

KONAMI HOLDINGS CORPORATION

Quarterly Condensed Consolidated Financial Statements
for the Six Months Ended September 30, 2019

English translation and a part of summary of the Quarterly Securities Report (Shihanki Hokokusho) for the six-month period ended September 30, 2019 pursuant to the Financial Instruments and Exchange Law of Japan

KONAMI HOLDINGS CORPORATION filed its Quarterly Securities Report for the six-month period ended September 30, 2019 with the Director of the Kanto Local Finance Bureau of the Ministry of Finance of Japan on November 13, 2019. The following is the outline of the Quarterly Securities Report.

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1. Quarterly Condensed Consolidated Financial Statements

(1) Quarterly Condensed Consolidated Statement of Financial Position

		Millions of Yen	
	Note	As of March 31, 2019	As of September 30, 2019
Assets			
Current assets			
Cash and cash equivalents		¥159,242	¥139,385
Trade and other receivables		32,475	31,600
Inventories		8,315	12,482
Income tax receivables		339	2,022
Other current assets	10	7,350	7,858
Total current assets		207,721	193,347
Non-current assets			
Property, plant and equipment, net		82,241	119,487
Goodwill and intangible assets		38,080	40,097
Investments accounted for using the equity method		3,233	3,089
Other investments	10	1,220	1,578
Other financial assets	10	22,038	22,504
Deferred tax assets		21,143	21,937
Other non-current assets		2,361	2,045
Total non-current assets		170,316	210,737
Total assets		378,037	404,084
Liabilities and equity			
Liabilities			
Current liabilities			
Bonds and borrowings	6,10	10,547	5,396
Other financial liabilities	10	4,323	14,151
Trade and other payables		31,530	22,700
Income tax payables		4,771	1,501
Other current liabilities	5	19,660	25,763
Total current liabilities		70,831	69,511
Non-current liabilities			
Bonds and borrowings	6,10	9,803	9,829
Other financial liabilities	10	9,922	37,977
Provisions		9,182	9,222
Other non-current liabilities		1,895	1,516
Total non-current liabilities		30,802	58,544
Total liabilities		101,633	128,055
Equity			
Share capital		47,399	47,399
Share premium		74,426	74,399
Treasury shares		(21,325)	(21,326)
Other components of equity	7	1,583	45
Retained earnings		173,544	174,716
Total equity attributable to owners of the parent		275,627	275,233
Non-controlling interests		777	796
Total equity		276,404	276,029
Total liabilities and equity		¥378,037	¥404,084

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

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

Quarterly Condensed Consolidated Statements of Profit or Loss Six months ended September 30, 2018 and 2019

				Millions of Yen	
	Note	Six months ended September 30, 2018	Six months ended September 30, 2019		
Revenue					
Product sales revenue		¥31,071	¥30,839		
Service and other revenue		91,097	90,250		
Total revenue	4,9	122,168	121,089		
Cost of revenue					
Cost of product sales revenue		(15,179)	(16,400)		
Cost of service and other revenue		(57,249)	(57,216)		
Total cost of revenue		(72,428)	(73,616)		
Gross profit		49,740	47,473		
Selling, general and administrative expenses		(24,667)	(26,659)		
Other income and other expenses, net		(46)	108		
Operating profit		25,027	20,922		
Finance income		313	176		
Finance costs		(417)	(628)		
Profit (loss) from investments accounted for using the equity method		25	(66)		
Profit before income taxes		24,948	20,404		
Income taxes		(7,751)	(5,204)		
Profit for the period		17,197	15,200		
Profit attributable to:					
Owners of the parent		17,196	15,201		
Non-controlling interests		¥1	¥(1)		

				Yen	
	Note	Six months ended September 30, 2018	Six months ended September 30, 2019		
Earnings per share (attributable to owners of the parent)					
Basic	11	¥127.16	¥112.41		
Diluted	11	¥125.22	¥110.67		

Three months ended September 30, 2018 and 2019

Millions of Yen			
	Note	Three months ended September 30, 2018	Three months ended September 30, 2019
Revenue			
Product sales revenue		¥15,803	¥18,384
Service and other revenue		47,908	46,246
Total revenue	4	63,711	64,630
Cost of revenue			
Cost of product sales revenue		(8,062)	(10,071)
Cost of service and other revenue		(30,014)	(29,851)
Total cost of revenue		(38,076)	(39,922)
Gross profit		25,635	24,708
Selling, general and administrative expenses		(12,388)	(13,658)
Other income and other expenses, net		(34)	(143)
Operating profit		13,213	10,907
Finance income		150	92
Finance costs		(209)	(263)
Loss from investments accounted for using the equity method		(44)	(40)
Profit before income taxes		13,110	10,696
Income taxes		(4,188)	(2,777)
Profit for the period		8,922	7,919
Profit attributable to:			
Owners of the parent		8,922	7,921
Non-controlling interests		¥0	¥(2)

Yen			
	Note	Three months ended September 30, 2018	Three months ended September 30, 2019
Earnings per share (attributable to owners of the parent)			
Basic	11	¥65.98	¥58.58
Diluted	11	¥64.97	¥57.67

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

Quarterly Condensed Consolidated Statements of Comprehensive Income
Six months ended September 30, 2018 and 2019

	Millions of Yen	
Note	Six months ended September 30, 2018	Six months ended September 30, 2019
Profit for the period	¥17,197	¥15,200
Other comprehensive income		
Items that will not be reclassified to profit or loss:		
Net change in fair value of equity financial assets measured at fair value through other comprehensive income	(14)	(13)
Share of other comprehensive income of entity accounted for using the equity method	0	(0)
Total items that will not be reclassified to profit or loss	(14)	(13)
Items that may be reclassified to profit or loss:		
Exchange differences on foreign operations	2,180	(1,516)
Total items that may be reclassified to profit or loss	2,180	(1,516)
Total other comprehensive income	2,166	(1,529)
Total comprehensive income for the period	19,363	13,671
Comprehensive income attributable to:		
Owners of the parent	19,362	13,672
Non-controlling interests	¥1	¥(1)

Three months ended September 30, 2018 and 2019

Millions of Yen

	Note	Three months ended September 30, 2018	Three months ended September 30, 2019
Profit for the period		¥8,922	¥7,919
Other comprehensive income			
Items that will not be reclassified to profit or loss:			
Net change in fair value of equity financial assets measured at fair value through other comprehensive income		(50)	(2)
Share of other comprehensive income of entity accounted for using the equity method		0	0
Total items that will not be reclassified to profit or loss		(50)	(2)
Items that may be reclassified to profit or loss:			
Exchange differences on foreign operations		1,061	(213)
Total items that may be reclassified to profit or loss		1,061	(213)
Total other comprehensive income		1,011	(215)
Total comprehensive income for the period		9,933	7,704
Comprehensive income attributable to:			
Owners of the parent		9,933	7,706
Non-controlling interests		¥0	¥(2)

(3) Quarterly Condensed Consolidated Statement of Changes in Equity

Millions of Yen									
	Note	Equity attributable to owners of the parent						Non-controlling interests	Total equity
		Share capital	Share premium	Treasury shares	Other components of equity	Retained earnings	Total		
Balance at April 1, 2018		¥47,399	¥74,426	¥(21,321)	¥610	¥152,668	¥253,782	¥757	¥254,539
Profit for the period						17,196	17,196	1	17,197
Other comprehensive income					2,166		2,166	0	2,166
Total comprehensive income for the period		-	-	-	2,166	17,196	19,362	1	19,363
Purchase of treasury shares				(2)			(2)		(2)
Disposal of treasury shares			0	0			0		0
Dividends	8					(5,139)	(5,139)		(5,139)
Total transactions with the owners		-	0	(2)	-	(5,139)	(5,141)	-	(5,141)
Balance at September 30, 2018		¥47,399	¥74,426	¥(21,323)	¥2,776	¥164,725	¥268,003	¥758	¥268,761

Millions of Yen									
	Note	Equity attributable to owners of the parent						Non-controlling interests	Total equity
		Share capital	Share premium	Treasury shares	Other components of equity	Retained earnings	Total		
Balance at April 1, 2019		¥47,399	¥74,426	¥(21,325)	¥1,583	¥173,544	¥275,627	¥777	¥276,404
Changes in accounting policies						(5,180)	(5,180)		(5,180)
Beginning balance after adjusting		47,399	74,426	(21,325)	1,583	168,364	270,447	777	271,224
Profit for the period						15,201	15,201	(1)	15,200
Other comprehensive income					(1,529)		(1,529)	0	(1,529)
Total comprehensive income for the period		-	-	-	(1,529)	15,201	13,672	(1)	13,671
Purchase of treasury shares				(1)			(1)		(1)
Dividends	8					(8,858)	(8,858)		(8,858)
Changes in ownership interests in subsidiaries			(27)				(27)	20	(7)
Transfer from other components of equity to retained earnings					(9)	9	-		-
Total transactions with the owners		-	(27)	(1)	(9)	(8,849)	(8,886)	20	(8,866)
Balance at September 30, 2019		¥47,399	¥74,399	¥(21,326)	¥45	¥174,716	¥275,233	¥796	¥276,029

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

(4) Quarterly Condensed Consolidated Statement of Cash Flows

		Millions of Yen	
	Note	Six months ended September 30, 2018	Six months ended September 30, 2019
Operating activities			
Profit for the period		¥17,197	¥15,200
Depreciation and amortization		6,905	12,593
Impairment losses		-	134
Interest and dividends income		(134)	(170)
Interest expense		407	463
Loss on sale or disposal of property, plant and equipment		22	12
(Profit) loss from investments accounted for using the equity method		(25)	66
Income taxes		7,751	5,204
(Increase) decrease in trade and other receivables		(2,909)	415
Increase in inventories		(3,215)	(4,259)
Decrease in trade and other payables		(2,343)	(6,442)
Increase in prepaid expense		(823)	(2,017)
Increase in contract liabilities		4,011	3,828
Other, net		2,792	(552)
Interest and dividends received		136	187
Interest paid		(393)	(457)
Income taxes paid		(12,662)	(7,540)
Net cash provided by operating activities		16,717	16,665
Investing activities			
Capital expenditures		(10,724)	(14,621)
Payments for lease deposits		(34)	(643)
Proceeds from refunds of lease deposits		461	799
Payments into time deposits		(1)	-
Proceeds from withdrawal of time deposits		1,281	-
Other, net		(7)	(375)
Net cash used in investing activities		(9,024)	(14,840)
Financing activities			
Proceeds from short-term (more than 3 months) borrowings		6,680	5,429
Repayments of short-term (more than 3 months) borrowings		(7,239)	(5,429)
Redemption of bonds	6	(5,000)	(5,000)
Principal payments of lease liabilities		(1,264)	(6,797)
Dividends paid	8	(5,133)	(8,848)
Other, net		(2)	(8)
Net cash used in financing activities		(11,958)	(20,653)
Effect of exchange rate changes on cash and cash equivalents		1,426	(1,029)
Net decrease in cash and cash equivalents		(2,839)	(19,857)
Cash and cash equivalents at the beginning of the period		154,485	159,242
Cash and cash equivalents at the end of the period		¥151,646	¥139,385

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

Notes to Quarterly Condensed Consolidated Financial Statements

1. Reporting Entity

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

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

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

2. Basis of Preparation

(1) Compliance with IFRS

The quarterly condensed consolidated financial statements meet the requirements set out under Article 1-2, Paragraph 1, Item 2 of the Rules on Terminology, Formats and Compilation Methods of Quarterly Consolidated Financial Statements under which the Company is qualified as a “specified company applied Designated International Accounting Standards” and duly adopted the provisions of Article 93 of the foregoing rules.

Therefore, the Company prepares such quarterly condensed consolidated financial statements in accordance with IAS 34 “Interim Financial Reporting”. Since the quarterly condensed consolidated financial statements do not contain all the information required in the consolidated financial statements for the fiscal year ended March 31, 2019, it should be read in combination with the annual consolidated financial statements.

(2) Use of estimates and judgments

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

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

Information about estimates and judgments made by management that would have significant effects on the amounts recognized in the quarterly condensed consolidated financial statements is in the same manner of the consolidated financial statements for the fiscal year ended March 31, 2019.

3. Significant Accounting Policies

The Significant accounting policies adopted for these quarterly condensed consolidated financial statements are the same as those applied to the consolidated financial statements for the fiscal year ended March 31, 2019 with the exception of the changes in accounting policies described hereunder.

Standards	Title	Overview of new/revised Standards
IFRS 16	Leases	Revisions of lease accounting

In accordance with the transition provisions in IFRS 16 “Leases” (hereafter, “IFRS 16”), Konami Group has adopted this standard retrospectively with the cumulative effect of initially applying this standard recognized on the date of initial application.

On adoption of IFRS 16, Konami Group has elected the practical expedient detailed in IFRS 16 paragraph C3 and continued its assessments of whether contracts contain leases under IAS 17 “Leases” (hereafter, “IAS 17”) and IFRIC 4 “Determining whether an Arrangement contains a Lease.” On the date of initial application, right-of-use assets and lease liabilities were recognized for leases which had previously been classified as operating leases under IAS 17. Lease liabilities have been measured at the present value of the remaining lease payments, discounted using the lessee’s incremental borrowing rate as of the date of initial application.

The reconciliation between the operating lease contracts disclosed at the end of the fiscal year ended March 31, 2019 applying IAS 17 and the lease liabilities recognized in the consolidated statement of financial position at the date of initial application is as follows,

Millions of Yen	
	Amounts
Operating lease contracts disclosed as at March 31, 2019	¥49,451
Discounted using Konami Group's incremental borrowing rate of 0.34%	(1,068)
Add: finance lease liabilities recognized as at March 31, 2019	12,060
Less: short-term leases recognized on a straight-line basis as expense	(2,632)
Lease liabilities recognized as at April 1, 2019	¥57,811

At the beginning of the first quarter of fiscal year ending March 31, 2020, the application of IFRS 16 mainly affected that right-of-use assets increased by ¥40,067 million and lease liabilities increased by ¥45,751 million, respectively, compared with the case that the previous standard was applied. Right-of-use assets are presented in property, plant and equipment and lease liabilities are presented in other financial liabilities, respectively, in the quarterly consolidated statement of financial position.

In applying IFRS16 for the first time, Konami Group has used the following practical expedients:

- The use of a single discount rate to a portfolio of leases with reasonably similar characteristics;
- The accounting for leases with a remaining lease term of less than 12 months as at the date of initial application as short-term leases;
- The exclusion of initial direct costs for the measurement of the right-of-use asset at the date of initial application; and
- The use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

4. Segment Information

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

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

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

Konami Group operates on a worldwide basis principally with the following four operating 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) Amusement:	Production, manufacture and sale of amusement machines.
c) Gaming & Systems:	Production, manufacture, sale and service of gaming machines and casino management systems for overseas markets.
d) Sports:	Operation of fitness activities and sports classes, including swimming, gymnastics, dance, soccer, tennis, and golf, and production and sale of sports related goods.

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

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

Neither Konami Group nor any of its segments depended on any single customer for more than 10% of Konami Group's revenues for the six months ended September 30, 2019.

(1) Operating segment information

Revenue for the six months ended September 30, 2018 and 2019

	Millions of Yen	
	Six months ended September 30, 2018	Six months ended September 30, 2019
Revenue:		
Digital Entertainment –		
External customers	¥66,458	¥66,680
Intersegment	358	302
Total	¥66,816	¥66,982
Amusement –		
External customers	¥11,042	¥8,639
Intersegment	300	370
Total	¥11,342	¥9,009
Gaming & Systems –		
External customers	¥12,798	¥14,865
Intersegment	-	-
Total	¥12,798	¥14,865
Sports –		
External customers	¥31,870	¥30,905
Intersegment	154	156
Total	¥32,024	¥31,061
Intersegment eliminations	¥(812)	¥(828)
Consolidated	¥122,168	¥121,089

Revenue for the three months ended September 30, 2018 and 2019

	Millions of Yen	
	Three months ended September 30, 2018	Three months ended September 30, 2019
Revenue:		
Digital Entertainment –		
External customers	¥36,569	¥35,323
Intersegment	181	155
Total	¥36,750	¥35,478
Amusement –		
External customers	¥4,574	¥5,511
Intersegment	171	237
Total	¥4,745	¥5,748
Gaming & Systems –		
External customers	¥6,438	¥8,040
Intersegment	-	-
Total	¥6,438	¥8,040
Sports –		
External customers	¥16,130	¥15,756
Intersegment	76	77
Total	¥16,206	¥15,833
Intersegment eliminations	¥(428)	¥(469)
Consolidated	¥63,711	¥64,630

Segment profit (loss) for the six months ended September 30, 2018 and 2019

	Millions of Yen	
	Six months ended September 30, 2018	Six months ended September 30, 2019
Segment profit (loss):		
Digital Entertainment	¥20,423	¥18,732
Amusement	3,075	1,560
Gaming & Systems	1,587	1,652
Sports	1,865	1,474
Total segment profit and loss, net	26,950	23,418
Corporate expenses and eliminations	(1,877)	(2,604)
Other income and other expenses, net	(46)	108
Finance income and finance costs, net	(104)	(452)
Profit (loss) from investments accounted for using the equity method	25	(66)
Profit before income taxes	¥24,948	¥20,404

Segment profit (loss) for the three months ended September 30, 2018 and 2019

	Millions of Yen	
	Three months ended September 30, 2018	Three months ended September 30, 2019
Segment profit (loss):		
Digital Entertainment	¥11,327	¥9,036
Amusement	1,214	1,021
Gaming & Systems	719	1,493
Sports	898	922
Total segment profit and loss, net	14,158	12,472
Corporate expenses and eliminations	(911)	(1,422)
Other income and other expenses, net	(34)	(143)
Finance income and finance costs, net	(59)	(171)
Loss from investments accounted for using the equity method	(44)	(40)
Profit before income taxes	¥13,110	¥10,696

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

(2) Geographic information

Revenue from external customers for the six months ended September 30, 2018 and 2019

	Millions of Yen	
	Six months ended September 30, 2018	Six months ended September 30, 2019
Revenue:		
Japan	¥95,611	¥94,229
United States	17,670	18,040
Europe	5,911	4,866
Asia/Oceania	2,976	3,954
Consolidated	¥122,168	¥121,089

Revenue from external customers for the three months ended September 30, 2018 and 2019

	Millions of Yen	
	Three months ended September 30, 2018	Three months ended September 30, 2019
Revenue:		
Japan	¥49,010	¥49,291
United States	9,316	10,374
Europe	3,532	2,804
Asia/Oceania	1,853	2,161
Consolidated	¥63,711	¥64,630

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

5. Other Current Liabilities

The following is a breakdown of other current liabilities as of March 31, 2019 and September 30, 2019.

	Millions of Yen	
	As of March 31, 2019	As of September 30, 2019
Contract liabilities	¥12,904	¥16,721
Others	6,756	9,042
Total	¥19,660	¥25,763

6. Bonds

For the six months ended September 30, 2018, there was a redemption of unsecured bonds of ¥5,000 million (interest 0.53%, due September 2018). There was no issuance of bonds.

For the six months ended September 30, 2019, there was a redemption of unsecured bonds of ¥5,000 million (interest 0.66%, due September 2019). There was no issuance of bonds.

7. Equity

Changes in other components of equity consisted of the following:

	Millions of Yen	
	Six months ended September 30, 2018	Six months ended September 30, 2019
<i>Exchange differences on translation of foreign operations</i>		
Balance at the beginning of the period	¥432	¥1,473
Net change during the period	2,180	(1,516)
Transfer to retained earnings	-	-
Balance at the end of the period	¥2,612	¥(43)
<i>Net change in fair Values of available-for-sale financial assets</i>		
Balance at the beginning of the period	¥178	-
Effect of changes in accounting standards	(178)	-
Balance at the end of the period	-	-
<i>Net Change in fair value of equity financial assets measured at fair value through other comprehensive income</i>		
Balance at the beginning of the period	-	¥110
Effect of changes in accounting standards	¥178	-
Net change during the period	(14)	(13)
Transfer to retained earnings	-	(9)
Balance at the end of the period	¥164	¥88
<i>Share of other comprehensive income of entity accounted for using the equity method</i>		
Balance at the beginning of the period	¥(0)	¥(0)
Net change during the period	0	(0)
Transfer to retained earnings	-	-
Balance at the end of the period	¥(0)	¥(0)

8. Dividends

The Company paid dividends 38.00 yen per share and the total amount of ¥5,139 million for the six months ended September 30, 2018.

The Company paid dividends 65.50 yen per share and the total amount of ¥8,858 million for the six months ended September 30, 2019. The cash dividend per share includes a commemorative dividend for the 50th anniversary of the Company's founding of 25.00 yen.

The board of directors' meeting held on October 31, 2019 resolved a cash dividend of 38.00 yen per share and the total amount of ¥5,139 million will be paid for shareholders on record as of September 30, 2019.

9. Revenue

The following is a breakdown of the reportable segments revenues from external customers to the areas where Konami Group sells products and/or renders services.

For the six months ended September 30, 2018

Millions of Yen					
	Japan	United States	Europe	Asia/Oceania	Total revenue
Digital Entertainment	¥52,863	¥6,393	¥5,911	¥1,291	¥66,458
Amusement	10,878	-	-	164	11,042
Gaming & Systems	-	11,277	-	1,521	12,798
Sports	31,870	-	-	-	31,870
Total revenue	¥95,611	¥17,670	¥5,911	¥2,976	¥122,168

For the six months ended September 30, 2019

Millions of Yen					
	Japan	United States	Europe	Asia/Oceania	Total revenue
Digital Entertainment	¥54,854	¥5,730	¥4,866	¥1,230	¥66,680
Amusement	8,470	-	-	169	8,639
Gaming & Systems	-	12,310	-	2,555	14,865
Sports	30,905	-	-	-	30,905
Total revenue	¥94,229	¥18,040	¥4,866	¥3,954	¥121,089

10. Fair Value of Financial Instruments

(1) Measuring fair value of financial instruments

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

1. Financial assets and liabilities measured at amortized cost

The fair values of cash and cash equivalents, trade and other receivables, and trade and other payables approximate their carrying amounts because they have short term maturities.

The fair values of lease deposits and other financial assets are calculated as the present value of the total principal and interest discounted at interest rates reflecting the credit risks estimated by Konami Group, and categorized as Level 2.

The fair values of bonds and borrowings, capital lease and financing obligations, and other financial liabilities are calculated as the present value of the total principal and interest, discounted at interest rates that would be applied to new borrowings of Konami Group with similar terms and the same remaining maturity, and categorized as Level 2. As applying IFRS 16, Konami Group has not disclosed a carrying amount

and a fair value of its capital lease and financing obligations from the first quarter of fiscal year ending March 31, 2020.

2. Equity financial assets measured at fair value through other comprehensive income

With regards to equity instruments included in other investments, the fair values of marketable securities are measured based on quoted market prices on equity markets of identical assets, and categorized as Level 1. The fair values of unlisted securities are determined based on an approach using observable inputs such as the comparable company's share prices and unobservable inputs, and categorized as Level 3.

3. Financial assets and liabilities measured at fair value through profit or loss

The fair values of foreign exchange contracts are measured using valuation provided by financial institutions based on observable market data at the end of each reporting period, and categorized as Level 2. The fair values of debt instruments included in other investments are determined based on an approach using observable inputs such as the comparable company's share prices and unobservable inputs, and categorized as Level 3.

(2) Fair value hierarchy

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

- Level 1: Fair values measured at a price quoted in an active market.
- Level 2: Fair values calculated directly or indirectly using an observable price except for level 1.
- Level 3: Fair values calculated through valuation techniques, including inputs that are not based on observable market data.

(3) Fair value of financial instruments

The table is a breakdown of financial instruments showing carrying amounts and fair values as of March 31, 2019 and September 30, 2019.

Millions of Yen

	As of March 31, 2019		As of September 30, 2019	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets:				
Financial assets measured at amortized cost				
Loans receivable	¥288	¥330	¥267	¥307
Lease deposit	22,467	22,750	22,197	22,542
Other financial assets	978	844	1,214	1,239
Equity financial assets measured at fair value through other comprehensive income				
Securities	1,128	1,128	1,486	1,486
Other investments	72	72	72	72
Financial assets measured at fair value through profit or loss				
Other investments	20	20	20	20
Financial liabilities:				
Financial liabilities measured at amortized cost				
Bonds and borrowings	¥20,350	¥20,151	¥15,225	¥15,093
Capital lease and financing obligations	12,060	13,857	-	-
Other financial liabilities	2,185	2,185	2,172	2,172
Financial liabilities measured at fair value through profit or loss				
Other financial liabilities	0	0	1	1

(4) Fair values measured and disclosed on the quarterly condensed consolidated statements of financial position

The following is a breakdown of financial assets that are measured at fair value on a recurring basis as of March 31, 2019 and September 30, 2019.

Millions of Yen				
Balance at March 31, 2019	Level 1	Level 2	Level 3	Total
Financial assets:				
Equity financial assets measured at fair value through other comprehensive income				
Securities	¥551	-	¥577	¥1,128
Other investments	-	-	72	72
Financial assets measured at fair value through profit or loss				
Other investments	-	-	20	20
Total	¥551	-	¥669	¥1,220

Millions of Yen				
Balance at September 30, 2019	Level 1	Level 2	Level 3	Total
Financial assets:				
Equity financial assets measured at fair value through other comprehensive income				
Securities	¥518	-	¥968	¥1,486
Other investments	-	-	72	72
Financial assets measured at fair value through profit or loss				
Other investments	-	-	20	20
Total	¥518	-	¥1,060	¥1,578

Securities and other investments, which are classified as Level 3, have no significant changes for the six months ended September 30, 2019.

11. Earnings per Share

The breakdown of the basic and diluted earnings per share attributable to owners of the parent for the six months ended September 30, 2018 and 2019 is as follows:

	Six months ended September 30, 2018	Six months ended September 30, 2019
Profit attributable to owners of the parent	17,196 million yen	15,201 million yen
Adjustments for profit used in the calculation of diluted earnings per share	18 million yen	18 million yen
Profit used in the calculation of diluted earnings per share	17,214 million yen	15,219 million yen
Basic weighted average ordinary shares outstanding	135,233,431 shares	135,232,923 shares
Adjustments for convertible bond-type bonds with subscription rights to shares	2,233,788 shares	2,285,662 shares
Basic weighted average ordinary shares outstanding used in the calculation of diluted earnings per share	137,467,219 shares	137,518,585 shares
Earnings per share attributable to owners of the parent for the period		
Basic	127.16 yen	112.41 yen
Diluted	125.22 yen	110.67 yen

The breakdown of the basic and diluted earnings per share attributable to owners of the parent for the three months ended September 30, 2018 and 2019 is as follows:

	Three months ended September 30, 2018	Three months ended September 30, 2019
Profit attributable to owners of the parent	8,922 million yen	7,921 million yen
Adjustments for profit used in the calculation of diluted earnings per share	9 million yen	9 million yen
Profit used in the calculation of diluted earnings per share	8,931 million yen	7,930 million yen
Basic weighted average ordinary shares outstanding	135,233,309 shares	135,232,836 shares
Adjustments for convertible bond-type bonds with subscription rights to shares	2,233,788 shares	2,285,662 shares
Basic weighted average ordinary shares outstanding used in the calculation of diluted earnings per share	137,467,097 shares	137,518,498 shares
Earnings per share attributable to owners of the parent for the period		
Basic	65.98 yen	58.58 yen
Diluted	64.97 yen	57.67 yen

12. Subsequent Events

There have been no events after September 30, 2019 that would require adjustments to the quarterly condensed consolidated financial statements or disclosures in the notes to the quarterly condensed consolidated financial statements.

13. Approval of Quarterly Condensed Consolidated Financial Statements

The quarterly condensed consolidated financial statements were approved by Representative Director, President, Takuya Kozuki, on November 11, 2019.

2. Business Review

(1) Business Overview

For the six months ended September 30, 2019, the Japanese economy has been gradually recovering with continuing improvements in corporate earnings, employment and income environment. On the other hand, the global economy continues to remain uncertain due to concerns about the declining global economy, including U.S.-China trade frictions, instability in the Middle East, and the Brexit impasse.

Under such circumstances, in terms of the business results of Konami Group for the six months ended September 30, 2019, both total revenue and operating profit decreased for the same period of the previous fiscal year mainly because there was the timing difference of product launches in the Amusement business.

In terms of the consolidated results for the six months ended September 30, 2019, total revenue amounted to ¥121,089 million (a year-on-year decrease of 0.9%), operating profit was ¥20,922 million (a year-on-year decrease of 16.4%), profit before income taxes was ¥20,404 million (a year-on-year decrease of 18.2%), and profit attributable to owners of the parent was ¥15,201 million (a year-on-year decrease of 11.6%).

(2) Performance by Business Segment

Summary of total revenue by business segment:

	Millions of Yen, except percentages		
	Six months ended September 30, 2018	Six months ended September 30, 2019	% change
Total revenue:			
Digital Entertainment	¥66,816	¥66,982	0.2
Amusement	11,342	9,009	(20.6)
Gaming & Systems	12,798	14,865	16.2
Sports	32,024	31,061	(3.0)
Intersegment eliminations	(812)	(828)	-
Total revenue	¥122,168	¥121,089	(0.9)

Digital Entertainment

In the entertainment market, future development of game contents is expected through the functional enhancement of various devices, including mobile devices and video game consoles, and the standardization of next generation communication systems. In conjunction with the changing times, the preference for enriching daily life through full and abundant experiences in personal spending has been strengthened. In the game industry, new experiences through game content are being offered in various ways, including eSports, which is regarded as a form of sports competition and is becoming well-known to a wide range of users and attracting more and more fans.

Under such circumstances, as for mobile games in the Digital Entertainment segment, *Yu-Gi-Oh! DUEL LINKS* has led our revenue in the global market. In addition, *Frogger in Toy Town*, the latest title in the *Frogger* series, was released in Apple Arcade. In the domestic market, *PROFESSIONAL BASEBALL SPIRITS A (Ace)* has continued to perform well and various other titles such as *JIKKYOU PAWAFURU PUROYAKYU* also continued to perform strongly. As part of our continued active efforts in eSports, we hosted the final round for “eJ.LEAGUE Winning Eleven 2019 Season” in cooperation with the Japan Professional Football League (J.LEAGUE) with our mobile game *Winning Eleven 2019* as the competition title.

As for card games, we hosted the final round in Germany for “Yu-Gi-Oh! World Championship 2019,” the eSports world championship which decides who the best players are in the *Yu-Gi-Oh!* series. It was attracting a lot of attention and exciting championship.

As for computer and video games, we released the match-type card game, *Yu-Gi-Oh! Legacy of the Duelist: Link Evolution* for the regions in Europe, America and Asia. As for the baseball titles, we released the latest title in the *PROFESSIONAL BASEBALL SPIRITS* series, *PROFESSIONAL BASEBALL SPIRITS 2019*, which marks 15th anniversary. In regard to *eFootball Winning Eleven 2020* (Known overseas as *eFootball PES 2020*), the latest title in the *Winning Eleven* series, was released in

September and *myClub*, the online mode of the title, has received favorable reviews. In addition, we have been hosting a new online event of the title, "Matchday," every week. Players choose one of two sides and play the game at the event, where they can enjoy new experiences and have a fun time together. Furthermore, we have released the latest title in the *Contra* series, *CONTRA ROGUE CORPS*. As part of our continued active efforts in eSports, the players for each team on the "eBASEBALL Pro League" were decided through an e-draft conference with each team choosing players who passed a test to become professionals. These players are not only those who performed well last season, but also players who joined the league for the first time. This coming "eBASEBALL Pro League" season is attracting a lot of attention.

For the six months ended September 30, 2019, the segment profit from this business decreased due to the timing difference of product launches of computer and video games, however, they will bring a profit from the nine months ended December 31, 2019 onward.

In terms of financial performance, total revenue for the six months ended September 30, 2019 in this segment amounted to ¥66,982 million (a year-on-year increase of 0.2%) and segment profit for the six months ended September 30, 2019 amounted to ¥18,732 million (a year-on-year decrease of 8.3%).

Amusement

There are signs of recovery in the amusement industry market owing to measures taken by the industry as a whole, including increases in users with families at arcade game areas in shopping malls and senior users who play medal games since amusement facilities are becoming more recognized from a wide range of users as a place where anyone can play. Furthermore, following the spread and development of eSports in recent years, various experiences through amusement games are being offered, such as numerous tournaments held not only in Japan but also all over the world.

Under such circumstances, in regard to our video games, the latest title of the online versus mah-jong game *MAH-JONG FIGHT CLUB* series, *MAH-JONG FIGHT CLUB GRAND MASTER*, continued to perform strongly. *BOMBERGIRL*, which is based on the video game series *Bomberman* and added team-battle elements, has also continued to perform well. Furthermore, *DanceDanceRevolution 20th anniversary model* in celebration of the 20th anniversary of *DanceDanceRevolution* has been launched sequentially. As for medal games, the latest title in the *FEATURE PREMIUM* series, *GI Derby Club*, and the latest title in the dungeon medal RPG in the world of swords and sorcery *ELDORA CROWN* series, *ELDORA CROWN: the victor of Guren*, were launched. For prize games, we launched *TREASURE ROAD*, which featured a new style of

gameplay using belt conveyors. In addition, we released *MAH-JONG FIGHT CLUB 3*, the latest title in the *MAH-JONG FIGHT CLUB* series.

For the six months ended September 30, 2019, it has been on a recovery trend. However, total revenue and profit from this business decreased due to the timing difference of product launches.

In terms of financial performance, total revenue for the six months ended September 30, 2019 in this segment amounted to ¥9,009 million (a year-on-year decrease of 20.6%) and segment profit for the six months ended September 30, 2019 amounted to ¥1,560 million (a year-on-year decrease of 49.3%).

Gaming & Systems

The gaming market is continuing to see growth with the worldwide development mainly in Europe and opening of new casino facilities and integrated resorts (IR) which include casinos. Furthermore, measures to revitalize the industry were implemented mainly targeting young people.

Under such circumstances, with respect to our slot machines, the sales of the new upright cabinet, *KX 43™* continued to perform strongly. In addition, the sales of *Concerto™* series, including *Concerto Crescent™*, *Concerto Stack™* and *Concerto Opus™*, were mainly enhanced in North American market as well as Oceanian, South American and European market. Especially in Oceanian market, *All Aboard*, which was introduced in the last fiscal year, and *Money Trails* continued to perform well and strongly.

In regard to participation agreements (in which profits are shared with casino operators), we expanded our lineup of game content, including, the *Concerto Opus™*, *Treasure Ball™* and *Triple Sparkle* linked progressive machine with mystery trigger, which are compatible with any video game platform. As a result, the revenue from the participation steadily increased. The *SYNKROS®* casino management system continued to be introduced steadily into major casino operators, including casinos at large cruise ships in service around the world.

In terms of financial performance, total revenue for the six months ended September 30, 2019 in this segment amounted to ¥14,865 million (a year-on-year increase of 16.2%) and segment profit for the six months ended September 30, 2019 amounted to ¥1,652 million (a year-on-year increase of 4.1%).

Sports

In connection with the sports industry, we continue to see a growing awareness of sports throughout society, including the government's efforts to achieve a "sports society of all 100 million citizens," which aims to increase the number of people that participate in sports, by formulating the second phase of their "Basic Sports Plan." With the holding of the world's largest sports event, further activation and growth of the sports market is also expected.

Under such circumstances, as for fitness programs, we enhanced our various supports and improved our services for sustainable fitness including "Membership Promotion Plan," a plan to propose the best ways to use our fitness services to new customers by supporting, counseling, and measuring their training. In addition, we made efforts to improve our services that offer a more comfortable and fit lifestyle for customers through activities to renew personal programs, which provide one-on-one support and training by instructors.

As for the operation of school programs, we opened a "*Small Group Swimming School*" at two facilities in Tokyo. At the school, swimming coaches, who are former members of Japan's national swimming team, provide individual instruction to children based on their needs to help them improve their swimming skills. The "*Konami Sports Club: My Best Challenge Support Program*" was certified as a "beyond2020 My Best Support Program," a certification system promoted by the Cabinet Secretariat Headquarters of Japan for the Promotion of the Tokyo Olympic and Paralympic Games. In addition, a collaboration project with our partner program, "*Konami Sports Club and FiNC My Best Resolution Support Project*," was also certified. Therefore, we intend to support each other's goals to achieve personal bests using our know-how accumulated through sports club operation over many years and guidance provided by instructors who have plenty of knowledge.

As for the operation of outsourced facilities, we started the operation of new outsourced facilities such as the Machida City Gymnasium (Machida City, Tokyo), Oita Prefectural Budo Sports Center (Oita City, Oita Prefecture), and Kusatsu City Arena (Kusatsu City, Shiga).

As for products relating to sports, we continued to expand our specially selected lineup of "Konami Sports Club Selection" brand products as well as our "Konami Sports Club Original" Konami Sports Club brand products.

For the six months ended September 30, 2019, total revenue and profit from this business decreased due to mainly closing of the directly-managed facilities and the effects of natural disasters.

In terms of financial performance, total revenue for the six months ended September 30, 2019 in this segment amounted to ¥31,061 million (a year-on-year decrease of 3.0%) and segment profit for the six months ended September 30, 2019 amounted to ¥1,474 million (a year-on-year decrease of 21.0%).

3. Risk Factors

For the six-month period ended September 30, 2019, there is no significant change in risk factors which were described on the Annual Report for the year ended March 31, 2019.

Responsibility Statement

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

Takuya Kozuki, Representative Director, President, confirms that:

to the best of his knowledge, the financial statements, prepared in accordance with International Financial Reporting Standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of KONAMI HOLDINGS CORPORATION and the undertakings included in the consolidation taken as a whole; and

to the best of his knowledge, this annual financial information includes a fair review of the development and performance of the business and the position of KONAMI HOLDINGS CORPORATION and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.