

Consolidated Financial Results
for the Nine Months Ended December 31, 2016
(Prepared in Accordance with IFRS)

January 31, 2017

KONAMI HOLDINGS CORPORATION

Address: 7-2, Akasaka 9-chome, Minato-ku, Tokyo, Japan
 Stock code number, TSE: 9766
 Ticker symbol, LSE: KNM
 URL: <https://www.konami.com/>
 Shares listed: Tokyo Stock Exchange and London Stock Exchange
 Representative: Takuya Kozuki, Representative Director, President
 Contact: Junichi Motobayashi, General Manager, Finance and Accounting
 (Phone: +81-3-5771-0222)
 Beginning date of dividend payment: -

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

1. Consolidated Financial Results for the Nine Months Ended December 31, 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
Nine months ended December 31, 2016	163,941	29,587	28,861	20,674	20,651	21,476
% change from previous year	(8.5)%	69.8%	68.4%	229.5%	229.8%	261.1%
Nine months ended December 31, 2015	179,251	17,423	17,142	6,275	6,262	5,948
% change from previous year	15.0%	62.3%	33.6%	(19.5)%	(19.1)%	(49.2)%

	Basic earnings per share (attributable to owners of the parent) (yen)	Diluted earnings per share (attributable to owners of the parent) (yen)
Nine months ended December 31, 2016	152.70	150.45
Nine months ended December 31, 2015	45.28	45.22

(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
December 31, 2016	339,435	230,947	230,199	67.8%
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-				37.00	54.00

Note: Recently announced change in dividend forecasts for the fiscal year ending March 31, 2017 during the three months ended December 31, 2016: Yes

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	225,000	36,000	35,000	24,000	177.46
% change from previous year	(10.0)%	45.9%	47.3%	128.2%	

Note: Recently announced change in earnings forecasts for the fiscal year ending March 31, 2017 during the three months ended December 31, 2016: Yes

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 December 31, 2016 143,500,000 shares
 - As of March 31, 2016 143,500,000 shares
2. Number of treasury shares:
 - As of December 31, 2016 8,262,343 shares
 - As of March 31, 2016 8,258,617 shares
3. Average number of shares outstanding:
 - Nine months ended December 31, 2016 135,239,156 shares
 - Nine months ended December 31, 2015 138,271,153 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.

KONAMI HOLDINGS CORPORATION (the "Company") disclosed the supplemental data for the consolidated financial statements via the Company's website on January 31, 2017.

1. Business Performance

(1) Analysis of Business Performance

(i) Business Overview

As for the economic environment surrounding the Konami Group, the global economy continued to remain 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. Meanwhile, the US presidential election in November 2016 turned economic trends toward a rising dollar, stock prices and interest rates. The business environment of 2016 in Japan also saw a greatly fluctuating financial market, including a sharply lower yen and rising stock prices.

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, 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 availability of gaming at casinos in Japan is highly expected due to the enactment of “a bill to create and promote integrated resorts in Japan” in December 2016. Furthermore, opportunities in the gaming business are expected to grow, including such as 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 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 nine months ended December 31, 2016, which reflected the restructuring of the business segment, we released two titles of mobile games, *Yu-Gi-Oh! DUEL LINKS* and *JIKKYOU POWERFUL SOCCER*. These titles have received favorable reviews from many customers. In addition, existing 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 worldwide. As for computer and video games, *Winning Eleven 2017* (known in overseas as *PES 2017 - Pro Evolution Soccer -*), released in September 2016, and *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. In addition, the latest titles in the single medal game machine *FEATURE Premium* series, *TwinkleDrop JUKE!* and *Frozen Tower*, started fully operation. As for pachislot and pachinko machines, we sold *SEVEN'S BEAT*, *METAL GEAR SOLID SNAKE EATER* and *MAH-JONG FIGHT CLUB 2*.

In terms of the consolidated results for the nine months ended December 31, 2016, total revenue amounted to ¥163,941 million (a year-on-year decrease of 8.5%), operating profit was ¥29,587 million (a year-on-year increase of 69.8%), profit before income taxes was ¥28,861 million (a year-on-year increase of 68.4%), and profit attributable to owners of the parent was ¥20,651 million (a year-on-year increase of 229.8%).

(ii) Performance by Business Segment

Summary of total revenue by business segment:

	Millions of Yen, except percentages		
	Nine months ended December 31, 2015	Nine months ended December 31, 2016	% change
Total revenue:			
Digital Entertainment	¥80,944	¥73,666	(9.0)
Health & Fitness	53,603	51,917	(3.1)
Gaming & Systems	24,357	21,734	(10.8)
Amusement	20,715	17,123	(17.3)
Intersgment eliminations	(368)	(499)	-
Total revenue	¥179,251	¥163,941	(8.5)

(Notes)

Reportable segment classifications have been changed effective from the six months ended September 30, 2016. For the purpose of comparison to the nine months ended December 31, 2015, figures for the nine months ended December 31, 2015 have been reclassified under the new segment classification, and compared with those for the nine months ended December 31, 2016.

Digital Entertainment

As for mobile games, during the three months ended December 31, 2016, two new titles, *Yu-Gi-Oh! DUEL LINKS* and *JIKKYOU POWERFUL SOCCER* were released to the domestic market. Each total number of downloads is increasing faster than ever, with a positive turnout. 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*, marking its second anniversary at the start of December 2016, was promoted to boost popularity among its many followers. This included our holding of the "PAWAPURO Festival 2016" e-Sports tournament. In overseas markets,

Winning Eleven CLUB MANAGER (known in overseas as *PES CLUB MANAGER*) and *Star Wars™: Force Collection* continued stable performance as well as *PES 2017 - PRO EVOLUTION SOCCER -* (known in domestic market as *Winning Eleven 2017*) was released in some parts of the world.

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 August 2017, the qualifying round began with many heated DUEL match-ups unfolding. There is a great deal of excitement among *Yu-Gi-Oh!* fans.

As for computer and video games, we released *JIKKYOU PAWAFURU PUROYAKYU Heroes* for Nintendo 3DS™ in December 2016, which continued to be available to provide the enjoyment to many customers. In addition, *Winning Eleven 2017* (known in overseas as *PES 2017 - Pro Evolution Soccer -*), which is the latest title in the series released in September 2016, continued to receive favorable reviews.

For the nine months ended December 31, 2016, sales from this business decreased and segment profit from this business increased compared with those for the nine months ended December 31, 2015. This is because the mobile games enjoyed strong performance and it contributed to higher composition ratio of the mobile games.

In terms of financial performance, total revenue for the nine months ended December 31, 2016 in this segment amounted to ¥73,666 million (a year-on-year decrease of 9.0%) and segment profit for the nine months ended December 31, 2016 amounted to ¥24,409 million (a year-on-year increase of 14.6%).

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.

In regard to the management of sports club facilities for the nine months ended December 31, 2016, we commenced a new franchise facility in Amakusa City, Kumamoto prefecture. In addition, we renovated three of our sports clubs — Iidabashi, Ebisu and Jiyugaoka-ekimae — including drastic replacements of training machines and expansions of spaces for personal training. This was intended to prepare for favorable environments to provide enriching experiences. We also completely renewed studio programs 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. In addition, we have developed various studio programs for the

purpose of relaxation, shaping-up, and more to meet customers' demands. In regard to our *Undo-jyuku* sports lesson program series for children, we held enjoyable events, including gymnastics lessons and public talks by athletes affiliated with the Konami Sports Club Gymnastics team in order to provide a close relationship between those athletes and member children. We will continue to communicate the fun and appeal of gymnastics through such efforts, thereby supporting the improvement of children' health.

In regard to the sports club facilities outsourced to us, we commenced management of 29 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 intended to develop products that are available to satisfy customers. These include the distribution of the home fitness bike *AEROBIKE S-BODY* through the e-commerce site and the launching of *POWER MAX V3 Pro*, which loads available custom functions and is the highest grade in the *AEROBIKE* series.

For the nine months ended December 31, 2016, sales from this business decreased mainly due to the previous fiscal year closing of facilities operated directly. On the other hand, segment profit from this business increased compared with those for the nine months ended December 31, 2015 due to improved quality and operational efficiency of the facilities.

In terms of financial performance, total revenue for the nine months ended December 31, 2016 in this segment amounted to ¥51,917 million (a year-on-year decrease of 3.1%) and segment profit for the nine months ended December 31, 2016 amounted to 4,079 million (a year-on-year increase of 44.4%).

Gaming & Systems

In the North American market, while harsh competition is intensifying due to the entry of European manufacturers in recent years, the market is gradually on the path to recovery. Amid the situation, the *Podium* series, which has a richly diverse product lineup 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, which included the steady introduction into casino facilities in the various states of 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, at the largest gaming expo in the Asia, MGS Entertainment Show, held in Macau, we exhibited *Concerto* the new cabinet for the first time in the Asian market. We also introduced our rich product lineup of the *Podium* series, including *Rapid Revolver* and the *Frogger* series which was utilizing our Digital Entertainment business' intellectual properties. These exhibitions received considerable attention by visitors from all over the world.

For the nine months ended December 31, 2016, 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 nine months ended December 31, 2016 in this segment amounted to ¥21,734 million (a year-on-year decrease of 10.8%) and segment profit for the nine months ended December 31, 2016 amounted to ¥2,913 million (a year-on-year decrease of 18.8%).

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. In addition, the latest titles in the single medal game machine *FEATURE Premium* series, *TwinkleDrop JUKE!* and *Frozen Tower*, started fully operation. 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 receive favorable reviews 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, 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 distributed several pachislot machines, *SEVEN'S BEAT*, in collaboration with *beatmania*, a music genre game from the Konami Group, *METAL GEAR SOLID SNAKE EATER*, which was derived from the ultra large-scale video game title *METAL GEAR* series, and *MAH-JONG FIGHT CLUB 2*, the latest pachislot machine of the *MAH-JONG FIGHT*

CLUB series, which was a major title for pachislot machines and gained popularity with the previous title among pachislot and mah-jong fans.

While the market environment surrounding the Amusement business has continued harsh conditions for the nine months ended December 31, 2016, we promoted business operation efficiency and profit structure improvement.

In terms of financial performance, total revenue for the nine months ended December 31, 2016 in this segment amounted to ¥17,123 million (a year-on-year decrease of 17.3%) and segment profit for the nine months ended December 31, 2016 amounted to 3,876 million (a year-on-year increase of 11.2%).

During the nine months ended December 31, 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 ¥2,204 million which is included in other income and other expenses, net in the consolidated statement of profit or loss. 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 ¥339,435 million as of December 31, 2016, increasing by ¥11,248 million compared with March 31, 2016. This mainly resulted from increases in cash and cash equivalents and trade and other receivables, which offset a decrease in property, plant and equipment, net.

Total Liabilities:

Total liabilities amounted to ¥108,488 million as of December 31, 2016, decreasing by ¥6,224 million compared with March 31, 2016. This primarily resulted from a decrease in income tax payables.

Total Equity:

Total equity amounted to ¥230,947 million as of December 31, 2016, increasing by ¥17,472 million compared with March 31, 2016. This mainly resulted from an increase in retained earnings due to recognition of profit for the period.

Total equity attributable to owners of the parent was 67.8%, increasing by 3.0 points compared with March 31, 2016.

(ii) Cash Flows

	Millions of Yen		
	Nine months ended December 31, 2015	Nine months ended December 31, 2016	Change
Cash flow summary:			
Net cash provided by operating activities	¥56,507	¥25,771	¥(30,736)
Net cash used in investing activities	(14,287)	(7,968)	6,319
Net cash used in financing activities	(4,725)	(5,495)	(770)
Effect of exchange rate changes on cash and cash equivalents	(337)	838	1,175
Net increase in cash and cash equivalents	37,158	13,146	(24,012)
Cash and cash equivalents at the end of the period	¥101,812	¥127,053	¥25,241

Cash and cash equivalents (hereafter, referred to as “Net cash”), as of December 31, 2016, amounted to ¥127,053 million, an increase of ¥13,146 million compared to the year ended March 31, 2016.

Cash flow summary for each activity for the nine months ended December 31, 2016 is as follows:

Cash flows from operating activities:

Net cash provided by operating activities amounted to ¥25,771 million for the nine months ended December 31, 2016, a year-on-year decrease of 54.4%. This primarily resulted from increases in trade and other receivables and income taxes paid and a reduction of deferred revenue increasing.

Cash flows from investing activities:

Net cash used in investing activities amounted to ¥7,968 million for the nine months ended December 31, 2016, a year-on-year decrease of 44.2%. 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 ¥5,495 million for the nine months ended December 31, 2016, a year-on-year increase of 16.3%. This primarily resulted from an increase in dividends paid.

(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. Those game titles include *JIKKYOU PAWAFURU PUROYAKYU*, surpassed 29 million downloads, and *Yu-Gi-Oh! DUEL LINKS*, surpassed 25 million downloads worldwide, which are expected to provide sustained enjoyment to many customers and continue to contribute 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.

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. We will also promote various measures to cooperate with the release of the cinematic version to the global market.

As for computer and video games, we released *JIKKYOU PAWAFURU PUROYAKYU Heroes* in December 2016, which is the latest title in the *JIKKYOU PAWAFURU PUROYAKYU* series and continues receive favorable reviews. 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 reopened Konami Sports Clubs 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. Its renovation was intended to continue to support our promotion of customers' health in the area. At Konami Sports Clubs Futakotamagawa, we also expanded *Undo-jyuku* programs in the gymnasium, which was partially renovated in order to let more children experience the enjoyment of sports. We intend to promote such renovations and re-openings of other facilities in order to meet customers' needs.

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, focusing on *Concerto Upright* the new cabinet for video slot machine, which has received positive reviews, we will promote various product expansions of the *Concerto* series, including *Concerto SeleXion* and *Concerto Slant*, and 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 users 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, continue to be rolled out to amusement centers nationwide. We also continue to promote medal games that are enjoyed by a wide range of users, including the release of *FORTUNE TRINITY 3*, the latest title in the *FORTUNE* series. This game is loaded with an auto medal slot function to make it easier to play. In addition, *ELDORA CROWN* was released, which is 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, *G1 Derby Club*, the second title for the *Club* series pachislot machine where players groom and train racehorses that really exist, and *Boku-Shoujyo Lovekyure*, an original title, are both scheduled to be released.

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.

For the nine months ended December 31, 2016, consolidated financial results of operating profit, profit before income tax and profit attributable to owners of the parent exceeded those previous consolidated forecasts for the fiscal year ending March 31, 2017.

In the Digital Entertainment segment, *Yu-Gi-Oh! DUEL LINKS* and *JIKKYOU POWERFUL SOCCER*, mobile games released during this third quarter ended December 31, 2016, performed strongly. Other mobile games, including *JIKKYOU PAWAFURU PUROYAKYU* and *PROFESSIONAL BASEBALL SPIRITSA (Ace)*, also continued to remain steady.

In the Health & Fitness segment, the earnings results were steady due to improved quality and operational efficiency of the facilities.

In light of these business performances, the Company revised its consolidated earnings forecast for the fiscal year ending March 31, 2017 as set forth below since it predicted the earnings results would finish above its previous forecast.

Please refer to “Notice on Revision of the Consolidated Earnings Forecast and the Dividend Forecast for the Fiscal Year Ending March 31, 2017” announced today, on January 31, 2017, for further details.

< Consolidated Earnings Forecast for the Year Ending March 31, 2017 >

(Millions of yen, except percentages)

	Year ending March 31, 2017		Results for the year ended March 31, 2016	% change from previous year
	Previous forecast	Revised forecast		
Revenue	¥210,000	¥225,000	¥249,902	(10.0)%
Operating profit	25,000	36,000	24,679	45.9%
Profit before income tax	24,000	35,000	23,768	47.3%
Profit attributable to owners of the parent	15,000	24,000	10,516	128.2%

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 December 31, 2016
Assets		
Current assets		
Cash and cash equivalents	¥113,907	¥127,053
Trade and other receivables	23,401	25,682
Inventories	9,170	9,675
Income tax receivables	2,139	3,499
Other current assets	5,618	6,151
Total current assets	154,235	172,060
Non-current assets		
Property, plant and equipment, net	80,264	77,453
Goodwill and intangible assets	39,470	39,189
Investments accounted for using the equity method	2,585	2,642
Other investments	1,268	1,228
Other financial assets	24,123	22,597
Deferred tax assets	22,651	21,081
Other non-current assets	3,591	3,185
Total non-current assets	173,952	167,375
Total assets	328,187	339,435
Liabilities and equity		
Liabilities		
Current liabilities		
Bonds and borrowings	9,014	14,315
Other financial liabilities	4,126	4,054
Trade and other payables	24,757	26,183
Income tax payables	9,261	3,086
Other current liabilities	14,335	14,962
Total current liabilities	61,493	62,600
Non-current liabilities		
Bonds and borrowings	24,606	19,663
Other financial liabilities	16,459	15,092
Provisions	8,679	8,457
Deferred tax liabilities	280	3
Other non-current liabilities	3,195	2,673
Total non-current liabilities	53,219	45,888
Total liabilities	114,712	108,488
Equity		
Share capital	47,399	47,399
Share premium	74,426	74,426
Treasury shares	(21,284)	(21,298)
Other components of equity	2,407	3,209
Retained earnings	109,802	126,463
Total equity attributable to owners of the parent	212,750	230,199
Non-controlling interests	725	748
Total equity	213,475	230,947
Total liabilities and equity	¥328,187	¥339,435

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

Quarterly Condensed Consolidated Statements of Profit or Loss

	Millions of Yen	
	Nine months ended December 31, 2015	Nine months ended December 31, 2016
Revenue		
Product sales revenue	¥82,553	¥64,232
Service and other revenue	96,698	99,709
Total revenue	179,251	163,941
Cost of revenue		
Cost of product sales revenue	(48,072)	(32,241)
Cost of service and other revenue	(66,868)	(67,634)
Total cost of revenue	(114,940)	(99,875)
Gross profit	64,311	64,066
Selling, general and administrative expenses	(35,945)	(31,667)
Other income and other expenses, net	(10,943)	(2,812)
Operating profit	17,423	29,587
Finance income	262	125
Finance costs	(712)	(963)
Profit from investments accounted for using the equity method	169	112
Profit before income taxes	17,142	28,861
Income taxes	(10,867)	(8,187)
Profit for the period	6,275	20,674
Profit attributable to:		
Owners of the parent	6,262	20,651
Non-controlling interests	¥13	¥23

	Yen	
	Nine months ended December 31, 2015	Nine months ended December 31, 2016
Earnings per share (attributable to owners of the parent)		
Basic	¥45.28	¥152.70
Diluted	¥45.22	¥150.45

Quarterly Condensed Consolidated Statement of Comprehensive Income

	Millions of Yen	
	Nine months ended December 31, 2015	Nine months ended December 31, 2016
Profit for the period	¥6,275	¥20,674
Other comprehensive income		
Items that may be reclassified to profit or loss:		
Exchange differences on foreign operations	(320)	825
Net change in fair values of available-for-sale financial assets	(7)	(23)
Total items that may be reclassified to profit or loss	(327)	802
Total other comprehensive income	(327)	802
<i>Total comprehensive income for the period</i>	5,948	21,476
Comprehensive income attributable to:		
Owners of the parent	5,935	21,453
Non-controlling interests	¥13	¥23

(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					6,262	6,262	13	6,275
Other comprehensive income				(327)		(327)		(327)
Total comprehensive income for the period	-	-	-	(327)	6,262	5,935	13	5,948
Issuance of convertible bond-type bonds with subscription rights to shares		251				251		251
Purchase of treasury shares			(10,011)			(10,011)		(10,011)
Disposal of treasury shares		0	0			0		0
Dividends					(3,188)	(3,188)		(3,188)
Total transactions with the owners	-	251	(10,011)	-	(3,188)	(12,948)	-	(12,948)
Balance at December 31, 2015	¥47,399	¥74,426	¥(21,282)	¥4,685	¥105,548	¥210,776	¥723	¥211,499

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					20,651	20,651	23	20,674
Other comprehensive income				802		802		802
Total comprehensive income for the period	-	-	-	802	20,651	21,453	23	21,476
Purchase of treasury shares			(14)			(14)		(14)
Disposal of treasury shares		0	0			0		0
Dividends					(3,990)	(3,990)		(3,990)
Total transactions with the owners	-	0	(14)	-	(3,990)	(4,004)	-	(4,004)
Balance at December 31, 2016	¥47,399	¥74,426	¥(21,298)	¥3,209	¥126,463	¥230,199	¥748	¥230,947

(4) Quarterly Condensed Consolidated Statement of Cash Flows

	Millions of Yen	
	Nine months ended December 31, 2015	Nine months ended December 31, 2016
<i>Operating activities</i>		
Profit for the period	¥6,275	¥20,674
Depreciation and amortization	19,755	10,704
Impairment losses	7,620	2,322
Interest and dividends income	(178)	(122)
Interest expense	712	711
Loss on sale or disposal of property, plant and equipment	3,071	122
Profit from investments accounted for using the equity method	(169)	(112)
Income taxes	10,867	8,187
Decrease (increase) in trade and other receivables	6,509	(1,566)
Increase in inventories	(2,809)	(219)
(Decrease) increase in trade and other payables	(1,182)	66
Increase in prepaid expense	(886)	(155)
Increase in deferred revenue	10,623	2,238
Other, net	1,685	(1,856)
Interest and dividends received	158	91
Interest paid	(738)	(700)
Income taxes paid	(4,806)	(14,614)
<i>Net cash provided by operating activities</i>	56,507	25,771
<i>Investing activities</i>		
Capital expenditures	(14,480)	(9,268)
Decrease in lease deposits, net	203	1,147
(Increase) decrease in term deposits, net	(10)	143
Other, net	0	10
<i>Net cash used in investing activities</i>	(14,287)	(7,968)
<i>Financing activities</i>		
Proceeds from short-term (more than 3 months) borrowings	-	8,229
Repayments of short-term (more than 3 months) borrowings	-	(8,229)
Proceeds from issuance of bonds	10,050	-
Principal payments under capital lease and financing obligations	(1,551)	(1,501)
Dividends paid	(3,181)	(3,980)
Purchase of treasury shares	(10,011)	(14)
Other, net	(32)	0
<i>Net cash used in financing activities</i>	(4,725)	(5,495)
Effect of exchange rate changes on cash and cash equivalents	(337)	838
Net increase in cash and cash equivalents	37,158	13,146
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>	¥101,812	¥127,053

(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	
	Nine months ended December 31, 2015	Nine months ended December 31, 2016
Revenue:		
Digital Entertainment –		
External customers	¥80,901	¥73,507
Intersegment	43	159
Total	¥80,944	¥73,666
Health & Fitness –		
External customers	¥53,361	¥51,676
Intersegment	242	241
Total	¥53,603	¥51,917
Gaming & Systems –		
External customers	¥24,357	¥21,734
Intersegment	-	-
Total	¥24,357	¥21,734
Amusement –		
External customers	¥20,632	¥17,024
Intersegment	83	99
Total	¥20,715	¥17,123
Intersegment eliminations	¥(368)	¥(499)
Consolidated	¥179,251	¥163,941

Millions of Yen

	Nine months ended December 31, 2015	Nine months ended December 31, 2016
Segment profit (loss):		
Digital Entertainment	¥21,294	¥24,409
Health & Fitness	2,824	4,079
Gaming & Systems	3,587	2,913
Amusement	3,486	3,876
Total segment profit and loss, net	31,191	35,277
Corporate expenses and eliminations	(2,825)	(2,878)
Other income and other expenses, net	(10,943)	(2,812)
Finance income and finance costs, net	(450)	(838)
Profit from investments accounted for using the equity method	169	112
Profit before income taxes	¥17,142	¥28,861

(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 nine month ended December 31, 2015 is disclosed with based on the new segment classification for the nine month ended December 31, 2016.

(ii) Geographic Information

Revenue from external customers

	Millions of Yen	
	Nine months ended December 31, 2015	Nine months ended December 31, 2016
Revenue:		
Japan	¥122,315	¥123,844
United States	36,976	27,233
Europe	13,419	7,474
Asia/Oceania	6,541	5,390
Consolidated	¥179,251	¥163,941

(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.