	7,243	8,669
Non-controlling interests	¥0	¥16

(3) Quarterly Condensed Consolidated Statement of Changes in Equity

Millions of Yen

	Equity attributable to owners of the parent						Non-controlling interest	Total equity
	Share capital	Share premium	Treasury shares	Other components of equity	Retained earnings	Total		
Balance at April 1, 2015	¥47,399	¥74,175	¥(11,271)	¥5,012	¥102,474	¥217,789	¥710	¥218,499
Profit for the period					7,847	7,847	0	7,847
Other comprehensive income				(604)		(604)		(604)
Total comprehensive income for the period	-	-	-	(604)	7,847	7,243	0	7,243
Purchase of treasury shares			(5)			(5)		(5)
Disposal of treasury shares		0	0			0		0
Dividends					(1,733)	(1,733)		(1,733)
Total transactions with the owners	-	0	(5)	-	(1,733)	(1,738)	-	(1,738)
Balance at September 30, 2015	¥47,399	¥74,175	¥(11,276)	¥4,408	¥108,588	¥223,294	¥710	¥224,004

Millions of Yen

	Equity attributable to owners of the parent						Non-controlling interest	Total equity
	Share capital	Share premium	Treasury shares	Other components of equity	Retained earnings	Total		
Balance at April 1, 2016	¥47,399	¥74,426	¥(21,284)	¥2,407	¥109,802	¥212,750	¥725	¥213,475
Profit for the period					12,217	12,217	16	12,233
Other comprehensive income				(3,548)		(3,548)		(3,548)
Total comprehensive income for the period	-	-	-	(3,548)	12,217	8,669	16	8,685
Purchase of treasury shares			(11)			(11)		(11)
Disposal of treasury shares		0	0			0		0
Dividends					(1,691)	(1,691)		(1,691)
Total transactions with the owners	-	0	(11)	-	(1,691)	(1,702)	-	(1,702)
Balance at September 30, 2016	¥47,399	¥74,426	¥(21,295)	¥(1,141)	¥120,328	¥219,717	¥741	¥220,458

(4) Quarterly Condensed Consolidated Statement of Cash Flows

	Millions of Yen	
	Six months ended September 30, 2015	Six months ended September 30, 2016
<i>Operating activities</i>		
Profit for the period	¥7,847	¥12,233
Depreciation and amortization	8,736	5,365
Impairment losses	1,500	2,219
Interest and dividends income	(127)	(90)
Interest expense	480	478
Loss on sale or disposal of property, plant and equipment	128	59
Profit from investments accounted for using the equity method	(158)	(148)
Income taxes	4,339	4,015
(Increase) decrease in trade and other receivables	(9,812)	1,635
Increase in inventories	(6,957)	(2,979)
Increase (decrease) in trade and other payables	1,798	(956)
Increase in prepaid expense	(701)	(1,459)
Increase in deferred revenue	23,577	4,699
Other, net	1,763	(1,046)
Interest and dividends received	120	69
Interest paid	(512)	(484)
Income taxes paid	(1,437)	(11,332)
<i>Net cash provided by operating activities</i>	30,584	12,278
<i>Investing activities</i>		
Capital expenditures	(11,466)	(7,340)
Decrease in lease deposits, net	79	403
(Increase) decrease in term deposits, net	(5)	143
Other, net	1	3
<i>Net cash used in investing activities</i>	(11,391)	(6,791)
<i>Financing activities</i>		
Increase in short-term (within 3 months) borrowings, net	405	-
Proceeds from short-term (more than 3 months) borrowings	-	8,229
Repayments of short-term (more than 3 months) borrowings	-	(8,229)
Principal payments under capital lease and financing obligations	(1,075)	(1,025)
Dividends paid	(1,732)	(1,688)
Other, net	(4)	(11)
<i>Net cash used in financing activities</i>	(2,406)	(2,724)
Effect of exchange rate changes on cash and cash equivalents	(426)	(1,958)
Net increase in cash and cash equivalents	16,361	805
Cash and cash equivalents at the beginning of the period	64,654	113,907
<i>Cash and cash equivalents at the end of the period</i>	¥81,015	¥114,712

(5) Going concern assumption

None

(6) Significant changes in the equity attributable to owners of the parent

None

(7) Segment Information

(i) Operating segment information

	Millions of Yen	
	Six months ended September 30, 2015	Six months ended September 30, 2016
Revenue:		
Digital Entertainment –		
External customers	¥43,696	¥44,869
Intersegment	22	25
Total	¥43,718	¥44,894
Health & Fitness –		
External customers	¥35,724	¥34,859
Intersegment	165	164
Total	¥35,889	¥35,023
Gaming & Systems –		
External customers	¥14,979	¥13,789
Intersegment	-	-
Total	¥14,979	¥13,789
Amusement –		
External customers	¥13,319	¥7,884
Intersegment	57	54
Total	¥13,376	¥7,938
Intersegment eliminations	¥(244)	¥(243)
Consolidated	¥107,718	¥101,401

	Millions of Yen	
	Six months ended September 30, 2015	Six months ended September 30, 2016
Segment profit (loss):		
Digital Entertainment	¥10,171	¥15,469
Health & Fitness	1,506	2,641
Gaming & Systems	1,732	1,589
Amusement	2,771	1,799
Total segment profit and loss, net	16,180	21,498
Corporate expenses and eliminations	(1,856)	(1,850)
Other income and other expenses, net	(1,880)	(2,608)
Finance income and finance costs, net	(416)	(940)
Profit from investments accounted for using the equity method	158	148
Profit before income taxes	¥12,186	¥16,248

(Notes)

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

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

2. 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.
3. Corporate expenses primarily consist of administrative expenses not directly associated with specific segments.
4. Intersegment eliminations primarily consist of eliminations of intercompany sales.

5. Other income and other expenses, net include impairment losses on property, plant and equipment and goodwill and intangible assets and profit or loss of sales and disposal on property, plant and equipment.
6. 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 results, segment information for the six month ended September 30, 2015 is disclosed with based on the new segment classification for the six month ended September 30, 2016.

(ii) Geographic Information

Revenue from external customers

	Millions of Yen	
	Six months ended September 30, 2015	Six months ended September 30, 2016
Revenues:		
Japan	¥78,520	¥76,487
United States	19,715	17,151
Europe	5,564	4,404
Asia/Oceania	3,919	3,359
Consolidated	¥107,718	¥101,401

(Note)

For the purpose of presenting 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.