

KONAMI HOLDINGS CORPORATION

Quarterly Condensed Consolidated Financial Statements
for the Three Months Ended June 30, 2021

English translation and a part of summary of the Quarterly Securities Report (Shihanki Hokokusho) for the three-month period ended June 30, 2021 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, 2021 with the Director of the Kanto Local Finance Bureau of the Ministry of Finance of Japan on August 12, 2021. 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, 2021	As of June 30, 2021		
Assets						
Current assets						
			¥202,430	¥199,516		
			31,874	26,417		
			10,391	8,525		
			12,470	12,104		
		9	9,516	14,667		
			266,681	261,229		
Non-current assets						
			106,025	105,962		
			36,813	40,024		
			32,433	32,421		
			3,128	2,927		
		9	1,590	1,568		
		9	15,491	15,474		
			25,051	23,477		
			1,794	1,848		
			222,325	223,701		
			489,006	484,930		
Liabilities and equity						
Liabilities						
Current liabilities						
		9	5,535	5,529		
		9	12,570	12,404		
			32,827	25,941		
			3,027	1,689		
		5	25,901	24,066		
			79,860	69,629		
Non-current liabilities						
		9	69,640	69,664		
		9	26,227	25,326		
			10,694	10,704		
			1,332	1,503		
			1,711	1,683		
			109,604	108,880		
			189,464	178,509		
Equity						
			47,399	47,399		
			74,399	74,400		
			(27,843)	(27,846)		
		6	2,173	2,123		
			202,599	209,531		
			298,727	305,607		
			815	814		
			299,542	306,421		
			¥489,006	¥484,930		

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, 2020 and 2021

		Millions of Yen	
	Note	Three months ended June 30, 2020	Three months ended June 30, 2021
Revenue			
Product sales revenue		¥12,481	¥19,004
Service and other revenue		40,406	49,322
Total revenue	4,8	52,887	68,326
Cost of revenue			
Cost of product sales revenue		(6,403)	(8,386)
Cost of service and other revenue		(23,650)	(27,589)
Total cost of revenue		(30,053)	(35,975)
Gross profit		22,834	32,351
Selling, general and administrative expenses		(10,483)	(12,073)
Other income and other expenses, net	10	(5,579)	(841)
Operating profit		6,772	19,437
Finance income		46	34
Finance costs		(340)	(211)
Loss from investments accounted for using the equity method		(194)	(145)
Profit before income taxes		6,284	19,115
Income taxes		(2,090)	(5,457)
Profit for the period		4,194	13,658
Profit attributable to:			
Owners of the parent		4,193	13,659
Non-controlling interests		¥1	¥(1)

		Yen	
	Note	Three months ended June 30, 2020	Three months ended June 30, 2021
Earnings per share (attributable to owners of the parent)			
Basic	11	¥31.48	¥102.54
Diluted	11	¥31.01	¥100.86

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

Quarterly Condensed Consolidated Statement of Comprehensive Income
Three months ended June 30, 2020 and 2021

		Millions of Yen	
	Note	Three months ended June 30, 2020	Three months ended June 30, 2021
Profit for the period		¥4,194	¥13,658
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		7	(19)
Total items that will not be reclassified to profit or loss		7	(19)
Items that may be reclassified to profit or loss:			
Exchange differences on foreign operations		103	(31)
Total items that may be reclassified to profit or loss		103	(31)
Total other comprehensive income		110	(50)
Total comprehensive income for the period		4,304	13,608
Comprehensive income attributable to:			
Owners of the parent		4,303	13,609
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, 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

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, 2021		¥47,399	¥74,399	¥(27,843)	¥2,173	¥202,599	¥298,727	¥815	¥299,542
Profit for the period						13,659	13,659	(1)	13,658
Other comprehensive income					(50)		(50)		(50)
Total comprehensive income for the period		-	-	-	(50)	13,659	13,609	(1)	13,608
Purchase of treasury shares				(3)			(3)		(3)
Disposal of treasury shares			1	0			1		1
Dividends	7					(6,727)	(6,727)		(6,727)
Total transactions with the owners		-	1	(3)	-	(6,727)	(6,729)	-	(6,729)
Balance at June 30, 2021		¥47,399	¥74,400	¥(27,846)	¥2,123	¥209,531	¥305,607	¥814	¥306,421

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, 2020	Three months ended June 30, 2021
Operating activities			
Profit for the period		¥4,194	¥13,658
Depreciation and amortization		4,738	3,666
Impairment losses		25	128
Interest and dividends income		(36)	(29)
Interest expense		201	205
Loss on sale or disposal of property, plant and equipment		5	7
Loss from investments accounted for using the equity method		194	145
Income taxes		2,090	5,457
Decrease in trade and other receivables		787	5,443
Decrease in inventories		525	1,863
Decrease in trade and other payables		(2,892)	(7,114)
Increase in prepaid expense		(2,626)	(4,089)
Decrease in contract liabilities		(369)	(4,473)
Other, net		2,358	460
Interest and dividends received		51	29
Interest paid		(167)	(125)
Income taxes paid		(2,334)	(3,094)
Net cash provided by operating activities		6,744	12,137
Investing activities			
Capital expenditures		(4,512)	(5,535)
Payments for lease deposits		(21)	(537)
Proceeds from refunds of lease deposits		372	460
Payments for asset retirement obligations		(126)	(159)
Payments into time deposits		-	(574)
Proceeds from withdrawal of time deposits		586	-
Other, net		127	103
Net cash used in investing activities		(3,574)	(6,242)
Financing activities			
Proceeds from short-term (more than 3 months) borrowings		2,148	2,185
Repayments of short-term (more than 3 months) borrowings		-	(2,185)
Principal payments of lease liabilities		(3,103)	(2,159)
Dividends paid	7	(926)	(6,689)
Other, net		(0)	(3)
Net cash used in financing activities		(1,881)	(8,851)
Effect of exchange rate changes on cash and cash equivalents		80	42
Net increase (decrease) in cash and cash equivalents		1,369	(2,914)
Cash and cash equivalents at the beginning of the period		131,432	202,430
Cash and cash equivalents at the end of the period		¥132,801	¥199,516

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, 2021, 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, 2021 and is mainly as follows:

(The impact of COVID-19)

In regard to estimating the recoverable amounts for impairment loss of property, plant and equipment and intangible assets, we assume that the coronavirus outbreak will continue to have an effect on our business activities over the fiscal year ending March 31, 2022 and the market will recover modestly over multiple years. 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, 2021.

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.

Konami Group defines business profit associated with each segment as segment profit. 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. Intersegment eliminations primarily consist of administrative expenses not directly associated with specific segments and 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, 2021.

(1) Operating segment information

For the three months ended June 30, 2020

Millions of Yen

	Reportable segments					Intersegment eliminations	Consolidated
	Digital Entertainment	Amusement	Gaming & Systems	Sports	Total		
Revenue							
External customers	¥42,688	¥2,561	¥2,977	¥4,661	¥52,887	-	¥52,887
Intersegment	152	313	-	78	543	¥(543)	-
Total	42,840	2,874	2,977	4,739	53,430	(543)	52,887
Business profit	¥15,309	¥(240)	¥(925)	¥(1,101)	¥13,043	¥(692)	12,351
Other income and other expenses, net	-	-	-	-	-	-	(5,579)
Operating profit	-	-	-	-	-	-	6,772
Finance income and finance costs, net	-	-	-	-	-	-	(294)
Loss from investments accounted for using the equity method	-	-	-	-	-	-	(194)
Profit before income taxes	-	-	-	-	-	-	¥6,284

For the three months ended June 30, 2021

Millions of Yen							
	Reportable segments					Intersegment eliminations	Consolidated
	Digital Entertainment	Amusement	Gaming & Systems	Sports	Total		
Revenue							
External customers	¥49,681	¥3,086	¥6,296	¥9,263	¥68,326	-	¥68,326
Intersegment	178	465	-	78	721	¥(721)	-
Total	49,859	3,551	6,296	9,341	69,047	(721)	68,326
Business profit	¥19,161	¥315	¥916	¥592	¥20,984	¥(706)	20,278
Other income and other expenses, net	-	-	-	-	-	-	(841)
Operating profit	-	-	-	-	-	-	19,437
Finance income and finance costs, net	-	-	-	-	-	-	(177)
Loss from investments accounted for using the equity method	-	-	-	-	-	-	(145)
Profit before income taxes	-	-	-	-	-	-	¥19,115

(2) Geographic information

Revenue from external customers for the three months ended June 30, 2020 and 2021

Millions of Yen		
	Three months ended June 30, 2020	Three months ended June 30, 2021
Revenue:		
Japan	¥42,646	¥52,534
United States	5,469	9,456
Europe	3,224	3,370
Asia/Oceania	1,548	2,966
Consolidated	¥52,887	¥68,326

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, 2021 and June 30, 2021.

	Millions of Yen	
	As of March 31, 2021	As of June 30, 2021
Contract liabilities	¥14,128	¥9,658
Others	11,773	14,408
Total	¥25,901	¥24,066

6. Equity

Changes in other components of equity consisted of the following:

	Millions of Yen	
	Three months ended June 30, 2020	Three months ended June 30, 2021
<i>Exchange differences on translation of foreign operations</i>		
Balance at the beginning of the period	¥(162)	¥2,077
Net change during the period	103	(31)
Transfer to retained earnings	-	-
Balance at the end of the period	¥(59)	¥2,046
<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	¥73	¥96
Net change during the period	7	(19)
Transfer to retained earnings	-	-
Balance at the end of the period	¥80	¥77

7. Dividends

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

The Company paid dividends 50.50 yen per share and the total amount of ¥6,727 million for the three months ended June 30, 2021.

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, 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

For the three months ended June 30, 2021

Millions of Yen					
	Japan	United States	Europe	Asia/Oceania	Total revenue
Digital Entertainment	¥40,261	¥4,388	¥3,370	¥1,662	¥49,681
Amusement	3,010	-	-	76	3,086
Gaming & Systems	-	5,068	-	1,228	6,296
Sports	9,263	-	-	-	9,263
Total revenue	¥52,534	¥9,456	¥3,370	¥2,966	¥68,326

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, 2021 and June 30, 2021.

Millions of Yen

	As of March 31, 2021		As of June 30, 2021	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets:				
Financial assets measured at amortized cost				
Loans receivable	¥203	¥227	¥193	¥217
Lease deposit	18,046	18,654	18,507	19,093
Other financial assets	1,266	1,256	1,255	1,246
Equity financial assets measured at fair value through other comprehensive income				
Securities	1,498	1,498	1,476	1,476
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	¥75,175	¥73,082	¥75,193	¥73,243
Other financial liabilities	3,035	3,035	3,029	3,029

(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, 2021 and June 30, 2021.

	Millions of Yen			
Balance at March 31, 2021	Level 1	Level 2	Level 3	Total
Financial assets:				
Equity financial assets measured at fair value through other comprehensive income				
Securities	¥530	-	¥968	¥1,498
Other investments	-	-	72	72
Financial assets measured at fair value through profit or loss				
Other investments	-	-	20	20
Total	¥530	-	¥1,060	¥1,590

	Millions of Yen			
Balance at June 30, 2021	Level 1	Level 2	Level 3	Total
Financial assets:				
Equity financial assets measured at fair value through other comprehensive income				
Securities	¥503	-	¥973	¥1,476
Other investments	-	-	72	72
Financial assets measured at fair value through profit or loss				
Other investments	-	-	20	20
Total	¥503	-	¥1,065	¥1,568

Securities and other investments, which are classified as Level 3, have no significant changes for the three months ended June 30, 2021.

10. Other Income and Other Expenses

During the three months ended June 30, 2020 and 2021, COVID-19-related loss of ¥5,723 million and ¥862 million were recognized and included in the line item “other income and other expenses, net,” respectively. 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, 2020 and 2021 is as follows:

	Three months ended June 30, 2020	Three months ended June 30, 2021
Profit attributable to owners of the parent	4,193 million yen	13,659 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	4,202 million yen	13,668 million yen
Basic weighted average ordinary shares outstanding	133,214,496 shares	133,213,056 shares
Adjustments for convertible bond-type bonds with subscription rights to shares	2,299,114 shares	2,316,584 shares
Basic weighted average ordinary shares outstanding used in the calculation of diluted earnings per share	135,513,610 shares	135,529,640 shares
Earnings per share attributable to owners of the parent for the period		
Basic	31.48 yen	102.54 yen
Diluted	31.01 yen	100.86 yen

12. Subsequent Events

There have been no events after June 30, 2021 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, Kimihiko Higashio, on August 10, 2021.