

KONAMI HOLDINGS CORPORATION

Quarterly Condensed Consolidated Financial Statements
for the Three Months Ended June 30, 2020

English translation and a part of summary of the Quarterly Securities Report (Shihanki Hokokusho) for the three-month period ended June 30, 2020 pursuant to the Financial Instruments and Exchange Law of Japan

KONAMI HOLDINGS CORPORATION filed its Quarterly Securities Report for the three-month period ended June 30, 2020 with the Director of the Kanto Local Finance Bureau of the Ministry of Finance of Japan on August 14, 2020. 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, 2020	As of June 30, 2020
Assets			
Current assets			
Cash and cash equivalents		¥131,432	¥132,801
Trade and other receivables		29,894	29,099
Inventories		10,000	9,602
Income tax receivables		1,924	3,929
Other current assets	9	14,493	15,440
Total current assets		187,743	190,871
Non-current assets			
Property, plant and equipment, net		116,631	115,783
Goodwill and intangible assets		34,423	36,016
Investment property		32,484	32,471
Investments accounted for using the equity method		3,128	2,877
Other investments	9	1,554	1,565
Other financial assets	9	17,229	16,869
Deferred tax assets		23,735	23,832
Other non-current assets		2,207	2,121
Total non-current assets		231,391	231,534
Total assets		419,134	422,405
Liabilities and equity			
Liabilities			
Current liabilities			
Bonds and borrowings	9	28,265	30,387
Other financial liabilities	9	12,187	11,149
Trade and other payables		31,264	25,690
Income tax payables		2,997	4,602
Other current liabilities	5	22,053	25,295
Total current liabilities		96,766	97,123
Non-current liabilities			
Bonds and borrowings	9	9,855	9,869
Other financial liabilities	9	34,553	33,931
Provisions		6,674	6,673
Deferred tax liabilities		886	1,016
Other non-current liabilities		1,457	1,479
Total non-current liabilities		53,425	52,968
Total liabilities		150,191	150,091
Equity			
Share capital		47,399	47,399
Share premium		74,399	74,399
Treasury shares		(27,836)	(27,836)
Other components of equity	6	(89)	21
Retained earnings		174,268	177,528
Total equity attributable to owners of the parent		268,141	271,511
Non-controlling interests		802	803
Total equity		268,943	272,314
Total liabilities and equity		¥419,134	¥422,405

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 Statement of Profit or Loss Three months ended June 30, 2019 and 2020

		Millions of Yen	
	Note	Three months ended June 30, 2019	Three months ended June 30, 2020
Revenue			
Product sales revenue		¥12,455	¥12,481
Service and other revenue		44,004	40,406
Total revenue	4,8	56,459	52,887
Cost of revenue			
Cost of product sales revenue		(6,329)	(6,403)
Cost of service and other revenue		(27,365)	(23,650)
Total cost of revenue		(33,694)	(30,053)
Gross profit		22,765	22,834
Selling, general and administrative expenses		(13,001)	(10,483)
Other income and other expenses, net	10	251	(5,579)
Operating profit		10,015	6,772
Finance income		84	46
Finance costs		(365)	(340)
Loss from investments accounted for using the equity method		(26)	(194)
Profit before income taxes		9,708	6,284
Income taxes		(2,427)	(2,090)
Profit for the period		7,281	4,194
Profit attributable to:			
Owners of the parent		7,280	4,193
Non-controlling interests		¥1	¥1

		Yen	
	Note	Three months ended June 30, 2019	Three months ended June 30, 2020
Earnings per share (attributable to owners of the parent)			
Basic	11	¥53.83	¥31.48
Diluted	11	¥53.00	¥31.01

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

Quarterly Condensed Consolidated Statement of Comprehensive Income
Three months ended June 30, 2019 and 2020

		Millions of Yen	
	Note	Three months ended June 30, 2019	Three months ended June 30, 2020
Profit for the period		¥7,281	¥4,194
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		(11)	7
Share of other comprehensive income of entity accounted for using the equity method		(0)	-
Total items that will not be reclassified to profit or loss		(11)	7
Items that may be reclassified to profit or loss:			
Exchange differences on foreign operations		(1,303)	103
Total items that may be reclassified to profit or loss		(1,303)	103
Total other comprehensive income		(1,314)	110
Total comprehensive income for the period		5,967	4,304
Comprehensive income attributable to:			
Owners of the parent		5,966	4,303
Non-controlling interests		¥1	¥1

(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, 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						7,280	7,280	1	7,281
Other comprehensive income					(1,314)		(1,314)	(0)	(1,314)
Total comprehensive income for the period		-	-	-	(1,314)	7,280	5,966	1	5,967
Purchase of treasury shares				(0)			(0)		(0)
Dividends	7					(8,858)	(8,858)		(8,858)
Total transactions with the owners		-	-	(0)	-	(8,858)	(8,858)	-	(8,858)
Balance at June 30, 2019		¥47,399	¥74,426	¥(21,325)	¥269	¥166,786	¥267,555	¥778	¥268,333

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, 2020		¥47,399	¥74,399	¥(27,836)	¥(89)	¥174,268	¥268,141	¥802	¥268,943
Profit for the period						4,193	4,193	1	4,194
Other comprehensive income					110		110		110
Total comprehensive income for the period		-	-	-	110	4,193	4,303	1	4,304
Purchase of treasury shares				(0)			(0)		(0)
Disposal of treasury shares			0	0			0		0
Dividends	7					(933)	(933)		(933)
Total transactions with the owners		-	0	(0)	-	(933)	(933)	-	(933)
Balance at June 30, 2020		¥47,399	¥74,399	¥(27,836)	¥21	¥177,528	¥271,511	¥803	¥272,314

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

(4) Quarterly Condensed Consolidated Statement of Cash Flows

Millions of Yen

	Note	Three months ended June 30, 2019	Three months ended June 30, 2020
Operating activities			
Profit for the period		¥7,281	¥4,194
Depreciation and amortization		5,139	4,738
Impairment losses		2	25
Interest and dividends income		(83)	(36)
Interest expense		237	201
Loss on sale or disposal of property, plant and equipment		2	5
Loss from investments accounted for using the equity method		26	194
Income taxes		2,427	2,090
Decrease in trade and other receivables		5,464	787
(Increase) decrease in inventories		(1,189)	525
Decrease in trade and other payables		(5,569)	(2,892)
Increase in prepaid expense		(2,878)	(2,626)
Decrease in contract liabilities		(853)	(369)
Other, net		2,451	2,358
Interest and dividends received		102	51
Interest paid		(196)	(167)
Income taxes paid		(4,900)	(2,334)
Net cash provided by operating activities		7,463	6,744
Investing activities			
Capital expenditures		(5,311)	(4,512)
Payments for lease deposits		(449)	(21)
Proceeds from refunds of lease deposits		557	372
Proceeds from withdrawal of time deposits		-	586
Other, net		(391)	1
Net cash used in investing activities		(5,594)	(3,574)
Financing activities			
Proceeds from short-term (more than 3 months) borrowings		1,105	2,148
Repayments of short-term (more than 3 months) borrowings		(1,105)	-
Principal payments of lease liabilities		(3,650)	(3,103)
Dividends paid	7	(8,787)	(926)
Other, net		(1)	(0)
Net cash used in financing activities		(12,438)	(1,881)
Effect of exchange rate changes on cash and cash equivalents		(812)	80
Net (decrease) increase in cash and cash equivalents		(11,381)	1,369
Cash and cash equivalents at the beginning of the period		159,242	131,432
Cash and cash equivalents at the end of the period		¥147,861	¥132,801

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, 2020, 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, 2020 and is mainly as follows:

(The impact of COVID-19)

In regard to estimating value in use for impairment loss of property, plant and equipment, we assume that the coronavirus outbreak will continue to have an effect on our business activities over the fiscal year ending March 31, 2021, mainly in the first quarter of the fiscal year ending March 31, 2021. However, the assumption could be revised, depending on when the outbreak settles down.

Given the uncertainty around the coronavirus outbreak, we are not able to reasonably calculate the impact of changes in assumption of estimates.

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, 2020 with the exception of the item described hereunder.

Standards	Title	Overview of new/revised Standards
IFRS 16	Leases	Covid-19-Related Rent Concessions Amendment

Konami Group has applied “Covid-19-Related Rent Concessions Amendment to IFRS 16” (issued in May 2020) early from the first quarter of the fiscal year ending March 31, 2021. This amendment allows a lessee of a lease subject to a rent concession occurring as a direct consequence of the COVID-19 pandemic to elect to apply the practical expedient that the lessee may not assess whether a rent concession that meets certain prescribed conditions is a lease modification as stipulated in IFRS 16.

Konami Group has elected to apply this practical expedient for rent concessions that meet certain prescribed conditions, however, the impact on profit before income taxes for the three months ended June 30, 2020 was immaterial.

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 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 three months ended June 30, 2020.

(1) Operating segment information

Revenue for the three months ended June 30, 2019 and 2020

	Millions of Yen	
	Three months ended June 30, 2019	Three months ended June 30, 2020
Revenue:		
Digital Entertainment -		
External customers	¥31,357	¥42,688
Intersegment	147	152
Total	¥31,504	¥42,840
Amusement -		
External customers	¥3,128	¥2,561
Intersegment	133	313
Total	¥3,261	¥2,874
Gaming & Systems -		
External customers	¥6,825	¥2,977
Intersegment	-	-
Total	¥6,825	¥2,977
Sports -		
External customers	¥15,149	¥4,661
Intersegment	79	78
Total	¥15,228	¥4,739
Intersegment eliminations	¥(359)	¥(543)
Consolidated	¥56,459	¥52,887

Segment profit (loss) for the three months ended June 30, 2019 and 2020

	Millions of Yen	
	Three months ended June 30, 2019	Three months ended June 30, 2020
Segment profit (loss):		
Digital Entertainment	¥9,696	¥15,309
Amusement	539	(240)
Gaming & Systems	159	(925)
Sports	552	(1,101)
Total segment profit	10,946	13,043
Corporate expenses and eliminations	(1,182)	(692)
Other income and other expenses, net	251	(5,579)
Finance income and finance costs, net	(281)	(294)
Loss from investments accounted for using the equity method	(26)	(194)
Profit before income taxes	¥9,708	¥6,284

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 three months ended June 30, 2019 and 2020

	Millions of Yen	
	Three months ended June 30, 2019	Three months ended June 30, 2020
Revenue:		
Japan	¥44,938	¥42,646
United States	7,666	5,469
Europe	2,062	3,224
Asia/Oceania	1,793	1,548
Consolidated	¥56,459	¥52,887

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, 2020 and June 30, 2020.

	Millions of Yen	
	As of March 31, 2020	As of June 30, 2020
Contract liabilities	¥10,609	¥10,238
Others	11,444	15,057
Total	¥22,053	¥25,295

6. Equity

Changes in other components of equity consisted of the following:

	Millions of Yen	
	Three months ended June 30, 2019	Three months ended June 30, 2020
<i>Exchange differences on translation of foreign operations</i>		
Balance at the beginning of the period	¥1,473	¥(162)
Net change during the period	(1,303)	103
Transfer to retained earnings	-	-
Balance at the end of the period	¥170	¥(59)
<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	¥73
Net change during the period	(11)	7
Transfer to retained earnings	-	-
Balance at the end of the period	¥99	¥80
<i>Share of other comprehensive income of entity accounted for using the equity method</i>		
Balance at the beginning of the period	¥(0)	-
Net change during the period	(0)	-
Transfer to retained earnings	-	-
Balance at the end of the period	¥(0)	-

7. Dividends

The Company paid dividends 65.50 yen per share and the total amount of ¥8,858 million for the three months ended June 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 Company paid dividends 7.00 yen per share and the total amount of ¥933 million for the three months ended June 30, 2020.

8. 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 three months ended June 30, 2019

Millions of Yen					
	Japan	United States	Europe	Asia/Oceania	Total revenue
Digital Entertainment	¥26,738	¥1,975	¥2,062	¥582	¥31,357
Amusement	3,051	-	-	77	3,128
Gaming & Systems	-	5,691	-	1,134	6,825
Sports	15,149	-	-	-	15,149
Total revenue	¥44,938	¥7,666	¥2,062	¥1,793	¥56,459

For the three months ended June 30, 2020

Millions of Yen					
	Japan	United States	Europe	Asia/Oceania	Total revenue
Digital Entertainment	¥35,439	¥2,965	¥3,224	¥1,060	¥42,688
Amusement	2,546	-	-	15	2,561
Gaming & Systems	-	2,504	-	473	2,977
Sports	4,661	-	-	-	4,661
Total revenue	¥42,646	¥5,469	¥3,224	¥1,548	¥52,887

9. 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 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.

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, 2020 and June 30, 2020.

Millions of Yen

	As of March 31, 2020		As of June 30, 2020	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets:				
Financial assets measured at amortized cost				
Loans receivable	¥244	¥282	¥234	¥270
Lease deposit	22,581	22,845	22,473	22,665
Other financial assets	1,159	1,148	1,174	1,167
Equity financial assets measured at fair value through other comprehensive income				
Securities	1,462	1,462	1,473	1,473
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	¥38,120	¥38,008	¥40,256	¥40,129
Other financial liabilities	3,037	3,037	3,037	3,037

(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, 2020 and June 30, 2020.

	Millions of Yen			
Balance at March 31, 2020	Level 1	Level 2	Level 3	Total
Financial assets:				
Equity financial assets measured at fair value through other comprehensive income				
Securities	¥494	-	¥968	¥1,462
Other investments	-	-	72	72
Financial assets measured at fair value through profit or loss				
Other investments	-	-	20	20
Total	¥494	-	¥1,060	¥1,554

	Millions of Yen			
Balance at June 30, 2020	Level 1	Level 2	Level 3	Total
Financial assets:				
Equity financial assets measured at fair value through other comprehensive income				
Securities	¥505	-	¥968	¥1,473
Other investments	-	-	72	72
Financial assets measured at fair value through profit or loss				
Other investments	-	-	20	20
Total	¥505	-	¥1,060	¥1,565

Securities and other investments, which are classified as Level 3, have no significant changes for the three months ended June 30, 2020.

10. Other Income and Other Expenses

For the three months ended June 30, 2020, COVID-19 related loss of ¥5,723 million was recognized and included in the line item “other income and other expenses, net.” The loss, mainly in sports segment, contains fixed costs of sports clubs including personnel expenses, depreciation expenses and rent expenses, which were incurred during the temporal closure period of sports clubs all over Japan in line with state-of-emergency declaration from government and business suspension request from local governments to avoid coronavirus outbreak.

11. Earnings per Share

The breakdown of the basic and diluted earnings per share attributable to owners of the parent for the three months ended June 30, 2019 and 2020 is as follows:

	Three months ended June 30, 2019	Three months ended June 30, 2020
Profit attributable to owners of the parent	7,280 million yen	4,193 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	7,289 million yen	4,202 million yen
Basic weighted average ordinary shares outstanding	135,233,004 shares	133,214,496 shares
Adjustments for convertible bond-type bonds with subscription rights to shares	2,285,662 shares	2,299,114 shares
Basic weighted average ordinary shares outstanding used in the calculation of diluted earnings per share	137,518,666 shares	135,513,610 shares
Earnings per share attributable to owners of the parent for the period		
Basic	53.83 yen	31.48 yen
Diluted	53.00 yen	31.01 yen

12. Subsequent Events

Konami Group issued unsecured bonds and the summary is as follows:

Name of bond	12 th Unsecured bond	13 th Unsecured bond	14 th Unsecured bond
Issuance amount	¥20,000 million	¥20,000 million	¥20,000 million
Issue price	¥100 per value of ¥100	¥100 per value of ¥100	¥100 per value of ¥100
Interest rate	0.220% per year	0.380% per year	0.480% per year
Date of maturity	July 16, 2025	July 16, 2027	July 16, 2030
Redemption method	Bullet redemption at maturity	Bullet redemption at maturity	Bullet redemption at maturity
Payment date	July 16, 2020	July 16, 2020	July 16, 2020
Use of funds	The purpose of funding is for investment and lending, capital expenditures and repayment of borrowings.		

13. Approval of Quarterly Condensed Consolidated Financial Statements

The quarterly condensed consolidated financial statements were approved by Representative Director, President, Kimihiko Higashio, on August 12, 2020.