

KONAMI GROUP CORPORATION

Quarterly Condensed Consolidated Financial Statements
for the Three Months Ended June 30, 2022

English translation and a part of summary of the Quarterly Securities Report (Shihanki Hokokusho) for the three-month period ended June 30, 2022 pursuant to the Financial Instruments and Exchange Law of Japan

KONAMI GROUP CORPORATION filed its Quarterly Securities Report for the three-month period ended June 30, 2022 with the Director of the Kanto Local Finance Bureau of the Ministry of Finance of Japan on August 12, 2022. 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, 2022	As of June 30, 2022		
Assets						
Current assets						
			¥250,711	¥229,348		
			29,054	25,314		
			8,957	11,493		
			1,443	3,713		
		10	9,461	13,116		
			299,626	282,984		
Non-current assets						
			138,869	151,416		
			45,392	48,529		
			3,159	3,253		
		10	1,231	1,224		
		10	15,302	15,383		
			23,671	23,406		
			1,363	1,538		
			228,987	244,749		
			528,613	527,733		
Liabilities and equity						
Liabilities						
Current liabilities						
		6,10	8,377	5,426		
		10	9,106	8,824		
			33,486	30,943		
			12,418	1,298		
		5	19,200	27,906		
			82,587	74,397		
Non-current liabilities						
		6,10	59,775	59,786		
		10	25,263	24,358		
			10,450	10,418		
			770	857		
			1,692	1,779		
			97,950	97,198		
			180,537	171,595		
Equity						
			47,399	47,399		
			75,027	76,126		
			(26,868)	(25,008)		
		7	6,701	11,993		
			245,802	245,613		
			348,061	356,123		
			15	15		
			348,076	356,138		
			¥528,613	¥527,733		

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, 2021 and 2022

		Millions of Yen	
	Note	Three months ended June 30, 2021	Three months ended June 30, 2022
Revenue			
Product sales revenue		¥19,004	¥21,885
Service and other revenue		49,322	50,020
Total revenue	4,9	68,326	71,905
Cost of revenue			
Cost of product sales revenue		(8,386)	(10,802)
Cost of service and other revenue		(27,589)	(32,331)
Total cost of revenue		(35,975)	(43,133)
Gross profit		32,351	28,772
Selling, general and administrative expenses		(12,073)	(14,673)
Other income and other expenses, net	11	(841)	(59)
Operating profit		19,437	14,040
Finance income		34	1,853
Finance costs		(211)	(192)
(Loss) Profit from investments accounted for using the equity method		(145)	151
Profit before income taxes		19,115	15,852
Income taxes		(5,457)	(4,420)
Profit for the period		13,658	11,432
Profit attributable to:			
Owners of the parent		13,659	11,432
Non-controlling interests		¥(1)	¥0

		Yen	
	Note	Three months ended June 30, 2021	Three months ended June 30, 2022
Earnings per share (attributable to owners of the parent)			
Basic	12	¥102.54	¥85.41
Diluted	12	¥100.86	¥84.38

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

Quarterly Condensed Consolidated Statement of Comprehensive Income
Three months ended June 30, 2021 and 2022

		Millions of Yen	
	Note	Three months ended June 30, 2021	Three months ended June 30, 2022
Profit for the period		¥13,658	¥11,432
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		(19)	(5)
Total items that will not be reclassified to profit or loss		(19)	(5)
Items that may be reclassified to profit or loss:			
Exchange differences on foreign operations		(31)	5,297
Total items that may be reclassified to profit or loss		(31)	5,297
Total other comprehensive income		(50)	5,292
Total comprehensive income for the period		13,608	16,724
Comprehensive income attributable to:			
Owners of the parent		13,609	16,724
Non-controlling interests		¥(1)	¥0

(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, 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	8					(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

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, 2022		¥47,399	¥75,027	¥(26,868)	¥6,701	¥245,802	¥348,061	¥15	¥348,076
Profit for the period						11,432	11,432	0	11,432
Other comprehensive income					5,292		5,292		5,292
Total comprehensive income for the period		-	-	-	5,292	11,432	16,724	0	16,724
Purchase of treasury shares				(5)			(5)		(5)
Dividends	8					(11,621)	(11,621)		(11,621)
Conversion of convertible bond-type bonds with subscription rights to shares			1,099	1,865			2,964		2,964
Total transactions with the owners		-	1,099	1,860	-	(11,621)	(8,662)	-	(8,662)
Balance at June 30, 2022		¥47,399	¥76,126	¥(25,008)	¥11,993	¥245,613	¥356,123	¥15	¥356,138

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, 2021	Three months ended June 30, 2022
Operating activities			
Profit for the period		¥13,658	¥11,432
Depreciation and amortization		3,666	5,738
Impairment losses		128	59
Interest and dividends income		(29)	(51)
Interest expense		205	185
Loss (Profit) on sale or disposal of property, plant and equipment		7	(0)
Loss (Profit) from investments accounted for using the equity method		145	(151)
Income taxes		5,457	4,420
Decrease in trade and other receivables		5,443	5,343
Decrease (Increase) in inventories		1,863	(1,980)
Decrease in trade and other payables		(7,114)	(4,290)
Increase in prepaid expense		(4,089)	(3,349)
(Decrease) increase in contract liabilities		(4,473)	1,233
Other, net		460	2,228
Interest and dividends received		29	54
Interest paid		(125)	(111)
Income taxes paid		(3,094)	(13,047)
Net cash provided by operating activities		12,137	7,713
Investing activities			
Capital expenditures		(5,535)	(19,193)
Payments for lease deposits		(537)	(129)
Proceeds from refunds of lease deposits		460	751
Payments for asset retirement obligations		(159)	(1)
Payments into time deposits		(574)	-
Other, net		103	1
Net cash used in investing activities		(6,242)	(18,571)
Financing activities			
Proceeds from short-term (more than 3 months) borrowings		2,185	-
Repayments of short-term (more than 3 months) borrowings		(2,185)	-
Principal payments of lease liabilities		(2,159)	(1,962)
Dividends paid	8	(6,689)	(11,563)
Other, net		(3)	(6)
Net cash used in financing activities		(8,851)	(13,531)
Effect of exchange rate changes on cash and cash equivalents		42	3,026
Net decrease in cash and cash equivalents		(2,914)	(21,363)
Cash and cash equivalents at the beginning of the period		202,430	250,711
Cash and cash equivalents at the end of the period		¥199,516	¥229,348

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

Notes to Quarterly Condensed Consolidated Financial Statements

1. Reporting Entity

KONAMI GROUP 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”.

On July 1, 2022, the Company changed its trade name from KONAMI HOLDINGS CORPORATION to KONAMI GROUP CORPORATION.

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, 2022, 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, 2022 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 estimate the recoverable amounts based on our conservative expectations of the impact of COVID-19 pandemic on our operations. However, the estimation could be revised, depending on the evolving situation of the pandemic.

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, 2022.

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 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, 2022.

(1) Operating segment information

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

For the three months ended June 30, 2022

Millions of Yen

	Reportable segments					Intersegment eliminations	Consolidated
	Digital Entertainment	Amusement	Gaming & Systems	Sports	Total		
Revenue							
External customers	¥50,643	¥2,588	¥7,695	¥10,979	¥71,905	-	¥71,905
Intersegment	157	342	-	4	503	¥(503)	-
Total	50,800	2,930	7,695	10,983	72,408	(503)	71,905
Business profit	¥13,361	¥106	¥823	¥448	¥14,738	¥(639)	14,099
Other income and other expenses, net	-	-	-	-	-	-	(59)
Operating profit	-	-	-	-	-	-	14,040
Finance income and finance costs, net	-	-	-	-	-	-	1,661
Profit from investments accounted for using the equity method	-	-	-	-	-	-	151
Profit before income taxes	-	-	-	-	-	-	¥15,852

(2) Geographic information

Revenue from external customers for the three months ended June 30, 2021 and 2022

	Millions of Yen	
	Three months ended June 30, 2021	Three months ended June 30, 2022
Revenue:		
Japan	¥52,534	¥48,774
United States	9,456	14,467
Europe	3,370	4,761
Asia/Oceania	2,966	3,903
Consolidated	¥68,326	¥71,905

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, 2022 and June 30, 2022.

	Millions of Yen	
	As of March 31, 2022	As of June 30, 2022
Contract liabilities	¥11,241	¥12,509
Others	7,959	15,397
Total	¥19,200	¥27,906

6. Bonds

For the three months ended June 30, 2021, there were neither issuance, redemption nor conversion of bonds.

For the three months ended June 30, 2022, there was a part of conversion of euro-yen convertible bond-type bonds with subscription rights to shares (interest -%, due December 2022). The carrying amount of the bonds converted was ¥2,960 million. There were neither issuance nor redemption of bonds.

7. Equity

Changes in other components of equity consisted of the following:

	Millions of Yen	
	Three months ended June 30, 2021	Three months ended June 30, 2022
<i>Exchange differences on translation of foreign operations</i>		
Balance at the beginning of the period	¥2,077	¥6,939
Net change during the period	(31)	5,297
Transfer to retained earnings	-	-
Balance at the end of the period	¥2,046	¥12,236
<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	¥96	¥(238)
Net change during the period	(19)	(5)
Transfer to retained earnings	-	-
Balance at the end of the period	¥77	¥(243)

8. Dividends

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.

The Company paid dividends 87.00 yen per share and the total amount of ¥11,621 million for the three months ended June 30, 2022.

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 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

For the three months ended June 30, 2022

Millions of Yen					
	Japan	United States	Europe	Asia/Oceania	Total revenue
Digital Entertainment	¥35,293	¥8,175	¥4,761	¥2,414	¥50,643
Amusement	2,502	-	-	86	2,588
Gaming & Systems	-	6,292	-	1,403	7,695
Sports	10,979	-	-	-	10,979
Total revenue	¥48,774	¥14,467	¥4,761	¥3,903	¥71,905

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 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, 2022 and June 30, 2022.

Millions of Yen

	As of March 31, 2022		As of June 30, 2022	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets:				
Financial assets measured at amortized cost				
Loans receivable	¥93	¥116	¥91	¥112
Lease deposits	16,787	17,736	16,671	17,543
Other financial assets	974	936	1,060	1,006
Equity financial assets measured at fair value through other comprehensive income				
Other investments (Securities)	1,139	1,139	1,132	1,132
Other investments (Non-securities)	72	72	72	72
Financial assets measured at fair value through profit or loss				
Other investments (Non-securities)	20	20	20	20
Financial liabilities:				
Financial liabilities measured at amortized cost				
Bonds and borrowings	¥68,152	¥66,103	¥65,212	¥63,025
Other financial liabilities	2,172	2,172	2,169	2,169

(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, 2022 and June 30, 2022.

	Millions of Yen			
Balance at March 31, 2022	Level 1	Level 2	Level 3	Total
Financial assets:				
Equity financial assets measured at fair value through other comprehensive income				
Other investments (Securities)	¥442	-	¥697	¥1,139
Other investments (Non-securities)	-	-	72	72
Financial assets measured at fair value through profit or loss				
Other investments (Non-securities)	-	-	20	20
Total	¥442	-	¥789	¥1,231

	Millions of Yen			
Balance at June 30, 2022	Level 1	Level 2	Level 3	Total
Financial assets:				
Equity financial assets measured at fair value through other comprehensive income				
Other investments (Securities)	¥435	-	¥697	¥1,132
Other investments (Non-securities)	-	-	72	72
Financial assets measured at fair value through profit or loss				
Other investments (Non-securities)	-	-	20	20
Total	¥435	-	¥789	¥1,224

Other investments, which are classified as Level 3, have no significant changes for the three months ended June 30, 2022.

11. Other Income and Other Expenses

During the three months ended June 30, 2021, COVID-19-related loss of ¥862 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 the spread of COVID-19.

12. 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, 2021 and 2022 is as follows:

	Three months ended June 30, 2021	Three months ended June 30, 2022
Profit attributable to owners of the parent	13,659 million yen	11,432 million yen
Adjustments for profit used in the calculation of diluted earnings per share	9 million yen	6 million yen
Profit used in the calculation of diluted earnings per share	13,668 million yen	11,438 million yen
Basic weighted average ordinary shares outstanding	133,213,056 shares	133,844,714 shares
Adjustments for convertible bond-type bonds with subscription rights to shares	2,316,584 shares	1,714,134 shares
Basic weighted average ordinary shares outstanding used in the calculation of diluted earnings per share	135,529,640 shares	135,558,848 shares
Earnings per share attributable to owners of the parent for the period		
Basic	102.54 yen	85.41 yen
Diluted	100.86 yen	84.38 yen

13. Subsequent Events

There have been no events after June 30, 2022 that would require adjustments to the quarterly condensed consolidated financial statements or disclosures in the notes to the quarterly condensed consolidated financial statements.

14. Approval of Quarterly Condensed Consolidated Financial Statements

The quarterly condensed consolidated financial statements were approved by Representative Director, President, Kimihiko Higashio, on August 10, 2022.