Annual Financial Report

KONAMI HOLDINGS CORPORATION and its subsidiaries

Consolidated Financial Statements
For the fiscal year ended March 31, 2016

KONAMI HOLDINGS CORPORATION

TABLE OF CONTENTS

As used in this annual report, references to "the Company" and "the parent" are to KONAMI HOLDINGS CORPORATION and references to "Konami Group," "the Group," "we," "our" and "us" are to KONAMI HOLDINGS CORPORATION and its subsidiaries, unless the context otherwise requires.

"U.S. dollar" or "$" means the lawful currency of the United States of America, "€" or "Euro" means the lawful currency of the member states of the European Union and "yen" or "¥" means the lawful currency of Japan.

"IFRS" means International Financial Reporting Standards and "Japanese GAAP" means accounting principles generally accepted in Japan.

1. Consolidated Financial Statements

1. Consolidated Financial Statements

(1) Consolidated Statement of Financial Position

Millions of Yen

	Note	As of March 31, 2015	As of March 31, 2016
Assets			
Current assets			
Cash and cash equivalents	5,22	¥64,654	¥113,907
Trade and other receivables	6,22	30,869	23,401
Inventories	7	12,844	9,170
Income tax receivables	18	2,055	2,139
Other current assets	13,22	5,951	5,618
Total current assets		116,373	154,235
Non-current assets			
Property, plant and equipment, net	8,10	79,261	80,264
Goodwill and intangible assets	9	61,037	39,470
Investments accounted for using the equity method	11	2,370	2,585
Other investments	12,22	1,323	1,268
Other financial assets	13,22	24,257	24,123
Deferred tax assets	18	23,019	22,651
Other non-current assets		3,952	3,591
Total non-current assets		195,219	173,952
Total assets		¥311,592	¥328,187

	Note	As of March 31, 2015	As of March 31, 2016
		Millions of Yen	
Liabilities and equity			
Liabilities			
Current liabilities			
Bonds and borrowings	14,22	¥6,009	¥9,014
Other financial liabilities	10,17,22	4,355	4,126
Trade and other payables	15,22	27,717	24,757
Income tax payables	18	1,248	9,261
Other current liabilities	16,19	12,270	14,335
Total current liabilities		51,599	61,493
Non-current liabilities			
Bonds and borrowings	14,22	14,943	24,606
Other financial liabilities	10,17,22	18,448	16,459
Provisions	16	3,610	8,679
Deferred tax liabilities	18	708	280
Other non-current liabilities	19	3,785	3,195
Total non-current liabilities		41,494	53,219
Total liabilities		93,093	114,712
Equity			
Share capital	20	47,399	47,399
Share premium	20	74,175	74,426
Treasury shares	20	(11,271)	(21,284)
Other components of equity	26	5,012	2,407
Retained earnings	20	102,474	109,802
Total equity attributable to owners of the parent		217,789	212,750
Non-controlling interests		710	725
Total equity		218,499	213,475
Total liabilities and equity		¥311,592	¥328,187

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

Consolidated Statement of Profit or Loss

Millions of Yen

	Note	Fiscal year ended March 31, 2015	Fiscal year ended March 31, 2016
Revenue			
Product sales revenue		¥95,298	¥118,795
Service and other revenue		122,859	131,107
Total revenue	4	218,157	249,902
Cost of revenue			
Cost of product sales revenue		(56,237)	(70,974)
Cost of service and other revenue		(90,466)	(91,476)
Total cost of revenue	23	(146,703)	(162,450)
Gross profit		71,454	87,452
Selling, general and administrative expenses	23	(50,207)	(49,292)
Other income and other expenses, net	24	(5,942)	(13,481)
Operating profit		15,305	24,679
Finance income	25	2,596	230
Finance costs	25	(1,095)	(1,390)
Profit from investments accounted for using the equity method	11	154	249
Profit before income taxes		16,960	23,768
Income taxes	18	(6,991)	(13,237)
Profit for the year		9,969	10,531
Profit attributable to:			
Owners of the parent		9,918	10,516
Non-controlling interests		¥51	¥15

Yen

	Note	Fiscal year ended March 31, 2015	Fiscal year ended March 31, 2016
Earnings per share (attributable to owners of the parent)			
Basic	27	¥71.55	¥76.44
Diluted	27	¥71.55	¥76.13

Consolidated Statement of Comprehensive Income

Millions of Yen

	Note	Fiscal year ended March 31, 2015	Fiscal year ended March 31, 2016
Profit for the year		¥9,969	¥10,531
Other comprehensive income			
Items that may be reclassified to profit or loss:			
Exchange differences on foreign operations	26	3,169	(2,576)
Net change in fair values of available-for-sale financial assets	26	64	(29)
Total items that may be reclassified to profit or loss		3,233	(2,605)
Total other comprehensive income		3,233	(2,605)
Total comprehensive income for the year		13,202	7,926
Comprehensive income attributable to:			
Owners of the parent		13,151	7,911
Non-controlling interests		¥51	¥15

(3) 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 March 31, 2014		¥47,399	¥74,175	¥(11,264)	¥1,779	¥96,091	¥208,180	¥659	¥208,839
Profit for the year						9,918	9,918	51	9,969
Other comprehensive income					3,233		3,233		3,233
Total comprehensive income for the year		-	-	-	3,233	9,918	13,151	51	13,202
Purchase of treasury shares	20			(8)			(8)		(8)
Disposal of treasury shares	20		0	1			1		1
Dividends	21					(3,535)	(3,535)		(3,535)
Total transactions with the owners		-	0	(7)	-	(3,535)	(3,542)	-	(3,542)
Balance at March 31, 2015		47,399	74,175	(11,271)	5,012	102,474	217,789	710	218,499
Profit for the year						10,516	10,516	15	10,531
Other comprehensive income					(2,605)		(2,605)		(2,605)
Total comprehensive income for the year		-	-	-	(2,605)	10,516	7,911	15	7,926
Issuance of convertible bond-type bonds with subscription rights to shares	18		251				251		251
Purchase of treasury shares	20			(10,013)			(10,013)		(10,013)
Disposal of treasury shares	20		0	0			0		0
Dividends	21					(3,188)	(3,188)		(3,188)
Total transactions with the owners		-	251	(10,013)	-	(3,188)	(12,950)	-	(12,950)
Balance at March 31, 2016		¥47,399	¥74,426	¥(21,284)	¥2,407	¥109,802	¥212,750	¥725	¥213,475

(4) Consolidated Statement of Cash Flows

Millions of Yen

	Note	Fiscal year ended March 31, 2015	Fiscal year ended March 31, 2016
Operating activities			
Profit for the year		¥9,969	¥10,531
Depreciation and amortization		20,631	29,087
Impairment losses		5,361	9,062
Interest and dividends income		(262)	(217)
Interest expense		1,029	946
Loss on sale or disposal of property, plant and equipment		581	4,167
Profit from investments accounted for using the equity method		(154)	(249)
Income taxes		6,991	13,237
(Increase) decrease in trade and other receivables		(49)	5,999
Decrease in inventories		340	3,453
(Decrease) increase in trade and other payables		(867)	93
Decrease (increase) in prepaid expense		1,889	(95)
Increase (decrease) in deferred revenue		2,216	(1,981)
Other, net		320	3,367
Interest and dividends received		279	190
Interest paid		(1,090)	(995)
Income taxes paid		(1,930)	(5,259)
Net cash provided by operating activities		45,254	71,336
Investing activities			
Capital expenditures		(25,769)	(19,079)
Decrease in lease deposits, net		523	262
Decrease (increase) in term deposits, net		886	(7)
Other, net		(135)	78
Net cash used in investing activities		(24,495)	(18,746)
Financing activities			
Decrease in short-term (within 3 months) borrowings, net		(1,095)	(5,904)
Proceeds from short-term (more than 3 months) borrowings		-	9,289
Proceeds from issuance of bonds	14	-	10,050
Principal payments under capital lease and financing obligations		(2,173)	(2,082)
Dividends paid	21	(3,532)	(3,185)
Purchase of treasury shares	20	(8)	(10,013)
Other, net		1	(32)
Net cash used in financing activities		(6,807)	(1,877)
Effect of exchange rate changes on cash and cash equivalents		678	(1,460)
Net increase in cash and cash equivalents		14,630	49,253
Cash and cash equivalents at the beginning of the year	5	50,024	64,654
Cash and cash equivalents at the end of the year	5	¥64,654	¥113,907

Notes to Consolidated Financial Statements

1. Reporting Entity

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

The accompanying 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, Health & Fitness, Gaming & Systems and Pachislot & Pachinko Machines businesses. The operations of each business segment are presented in Note 4 "Segment Information".

In addition, the Company changed its trade name to KONAMI HOLDINGS CORPORATION from KONAMI CORPORATION on October 1, 2015.

2. Basis of Preparation

(1) Compliance with IFRS

The Company prepares consolidated financial statements in accordance with International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board. The Company meets the requirements set out under Article 1-2 of the "Ordinance on Terminology, Forms and Preparation Methods of Consolidated Financial Statements" under which the Company is qualified as a "specified company" and duly adopted the provisions of Article 93 of the foregoing rules.

(2) Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis except for certain financial assets and liabilities measured at their fair values, as stated in Note 3 "Significant Accounting Policies."

(3) Functional currency and presentation currency

The individual financial statements of each group entity are presented in the currency of the primary economic environment in which the entity operates ("functional currency"). The consolidated financial statements are presented in Japanese yen, which is the Company's functional currency. All financial information presented in Japanese yen is rounded to the nearest million yen.

(4) Use of estimates and judgments

In preparing IFRS-compliant 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 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 consolidated financial statements is included in the following notes:

- Revenue recognition: Note 3 "Significant Accounting Policies- (14) Revenue".
- Recognition of deferred tax assets: Note 18 "Income Tax Expense".
- Impairment losses for property, plant and equipment, goodwill and intangible assets: Note 3 "Significant Accounting Policies- (9) Impairment (ii) Non-financial assets", Note 8 "Property, Plant and Equipment, net" and Note 9 "Goodwill and Intangible Assets".

(5) Changes in presentation

"Provisions" included in "Other non-current liabilities" in the Consolidated Statement of Financial Position for the previous fiscal year has been separately presented for the current fiscal year, due to an increase in significance of the balance. To reflect this change in presentation, ¥3,610 million presented under "Other non-current liabilities" in the prior year Consolidated Statement of Financial Position has been reclassified as "Provisions".

(6) Early application of new accounting standards

There was no new accounting standards applied earlier than required.

(7) New accounting standards and interpretations issued but not yet applied

New or revised accounting standards and interpretations that were issued by the date of approval of the consolidated financial statements but have not yet been applied by the Company as of March 31, 2016, are principally as follows. The Company is currently assessing the impacts that application of these will have on the consolidated financial statements, and it is not possible to make estimates at this stage.

Standards and Interpretations	**Title**	**Date of mandatory application (fiscal year beginning on or after)**	**Reporting periods of application by the Company (End date of the reporting period)**	**Overview of new/revised Standards and Interpretations**
IFRS 15	Revenue from Contracts with Customers	January 1, 2018	March 31, 2019	Proposition of a single framework for accounting for revenue recognition
IFRS 9	Financial Instruments	January 1, 2018	March 31, 2019	Revision of classification, measurement and recognition of financial instruments

IFRS 16	Leases	January 1, 2019	March 31, 2020	Revision of lease accounting

3. Significant Accounting Policies

(1) Basis of consolidation

(i) Subsidiaries

"Subsidiaries" are entities that are controlled by Konami Group. Konami Group controls entities where it is exposed, or has rights, to variable returns from its involvement with those entities and has the ability to affect the amount of returns through its power over those entities.

A subsidiary's financial statements are incorporated into the Company's consolidated financial statements from the date when the Company obtains control of the subsidiary until the date when the Company loses control of the subsidiary. Appropriate adjustments are made to the subsidiary's accounting policies as necessary to ensure the conformity with Konami Group's accounting policies.

Changes in the Company's ownership interest in a subsidiary that do not result in the Company losing control of the subsidiary are accounted for as equity transactions. Any difference between the amount by which the non-controlling interests are adjusted and the amount of the fair value of the consideration paid or received is recognized directly in equity as equity attributable to owners of the parent. If the Company loses control of a subsidiary, the Company recognizes the gain or loss associated with the loss of control in profit or loss.

All inter-group balances and transactions as well as unrealized gains or losses arising from intergroup transactions are eliminated.

(ii) Associates

Associates are entities over which the Company does not have control or joint control but has significant influence over the financial and operating or business policies. Significant influence is the power to participate in the financial and operating policy decisions of the investee but which does not amount to control or joint control over those policies.

Investments in associates are accounted for using the equity method and initially recognized at acquisition cost as of the date of acquisition. These investments include goodwill recognized at the date of acquisition.

The Company's consolidated financial statements include the Company's share of income, expense and other comprehensive income of the associate accounted for under the equity method from the date when the Company obtains significant influence over the associate until the date when such significant influence is lost. Appropriate adjustments are made to the associate's accounting policies as necessary to ensure conformity with the Company's accounting policies.

Unrealized gains arising from transactions with an entity accounted for under the equity method are deducted from to value of the investment in proportion to the Company's interest in the investee.

(2) Business combinations

A business combination is accounted for using the acquisition method.

Goodwill is measured as the excess of the total amount of the consideration transferred, the amount of any non-controlling interests in the acquiree and, if a business combination is achieved in stages, the amount of the fair value at the date of acquisition of the Company's previously held equity interest in the acquiree over the net amounts recognized in respect of the identifiable acquired assets and assumed liabilities (which are primarily measured at fair value). If the amount determined by this calculation is negative (consideration is less than net assets acquired – i.e. a bargain purchase) the associated difference is recognized immediately as a credit to profit or loss.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation are measured at the fair value or at the proportionate share of the non-controlling interests in the recognized amounts of the acquiree's identifiable net assets on an acquisition-by-acquisition basis.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the business combination occurs, the Company reports provisional amounts for the items for which the accounting is incomplete. During the measurement period, which may not exceed one year from the acquisition date, the Company retrospectively adjusts provisional amounts recognized as at the acquisition date.

Acquisition-related costs are recognized as expenses in the period in which they are incurred.

A business combination of entities under common control is a business combination in which all of the combining entities or businesses are ultimately controlled by the same party or parties both before and after the business combination, and that control is not transitory. Such transactions are accounted for based on the carrying amounts.

(3) Foreign currency transactions

(i) Foreign currency transactions

Foreign currency transactions are translated into the functional currencies of each of Konami Group companies using the appropriate exchange rate as at the date of the transactions. At the end of each reporting period, foreign currency monetary assets and liabilities are retranslated into the functional currencies using the prevailing exchange rates as at that date. Non-monetary assets and liabilities measured at fair value in foreign currencies are retranslated into the functional currencies using the exchange rates at the date the fair value was determined.

Exchange differences arising from the re-measurement and the settlement of such items are recognized in profit or loss in the period in which they arise. However, exchange differences arising from the financial assets measured through other comprehensive income are recognized in other comprehensive income.

(ii) Foreign operations

Assets and liabilities of foreign operations, including goodwill arising from acquisitions and fair value adjustments, are translated into Japanese yen using the exchange rate at the reporting date. Income and expenses are translated into Japanese yen using the average exchange rate for the period, unless exchange rates fluctuate significantly.

Exchange differences arising from translating the financial statements of foreign operations are recognized in other comprehensive income, and included in "other components of equity" as exchange differences on translating foreign operations.

On the disposal of the entire or a partial interest in a foreign operation involving loss of control, significant influence or joint control, the cumulative amount of the exchange differences relating to that foreign operation is reclassified to profit or loss, as a part of gain or loss on disposal.

(4) Cash and cash equivalents

Cash and cash equivalents includes cash on hand, deposits at call with banks, and other short-term highly liquid investments with maturities of three months or less from the date they are acquired, that are readily convertible to known amounts of cash and which are subject to insignificant risk of changes in value.

(5) Inventories

Inventories consist of merchandise for resale, finished products, work-in-process, raw materials and supplies.

Inventories are measured at the lower of cost or net realizable value; the company uses the weighted average method to determine the cost of inventories.

Net realizable value is the estimated selling price of inventories in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

(6) Property, plant and equipment, net

(i) Recognition and measurement

Property, plant and equipment are recognized at cost less any accumulated depreciation and any accumulated impairment losses.

The cost includes any costs directly attributable to the acquisition of the assets, the initial estimate of the costs of dismantling and removing the items and restoring the site on which they are located, and borrowing costs eligible for capitalization. If components of an item of property, plant and equipment have different useful lives, each component is recognized as a separate item of property, plant and equipment.

(ii) Subsequent expenditures

Subsequent expenditures on property, plant and equipment for the ordinary repairs and maintenance are recognized as expenses when incurred. Expenditures on major replacements or improvements are capitalized only if it is probable that future economic benefits associated with such expenditures will flow to Konami Group.

(iii) Depreciation

Depreciation of property, plant and equipment is calculated based on the depreciable amount. Depreciable amount is calculated as the cost of an asset less its residual value.

Depreciation of an asset is principally computed under the straight-line method, spread over the estimated useful life of each component of the asset. The straight-line method is adopted because the method is considered to best approximate the expected pattern of consumption of the future economic benefits generated by the asset.

Equipment leased under a finance lease is depreciated over the shorter of the lease term or its estimated useful life, unless there is reasonable certainty that ownership will transfer to the Konami Group at the end of the lease term. Land is not depreciated.

The estimated useful lives range from 10 to 50 years for buildings and structures and from 2 to 20 years for tools, furniture and fixtures.

The depreciation method, estimated useful life and residual value are reviewed at each financial year end, and amended as necessary.

(7) Goodwill and intangible assets

(i) Goodwill

(a) Initial recognition

Goodwill arising from acquisition of subsidiaries is included in "Goodwill and intangible assets" in the accompanying consolidated statement of financial position. Measurement of goodwill at the time of initial recognition is described in "(2) Business combinations" as above.

(b) Measurement after initial recognition

Goodwill is measured at its cost less any accumulated impairment losses. Goodwill is not amortized but is tested for impairment annually at a consistent time in the year, and whenever there is any indicator of impairment.

(ii) Intangible assets acquired in business combinations

Intangible assets, such as trademarks, memberships, patents and other merchandising contracts, acquired in business combinations and recognized separately from goodwill are initially recognized at fair value as at the acquisition date.

Subsequently, such intangible assets are measured at their cost less any accumulated amortization and any accumulated impairment losses.

(iii) Internally generated intangible assets arising from development

Expenditures on research activities to obtain new scientific or technical knowledge and understanding are recognized as an expense as incurred. Expenditures related to development activities are capitalized only if it is technically feasible to complete the assets, it is probable that future economic benefits will be generated, expenditures are reliably measurable, and the Company has the intention, ability and adequate resources to use or sell them after completion.

The costs of internally generated intangible assets arising from the development are initially recognized at the sum of expenditures incurred from the date when they first meet all of the aforementioned criteria until the day the development is completed. Subsequent to the initial recognition, internally generated intangible assets arising from development are measured at their costs less any accumulated amortization and any impairment losses.

(iv) Other intangible assets

Other intangible assets with finite useful lives are measured at their costs less any accumulated amortization and any accumulated impairment losses.

(v) Amortization

Amortization charge is calculated based on the acquisition cost of an asset less its residual value.

Intangible assets with finite useful lives are amortized over their respective estimated useful lives using the straight-line method. They are tested for impairment when there is any indication that they may be impaired. The straight-line method is adopted because this method best reflects the expected pattern of consumption of the future economic benefits generated by the asset.

The estimated useful lives of the main intangible assets with finite useful lives are as follows:

- Internally generated intangible assets arising from development — Less than 5 years
- Patents and merchandising rights — 3 to 20 years

The amortization method, the estimated useful life and the residual value are reviewed at each financial year end, and amended as necessary.

Intangible assets with indefinite useful lives, including trademarks and memberships, or intangible assets that are not yet available for use are not amortized. They are tested for impairment annually at a consistent time in the year, and whenever there is any indicator of impairment.

(8) Leases

At the inception of a lease arrangement, Konami Group determines whether the arrangement is, or contains, a lease. The substance of the arrangement is determined based on whether the fulfillment of the arrangement depends on the use of a specific asset or group of assets and whether the arrangement conveys the right to such an asset or group of assets.

(i) Finance leases

Leases are classified as finance leases when substantially all the risks and rewards incidental to ownership in a lease arrangement are transferred to Konami Group. Finance leases are recognized at amounts equal to the fair value of the leased property or, if lower, at the present value of the minimum lease payments. After initial recognition, leased assets are accounted for according to the accounting policies applicable to the category of assets.

Minimum lease payments are apportioned between finance charges and the reduction of the outstanding liability. Finance charges are allocated to each period during the lease term so as to produce a constant rate of interest on the remaining balance of the liability.

Contingent rents are recognized as expenses in the period in which they are incurred.

(ii) Operating leases

All leases other than finance leases are classified as operating leases. Such leased assets are not recorded in the accompanying consolidated statement of financial position.

Lease payments made under operating leases are recognized in profit or loss on a straight-line basis over the lease term.

Contingent rents are recognized as expenses in the period in which they are incurred.

(9) Impairment

(i) Impairment of non-derivative financial assets

Financial assets not classified as “financial assets at fair value through profit or loss” are assessed at the end of each reporting period to consider whether there is any objective evidence of impairment. A financial asset is determined to be impaired only when there is objective evidence of impairment that loss events have occurred after the initial recognition of the asset and when there is a negative impact on the estimated future cash flows of the financial asset from those events that can be reliably estimated.

Examples of objective evidence that a financial asset is impaired include a default or delinquency by the borrower, granting to the borrower a concession that Konami Group would not otherwise consider any indication that the borrower or issuer will enter bankruptcy, or the disappearance of an active market.

For available-for-sale financial assets, a significant or prolonged decline in the fair value of an asset below its historical cost should also be included as objective evidence of impairment.

(a) Financial assets measured at amortized cost

Konami Group assesses whether objective evidence of impairment exists individually for financial assets that are individually significant or collectively for financial assets that are not individually significant.

For financial assets measured at amortized cost, the amount of the impairment loss is measured as the difference between the carrying amount of the asset and the present value of estimated future cash flows discounted at the original effective interest rate of the financial asset, and is recognized in profit or loss in an allowance account. If the asset is subsequently determined to be uncollectible, the allowance account is directly applied to the carrying amount. If in a subsequent period there is objective evidence that the amount of the impairment loss has decreased, the previously recognized impairment loss is reversed and the reversal is recognized in profit or loss.

(b) Available-for-sale financial assets

Impairment losses on available-for-sale financial assets are recognized by reclassifying the cumulative losses previously recognized in "net change in fair values of available-for-sale financial assets", a component of equity, to profit or loss. The amount of cumulative losses reclassified from comprehensive income to profit or loss is the difference between the acquisition cost and the present fair value less the impairment losses previously recognized in profit or loss. Regarding debt instruments, if in a subsequent period the amount of the impairment loss previously recognized decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed and the reversal is recognized in profit or loss.

(c) Investment in entities accounted for using the equity method

Goodwill arising from an acquisition of interest in associates is included in the carrying amount of the investment, and the entire carrying amount of the investments accounted for using the equity method is tested for impairment. Konami Group assesses whether there is any objective evidence of an indication that an investment in an associate may be impaired at the end of each reporting period. If there is objective evidence that the investment is impaired, the investment is tested for impairment by comparing its recoverable amount (higher of value in use or fair value less costs of disposal) of the investment with its carrying amount. Previously recognized impairment losses are reversed only if there is a change in the estimates used to determine the recoverable amount of the investment after the impairment losses were recorded. In such a case, the reversal of the impairment loss is recognized to the extent that the recoverable amount of the net investment subsequently increases.

(ii) Impairment of non-financial assets

The carrying amounts of Konami Group's non-financial assets, excluding inventories and deferred tax assets, are reviewed to determine whether there is any indication of impairment at the end of each reporting period. If there is any indication of impairment, the asset is tested for impairment based on its recoverable amount. Goodwill, intangible assets with indefinite useful lives are tested for impairment based on the recoverable amount annually at a consistent time in the year, and whenever there is any indicator of impairment.

The recoverable amount of an asset or cash-generating unit ("CGU") is the higher of value in use or fair value less costs of disposal. In determining value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects the time value of money and the risks specific to the asset which are not considered in estimating the future cash flows.

If it is not possible to estimate the recoverable amount of each asset individually for the impairment test, such assets are integrated into the smallest CGU that generates cash inflows from continuing use that are largely independent of cash inflows from other assets or groups of assets. Goodwill acquired in a business combination is allocated to the CGUs that are expected to benefit from the synergies of the business combination, and these CGUs represent the lowest level within the entity at which the goodwill is monitored for internal management purposes, and are not larger than an operating segment. Since corporate assets do not generate separate cash inflows, if there is an indication that corporate assets may be impaired, the corporate assets are tested for impairment based on the recoverable amount of the CGU to which the corporate assets belong.

If the carrying amount of an asset or a CGU exceeds the recoverable amount, an impairment loss is recognized in profit or loss for the period. Impairment losses recognized in relation to a CGU are allocated first to reduce the carrying amount of any goodwill allocated to the CGU, and then to reduce the carrying amount of the other assets of the CGU on a pro rata basis.

An impairment loss related to goodwill cannot be reversed in a subsequent period. Previously recognized impairment losses on other assets are assessed at the end of each reporting period as to whether there is any indication that the losses may no longer exist or may have decreased. Such impairment losses are reversed if there have been any indications of the reversal of the impairment and a change in estimates used to determine the recoverable amount of the asset. The carrying amount of the asset after the reversal cannot exceed the carrying amount less depreciation or amortization, which would have been recorded had no impairment loss been recognized for the asset in prior years.

(10) Employee benefits

The Company and certain subsidiaries offer the opportunity to participate in defined contribution plans to employees. Defined contribution plans are post-employment benefit plans in which the employer pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further contributions. The contributions under the defined contribution plans are recognized as expenses during the period in which an employee rendered services.

The Company and certain subsidiaries have participated in a multi-employer pension plan, which is a defined benefit plan. The contributions during the period are recognized as pension expense in profit or loss, and contributions payable are recognized as liabilities.

For short-term employee benefits including salaries, bonuses and paid annual leave, the amounts expected to be paid in exchange for those services are recognized as expenses in the period when the employees render related services.

(11) Provisions

Provisions are recognized when Konami Group has a present legal or constructive obligation arising from past events where it is probable that outflows of resources embodying economic benefits will be required to settle the obligations, and reliable estimates can be made of the amount of the obligations.

Where the effect of the time value of money is material, a provision is calculated as the present value of the expenditures discounted at a rate that reflects the risks specific to the liability.

Asset retirement obligations are recognized as provisions for the costs of dismantling and removing the assets and restoring the site, and they are included in the acquisition costs of the assets. The estimated future costs and the discount rates applied are annually reviewed and accounted for as a change in accounting estimates, if an adjustment is determined to be necessary.

(12) Financial instruments

Konami Group classifies non-derivative financial assets in two categories: loans and receivables, and available-for-sale financial assets. Non-derivative financial liabilities are classified as financial liabilities measured at amortized cost.

(i) Non-derivative financial assets and non-derivative financial liabilities- recognition and derecognition

Konami Group initially recognizes loans and receivables when they occur. All other financial assets and liabilities are initially recognized on the relevant transaction date.

Konami Group derecognizes a financial asset only if the contractual rights to the cash flows from the financial asset expire or if Konami Group transfers the contractual rights to receive the cash flows of the financial asset in a transaction where the Group transfers substantially all risks and rewards of ownership of the financial asset.

Konami Group derecognizes a financial liability when it is extinguished, that is, when the obligation specified in the contract is discharged, cancelled or expires.

(ii) Non-derivative financial assets- measurement

(a) Loans and receivables

Non-derivative financial assets with fixed or determinable payments that are not quoted in an active market are classified as loans and receivables.

Loans and receivables are initially recognized at fair values plus transaction costs which are directly attributable to the acquisition of the financial assets. After initial recognition, such financial assets are measured at amortized cost using the effective interest method, less impairment, and amortization is recognized as finance income in profit or loss.

(b) Available-for-sale financial assets

Non-derivative financial assets that are designated as available-for-sale or are not classified in other categories are classified as available-for-sale financial assets.

Available-for-sale financial assets are initially recognized at fair values plus transaction costs which are directly attributable to the acquisition of the financial assets. After initial recognition, such financial assets are measured at their fair values at the end of each reporting period with changes in fair value recognized in “net change in fair values of available-for-sale financial assets” in other comprehensive income.

When available-for-sale financial assets are derecognized, the cumulative gains or losses previously recognized in other comprehensive income are reclassified from equity to profit or loss.

(iii) Non-derivative financial liabilities - measurement

Non-derivative financial liabilities are initially recognized at fair value, less transaction costs that are directly attributable to the issue of the financial liabilities. After initial recognition, these financial liabilities are measured at amortized cost using the effective interest method.

(iv) Compound financial instruments

The liability component of a compound financial instrument is initially recognized at the fair value of a similar liability that does not have an equity conversion option. The equity component is initially recognized at the difference between the fair value of the compound financial instrument as a whole and the fair value of the liability component. Any directly attributable transaction costs are allocated to the equity and liability components of the compound financial instrument in proportion to their initial carrying values.

Subsequently, the liability component of the compound financial instrument is measured at amortized cost using the effective interest method; the equity component is not remeasured.

Interest related to the financial liability is recognized as financial expense in profit or loss. On conversion, the financial liability is reclassified to equity and no gain or loss is recognized.

(v) Derivatives and hedging activities

Konami Group may use derivative financial instruments including foreign exchange forward contracts to regularly hedge its foreign currency risks.

Such derivative financial instruments are initially recognized at their fair values, and transaction costs that are attributable to the acquisition of the derivatives are recognized in profit or loss as incurred. After initial recognition, derivative financial instruments are measured at their fair values with changes in the fair value taken recognized immediately profit or loss.

Konami Group does not apply hedge accounting.

(13) Equity

(i) Ordinary shares

Issuance costs directly relating to equity instruments issued by Konami Group are recognized, net of tax, as a deduction from equity.

(ii) Treasury shares

When the Company repurchases treasury shares, the consideration paid, including transaction costs, net of tax, directly arising from the repurchase, is recognized as a deduction from equity. No gain or loss is recognized in profit or loss on the purchase, disposal, issuance or cancellation of Konami Group's own equity instruments. Any difference between the carrying amount and the consideration given is recognized in share premium.

(14) Revenue

Konami Group measures revenue at the fair value of the consideration received or the receivables for the goods or services delivered, less sales related taxes.

Revenues from the sale of goods are recognized when all the following conditions have been satisfied:

- Konami Group has transferred to the buyer the significant risks and rewards of ownership of the goods;
- Neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold is retained;
- The amount of revenue can be measured reliably;
- It is probable that the economic benefits associated with the transaction will flow to Konami Group; and
- The costs incurred or to be incurred in respect of the transaction can be measured reliably.

When the outcome of a transaction involving the rendering services can be estimated reliably, revenues associated with the transactions are recognized by reference to the stage of completion of the transaction at the end of the reporting period. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:

- The amount of revenue can be measured reliably;
- It is probable that the economic benefits associated with the transaction will flow to Konami Group;
- The stage of completion of the transaction at the end of the reporting period can be measured reliably; and
- The costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

Konami Group set revenue recognition criteria for each of the major categories of revenue, including multiple deliverable arrangements and presentation of revenues on a gross or net basis as follows:

(i) Product sales revenue

Konami Group sells goods such as packaged game software and other products, amusement machines and related equipment, gaming machines and related casino management systems, and pachinko slot machines and pachinko machines. Konami Group recognizes revenue from product sales upon delivery to customers or acceptance by customers.

Generally, Konami Group does not permit exchanges nor accept returns of goods except in cases where an apparent defect exists. In certain limited circumstances, Konami Group may allow returns. In case where a return or a discount is probable and the amount can be reasonably estimated, the amounts estimated are deducted from revenue.

(ii) Service and other revenues

Service and other revenues of Konami Group include revenue from game contents services, including mobile games and e-AMUSEMENT Participation, and membership fee revenue from health and fitness club members.

Revenue from the sale of virtual goods within mobile games is deferred when they are sold. When it is considered that the rendering of the services is completed, Konami Group recognizes such revenue, depending on the nature of the virtual goods, at the time they are consumed or over the period the player is expected to access the game.

Revenue from health and fitness club membership is derived primarily from monthly membership fees received from club members, and is recognized in the periods in which the services are rendered.

(iii) Multiple-element arrangements

Konami Group enters into arrangements with multiple elements of various products and services. Konami Group allocates the consideration of the transaction to each element in proportion to fair values and recognizes revenue individually for each element, if these elements satisfy the following criteria:

- each element has standalone value to the customer, and
- the fair value of each element can be measured reliably.

In case the above criteria are not satisfied, the entire revenue is deferred as a single accounting unit and is not recognized until all elements of products are delivered or services are rendered.

Konami Group sells packaged software with online functionality in its Digital Entertainment Segment. Each element of these transactions, as multiple-element arrangements, has standalone value to the customer, but, if the fair value cannot be measured reliably, the entire revenue is considered as a single accounting unit and recognized over the period the player is expected to access the software on a straight-line basis.

In the Digital Entertainment Segment, Konami Group sells amusement machines and renders e-AMUSEMENT service which connects multiple amusement arcades online, and e-AMUSEMENT Participation service which shares user playing fees with customers (amusement arcade operators) which are considered multiple-element arrangements. Since each element included in such an arrangement has standalone value to the customer and the fair value of each element can be measured reliably, these arrangements are considered as separate accounting units and revenues are recognized upon acceptance by customers or completion of the rendering of the services.

(iv) Presentation of revenue on gross basis or on net basis

In determining whether the revenue is presented on a gross or net basis, Konami Group determines whether it is acting as a principal or as an agent in the transaction for each arrangement, based on the criteria as below:

- whether Konami Group has the primary responsibility for providing the goods or services to the customer or for fulfilling the order,
- whether Konami Group has inventory risk before or after the customer order, during shipping or on return,
- whether Konami Group has latitude in establishing prices, either directly or indirectly, and
- whether Konami Group bears the customer's credit risk for the amount of receivable from the customer.

When Konami Group is determined to be acting as a principal in the transaction, revenue from the transaction is reported on gross basis, whereas, when Konami Group is determined to be an agent, revenue from the transaction is reported on net basis.

(15) Finance income and finance costs

Finance income mainly consists of interest income, dividend income, foreign currency exchange gains and gains on sales of available-for-sale financial assets. Interest income is recognized using the effective interest method as incurred. Dividend income is recognized on the date when the right of Konami Group to receive the dividend is established.

Finance costs mainly consist of interest expenses, foreign currency exchange losses and losses on sales of available-for-sale financial assets. Interest expenses are recognized using the effective interest method as incurred.

(16) Income tax expense

Income tax expenses consist of current taxes and deferred taxes. These are recognized in profit or loss, except to the extent that the taxes arise from items which are recognized either in other comprehensive income or directly in equity, or from business combinations.

Current taxes are measured at the amount expected to be recovered from or paid to the tax authorities, using the tax rates and tax laws that have been enacted or substantially enacted at the reporting date.

Deferred tax assets and liabilities are recognized for temporary differences between the tax base and the carrying amounts of assets and liabilities, the carryforward of unused tax losses and the unused tax credits, measured at the tax rates that are expected to apply to the period when the assets are realized or the liabilities are settled, based on tax rates and the tax laws that have been enacted or substantially enacted by the end of the reporting period. Deferred tax assets and liabilities are not recognized if:

- taxable temporary differences arise from the initial recognition of goodwill,
- temporary differences arise from the initial recognition of an asset or liability in a transaction which is not a business combination and, at the time of transaction, affects neither accounting profit or taxable profit (tax loss), or
- Konami Group is able to control the timing of the reversal of the temporary differences which are associated with investments in subsidiaries and associates, and it is probable that such differences will not be reversed in the foreseeable future.

Deferred tax assets and liabilities are offset if Konami Group has a legally enforceable right to offset current tax assets against current tax liabilities, and income taxes are levied by the same taxation authority on the same taxable entity.

Deferred tax assets are recognized only for the deductible temporary differences, the carryforward of unused tax losses and the unused tax credits, to the extent that it is probable that future taxable profit will be available against which they can be utilized. The carrying amount of deferred tax assets are reviewed at the end of each reporting period, and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow the benefit of those deferred tax assets to be utilized.

(17) Earnings per share

Basic earnings per share are calculated by dividing profit for the year attributable to owners of the parent, by the weighted average number of ordinary shares outstanding during the period that is adjusted for the number of treasury shares. Diluted earnings per share are calculated and adjusted for full effect of potentially dilutive ordinary shares.

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 business segments:

1. Digital Entertainment:	Production, manufacture and sale of digital content and related products including mobile games, arcade games, card games and computer and video games.
2. Health & Fitness:	Operation of health and fitness clubs, and production, manufacture and sale of health and fitness related goods.
3. Gaming & Systems:	Production, manufacture, sale and service of gaming machines and casino management systems for overseas markets.
4. Pachislot & Pachinko Machines:	Production, manufacture and sale of pachislot machines and pachinko machines.

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.

Assets of each segment including investments in associates and deferred tax assets are measured in the same manner as those included in the accompanying consolidated statements of financial position. Segment assets are based on those directly associated with each segment. Assets not directly associated with specific segments, except those of corporate assets, are allocated in a consistent manner which management believes to be reasonable.

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 years ended March 31, 2015 and 2016.

(1) Operating segment information

Millions of Yen

	Fiscal year ended March 31, 2015	Fiscal year ended March 31, 2016
Revenue:		
Digital Entertainment –		
External customers	¥96,673	¥132,578
Intersegment	302	104
Total	¥96,975	¥132,682
Health &Fitness –		
External customers	¥72,974	¥70,966
Intersegment	366	320
Total	¥73,340	¥71,286
Gaming & Systems –		
External customers	¥33,825	¥34,284
Intersegment	-	-
Total	¥33,825	¥34,284
Pachislot & Pachinko Machines –		
External customers	¥14,685	¥12,074
Intersegment	6	9
Total	¥14,691	¥12,083
Intersegment eliminations	(674)	(433)
Consolidated	¥218,157	¥249,902

	Fiscal year ended March 31, 2015	Fiscal year ended March 31, 2016
		Millions of Yen
Segment profit (loss):		
Digital Entertainment	¥16,983	¥35,669
Health & Fitness	1,899	2,689
Gaming & Systems	6,343	5,572
Pachislot & Pachinko Machines	564	(1,121)
Total segment profit and loss, net	25,789	42,809
Corporate expenses and eliminations	(4,542)	(4,649)
Other income and other expenses, net	(5,942)	(13,481)
Finance income and finance costs, net	1,501	(1,160)
Profit from investments accounted for using the equity method	154	249
Profit before income taxes	¥16,960	¥23,768

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

	Fiscal year ended March 31, 2015	Fiscal year ended March 31, 2016
		Millions of Yen
Segment assets:		
Digital Entertainment	¥161,429	¥173,884
Health & Fitness	69,013	68,909
Gaming & Systems	32,331	34,325
Pachislot & Pachinko Machines	26,466	15,430
Total	289,239	292,548
Corporate assets	22,353	35,639
Consolidated	¥311,592	¥328,187

1) Corporate assets primarily consist of cash and cash equivalents, financial assets, and property, plant and equipment.
2) Investments accounted for using the equity method in the Health &Fitness segment are discussed in Note 11 " Investments Accounted for Using the Equity Method".
3) Impairment losses for property, plant and equipment, goodwill and intangible assets included in each segment asset are shown in the table below. Also, impairment losses for property, plant and equipment, goodwill and intangible asset are further discussed in Note 8 "Property, Plant and Equipment, net" and Note 9 "Goodwill and Intangible Assets".

	Fiscal year ended March 31, 2015	Fiscal year ended March 31, 2016
		Millions of Yen
Impairment losses:		
Digital Entertainment	¥3,216	¥1,574
Health & Fitness	1,937	726
Pachislot & Pachinko Machines	208	6,762
Total	¥5,361	¥9,062

	Fiscal year ended March 31, 2015	Fiscal year ended March 31, 2016
		Millions of Yen
Depreciation and amortization:		
Digital Entertainment	¥10,370	¥18,265
Health & Fitness	3,299	3,047
Gaming & Systems	1,704	2,038
Pachislot & Pachinko Machines	3,878	4,331
Total	19,251	27,681
Corporate assets	1,380	1,406
Consolidated	¥20,631	¥29,087

	Fiscal year ended March 31, 2015	Fiscal year ended March 31, 2016
		Millions of Yen
Investments in non-financial assets:		
Digital Entertainment	¥12,173	¥7,883
Health & Fitness	1,977	888
Gaming & Systems	6,078	3,098
Pachislot & Pachinko Machines	5,381	4,053
Total	25,609	15,922
Corporate assets	688	1,546
Consolidated	¥26,297	¥17,468

Investments in non-financial assets include expenditures for acquisitions of property, plant and equipment, net and intangible assets used in operations of each segment.

(2) Geographic Information

Revenue from external customers

	Fiscal year ended March 31, 2015	Fiscal year ended March 31, 2016
		Millions of Yen
Revenues:		
Japan	¥161,976	¥167,858
United States	39,844	53,284
Europe	9,427	20,447
Asia/Oceania	6,910	8,313
Consolidated	¥218,157	¥249,902

	As of March 31, 2015	As of March 31, 2016
		Millions of Yen
Non-current assets:		
Japan	¥124,735	¥107,027
United States	14,632	12,000
Europe	431	258
Asia/Oceania	500	449
Consolidated	¥140,298	¥119,734

Non-current assets consist of property and plant and equipment and intangible assets including goodwill.

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, and attributes assets based on where assets are located.

(3) Information about sales by product and service category.

Since the reporting segment is determined to be by product and service, this information is not reproduced again here.

5. Cash and Cash Equivalents

The breakdown of cash and cash equivalents is as follows:

		Millions of Yen
	As of March 31, 2015	As of March 31, 2016
Cash and cash equivalents:		
Cash and deposits	¥58,906	¥112,487
Short-term deposits with maturities of three months or less	5,748	1,420
Total cash and cash equivalents on the consolidated statements of financial position	¥64,654	¥113,907

The balances of cash and cash equivalents on the consolidated statements of financial position agreed with the respective balances in consolidated statements of cash flows as of March 31, 2015 and 2016.

6. Trade and Other Receivables

The breakdown of trade and other receivables is as follows:

		Millions of Yen
	As of March 31, 2015	As of March 31, 2016
Notes receivables	¥807	¥863
Accounts receivables	30,235	22,389
Other receivables	54	249
Less: Allowance for doubtful accounts	(227)	(100)
Total	¥30,869	¥23,401

Certain accounts receivables as of March 31, 2015 represented amounts expected to be collected over 12 months, based on usage of the products sold.

7. Inventories

The breakdown of inventories is as follows:

Millions of Yen

	As of March 31, 2015	As of March 31, 2016
Finished products	¥7,197	¥4,066
Work in process	132	307
Raw materials and supplies	5,515	4,797
Total	¥12,844	¥9,170

Inventories recognized as an expense for the fiscal years ended March 31, 2015 and 2016 were ¥41,001 million and ¥44,561 million, respectively.

Loss on valuation recognized as an expense for the fiscal years ended March 31, 2015 and 2016 were ¥629 million and ¥1,057 million, respectively.

8. Property, Plant and Equipment, net

(1) Reconciliations

Changes in acquisition cost, accumulated depreciation, accumulated impairment loss and the carrying amount on property, plant and equipment are as follows:

Millions of Yen

	Land	Buildings and structures	Tools, furniture and fixtures	Construction in progress	Total
Acquisition cost					
Balance as of March 31, 2014	¥33,711	¥102,743	¥38,563	¥945	¥175,962
Acquisitions	-	966	3,718	4,479	9,163
Sales and disposal	(34)	(580)	(2,596)	-	(3,210)
Transfer from construction in progress	-	346	(901)	(786)	(1,341)
Effect of foreign currency	67	573	1,388	464	2,492
Others	-	14	28	61	103
Balance as of March 31, 2015	33,744	104,062	40,200	5,163	183,169
Acquisitions	971	562	2,639	1,959	6,131
Sales and disposal	-	(3,328)	(3,303)	-	(6,631)
Transfer from construction in progress	185	4,626	(2,010)	(6,446)	(3,465)
Effect of foreign currency	(29)	(252)	(684)	(363)	(1,328)
Others	-	5,675	(1,105)	79	4,649
Balance as of March 31, 2016	¥34,871	¥111,345	¥35,737	¥392	¥182,345

Millions of Yen

	Land	Buildings and structures	Tools, furniture and fixtures	Construction in progress	Total
Accumulated depreciation and impairment losses					
Balance as of March 31, 2014	¥ (141)	¥ (68,254)	¥ (30,259)	-	¥ (98,654)
Depreciation expenses	-	(3,234)	(4,085)	-	(7,319)
Sales and disposal	-	416	2,522	-	2,938
Impairment losses	-	(846)	(119)	-	(965)
Transfer from construction in progress	-	-	1,377	-	1,377
Effect of foreign currency	-	(186)	(1,056)	-	(1,242)
Others	-	3	(46)	-	(43)
Balance as of March 31, 2015	(141)	(72,101)	(31,666)	-	(103,908)
Depreciation expenses	-	(3,115)	(4,339)	-	(7,454)
Sales and disposal	-	2,894	3,105	-	5,999
Impairment losses	-	(745)	(866)	-	(1,611)
Transfer from construction in progress	-	(276)	3,398	-	3,122
Effect of foreign currency	-	88	542	-	630
Others	-	169	972	-	1,141
Balance as of March 31, 2016	¥(141)	¥(73,086)	¥(28,854)	-	¥(102,081)

Millions of Yen

	Land	Buildings and structures	Tools, furniture and fixtures	Construction in progress	Total
Carrying amount					
Balance as of March 31, 2015	33,603	31,961	8,534	5,163	79,261
Balance as of March 31, 2016	¥34,730	¥38,259	¥6,883	¥392	¥80,264

Depreciation expenses on property, plant and equipment are included in “costs of revenue” and “selling, general and administrative expenses”.

(2) Impairment losses

The breakdown of accumulated impairment losses by asset type is as follows:

Millions of Yen

	As of March 31, 2015	As of March 31, 2016
Digital Entertainment segment		
Buildings and structures	-	¥46
Tools, furniture and fixtures	-	308
Health & Fitness segment		
Buildings and structures	¥846	699
Tools, furniture and fixtures	119	12
Pachislot & Pachinko Machines segment		
Tools, furniture and fixtures	-	546
Total	¥965	¥1,611

Note) Impairment losses are included in the line item “other income and other expenses, net” in the consolidated statement of profit or loss.

Konami Group componentizes its property, plant and equipment into groups which are considered to be the smallest cash-generating unit (“CGU”) that generates largely independent cash inflows. Idle assets for which no future use is anticipated are considered individually as CGUs.

Certain unprofitable clubs were impaired for the year ended March 31, 2015. A CGU is tested for impairment whenever there are indicators that a CGU may be impaired, including that operating results of the club belonging to the Health & Fitness segment consistently underperform, or that the market values of the club's assets have declined significantly below their carrying amounts. Since the recoverable amounts were lower than the carrying amount of the certain club's assets, impairment losses were recognized. The recoverable amount of a CGU is calculated on the basis of its value in use, which represents the present value of the discounted estimated future cash flows based on the medium-term management plan approved by management. The discount rate was 8.2% for the fiscal years ended March 31, 2015, based on the weighted average cost of capital before tax.

For the year ended March 31, 2016, impairment losses were recognized related to idle assets (mainly "buildings and structures" and "tools, furniture and fixtures") in the Digital Entertainment segment, Health & Fitness segment and Pachislot & Pachinko Machines segment. The recoverable amount of those assets was determined based on value in use, and the carrying value impaired to zero.

(3) Borrowing costs

During the fiscal years ended March 31, 2015 and 2016, Konami Group capitalized borrowing costs amounting to ¥62 million and ¥82 million, respectively. Borrowing costs on qualifying assets were capitalized at the weighted average rate for general borrowings of 0.55% in both the current and prior years.

9. Goodwill and Intangible Assets

(1) Reconciliations

Changes in the acquisition cost, accumulated amortization, accumulated impairment losses and the carrying amounts of goodwill and intangible assets are as follows:

Millions of Yen

	Goodwill	Internally generated intangible assets	Trademarks	Memberships	Others	Total
Acquisition cost						
Balance as of March 31, 2014	¥21,978	¥61,312	¥50,561	¥6,640	¥8,438	¥148,929
Acquisitions	-	1,095	-	-	212	1,307
Internally generated development costs	-	15,827	-	-	-	15,827
Sales and disposal	-	(2,722)	-	-	(192)	(2,914)
Effect of foreign currency	86	147	-	-	458	691
Others	-	0	-	-	(50)	(50)

Balance as of March 31, 2015	22,064	75,659	50,561	6,640	8,866	163,790
Acquisitions	-	524	-	-	156	680
Internally generated development costs	-	10,657	-	-	-	10,657
Sales and disposal	-	(29,232)	-	-	(149)	(29,381)
Effect of foreign currency	(37)	(79)	-	-	(197)	(313)
Others	-	39	-	-	(70)	(31)
Balance as of March 31, 2016	¥22,027	¥57,568	¥50,561	¥6,640	¥8,606	¥145,402

Millions of Yen

	Goodwill	Internally generated intangible assets	Trademarks	Memberships	Others	Total
Accumulated amortization and impairment losses						
Balance as of March 31, 2014	¥(3,979)	¥(37,177)	¥(40,934)	-	¥(4,901)	¥(86,991)
Amortization expenses	-	(12,760)	(4)	-	(548)	(13,312)
Sales and disposal	-	2,147	-	-	37	2,184
Impairment losses	(148)	(3,425)	(752)	-	(2)	(4,327)
Effect of foreign currency	-	(134)	-	-	(173)	(307)
Others	-	-	-	-	-	-
Balance as of March 31, 2015	(4,127)	(51,349)	(41,690)	-	(5,587)	(102,753)
Amortization expenses	-	(21,115)	(11)	-	(507)	(21,633)
Sales and disposal	-	25,654	-	-	123	25,777
Impairment losses	-	(3,174)	-	(4,277)	-	(7,451)
Effect of foreign currency	-	84	-	-	101	185
Others	-	(43)	-	-	(14)	(57)
Balance as of March 31, 2016	¥(4,127)	¥(49,943)	¥(41,701)	(4,277)	¥(5,884)	¥(105,932)

Millions of Yen

	Goodwill	Internally generated intangible assets	Trademarks	Memberships	Others	Total
Carrying amount						
Balance as of March 31, 2015	¥17,937	¥24,310	¥8,871	¥6,640	¥3,279	¥61,037
Balance as of March 31, 2016	¥17,900	¥7,625	¥8,860	¥2,363	¥2,722	¥39,470

The amortization expenses for intangible assets are included in “costs of revenue” or “selling, general and administrative expenses” in the accompanying consolidated statement of profit or loss.

(2) Intangible assets with indefinite useful lives

At March 31, 2015 and 2016, the carrying amounts of intangible assets with indefinite useful lives included in above were ¥15,673 million and ¥11,376 million, respectively. Since those identifiable intangible assets primarily consist of trademarks and memberships acquired in businesses combinations which will not expire for as long as the business continues, the Company determined that such assets have indefinite useful lives as of March 31, 2016.

(3) Impairment losses allocated to cash-generating units including goodwill

In an impairment-test, goodwill and intangible assets with an indefinite life are allocated to respective cash-generating units. The carrying amounts of goodwill and intangible assets with an indefinite life allocated to respective cash-generating units are as follows:

Millions of Yen

	As of March 31, 2015	As of March 31, 2016
Goodwill		
Digital Entertainment	¥15,371	¥15,334
Health & Fitness	2,441	2,441
Gaming & Systems	125	125
Total	¥17,937	¥17,900
Intangible assets with an indefinite life		
Health & Fitness	¥8,702	¥8,702
Gaming & Systems	331	311
Pachislot & Pachinko Machines	6,640	2,363
Total	¥15,673	¥11,376

Intangible assets with an indefinite useful life mainly consist of trademarks attributable to the Health & Fitness segment and memberships attributable to the Pachislot & Pachinko Machines segment.

Impairment tests for major goodwill and intangible assets with an indefinite life are performed as follows:

(i) Digital Entertainment segment

In the Digital Entertainment segment, the recoverable amount is measured on the basis of its value in use based on the medium term management plans approved by management. For subsequent periods, the value in use is estimated in reference to the long-term anticipated growth rate of the market or the country the CGU belongs to, based on management's historical experiences and other available relevant external information. Konami Group concluded that it was unlikely to result in a significant impairment because the value in use calculated showed sufficient headroom over the carrying amount.

(ii) Health & Fitness segment

In Health & Fitness operations, items of goodwill and intangible assets are componentized into groups which are considered to be the smallest CGU that generate largely independent cash inflows. The recoverable amount of a CGU is calculated on the basis of its value in use, using the medium term management plans approved by management and which reflect the discounted present value of the future cash flows based on management's historical experiences and other available relevant external information. For subsequent periods, the value in use is calculated using a growth rate that does not exceed the long-term anticipated growth rate of the market or the country the CGU belongs to, based on historical experiences and external information.

During the fiscal year ended March 31, 2015, as the initial growth projection would not be achieved in certain club operations, Konami Group concluded the total recoverable amount of property, plant and equipment, goodwill and intangible assets with indefinite useful lives based on value in use measured using the pre-tax discount rate of 8.2% was lower than the total carrying value. As a result, Konami Group recognized impairment losses in "other income and other expenses, net" in the accompanying consolidated statement of profit or loss. For the fiscal year ended March 31, 2015, the Health & Fitness segment recognized impairment losses of ¥148 million on goodwill and impairment losses of ¥752 million on intangible assets with indefinite useful lives. These impairment losses are allocated to the respective carrying amount of goodwill, intangible assets with indefinite useful lives and property, plant and equipment corresponding to each club where impairment was recognized.

The aggregate recoverable amount of CGUs on which impairment losses were recognized was ¥6,532 million, which agrees to its carrying amount as of March 31, 2015.

(iii) Pachislot & Pachinko Machines segment

In the Pachislot & Pachinko Machines segment, the recoverable amount is measured on the basis of its value in use based on the medium term management plans approved by management and which reflect the discounted present value of the future cash flows based on management's historical experiences and other available relevant external information. For subsequent periods, the value in use is estimated in reference to the long-term anticipated growth rate of the market or the country the CGU belongs to.

During the three months ended December 31, 2015, the total recoverable amount of intangible assets with indefinite useful lives based on value in use using a pre-tax discount rate of 11.0% was lower than the total carrying value, and as such impairment losses of ¥4,277 million were recognized and included in the line item "other income and other expenses, net" in the consolidated statement of profit or loss. The impairment was mainly attributable to rapid changes in the Pachislot & Pachinko Machine business environment and undertaking a selection process as part of our strategy to restructure the pachinko machine business through the concentration of the titles. As a result, we concluded the initial growth projection would not be achieved.

The aggregate recoverable amount of CGUs on which impairment losses were recognized was ¥2,599 million.

(4) Impairment of internally generated intangible assets

Internally generated intangible assets are grouped at the individual title level to determine the CGU, and tested at each reporting date to determine whether there is any indicator of impairment. If any indication of impairment is identified, including if estimated earnings fall below zero, or if the market value of the title's assets decline significantly below their carrying amounts, those internally generated intangible assets are tested for impairment. Impairment losses were recognized on certain internally generated intangible assets where the recoverable amounts fell below their carrying amounts. The recoverable amount of internally generated intangible assets is determined based on their value in use, which is calculated by using the estimated future cash flows expected to be generated from the future earnings of the titles.

Impairment losses recognized for the fiscal years ended March 31, 2015 and 2016 were as follows:

		Millions of Yen
	Fiscal year ended March 31, 2015	Fiscal year ended March 31, 2016
Digital Entertainment segment	¥3,216	¥1,220
Health & Fitness segment	1	15
Pachislot & Pachinko Machines segment	208	1,939
Total	¥3,425	¥3,174

(5) Research and development costs

Expenditure on research that does not meet the criteria for capitalization is recognized as an expense in the period in which the expenditure is incurred. For the fiscal years ended March 31, 2015 and 2016, research and development costs recognized as expense incurred were ¥2,764 million and ¥3,369 million, respectively.

10. Leases

Lessee

(1) Finance leases

The Company leases, as lessee, certain buildings and structures and tools, furniture and fixtures under finance leases.

The carrying amounts (less cumulative amount of depreciation expenses and impairment losses) of assets leased under finance leases, which were included in property, plant and equipment in the accompanying consolidated statement of financial position, at March 31, 2015 and 2016 were as follows:

		Millions of Yen
	As of March 31, 2015	As of March 31, 2016
Buildings and structures	¥10,308	¥9,250
Tools, furniture and fixtures	¥261	¥129

Future minimum lease payments under finance leases at March 31, 2015 and 2016 were as follows:

		Millions of Yen
	As of March 31, 2015	As of March 31, 2016
Less than 1 year	¥2,893	¥2,687
More than 1 year and less than 5 years	9,625	8,892
More than 5 years	12,646	10,720
Less: future financial expenses	(4,720)	(3,907)
The present value of future minimum lease payments	¥20,444	¥18,392

The present value of future minimum lease payments under finance leases at March 31, 2015 and 2016 were as follows:

	Millions of Yen	
	As of March 31, 2015	As of March 31, 2016
Less than 1 year	¥1,996	¥1,933
More than 1 year and less than 5 years	7,277	6,861
More than 5 years	11,171	9,598
Total	¥20,444	¥18,392

Certain lease contracts include renewal or purchase options.

Contingent rents recognized as an expense were not material during the fiscal years ended March 31, 2015 and 2016.

(2) Operating leases

Konami Group occupies certain offices and lease equipment under operating lease arrangements.

Konami Group has obligations arising from non-cancelable operating leases. Future minimum lease payments under noncancelable operating leases at March 31, 2015 and 2016 were as follows:

	Millions of Yen	
	As of March 31, 2015	As of March 31, 2016
Less than 1 year	¥9,970	¥9,734
More than 1 year and less than 5 years	28,871	25,063
More than 5 years	30,585	26,227
Total	¥69,426	¥61,024

Certain lease contracts include renewal or purchase options.

Lease payments under operating leases recognized as an expense for the years ended March 31, 2015 and 2016 totaled ¥17,788 million and ¥16,608 million, respectively.

Contingent rents recognized as expenses were not material during the fiscal years ended March 31, 2015 and 2016.

11. Investments Accounted for Using the Equity Method

At March 31, 2015 and 2016, Konami Group held the following investments accounted for using the equity method:

Name	Location	Description of business	Relationship	Acquisition Date	Ownership %
Resort Solution Co., Ltd.	Japan	Management of resort facilities	Investment at Health &Fitness segment Certain directors or officers of the Company concurrently serve as directors or officers	March 2006	20.4%

At March 31, 2015 and 2016, the carrying amount and fair value of investments accounted for using the equity method with quoted prices published in active markets, are as follows:

Millions of Yen

	As of March 31, 2015	As of March 31, 2016
Carrying amount	¥2,370	¥2,585
Fair value	¥2,844	¥3,512

Summarized financial information is omitted since it is not material to the consolidated financial statements.

12. Other Investments

The breakdown of other investments is as follows:

Millions of Yen

	As of March 31, 2015	As of March 31, 2016
Equity securities	¥1,219	¥1,166
Others	104	102
Total	¥1,323	¥1,268

13. Other Financial Assets

The breakdown of other financial assets is as follows:

Millions of Yen

	As of March 31, 2015	As of March 31, 2016
Loans receivable	¥480	¥444
Lease deposits	23,343	23,275
Others	1,011	1,000
Less: allowance for doubtful accounts	(223)	(160)
Total	¥24,611	¥24,559
Current	354	436
Non-current	¥24,257	¥24,123

Other financial assets (current) are included in “other current assets” in the accompanying consolidated statements of financial position.

14. Bonds and Borrowings

At March 31, 2015 and 2016, the breakdown of short-term borrowings is as follows:

		Millions of Yen
	As of March 31, 2015	As of March 31, 2016
Unsecured short-term borrowings from banks	¥6,009	¥9,014
Total	¥6,009	¥9,014

Weighted-average interest rates on short-term borrowings were 0.63% and 1.22% at March 31, 2015 and 2016, respectively. The above-mentioned unsecured short-term borrowings from banks included $50,000 thousand (¥6,009 million) and $80,000 thousand (¥9,014million) of loans denominated in foreign currencies at March 31, 2015 and 2016, respectively.

At March 31, 2015 and 2016, the breakdown of bonds is as follows:

		Millions of Yen
	As of March 31, 2015	As of March 31, 2016
Unsecured 0.46% per annum bonds due in September 2017	¥4,984	¥4,991
Unsecured 0.53% per annum bonds due in September 2018	4,980	4,986
Unsecured 0.66% per annum bonds due in September 2019	4,979	4,983
-% per annum euro-yen convertible bond-type bonds with subscription rights to shares due in December 2022	-	9,646
Total long-term debt	14,943	24,606
Less: current portion	-	-
Long-term debt, non-current portion	¥14,943	¥24,606

Euro-yen convertible bond-type bonds with subscription rights to shares of ¥10,000 million were issued on December 22, 2015. At March 31, 2015 and 2016, Konami Group did not have any assets pledged as collateral for any of the debt obligations.

15. Trade and Other Payables

The breakdown of trade and other payables is as follows:

		Millions of Yen
	As of March 31, 2015	As of March 31, 2016
Notes payables	¥1,559	¥170
Accounts payables	9,407	8,211
Accrued expenses	13,344	14,789
Other payables	3,407	1,587
Total	¥27,717	¥24,757

16. Provisions

The changes in provisions during the year ended March 31, 2016 were as follows:

Millions of Yen

	Asset retirement obligations	Others	Total
Balance as of March 31, 2015	¥3,590	¥776	¥4,366
Additional provisions	4,698	1,636	6,334
Amounts utilized	(254)	(1,147)	(1,401)
Unused amounts reversed	-	(20)	(20)
Discounted interest costs and effect of change in discount rate.	1,247	-	1,247
Effect of foreign currency	(1)	(44)	(45)
Balance as of March 31, 2016	9,280	1,201	10,481
Current liabilities	635	1,167	1,802
Non-current liabilities	¥8,645	¥34	¥8,679

Konami Group recognizes asset retirement obligations arising from the contractual requirements to perform certain asset retirement activities in case it disposes certain lease assets primarily relating to the office and the Health & Fitness facilities. The liability is measured using the best estimate of expenditures for the future asset retirements. The corresponding asset retirement costs are capitalized as part of the carrying amount of the related non-current asset and depreciated over the asset's estimated useful life. While these costs are expected to be paid after a period of more than one year has passed, this may be changed due to future changes in management plans.

For the year ended March 31, 2016, Konami Group changed its estimate of expenditures which will be incurred in respect of certain asset retirement obligations in cases where it disposes of certain lease assets, primarily relating to office buildings and the Health & Fitness facilities, after considering new information from its experience of the actual costs incurred in leaving facilities during the year.

Other provisions include a reserve for sales returns.

Those provisions (current) are included in "other current liabilities" in the accompanying consolidated statements of financial position.

17. Other Financial Liabilities

The breakdown of trade and other payables are as follows:

Millions of Yen

	As of March 31, 2015	As of March 31, 2016
Capital lease and financing obligations	¥20,444	¥18,392
Others	2,359	2,193
Total	¥22,803	¥20,585
Current liabilities	¥4,355	¥4,126
Non-current liabilities	¥18,448	¥16,459

18. Deferred Taxes and Income Tax Expense

Main components of deferred tax assets and liabilities are as follows:

Millions of Yen

	As of March 31, 2014	Recognized through profit or loss	Recognized in other comprehensive income	Recognized in equity directly	As of March 31, 2015
Deferred tax assets:					
Accrued expenses	¥3,543	¥(474)	-	-	¥3,069
Inventories	2,812	(2,260)	-	-	552
Net operating loss carryforwards	5,322	(223)	-	-	5,099
Property, plant and equipment basis differences	4,614	233	-	-	4,847
Asset retirement obligations	845	(26)	-	-	819
Intangible assets	11,471	(1,743)	-	-	9,728
Deferred revenue	1,144	638	-	-	1,782
Investments in associates	1,334	(162)	-	-	1,172
Others	3,016	298	¥12	-	3,326
Total	¥34,101	¥(3,719)	¥12	-	¥30,394
Deferred tax liabilities:					
Intangible assets	¥(6,534)	¥486	-	-	¥(6,048)
Investments in subsidiaries	(1,169)	94	-	-	(1,075)
Others	(996)	10	¥26	-	(960)
Total	¥(8,699)	¥590	¥26	-	¥(8,083)
Deferred tax assets, net	¥25,402	¥(3,129)	¥38	-	¥22,311

Note) The difference between the total amount of "recognized through profit or loss" in the above and the total amount of deferred tax expenses is due to foreign exchange fluctuations.

Millions of Yen

	As of March 31, 2015	Recognized through profit or loss (1)	Recognized in other comprehensive income	Recognized in equity directly (2)	As of March 31, 2016
Deferred tax assets:					
Accrued expenses	¥3,069	¥963	-	-	¥4,032
Inventories	552	751	-	-	1,303
Net operating loss carryforwards	5,099	(2,988)	-	-	2,111
Property, plant and equipment basis differences	4,847	(1,750)	-	-	3,097
Asset retirement obligations	819	56	-	-	875
Intangible assets	9,728	2,069	-	-	11,797
Deferred revenue	1,782	(642)	-	-	1,140
Investments in associates	1,172	(63)	-	-	1,109
Others	3,326	127	¥(13)	-	3,440
Total	¥30,394	¥(1,477)	¥(13)	-	¥28,904
Deferred tax liabilities:					
Intangible assets	¥(6,048)	¥1,637	-	-	¥(4,411)
Investments in subsidiaries	(1,075)	48	-	-	(1,027)
Others	(960)	17	¥(18)	¥(134)	(1,095)
Total	¥(8,083)	¥1,702	¥(18)	¥(134)	¥(6,533)
Deferred tax assets, net	¥22,311	¥225	¥(31)	¥(134)	¥22,371

1) The difference between the total amount of "recognized through profit or loss" in the above and the total amount of deferred tax expenses is due to foreign exchange fluctuations.
2) Amounts recognized directly in equity relate to deferred tax liabilities arising from the allocation of the equity components of the compound financial instruments.

Deferred tax assets and deferred tax liabilities included in the accompanying consolidated financial statements are as follows:

Millions of Yen

	As of March 31, 2015	As of March 31, 2016
Deferred tax assets	¥23,019	¥22,651
Deferred tax liabilities	¥708	¥280

When recognizing deferred tax assets, Konami Group considers whether it is probable that future taxable profit will be available against which a portion or all of the deductible temporary differences or the carryforward of unused tax losses can be utilized. Konami

Group considers the scheduled reversal of deferred tax liabilities, projected future taxable income and tax planning strategies in the reassessment of recoverability of deferred tax assets. Based upon the level of historical taxable income and projections for future taxable income over the periods in which the deferred tax assets can be recognized, Konami Group determines it is probable that deferred tax assets recognized relating to tax benefits will be realized. However, the amount of deferred tax assets recognized will be decreased if future taxable income decreases during the periods in which those tax benefits can be utilized.

At March 31, 2015 and 2016, the amount of deferred tax assets attributable to tax entities which had recognized operating losses in the previous fiscal year and the current year were ¥3,261 million and ¥174 million, respectively. Konami Group recognized these deferred tax assets after considering their recoverability including whether it is probable that future taxable profit will be available based on the nature of the tax entity's businesses or expiry date of unused tax losses carryforwards in the country where the entity is located.

The amounts of deductible temporary differences and unused tax losses for which deferred tax assets have not been recognized are as follows:

Millions of Yen

	As of March 31, 2015	As of March 31, 2016
Deductible temporary differences	¥1,774	¥23,340
Unused tax losses carryforwards	30,751	44,039
Total	¥32,525	¥67,379

The expiry dates of unused tax losses for which deferred tax assets have not been recognized are as follows:

Millions of Yen

	As of March 31, 2015	As of March 31, 2016
First year	-	¥4,661
Second year	¥4,661	6,326
Third year	6,326	9,600
Fourth year	4,211	1,457
Fifth year and thereafter	15,553	21,995
Total	¥30,751	¥44,039

Konami Group recognized assets or liabilities for the effect of uncertainty in income taxes based on a reasonable estimate. The amounts of unrecognized tax benefits at March 31, 2015 and 2016, which would affect the effective tax rate, are not material. The Company is not able to predict whether the total amount of unrecognized tax benefits will significantly increase or decrease during the next twelve months.

The breakdown of current and deferred tax expenses are as follows:

	Fiscal year ended March 31, 2015	Fiscal year ended March 31, 2016
Income taxes:		
Current tax expense		
Current tax on profits for the year	¥3,336	¥13,665
Total current tax expense	¥3,336	¥13,665
Deferred tax expense		
Origination and reversal of temporary difference	2,930	(5,730)
Changes in tax rates	110	782
Reassessment of recoverability of deferred tax assets	615	4,520
Total deferred tax expense	3,655	(428)
Total income tax expense	¥6,991	¥13,237

Current tax expense includes tax losses used to reduce tax expense for which tax effects were not recognized previously, or benefits arising from temporary differences in past years. The resulting decreases in current tax expense were ¥9 million and ¥315 million in the fiscal years ended March 31, 2015 and 2016, respectively.

The Company and its domestic subsidiaries were subject to various taxes on their income, and its foreign subsidiaries are subject to income taxes in the countries in which they operate.

Due to the amendments to the Japanese corporate tax law that were enacted on March 31, 2015, the corporate tax rate and the local tax rate were reduced. As certain domestic subsidiaries also became excluded from application of the dual corporate tax system, their corporate enterprise tax rates were changed. As a result, the aggregate statutory income tax rate was reduced to 33.1% for fiscal years from April 1, 2015 to March 31, 2016, and to 32.3% for fiscal years from April 1, 2016 and thereafter.

Due to the amendments to the Japanese corporate tax law that were enacted on March 29, 2016, the corporate tax rate and the local tax rate were reduced. As certain domestic subsidiaries also became excluded from application of the dual corporate tax system, their corporate enterprise tax rates were changed. As a result, the aggregate statutory income tax rate was reduced to 30.9% for fiscal years from April 1, 2017 to March 31, 2018, and to 30.6% for fiscal years from April 1, 2018 and thereafter.

The Company and its domestic subsidiaries recognized deferred tax assets and liabilities based on the enacted tax rates that will be applied when temporary differences and loss and credit carryforwards are expected to reverse.

Reconciliations between the statutory income tax rates and the effective tax rates are as follows:

	Fiscal year ended March 31, 2015	Fiscal year ended March 31, 2016
Statutory income tax rate	35.6%	33.1%
Increase (reduction) in taxes resulting from:		
Non-deductible expenses	0.7	0.4
Non-taxable income	(0.1)	(0.0)
Changes of unrecognized deferred tax assets in previous years	3.6	19.0
Adjustment of estimated income tax accruals	(0.2)	(0.0)
Tax credit, principally research	(3.2)	(2.9)
Effect of tax law changes	1.4	3.3
Impairment losses on goodwill, nondeductible	0.3	-
Non-deductible local taxes	1.6	1.1
Other, net	1.5	1.7
Effective income tax rate	41.2%	55.7%

19. Employee Benefits

(1) Multi-employer pension plan

The Company and certain domestic subsidiaries participate in the Kanto IT Software Pension Fund (the Fund), a multi-employer pension plan. The Fund was established pursuant to a Japanese law, by multi-employers which are mainly Software and IT industry companies, and is a welfare pension fund for a multi-employer contributory plan. The Fund's benefits are retirement plans, lump-sum severance payments and lump-sum benefits for bereaved family. If the multi-employer pension plan is dissolved or a company withdraws from the multi-employer pension plan, the Company and certain domestic subsidiaries might be requested to make additional contributions for the amount unfunded at the time of dissolution or withdrawal.

The risks of participating in a multi-employer plan are different from a single-employer plan in the following aspects; assets contributed to the multi-employer plan by one employer may be used to provide benefits to employees of other participating employers; and if a participating employer stops contributing to the plan, any unfunded obligations of the plan may be borne by the remaining participating employers.

As of March 31, 2014 and 2015, our participation in the Fund is outlined in the table below. The Fund financial information for the fiscal year ended March 31, 2016 is not currently available.

Millions of Yen except percentage

	Fiscal year ended March 31, 2014	Fiscal year ended March 31, 2015
Total plan assets	252,294	299,861
Total actuarial present value of accumulated benefit obligations	227,331	268,707
Overfunded / Underfunded	24,963	31,154
Percentage	111.0%	111.6%

Since plan assets and benefits to employees of a participating employer are affected by the status of the funds contributed by other participating employers, assets of this multi-employer pension plan that correspond to the contribution of each participating employer cannot be reasonably calculated. The Company therefore accounts for its contributions to this Fund as an employment benefit expense in the same manner as a defined contribution plan due to the lack of sufficient evidence to account for it as a defined benefit plan.

The employers make matching contributions to the Fund up to a certain percentage of each employee's standard pay. The contributions consist of standard contributions prepared for retirement plans or lump-sum payments, special contributions prepared for amortization of unamortized prior service costs and administrative fee contributions for managing the Fund. The employers assume an obligation for contributions to the Fund.

Under the relevant laws and the terms of the Fund, the Fund re-evaluates the amount of contributions at least every five years in order to ensure that the Fund will maintain its financial equilibrium now and in the future. The Fund verifies that the plan assets are reserved as planned and agreed with the benefit obligation for prior years of service on an annual basis. If the verification reveals a shortage in the reserve, the Fund shall resolve the shortage through the implementation of additional special contributions.

The Company and its domestic subsidiaries' contributions to the plan amounted to ¥836 million and ¥835million for the years ended March 31, 2015 and 2016, respectively. The contributions the Company and its domestic subsidiaries made to the Fund represent more than 5% of the total Fund. The expenses were reported as "cost of revenue" and "selling, general and administrative expenses" in the accompanying consolidated statements of profit or loss.

The Company and its domestic subsidiaries' contributions to the plan are expected to amount to ¥189 million for the year ending March 31, 2017.

(2) Defined contribution plans

The Company and its domestic subsidiaries have adopted defined contribution plans.

Certain domestic subsidiaries began to offer participation in defined contribution plans to employees from the fiscal year ended March 31, 2012 and the Company and other domestic subsidiaries offered participation in defined contribution plans from the fiscal year ended March 31, 2014. Certain domestic subsidiaries terminated existing defined benefit plans and made a transition to defined contribution plans. Benefit obligations to be contributed to the defined contribution plans following this transition were determined to be ¥1,759 million and are to be settled over a period of 8 years. At March 31, 2015 and 2016, benefit obligations were included in "other current liabilities" and "other non-current liabilities" in the accompanying consolidated statements of financial position as follows:

		Millions of Yen
	As of March 31, 2015	As of March 31, 2016
Other current liabilities	¥77	¥67
Other non-current liabilities	245	145
Total	¥322	¥212

The Company and certain domestic subsidiaries' contributions to the defined contribution plans amounted to ¥520 million and ¥480 million for the years ended March 31, 2015 and 2016, respectively. The expenses were reported as "cost of revenue" and "selling, general and administrative expenses" in the accompanying consolidated statement of profit or loss.

(3) Accrued pension and severance costs

The Company has accrued a liability for retirement benefits for directors and corporate auditors in the amount of ¥1,056 million and ¥1,056 million at March 31, 2015 and 2016, respectively, which are included in "other non-current liabilities" in the accompanying consolidated statements of financial position.

20. Shareholders' Equity

(1) Share capital

The total number of ordinary shares authorized to be issued and issued shares at March 31, 2015 and 2016 were as follows:

		Number of shares
	Fiscal year ended March 31, 2015	Fiscal year ended March 31, 2016
Ordinary shares authorized to be issued:		
Ordinary share, no-par-value	450,000,000	450,000,000
Issued shares:		
Balance at beginning of year	143,500,000	143,500,000
Change during the year	-	-
Balance at end of year	143,500,000	143,500,000

Note) Shares issued by the Company are ordinary shares without par value.

(2) Treasury shares

The following table summarizes treasury shares activities for the fiscal years ended March 31, 2015 and 2016:

	Number of shares	Millions of Yen
Balance as of March 31, 2014	4,887,679	¥11,264
Acquisition through purchase of odd-lot shares	3,585	8
Sell upon request for purchase of odd-lot shares	(313)	(1)
Balance as of March 31, 2015	4,890,951	11,271
Acquisition resolved at the Board of Directors' meeting	3,362,800	10,000
Acquisition through purchase of odd-lot shares	5,008	13
Sell upon request for purchase of odd-lot shares	(142)	(0)
Balance as of March 31, 2016	8,258,617	¥21,284

(3) Share premium and retained earnings

(i) Share premium

The Companies Act of Japan (the "Companies Act") requires in principle that the amount of payment for shares and assets delivered shall be the amount of share capital. However, the Companies Act permits, as an exception, that an amount not exceeding 50% of such payments and assets to be incorporated into share premium.

(ii) Retained earnings

The Companies Act requires that an amount equal to 10% of dividends to be paid from retained earnings shall be appropriated and set aside as legal reserve until the total of share premium and legal reserve amounts to 25% of the share capital amount.

The Companies Act provides that a company may transfer amounts between share capital, reserves and surpluses, subject to certain conditions, such as a resolution at the shareholders' meeting.

At March 31, 2015 and 2016, retained earnings available for dividends recorded on the Company's books of account were ¥122,372 million and ¥120,740 million, respectively.

21. Dividends

(1) Dividends paid

Resolution	Class of shares	Amount of dividend (Millions of Yen)	Dividend per share (Yen)	Record date	Effective date
Board of Directors' meeting held on May 28, 2014	Ordinary shares	2,356	17.00	March 31, 2014	June 13, 2014
Board of Directors' meeting held on November 6, 2014	Ordinary shares	1,179	8.50	September 30, 2014	November 28, 2014
Board of Directors' meeting held on May 8, 2015	Ordinary shares	1,733	12.50	March 31, 2015	June 5, 2015
Board of Directors' meeting held on October 30, 2015	Ordinary shares	1,455	10.50	September 30, 2015	November 20, 2015

(2) Dividends whose record date is in the fiscal year under review but whose effective date is in the following fiscal year

Resolution	Class of shares	Source of dividend	Amount of dividend (Millions of Yen)	Dividend per share (Yen)	Record date	Effective date
Board of Directors' meeting held on May 10, 2016	Ordinary shares	Retained earnings	1,691	12.50	March 31, 2016	June 3, 2016

22. Financial Instruments

(1) Categories of financial instruments

(i) Financial assets

Millions of Yen

	As of March 31, 2015	As of March 31, 2016
Cash and cash equivalents	¥64,654	¥113,907
Loans and receivables		
Trade and other receivables	30,869	23,401
Other financial assets	24,611	24,559
Available-for-sale investments		
Other investments	1,323	1,268
Total	¥121,457	¥163,135

(ii) Financial liabilities

Millions of Yen

	As of March 31, 2015	As of March 31, 2016
Financial liabilities at amortized cost		
Bonds and borrowings	¥20,952	¥33,620
Other financial liabilities	22,803	20,585
Trade and other payables	27,717	24,757
Total	¥71,472	¥78,962

(2) Capital management

Konami Group's basic policy of capital management is to establish and maintain financial strength in order to sustain growth and maximize corporate value and shareholder return. Capital earned by carrying out this policy is used for investments in businesses and returned to shareholders through dividends.

The key metrics Konami Group uses for its capital management are as follows:

Millions of Yen except percentage

	As of March 31, 2015	As of March 31, 2016
Cash and cash equivalents	¥64,654	¥113,907
Interest-bearing borrowings	41,396	52,012
Capital	217,789	212,750
Net debt-to-equity ratio (%)	69.9%	64.8%

Interest-bearing borrowings: Total of long-term debt, short-term borrowings and capital lease and financing obligations.
Capital: Total equity attributable to owners of the parent.
Capital ratio: Capital / Total liabilities and equity

Konami Group is not subject to any externally imposed capital requirement, excluding general regulations including the Companies Act.

(3) Financial risk management

Konami Group conducts its business on a global scale, and is therefore exposed to credit risk, liquidity risk, foreign currency risk and interest rate risk. In order to avoid and reduce these financial risks, Konami Group conducts risk management according to certain policies.

(4) Credit risk management

Financial assets included in trade and other receivables are exposed to the credit risks of customers. Lease deposits included in other financial assets are exposed to the credit risks of depositors.

With respect to these risks, the due dates and outstanding balances are managed for each business partner. Past due receivables are periodically reported and individually monitored according to internal rules corresponding to internal ratings and the amount of credit. Konami Group intends to mitigate credit risks by conducting regular monitoring of the companies with which it does business for early detection of any worsening of their financial health. It also requires collateral or a guarantee depending on the credit profile of the counterparty.

Konami Group's standard policy is to enter into derivative transactions only with high rated financial institutions pursuant to the Company's risk management policies to hedge specific risks

The maximum exposure to credit risks of financial assets is the carrying value of financial assets after impairment presented in the consolidated financial statement of financial position.

When Konami Group initiates transactions where receivables will be generated on an ongoing basis, the finance department manages its risk exposure by setting credit limits and credit periods, as considered appropriate. It determines an amount of allowance for doubtful receivables based upon factors surrounding the collection history and length of the period past due. Konami Group also collectively evaluates some receivables and determines an amount of allowance for doubtful receivables based on past actual rates of credit losses, probability of future default and other information.

Allowance for doubtful receivables mainly consists of provisions for the recoverability of trade receivables to customers. The changes in allowance for doubtful receivables for the fiscal years ended March 31, 2015 and 2016 are as follows:

Millions of Yen

	Fiscal year ended March 31, 2015	Fiscal year ended March 31, 2016
Balance at beginning of year	¥686	¥450
Provision for credit losses	103	66
Utilization of allowance	(189)	(139)
Reversal	(191)	(106)
Effect of foreign currency	41	(11)
Balance at end of year	¥450	¥260

The following is an analysis of the age of receivables that are past due but not impaired individually at March 31, 2015 and 2016.

Millions of Yen

	As of March 31, 2015	As of March 31, 2016
Within 30 days	¥757	¥655
Over 30 days through 180 days	464	301
Over 180 days through 1 year	96	31
Over 1 year	36	56
Total	¥1,353	¥1,043

At March 31, 2015 and 2016, the balances of trade and other receivables impaired individually were ¥283 million and ¥96 million, respectively, and the corresponding allowances for doubtful receivables amounted to ¥214 million and ¥78 million, respectively.

(5) Liquidity risk management

Since Konami Group's sources of funds for operating transactions and capital expenditures include borrowings from banks and issuance of bonds, it is exposed to liquidity risks (the failure to make payments on due dates) due to deterioration in the financial environment.

In order to mitigate liquidity risks, Konami Group has entered into commitment line contracts with large, reputable banks, and prepares and updates monthly cash planning analyses.

The breakdown of financial liabilities (except for guarantee obligations) by due date at March 31, 2015 and 2016 is as follows:

Millions of Yen

	Carrying amount	Contractual cash flows	Within 1 year	More than 1 year but within 2 years	More than 2 years but within 3 years	More than 3 years but within 4 years	More than 4 years but within 5 years	Over 5 years
Balance at March 31, 2015								
Bonds	¥14,943	¥15,300	¥83	¥83	¥5,071	¥5,046	¥5,017	-
Borrowings	6,009	6,009	6,009	-	-	-	-	-
Capital lease and financing obligations	20,444	25,164	2,893	2,673	2,467	2,338	2,147	12,646
Trade and other payables	27,717	27,717	27,717	-	-	-	-	-
Other financial liabilities	2,359	2,359	2,359	-	-	-	-	-
Total	¥71,472	¥76,549	¥39,061	¥2,756	¥7,538	¥7,384	¥7,164	¥12,646

Millions of Yen

	Carrying amount	Contractual cash flows	Within 1 year	More than 1 year but within 2 years	More than 2 years but within 3 years	More than 3 years but within 4 years	More than 4 years but within 5 years	Over 5 years
Balance at March 31, 2016								
Bonds	¥24,606	¥25,217	¥83	¥5,071	¥5,046	¥5,017	-	¥10,000
Borrowings	9,014	9,059	9,059	-	-	-	-	-
Capital lease and financing obligations	18,392	22,299	2,687	2,473	2,345	2,149	¥1,925	10,720
Trade and other payables	24,757	24,757	24,757	-	-	-	-	-
Other financial liabilities	2,193	2,193	2,193	-	-	-	-	-
Total	¥78,962	¥83,525	¥38,779	¥7,544	¥7,391	¥7,166	¥1,925	¥20,720

While Konami Group has committed lines of credit with large, reputable banks available for immediate borrowing in the amount of ¥25,000 million, no amount had been drawn down under any of these agreements as of March 31, 2015 and 2016.

(6) Market risk management

(i) Foreign currency risk

(a) Foreign currency risk management

Konami Group conducts its business on a global scale, and is exposed to foreign currency risk mainly arising from trade receivables and payables denominated in currencies other than Japanese yen. For the purpose of migrating the risks of foreign currency fluctuations on trade receivables and payables denominated in foreign currencies, Konami Group in principle hedges risk by using foreign currency forward contracts and other instruments. Konami Group manages derivative transactions according to transaction authorization limits contained in internal finance policies.

The balance of financial assets and liabilities denominated in foreign currencies, including inter-group-company transactions, at March 31, 2015 and 2016 was as follows:

Millions of Yen

	As of March 31, 2015	As of March 31, 2016
Financial assets denominated in foreign currencies	¥26,371	¥8,014
Financial liabilities denominated in foreign currencies	¥8,126	¥2,516

(b) Foreign currency sensitivity analysis

Below is an analysis of the impact a 1% increase in the value of the yen against the United States dollar and the Euro would have on Konami Group's income before income taxes for the year ended March 31, 2015 and 2016. In calculating these effects of amount, the corresponding financial assets and financial liabilities in foreign currency and the respective currency's fluctuation range are used. These calculations assume no changes in the value of other foreign currencies not included herein.

Millions of Yen

	Fiscal year ended March 31, 2015	Fiscal year ended March 31, 2016
United States dollar	¥150	¥10
Euro	¥9	¥14

(ii) Interest rate risk

(a) Interest rate risk management

Konami Group's interest-bearing borrowings are mainly bonds, borrowings and capital lease and financing obligations with fixed interest rates, but the balance of cash and cash equivalents held exceeds the outstanding balance of its interest-bearing borrowings. Accordingly, its current level of interest rate risk is not material, and Konami Group has not performed any interest rate sensitivity analysis.

There were no interest-bearing borrowings with variable rates at March 31, 2015 and 2016.

(7) Fair value of financial instruments

(i) Measuring fair value of financial instruments

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

(a) Other financial assets

The carrying amounts of other financial assets with short term maturities approximate their fair value. The fair value of other financial assets that do not have short-term maturities are calculated as the value of the total principal and interest discounted at interest rates reflecting the credit risks estimated by Konami Group.

(b) Other investments

The fair values of other investments are measured based on quoted market prices in equity markets of identical assets. For unlisted securities, Konami Group determines the fair value based on an approach using observable inputs such as the comparable company's share prices and unobservable inputs.

(c) Bonds, borrowings and other financial liabilities

The carrying amounts of financial liabilities with short term maturities approximate their fair value. The fair values of bonds, borrowings and other financial liabilities that do not have short-term maturities are calculated as the 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.

(ii) 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.

(iii) Fair value of financial instruments

The table is a breakdown of financial instruments showing carrying amounts and fair values as at March 31, 2015 and 2016.

Millions of Yen

	As of March 31, 2015		As of March 31, 2016	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets:				
Other financial assets				
Lease deposits	¥23,343	¥24,098	¥23,275	¥23,735
Others	1,268	1,379	1,284	1,290
Other investments				
Securities	1,219	1,219	1,166	1,166
Others	104	104	102	102
Financial liabilities:				
Bonds and borrowings	¥20,952	¥20,752	¥33,620	¥33,258
Other financial liabilities				
Capital lease and financing obligations	20,444	21,371	18,392	20,709
Others	2,359	2,359	2,193	2,193

Other financial assets, bonds and borrowings and other financial liabilities are categorized as Level 2.

Other investments are categorized as Level 1 and Level 3.

(iv) Fair values measured and disclosed on the consolidated statements of financial position

The following is a breakdown of financial assets that are measured at fair value on a recurring basis at March 31, 2015 and 2016.

Millions of Yen

Balance at March 31, 2015	Level 1	Level 2	Level 3	Total
Financial assets:				
Securities	¥606	-	¥613	¥1,219
Other investments	-	-	104	104
Total	¥606	-	¥717	¥1,323

Balance at March 31, 2016	Level 1	Level 2	Level 3	Total
Financial assets:				
Securities	¥553	-	¥613	¥1,166
Other investments	-	-	102	102
Total	¥553	-	¥715	¥1,268

Millions of Yen

Fair values of other investments include marketable securities and unlisted securities. Marketable securities are measured based on quoted market prices on equity markets of identical assets, and classified as Level 1. Fair value of unlisted securities are determined based on an approach using observable inputs such as the comparable company's share prices and unobservable inputs, and are classified as Level 3.

Securities, which are classified as Level 3, have no significant changes for the year ended March 31, 2016.

23. Cost of Revenue and Selling, General and Administrative Expenses

Details of cost of revenue, selling and general and administrative expenses are as follows:

Millions of Yen

	Fiscal year ended March 31, 2015	Fiscal year ended March 31, 2016
Employee benefit expenses	¥59,140	¥57,939
Depreciation and amortization expenses	¥20,631	¥29,087
Rental expenses	¥18,977	¥17,633
Royalties	¥12,371	¥13,047

24. Other Income and Other Expenses

The breakdown of other income and other expenses is as follows:

Millions of Yen

	Fiscal year ended March 31, 2015	Fiscal year ended March 31, 2016
Other income		
Gain on sale of property, plant and equipment, net	-	2
Total	-	2
Other expenses		
Impairment losses	¥5,361	¥9,062
Loss on sale of property, plant and equipment, net	581	4,169
Others	-	252
Total	¥5,942	¥13,483

Impairment losses are further discussed in Note 8 “Property, Plant and Equipment, net” and Note 9 “Goodwill and Intangible Assets”.

25. Finance Income and Finance Cost

The breakdowns of finance income and finance costs are as follows:

Millions of Yen

	Fiscal year ended March 31, 2015	Fiscal year ended March 31, 2016
Finance income		
Dividend income		
Available-for-sale financial assets	¥45	¥33
Interest income		
Loans and receivables	217	184
Foreign exchange gains	2,295	-
Others	39	13
Total	¥2,596	¥230
Finance costs		
Interest expenses		
Financial liabilities measured at amortized cost	¥1,029	¥946
Foreign exchange losses	-	425
Others	66	19
Total	¥1,095	¥1,390

26. Other Components of Equity and Other Comprehensive Income

(1) Other components of equity

Changes in other components of equity consist of the following:

Millions of Yen

	Exchange differences on translation of foreign operations	Available-for-sale financial assets	Total
Balance as of March 31, 2014	¥1,704	¥75	¥1,779
Net change during the year	3,169	64	3,233
Transfer to retained earnings	-	-	-
Balance as of March 31, 2015	4,873	139	5,012
Net change during the year	(2,576)	(26)	(2,602)
Transfer to retained earnings	-	(3)	(3)
Balance as of March 31, 2016	¥2,297	¥110	¥2,407

(2) Other Comprehensive Income

Each component of other comprehensive income and allocated tax effects are shown below:

Millions of Yen

	Fiscal year ended March 31, 2015			Fiscal year ended March 31, 2016		
	Pretax amount	Tax (expense) or benefit	Net of tax amount	Pretax amount	Tax (expense) or benefit	Net of tax amount
Exchange differences on translation of foreign operations						
Net unrealized gains (losses) during the year	¥3,181	¥(12)	¥3,169	¥(2,589)	¥13	¥(2,576)
Reclassification adjustments to profit for the year	-	-	-	-	-	-
Net change during the year	3,181	(12)	3,169	(2,589)	13	(2,576)
Available-for-sale financial assets						
Net unrealized gains (losses) during the year	90	(26)	64	(43)	17	(26)
Reclassification adjustments to profit for the year	-	-	-	(4)	1	(3)
Net change during the year	90	(26)	64	(47)	18	(29)
Total other comprehensive income	¥3,271	¥(38)	¥3,233	¥(2,636)	¥31	¥(2,605)

27. Earnings per Share

The breakdown of the basic and diluted earnings per share attributable to owners of the parent for the years ended March 31, 2015 and 2016 is as follows:

	Fiscal year ended March 31, 2015	Fiscal year ended March 31, 2016
Profit attributable to owners of the parent	9,918 million yen	10,516 million yen
Adjustments for profit used in the calculation of diluted earnings per share	-	9 million yen
Profit used in the calculation of diluted earnings per share	9,918 million yen	10,525 million yen
Basic weighted average ordinary shares outstanding	138,610,956 shares	137,572,041 shares
Adjustments for convertible bond-type bonds with subscription rights to shares	-	675,801 shares
Basic weighted average ordinary shares outstanding used in the calculation of diluted earnings per share	138,610,956 shares	138,247,842 shares
Earnings per share attributable to owners of the parent for the period		
Basic	71.55 yen	76.44 yen
Diluted	71.55 yen	76.13 yen

28. Non-cash Transactions

The components of the principal non-cash transactions are as follows:

Millions of Yen

	Fiscal year ended March 31, 2015	Fiscal year ended March 31, 2016
Increase in property, plant and equipment related to recognition of asset retirement obligations	¥78	¥5,855

29. Related Party Disclosures

For the fiscal years ended March 31, 2015 and 2016, the amounts of directors' remuneration were ¥382 million and ¥365 million, respectively. There was not any payment of remuneration other than basic remuneration to directors.

30. Major Subsidiaries

Major subsidiaries and associates of Konami Group are as follows:

Subsidiaries

Name	Location	Principal business	Ownership interest Voting rights (%)
Konami Digital Entertainment Co., Ltd.	Minato-ku, Tokyo, JAPAN	Digital Entertainment Business	100
Konami Sports Club Co., Ltd.	Shinagawa-ku, Tokyo, JAPAN	Health & Fitness Business	100
KPE, Inc.	Minato-ku, Tokyo, JAPAN	Pachislot & Pachinko Machines Business	100
TAKASAGO ELECTRIC INDUSTRY CO., LTD.	Ichinomiya, Aichi, JAPAN	Pachislot & Pachinko Machines Business	100
Konami Sports Life Co., Ltd.	Zama, Kanagawa, JAPAN	Health & Fitness Business	100
Konami Real Estate, Inc.	Minato-ku, Tokyo, JAPAN	Intersegment	100
Internet Revolution, Inc.	Minato-ku, Tokyo, JAPAN	Digital Entertainment Business	70
Konami Corporation of America	California, U.S.A	Intersegment	100
Konami Digital Entertainment, Inc.	California, U.S.A	Digital Entertainment Business	100
Konami Gaming, Inc.	Nevada, U.S.A	Gaming & Systems Business	100
Konami Digital Entertainment B.V.	Berkshire, U.K.	Digital Entertainment Business	100
Konami Digital Entertainment Limited	Hong Kong, PRC	Digital Entertainment Business	100
Konami Australia Pty Ltd	New South Wales, Australia	Gaming & Systems Business	100

Associates

Name	Location	Principal business	Ownership interest Voting rights (%)
Resort Solution Co., Ltd.	Shinjuku-ku, Tokyo, JAPAN	Health & Fitness Business	20

31. Commitments

Commitment for purchases of property, plant and equipment

Konami Group has placed firm orders for purchases of property, plant and equipment and other assets amounting to approximately ¥911 million and ¥108 million as of March 31, 2015 and 2016, respectively.

32. Contingencies

Konami Group is subject to pending claims and litigation. After review and consultation with counsel, management considered that any liability that may result from the disposition of such lawsuits would not be material.

33. Subsequent Events

There have been no events after March 31, 2016 that would require adjustments to the consolidated financial statements or disclosures in the notes to the consolidated financial statements.

34. Approval of Consolidated Financial Statements

The consolidated financial statements were approved by Representative Director, President, Takuya Kozuki, on June 24, 2016.

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Independent Auditor's Report

July 15, 2016

To the Board of Directors of KONAMI HOLDINGS CORPORATION

We have audited the accompanying consolidated financial statements of KONAMI HOLDINGS CORPORATION ("the Company") and its consolidated subsidiaries, which comprise the consolidated statement of financial position as at March 31, 2016, and consolidated statement of profit or loss, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in Japan. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, while the purpose of the financial statements audit is not to express an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

PricewaterhouseCoopers Aarata LLC
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Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company and its consolidated subsidiaries as at March 31, 2016, and their financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

Other Matter

The consolidated financial statements of the Company for the year ended March 31, 2015, were audited by another auditor who expressed an unmodified opinion on those statements on June 24, 2015.

PricewaterhouseCoopers Aarata LLC

2. Business Review

(1) Business Overview

The business environment surrounding the Konami Group in Japan remains weak personal consumption despite solid corporate earnings and improvement in employment conditions and personal incomes supported by the weakening yen and rising stock prices. Also, the Japanese economy continues to stall mainly due to anxieties over deteriorations in corporate earnings and consumer trends. These may be affected by the rising yen and declining stock prices since the beginning of 2016 owing to concerns over an economic slowdown in emerging countries and unstable financial markets. In terms of the global economy, the economic environment remained uncertain due to concerns that an economic slowdown in emerging Asian countries, including China, may affect foreign economies.

In the entertainment market, along with the rapid spread of smartphones and tablet PCs, which spurred a worldwide increase in users, as well as enhanced device functionality and the development of information and telecommunications infrastructure, game contents continue to diversify. As new video game consoles also continue to spread at a record-setting pace in Western countries and production of video games utilizing virtual reality (VR) becomes full-scale, business opportunities in the game industry are increasing. In the gaming industry, gaming business is expected to continue to grow as the casino market worldwide continues to see the spread supported by development of resources related to tourism and opening new casino facilities.

In connection with the health and fitness industry, there is a growing health consciousness throughout society, especially among senior citizens and women, who year after year have shown an increasing tendency to focus their leisure activities on improving health and physical strength. We continue to see growing health-consciousness, a preference for sports and an interest in preventing the need for nursing care in old age. In addition, markets for new household training machines continue to grow. This is because household health and fitness equipment has dropped in price, and because a wide variety of machines were released by primarily overseas manufacturers.

Against this background, in the Digital Entertainment segment of the Konami Group, mobile games, including *JIKKYOU PAWAFURU PUROYAKYU*, the *World Soccer Collection* series and *PROFESSIONAL BASEBALL SPIRITS A (Ace)*, continued to enjoy steady sales. Also, *METAL GEAR SOLID V: THE PHANTOM PAIN*, which is the latest title in the *METAL GEAR* series, and *Winning Eleven 2016* (known in overseas as *PES 2016 - Pro Evolution Soccer* -) received favorable reviews from users, and these titles are available to provide long-term enjoyment through continuing operation.

In our Health & Fitness segment, we continued to develop our pricing and membership plans. These plans enable customers to select a pricing plan based on the number of times they use our facilities and to use more than one facility. We have intended to promote and spread the Konami Sports Club's services supporting the concept of "sustainable fitness." In addition, Konami Sports Life Co., Ltd., established in October 2015, began to develop new products related to health and fitness with the aim of enhancing its degree of recognition and increasing its market share in the health and fitness equipment market. This market is expanding centered on household machines.

In our Gaming & Systems segment, we have promoted sales of the new cabinet *Concerto* of the video slot machine as well as the *Podium* cabinet series and the *SYNKROS* casino management system mainly in the U.S. and Australian markets.

In the Pachislot and Pachinko Machines segment, we released new pachislot machines *MAGICAL HALLOWEEN 5* following *GUN SWORD*, *SKYGIRLS-Zero, Futatabi* and *SILENT HILL*. As for pachinko machines, we released *CR PACHINKO Castlevania* (Japanese Title: *CR PACHINKO Akumajo Dracula*), which was derived from our original content.

In terms of the consolidated results for the year ended March 31, 2016, total revenue amounted to ¥249,902 million (a year-on-year increase of 14.6%), operating profit was ¥24,679 million (a year-on-year increase of 61.2%), profit before income taxes was ¥23,768 million (a year-on-year increase of 40.1%), and profit attributable to owners of the parent was ¥10,516 million (a year-on-year increase of 6.0%).

For the year ended March 31, 2016, in light of rapid changes in market environment surrounding the Pachislot & Pachinko Machines business and towards its restructuring, impairment and other losses on property, plant and equipment and intangible assets were recognized of ¥8,443 million, included in other income and other expenses, net in the consolidated statement of profit or loss.

Further, as a result of our careful consideration to the recoverability of the deferred tax assets based on projections for future business performance, we determined to extinguish a part of deferred tax assets and recognize deferred tax expenses of ¥3,895 million for the year ended March 31, 2016.

(2) Performance by Business Segment

Summary of total revenue by business segment:

Millions of Yen

	Fiscal year ended March 31, 2015	Fiscal year ended March 31, 2016	% change
Total revenue:			
Digital Entertainment	¥96,975	¥132,682	36.8
Health &Fitness	73,340	71,286	(2.8)
Gaming & Systems	33,825	34,284	1.4
Pachislot & Pachinko Machines	14,691	12,083	(17.8)
Intersegment eliminations	(674)	(433)	-
Total revenue	¥218,157	¥249,902	14.6

Digital Entertainment

As for mobile games, *JIKKYOU PAWAFURU PUROYAKYU* has surpassed 22 million downloads and became the top seller in the App Store sales ranking (game category) in March 2016, for the first time since its distribution began. In addition, *PROFESSIONAL BASEBALL SPIRITS A (Ace)* was released in October 2015. This title reproduces the real experience of a professional baseball game with top-quality graphics. Moreover, the *WORLD SOCCER COLLECTION* series, the *CROWS×WORST* series and the *Professional Baseball Dream Nine* series are enjoying strong performance. In overseas markets, *Star Wars™: Force Collection* and *Winning Eleven CLUB*

MANAGER (known in overseas as *PES CLUB MANAGER*) continued stable operation.

In regards to arcade games, our e-AMUSEMENT Participation system titles, centered on *MAH-JONG FIGHT CLUB* and music genre games, continued to operate steadily. In February 2016, we also released *TSUNAGA Lotta*, which is new generation ball-drawing medal game that connects cabinets via a network. This allows for a single physical jackpot to be shared nationwide. In addition, we held the 5th KONAMI Arcade Championship, which is to decide the ultimate arcade game player, and it was more exciting than the previous time.

As for card games, the *Yu-Gi-Oh! TRADING CARD GAME* series continued to develop in the global market. Especially in Japan, this series continues to receive favorable reviews from many customers, including the annual world tournament held in Kyoto.

As for computer and video games, *METAL GEAR SOLID V: THE PHANTOM PAIN*, which is the latest title in the *METAL GEAR* series, received high acclaim from a number of users around the world. In addition, *Winning Eleven 2016* (known in overseas as *PES 2016 - Pro Evolution Soccer* -), which is the latest title in the *Winning Eleven* series, celebrated the 20th anniversary of its first release with improved controllability and realism. Furthermore, we will strive to operate it in such a way that it will offer long-term enjoyment to customers. This includes the online mode *myClub* and a large-scale update featuring the UEFA EURO 2016, one of the pinnacles of worldwide soccer competition featuring competing national soccer teams representing European countries.

In terms of financial performance, total revenue for the year ended March 31, 2016 in this segment amounted to ¥132,682 million (a year-on-year increase of 36.8%) and segment profit for the year ended March 31, 2016 amounted to ¥35,669 million (a year-on-year increase of 110.0%).

Health & Fitness

With respect to the management of facilities that we operate directly, we developed the services, including the addition of a free exercise plan without limitation on frequency of use and discounted ticket books to be sold year-round, as well as revised pricing plans that customers can select the pricing plan based on frequency of use. In October 2015, four more facilities, formerly franchises, became available for use mutually with Konami Sports Clubs nationwide by introducing the frequency-based pricing plan similar to Konami Sports Club as one of the means for further expanding its services. Through continuing these measures and developing our management expertise, we intend to enhance convenience for the customers, the Konami Sports Club brand power and its degree of recognition.

At the Nasu Highland Golf Club - Konami Sports Club Beginners' Golf Course that we opened in August 2015, we intend to widely expand player population by offering a new operation style for beginners with over 20 years experience of operation in golf school facilities. In addition, we reopened Grancise Yebisu Garden in September 2015. Consequently, there are now three Grancise, the top-brand facilities.

In the Konami Sports Club facilities, we developed training programs, which combine training, diet and supplements, including renewals in *BIOMETRICS*, a dieting program, and *V-BODY,* a body conditioning program. At the *OyZ* exercise school program which mainly targets individuals ages 60 and older, we also added the new “Strengthening legs and hip course” and “Brain activation course" programs to enhance measures aimed at preventing dementia and improving cognitive function. In addition, with systematizing the "Konami Method" of correct ways to perform and practice physical activities, we introduced the "Konami Method Matome" web video series. The videos feature athletes affiliated with the Konami Sports Club Gymnastics and Swimming Athlete Teams, and provide ideas how to practice and for parents how to stay active with their children. These developments were a part of our efforts to make people more and more familiar with exercise and reach a wider range of customers.

As for products relating to health and fitness, a revamped product was released, which updated part of the design and specifications of the home fitness bike *S-BODY* in the *AEROBIKE* series.

For the year ended March 31, 2016, sales from this business decreased mainly due to the closing of large-scale facilities and a reduction in the number of facilities with management outsourced to Konami Group in the previous fiscal year. On the other hand, expenses were reduced due to improved operational efficiency.

In terms of financial performance, total revenue for the year ended March 31, 2016 in this segment amounted to ¥71,286 million (a year-on-year decrease of 2.8%) and segment profit for the year ended March 31, 2016 amounted to 2,689 million (a year-on-year increase of 41.6%).

Gaming & Systems

The North American market environment saw harsh conditions due to affected by the entry of European manufacturers and the resulting intensified competition, the large-scale horizontal integration of major manufacturers and increasingly prudent investments by casino operators when purchasing machines. On the other hand, the *Concerto* new cabinet for video slot machine continued to have strong sales, which was devoted to the market since the late in the three-month-period ended December 31, 2015. We have also expanded the category of the *Podium* series video slot machine and accelerated the development of products which precisely meet each market's demands, including a wider offering in the Central and South American and European markets. Furthermore, we expanded our lineup of premium products in which are subject to a participation agreement (in which profits are shared with casino operators). These products raised higher expectations and willingness from players by introducing products such as *Podium Goliath,* a larger size version of *Podium*, and contributed stable earnings. The *SYNKROS* casino management system was sequentially introduced into multiple states in North America, and enjoyed strong sales.

In the Asian and Oceania market, we started sales of *Concerto* new cabinet during the three-month-period ended March 31, 2016 as well as we continued to roll out a richly diverse product lineup, including *Podium Stack* of the *Podium* series. We have been also aggressively marketing in the South African market and extending our sales worldwide.

In addition, we exhibited the *Concerto* new cabinet at the Europe's largest gaming expo, ICE Totally Gaming Show, held in London, U.K for the first time in European market. We also exhibited *Concerto* as well as *Podium Monument* of the *Podium* series featuring *Frogger*, which was leveraging our original content, at National Indian Gaming Association Tradeshow & Convention, held in Arizona, U.S. This lineup received notable attention from visitors.

For the year ended March 31, 2016, operating expenses of this segment increased mainly due to advance investments, including increases in product approval fees and product development costs resulting from expansion of the product lineup in the North American and Australian markets as well as slow growth in earnings in the harsh market condition by intensified competition and stalled North American market.

In terms of financial performance, total revenue for the year ended March 31, 2016 in this segment amounted to ¥34,284 million (a year-on-year increase of 1.4%) and segment profit for the year ended March 31, 2016 amounted to ¥5,572 million (a year-on-year decrease of 12.2%).

Pachislot & Pachinko Machines

As for new pachislot machines, we released *GUN SWORD*, which was derived from a popular animation series, *SKYGIRLS-Zero, Futatabi*, the second pachislot machine version of our original content *SKYGIRLS,* and *SILENT HILL*, the new pachislot product that leverages our original content from the popular horror and adventure video game. Furthermore, during the three-month-period ended March 31, 2016, we launched a new pachislot machine, *MAGICAL HALLOWEEN 5*, which is the latest title in the popular original series, *MAGICAL HALLOWEEN*. This machine operates the top of the market among new standard pachislot machines, and received favorable reviews from users and pachinko parlor operators.

As for pachinko machines, we released the second pachinko machine developed by our group *CR PACHINKO Castlevania* (Japanese Title: *CR PACHINKO Akumajo Dracula*), which was derived from our original content of *Castlevania: Rondo of Blood* in the *Castlevania* series. However, old standard machines faced difficult sales conditions as self-imposed restraints are driving a change to new standards, and the sales quantity remained sluggish.

In terms of financial performance, total revenue for the year ended March 31, 2016 in this segment amounted to ¥12,083million (a year-on-year decrease of 17.8%) and segment loss for the year ended March 31, 2016 amounted to 1,121 million (for the year ended March 31, 2015, segment profit amounted to 564 million).

For the year ended March 31, 2016, in light of rapid changes in market structure surrounding the Pachislot & Pachinko Machine business including the trend of pachinko market shrinking and strengthening the regulations for pachislot and pachinko machines, impairment and other losses on property, plant and equipment and intangible assets were recognized of ¥8,443 million, included in other income and other expenses, net in the consolidated statement of profit or loss, due to selection and concentration of the titles for restructuring of the pachinko machine business.

(3) Cash Flows

			Millions of Yen
	Fiscal year ended March 31, 2015	Fiscal year ended March 31, 2016	Change
Cash flow summary:			
Net cash provided by operating activities	¥45,254	¥71,336	¥26,082
Net cash used in investing activities	(24,495)	(18,746)	5,749
Net cash used in financing activities	(6,807)	(1,877)	4,930
Effect of exchange rate changes on cash and cash equivalents	678	(1,460)	(2,138)
Net increase in cash and cash equivalents	14,630	49,253	34,623
Cash and cash equivalents at end of the year	¥64,654	¥113,907	¥49,253

Comparison of fiscal year ended March 31, 2016 with fiscal year ended March 31, 2015

Cash provided by operating activities increased by ¥26,082million, or 57.6%, to ¥71,336 million in fiscal year ended March 31, 2016 from ¥45,254 million in fiscal year ended March 31, 2015. This primarily resulted from a decrease in trade and other receivables and inventories, and recognition of depreciation and amortization expenses.

Net cash used in investing activities decreased by ¥5,749 million, or 23.5% to ¥18,746 million in fiscal year ended March 31, 2016 from ¥24,495 million in fiscal year ended March 31, 2015. This mainly resulted from a decrease in capital expenditures for property, plant and equipment.

Net cash used in financing activities decreased by ¥4,930 million to ¥1,877 million in fiscal year ended March 31, 2016 from ¥6,807 million in the fiscal year ended March 31, 2015. This primarily resulted from purchases of treasury shares, while there were proceeds from issuance of bonds and short-term borrowings.

3. Risk Factors

Special Note Regarding Forward-looking Statements.

This annual report contains forward-looking statements about our industry, our business, our plans and objectives, our financial condition and our results of operations that are based on our current expectations, assumptions, estimates and projections. These forward-looking statements are subject to various risks and uncertainties. Generally, these forward-looking statements can be identified by the use of forward-looking terminology such as "may", "will", "expect", "anticipate", "estimate", "plan" or similar words. These statements discuss future expectations, identify strategies, discuss market trends, contain projections of results of operations or of financial condition, or state other forward-looking information. Known and unknown risks, uncertainties and other factors could cause our actual results to adversely differ, materially, from those contained in or suggested by any forward-looking statement. We cannot promise that our expectations, projections, anticipated estimates or other information expressed in or underlying these forward-looking statements will be realized. We do not undertake any obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

Important risk factors that could cause our actual results to be materially different from those described in the forward-looking statements are set forth in this Item 3. or elsewhere in this annual report and include, without limitation:

- our ability to continue to win acceptance of our products, which are offered in highly competitive markets characterized by the continuous introduction of new products, rapid developments in technology and subjective and changing consumer preferences;
- changes in economic conditions affecting our operations or the way that individuals choose to spend their leisure time;
- our ability to successfully expand internationally with a focus on our Digital Entertainment segment and Gaming & Systems segment;
- our ability to successfully expand the scope of our business and broaden our customer base through our Health & Fitness segment;
- our ability to successfully generate cash flows on an individual club operation level sufficient to recover the carrying value of the related individual club operations;
- regulatory developments and changes, in particular in the gaming industry, and our ability to respond and adapt to those changes;
- the impact of natural disasters, such as earthquakes, on our facilities and personnel;
- our ability to successfully integrate current acquisitions and realize expected synergies and business benefits to recover the acquisition investment, including goodwill and separately identifiable intangible assets; and
- our expectations with regard to further acquisitions and the integration of any companies we may acquire.

Risks Relating to Our Overall Business

(1) Our future success is dependent on our ability to release "hit" products.

Our Digital Entertainment segment, Gaming & Systems segment, and Pachislot & Pachinko Machines segment are "hit" driven. "Hit" products account for a substantial portion of our net revenues and of the revenues in each of these markets. If we do not develop, publish and distribute "hit" products in the future, our financial condition, results of operations and profitability in these segments could be negatively affected. The most important factor in developing hit products is to respond quickly to public tastes and preferences that change rapidly and are hard to predict. Therefore, if we fail to accurately anticipate and promptly respond to changing tastes and preferences, our business, revenues and profits in these segments could be harmed.

(2) Our revenues are dependent on timely introduction of popular new products to the market.

Our success depends on generating revenue from the timely introduction and shipment of new products. The majority of sales of new video game software for home use generally occur in the first thirty to one hundred and twenty days after release. The sales occurrence for our Digital Entertainment segment, Gaming & Systems segment and Pachislot & Pachinko Machines segment also tends to be limited. We are constantly required to introduce new products in order to generate revenues and/or to replace declining revenues from older products. Also, because revenues earned during the early life of a product generally constitute a relatively high percentage of the total revenues earned from a product, a significant delay in the introduction of one or more new products, or the inability to ship in sufficient quantities to meet demand, could negatively affect sales and have a negative impact on our financial condition and results of operations. Unanticipated delays could also cause us to miss an important selling season such as the year-end holiday buying season or summer vacation. Moreover, our products may not achieve and sustain market acceptance during the short life cycle sufficient to generate revenue to recover our investment in developing the products and to cover our other costs. The timely shipment of a new product depends on various factors, including the development process, approval by third-party licensors, production capacity and other factors such as debugging and approval by hardware licensors, in the case of video game software. It is possible that some of our products will not be released or shipped in a timely fashion in accordance with our plans.

(3) Competition for market acceptance and pricing competition affect our revenue and profitability.

The markets for our Digital Entertainment segment, Gaming & Systems segment, and Pachislot & Pachinko Machines segment, as well as the markets for most of our other products, are intensely competitive and new products and platforms are regularly introduced. Only a small percentage of products introduced in the market achieve any degree of sustained market acceptance. In addition, while significant price competition and reduced profit margins may result as the hardware product cycle matures, competition from new technologies such as game software for play over the Internet, mobile phones, smartphones and tablet PCs may reduce demand in markets in which we have traditionally competed. As a result of prolonged price competition and reduced demand due to competing technologies, our operations in the past have been, and in the future could continue to be, negatively impacted.

(4) A decline in consumer spending due to unfavorable economic conditions could hinder sales of our products.

Our product sales are affected by customer's ability and desire to spend disposable income on the purchase of our products and services. Any significant downturn in general economic conditions which results in a reduction in consumers' discretionary spending could reduce demand especially for entertainment and health-oriented products and services like ours and may harm our business. For example, adverse economic conditions in emerging markets, including the slowing growth rate in China, as well as continuing confusion over financial assistance to Greece, have negatively affected consumer spending trends in those regions and in the global economy generally and may continue to have an adverse impact on economic conditions, including in Japan. Economic downturns have been, and may continue to be, characterized by diminished product and service demand and subsequent erosion of average selling prices.

In addition, Japan's consumption tax was increased from 5% to 8% in April 2014 and currently it is scheduled to be increased further to 10% in future. Such a tax increase may adversely affect consumer spending, which could in turn reduce the demand for our products and services and adversely affect our results of operations.

(5) Our performance may be vulnerable to rapidly changing consumer preferences.

Sales of our products depend substantially on how consumers decide to spend their money. Many of our markets are characterized by rapidly changing trends and fads, and frequent innovations and improvements are necessary to maintain consumer interest. We compete with other forms of entertainment and leisure activities. Our financial performance may be harmed if we are unable to successfully adapt our products and services to these changing trends and fads.

(6) Fluctuations in our quarterly operating results make our quarterly revenues and income difficult to predict.

The timing of release of new products can cause material quarterly revenue and earnings fluctuations. If we are unable to begin volume shipments of a significant new product during the scheduled quarter, our revenues and earnings will be negatively affected in that quarter.

Our quarterly operating results also may be materially impacted by other factors, including the operating condition of our mobile games, the level of market acceptance or demand for video games, the timing of hardware platform introductions, and the level of development and/or promotion expenses for a video game title. Moreover, in a platform transition period, sales of products can be significantly affected by the timeliness of introduction of video game systems by the manufacturers of those platforms.

(7) Inability to procure essential intellectual property licenses may prevent product manufactures and sales, and result in reduced product sales.

Products and services, that we manufacture, develop, sell, distribute and provide, use and incorporate a lot of patent technologies, copyrights and other intellectual properties which are owned by outside as well as us. Outside intellectual properties are licensed from the relevant third parties when we use them. These licensing terms usually limit the coverage and period. In some cases, renewal of the licenses could not be permitted. In addition, some intellectual properties we believe essential may not be licensed. These cases could harm our ability to implement and continue manufacturing, selling and distributing our products and providing our services, and adversely affect our business and financial results.

(8) Infringement of intellectual property rights could lead to costly litigation and/or the need to enter into license agreements, which may result in increased operating expenses.

Existing or future infringement claims against us may result in costly litigation or require us to obtain a license for the proprietary rights of third parties, which could have a negative impact on our results of operations. As the number of our products increases there is an increased possibility of the contents and features of these products overlapping with the products of other companies, and we become subject to an increasing possibility of infringement claims. We use a lot of intellectual properties to manufacture and sell our products and provide our services. Although we are making efforts to ensure that our products do not violate the intellectual property rights of others, the possibility is not zero that third parties still may claim infringement as we develop our business worldwide. Intellectual property litigation or claims of infringements could force us to do one or more of the following:

- cease manufacturing, selling distributing products and providing services that incorporate the challenged intellectual property;
- aftermath obtain a license from the owner of the infringed intellectual property, which, if available at all, may not be available on favorable terms rather than advance obtaining due to aftermath obtaining; or
- redesign our products, which could cause us to incur additional costs, delay introduction and possibly reduce commercial appeal of our products.

Any of these actions may cause material harm to our business and financial results.

(9) Inadequate intellectual property protections could prevent us from enforcing or defending our proprietary technology.

We regard our products as the scope of the intellectual property rights and protect them by our patents, copyrights, trademarks and trade secret laws, employee and third party nondisclosure agreements and others. We own or license various patents, copyrights and trademarks.

Policing all the unauthorized use of our products is difficult and can be a persistent problem, especially in some international markets where our products are or may be distributed either do not protect our products and intellectual property rights to the same extent as the laws of Japan and the United States, or are poorly enforced. Legal protection of our rights may be ineffective in such countries, and it could cause material harm to our business and financial results. We may be unable to protect our intellectual property rights, particularly as we pursue new and emerging technologies. We cannot assure you that existing intellectual property laws will provide adequate protection for our products in connection with these emerging technologies.

(10) If our products contain defects, our business could be harmed significantly.

Our products are complex and may contain undetected errors when first introduced or when new versions are released. We cannot assure you that, despite extensive testing prior to release, errors will not be found in new products or releases after shipment, resulting in loss of or delay in market acceptance. This loss or delay could significantly harm our business and financial results.

(11) We may face limitations on our ability to find suitable acquisition opportunities and integrate acquired businesses.

In order to develop and market our products and services competitively, we are seeking opportunities in and outside Japan to make acquisitions of controlling or significant stakes in other businesses that will grow our current businesses. Some of these transactions could be material in size and scope. Our acquisitions strategy requires that we effectively coordinate and integrate our activities with those of the companies in which we invest or which we acquire. In the event we make such acquisitions or investments, we will face additional financial and operational risks, including:

- difficulty in assimilating the operations, technology and personnel of acquired companies;
- disruption in our business because of the allocation of financial and human resources to consummate the acquisitions;
- difficulty in retaining key technical and managerial personnel from acquired companies;
- dilution of our current shareholders if we issue equity to fund one or more of these acquisitions or investments;
- considerable efforts required to successfully integrate acquisitions and realize expected synergies and business benefits to recover acquisition investments, including any goodwill and separately identifiable intangible assets; and
- assumption of operating losses and increased expenses, charges and liabilities in connection with acquisitions.

While we will continually be searching for additional acquisition opportunities, we may not be successful in identifying suitable acquisitions. In addition, we face significant competition in seeking and consummating acquisition opportunities, we may not be able to consummate potential acquisitions or investments on terms acceptable to us or such an acquisition or investment may not enhance our business or may decrease rather than increase our earnings. This may adversely affect our financial and business results.

(12) Our business and financial results could be negatively impacted if we are unable to attract additional qualified employees or retain the services of key employees, the loss of whom could have a material adverse effect on our business.

Our continued growth and success depend to a significant extent on the continued service of our senior management and other key employees and the hiring of new qualified employees. The software industry in particular is characterized by a high level of employee mobility and aggressive recruiting among competitors for personnel with technical, marketing, sales, product development and management skills. We may not be able to attract and retain skilled personnel or may incur significant costs in order to do so that may not be offset through either improved productivity or higher prices.

(13) *Factors specific to international trade may result in reduced revenues and/or increased costs.*

Approximately 70% of our net revenues were derived from sales in Japan. Although we expect that domestic sales will continue to account for a significant portion of our revenues in future periods, we continue to expand our international operations, particularly with respect to our Digital Entertainment segment and Gaming & Systems segment, including through alliances or investments. Sales in foreign countries may involve expenses incurred to customize products to comply with local laws, especially in the case of gaming machines. In addition, products that are successful in the domestic Japanese market may not be successful in foreign markets due to different consumer preferences. In addition, our costs will increase as a result of the need to conduct market research to discover local preferences and tastes and to develop foreign language versions or make product modifications in order to tailor our products to various local markets. In the case of video game software, we may have to grant price concessions to or accept returns from major retailers that control market access to consumers. International trade is also subject to general country risks, including suspension of currency exchange by governments, increases in tariffs, and forfeiture of property through expropriation by governments. International trade is also exposed to fluctuating exchange rates. We may become exposed to increased litigation risks or unexpected bankruptcy risks through product liabilities, facility liabilities, product defect or labor issues in the course of further expanding our business, enhancing our international network and increasing our vendors and customers. These and other factors specific to international trade may result in increased costs or reduced revenues.

(14) *Demographic trends may have an adverse effect on our target market and our ability to increase revenues.*

The Japanese population of people in their teens, twenties and thirties, the traditional target market for our products and services, in particular with respect to our Digital Entertainment segment, is expected to decline. Accordingly, we may not be able to increase or maintain revenues if we are unable to expand our customer base and product offerings to overseas markets.

(15) *Wars, terrorism, pandemic, natural disasters and other incidents which may cause political, economic or social instability may disrupt our operations or otherwise result in a material adverse effect on our financial performance.*

Incidents such as terrorism, riots, wars, pandemic and natural disasters may adversely affect the world economy. Resulting social and political instability may cause further economic and political uncertainty in each of the regions we conduct our operations. As a result, our and our suppliers' operations and financial performance as well as our customers' investment and consumption patterns may be adversely affected. For instance, in March 2011, the Great East Japan Earthquake and subsequent tsunami and aftershock hit northeastern Japan, causing material losses and damage to life, infrastructure and distribution routes, as well as supply instability in certain regions caused by damage to a nuclear power plant complex in Fukushima Prefecture.

(16) Unexpected network interruptions or security breaches, including hacking, may cause delays, interruptions of service or leak of personal information, resulting in a material adverse effect on our business, financial condition and results of operations and damage to our reputation and brands.

Security breaches, including hacking and unauthorized access, affecting any of our systems may cause delays or other service interruptions or leaks of confidential information, such as personal information, and could result in significant damage to our hardware, software systems and databases, disruptions to our service and business activities, such as to our website, e-mail and other communication systems. While we endeavor to maintain robust security protections to prevent security breaches, there have been cases of unauthorized access to our systems in the past. If we experience frequent or persistent service disruptions, whether caused by hackings or failures of our own systems or those of third-party service providers, our customers' experience with us may be negatively affected, which in turn, may have a material and adverse effect on our reputation and brands and our business, financial condition and results of operations.

Risks Relating to Our Digital Entertainment Segment

(1) Any event adversely affecting our operation of network-based games (network-based mobile games, arcade games and video game software for home-use game consoles and PCs) may have a negative impact on our profitability and growth.

Our ability to achieve wide acceptance of our network-based games by users depends in part on whether we can provide attractive contents in a timely manner and efficiently operate our games. Even if our network-based games achieve wide acceptance, we may be unable to generate adequate revenue from such network-based games, provide attractive contents in a timely manner and efficiently operate our games, as most of the games in this category are free to play and generate revenue only from sales of virtual items to players. Such cases may have a negative impact on our business and financial results.

In addition, the success of our network-based games may be affected by the expansion of the industry and the markets as well as other factors which are beyond our control. Such factors include:

- changes in the economy;
- the pace of market expansion;
- popularity of network-based sites and application stores; and
- establishment of legal regulations concerning mobile games and self-imposed restrictions in the industry.

If we are not able to provide competitive contents, or if these political, economic, legal and other factors adversely affect the operation of our network-based games, our financial conditions and operating results may be negatively impacted.

(2) As technological innovation and changing market demand related to the network-based game industry is extremely fast, our business and financial results may be adversely affected if we are unable to respond appropriately to such rapid changes.

The cycle of technological innovation surrounding smart devices is especially fast. This leads to developments of communication environment and device specification and contributes to widen range of expression of games. In order to respond to this rapidly changes, we work to raise its knowledge of new technology, accumulate the know-how and recruit and foster exceptional personnel with advanced skills. However, if appropriately responses to such rapid changes delay or such responses require an increase in expenditures, such as personnel costs, it may lead to a decline in our competitiveness and business results. Furthermore, as changing market demand is extremely fast basically, even if we distribute new network-based games, and the games fail to gain market acceptance, we may not be able to recover in revenues our development expenses. Further if it could be significant, our business and financial results could be significantly harmed.

(3) If we are unable to take appropriate measures for dishonest actions, our business and financial results may be negatively impacted.

As for network-based games, virtual currencies are issued. The currencies are available use only on the site for the purpose of using to trade for various virtual items which are available use in games. Certain dishonest users may acquire items through illicit means and use or trade them in what is known as real money trading (RMT), and the possibility that such incidents may occur is not zero. We are not only putting systems in place to prevent such trades, but also prohibiting these acts in the Terms of Use and carrying out user awareness programs. In addition, we invoke serious penalties for violator of this policy, including suspensions of membership or compulsory termination of account. However, if by any chance the kind of dishonest actions should occur on a significant scale, our business and financial results could be adversely affected as trust in Konami Group and its brand could be impaired.

(4) If the agreements entered into with operators of the sites and application stores through which our network-based games are distributed are terminated, the continued provision of the services we are currently providing will become difficult, which may adversely affect our business and financial results.

We currently provide network-based games almost entirely on the sites and application stores operated by other companies. Our provision of network-based games is based on agreements entered into with the distributors which operate the sites and application stores. If agreements with those distributors are terminated, it will become difficult for us to continue providing services of our network-based games on those sites and application stores, and our business and financial results may be damaged.

(5) Abuses of network-based credit card billing authorization may adversely affect our business and financial results.

A part of our network-based games are available with credit card billing at the time of purchase of virtual items. Although we take all possible measures to ensure e to prevent trouble during billing transactions, if the credit card information of our customers is obtained by unauthorized third parties and used for unauthorized transactions, we may be required to make repayments of the unauthorized amounts out of the sales we made to such customers. In addition, if numerous abuses occur, a credit card authorization agent might cancel agency payment services with us, and our business and financial results may be adversely affected.

(6) Our business and financial results may suffer if amusement arcade revenues and sales of products for amusement arcades (video game machines and token-operated game machines) continue to decline.

Amusement arcades are the primary venue for video game machines and token-operated game machines in Japan. Amusement arcade revenues and sales of products for amusement arcades have recently been affected by the shrinking market for such games. In addition, due to the development of full-scale home video game systems that can rival amusement arcade games in play quality and the introduction of high-quality smartphones equipped with game functions, consumers now have an increasing number of entertainment platform alternatives outside of amusement arcades. As customer preferences diversify, if fewer people frequently visit amusement arcades and it results in amusement arcade operators reduce purchases of our products, our business and financial results could be adversely affected.

(7) If our games are not accepted in the market for products for amusement arcades, our business and financial results may be adversely affected.

Our success as a manufacturer of products for amusement arcades is dependent upon factors, including our ability to design, manufacture, market and service products that achieve player acceptance with maintaining product quality. If any of competitors develops products for amusement arcades with obtaining popularity, our business and financial results may be adversely affected.

(8) Transitions in home-use video game consoles and technological change have a material impact on the relevant markets and may adversely affect our business and financial results.

The life cycle of existing home-use video game consoles and the market acceptance and popularity of new home-use video game consoles significantly affect the success of our products. Also, the introduction of new technologies could render our current products or products in development obsolete or unmarketable. In addition, if we cannot be successful in developing and releasing new video game software for new home-use video game consoles on a timely basis, we will generate opportunity loss. Further, the release dates of new home-use video game consoles or the number of units that will be shipped upon such release are beyond the scope of our control.

Furthermore, when new home-use video game consoles are announced or introduced into the market, consumers typically reduce their purchases of home-use video game software products for current consoles in anticipation of new consoles becoming available. During these periods, sales of our home-use video game software products can be expected to slow down or even decline until new platforms have been introduced and have achieved wide consumer acceptance. Also, if fewer than expected units of a new home-use video game consoles are manufactured or shipped, the introduction of a new home-use video game consoles is significantly delayed, or our new game software products do not attain significant market penetration, we may not be able to generate revenue to recover our development expenses and those inventories may increase. This may adversely affect our business and financial results. Due to the popularity of alternative platforms for content distribution other than home-use video game consoles, demands for console game platforms may decline. This could negatively impact our business and financial results to the extent we are unable to adapt our games or develop new contents for any such alternative platforms.

(9) *If we are unable to obtain or renew licenses from hardware manufacturers that are needed to develop and release, we will not be able to release home-use video game software for popular video game systems and our business and financial results may be negatively impacted.*

Almost all of our revenues from game software products have historically been derived from sales of products for use on proprietary game platforms developed and manufactured by other companies. We may only produce products for use on other companies' game platforms if we receive a platform license from them, which is generally for an initial contract term of several years and may be extended for additional one-year contract terms. If we cannot obtain licenses to develop products from platformers of popular home-use video game consoles or if any of our existing license agreements are terminated, we will not be able to release game software products for those platforms, which may have a negative impact on our business and financial results. Although we cannot assure that we will be able to obtain extensions or that we will be successful in negotiating definitive license agreements with platformers of new platforms when the term of existing license agreements end, to date we have always obtained extensions or new agreements with the platform companies.

(10) *Information processing failures in the operation of our Internet-based games may adversely affect our business and financial results.*

As our Internet-based games require servers that process a heavy volume of information, the computers we use as servers must be equipped with high processing capacity. Although we attempt to prevent troubles by performing maintenance for our servers, we may be unable to operate our Internet-based games if the information processing capacity of a server becomes suddenly overloaded or is unexpectedly attacked by external computer viruses. If the recovery of processing capacity requires a long period of time, thus driving customers away, or if such technical errors and interruptions occur repeatedly and cause our customers to lose confidence in our services, our business and financial results may be adversely affected.

(11) *Our products and services may be subject to governmental restrictions, rating restrictions or to legal claims.*

Our products and services may be subject to governmental restrictions and legal systems which are enforced in countries we sell and offer them and to self-imposed restrictions and guidelines regulated by each industry group that we concern. If those legal restrictions and systems in each country were to be changed significantly, we may have to change our products, marketing strategies and business models in order to observe new regulations. As a result, we may be required to modify our products or alter our marketing strategies to comply with new regulations, which could delay or cancel the release of our products in those relevant countries. Moreover, uncertainties regarding the rating systems may give rise to confusion in the marketplace, and we are unable to predict what effect, if any, such rating systems would have on our business.

(12) If we are unable to continue transactions with third-parties outsourced our businesses by any reason, this may adversely affect our business and financial results.

We currently outsource our businesses, including development and offer of our products and services, to various third-parties. If we are unable to continue transactions with these outsourced third-parties by any reason, development and offer of our products and services may be harmed. Even though we take all possible measures to operate and manage those outsourced third-parties with controlling and maintaining our product and service qualities, third-parties may have some problems other than transactions with us. If these events may force to decline in qualities or reliabilities from customers of our product or services, our business and financial results may be adversely affected

(13) Our business and financial results could be affected adversely by harmful rumors in Internet massages concerning our products and services.

We are currently marketing products and services for various devises which are able to access Internet, and those customers have tendency to prefer for accessing Internet frequently. As Internet messages have characteristics that various information communicates regardless of true or false, our products and services may have tendency to be harmed by rumors of Internet messages. Even though we work to maintain quality and improve attraction of our products and services we offer, harmful rumors may damage the reputation and reliability of our products and services, and this may adversely affect our business and financial results.

(14) Our revenues and profits may be adversely affected by major natural disasters such as the Great East Japan Earthquake and Kumamoto earthquakes.

Natural disasters such as the Great East Japan Earthquake and Kumamoto earthquakes may cause postponement of the release of our products, delays in shipments due to the disruption of the distribution network, delays in delivery of parts procured from suppliers located in disaster-stricken areas, related revisions to our production system and increases in procurement costs for parts and cancellation in procurement caused by increased scarcity of parts and inventory supply shortages in the market, as well as the suspension of distribution services for online games due to damaged telecommunications infrastructure. As a result, our business and financial results may be adversely affected.

Risks Relating to Our Health & Fitness Segment

(1) Our Health & Fitness segment may not grow as we expect if we are not able to efficiently operate club locations upon opening such locations.

Our operating results depend in part on our ability to efficiently operate club locations upon opening such locations. The successful development of clubs will depend on various factors, including our ability to:

- locate suitable sites for clubs;
- successfully negotiate lease agreements and meet construction schedules and budgets;

- resolve zoning, permitting or other regulatory issues relating to the construction of new clubs;
- hire, train and retain qualified personnel;
- attract new members; and
- effectively address issues raised by other factors, some or all of which may be beyond our control.

If we are not able to adequately implement the factors outlined above, the growth of our Health & Fitness segment may be limited. We cannot assure you that we will be able to open new clubs in a timely and cost-efficient basis or operate our clubs profitably. Upon opening a new fitness club, we often experience an initial period of operating losses with respect to that club for the first year. However, this period can vary depending on the individual club, and may be substantially longer than a year. If we are unable to enhance the performance of our fitness clubs, our operating income may be adversely affected.

(2) A decline in membership levels of our fitness clubs could have a negative effect on our business.

The performance of our fitness clubs is dependent on our ability to attract, acquire and retain members. We cannot assure you that we will be successful in these efforts, or that the membership levels at one or more of our clubs will not decline. Our members can cancel their club membership at the end of any month provided that they give advance notice by the tenth day of that month. Because members periodically cancel their membership, our total number of members will decline unless we are able to attract new members each month. There are numerous factors that could lead to a decline in membership levels at established clubs or that could prevent us from increasing our membership at newer clubs, including our reputation, our ability to deliver quality service at a competitive cost, the presence of direct and indirect competition in the areas in which the clubs are located, general interest in sports and fitness clubs and general economic conditions. As a result of these factors, we cannot assure you that our membership levels will be adequate to maintain or permit the expansion of our operations. In addition, a decline in membership levels may have a material adverse effect on our performance, financial condition and results of operations.

(3) Failure to compete effectively in the fitness club industry will have an adverse effect on our results of operations.

The fitness club industry is highly competitive. We compete with other fitness clubs, physical fitness and recreational facilities established by local governments, hospitals and businesses for their employees, amenity and condominium clubs and, to a certain extent, with tennis clubs and other sports clubs, golf clubs, weight reducing salons and the home-use fitness equipment industry. We also compete with other entertainment and retail businesses for the discretionary income of our target markets. We cannot assure you that we will be able to compete effectively in the future in the markets in which we operate. In addition, we may face new competitors in the market that may be larger and have greater resources than us. These competitive conditions may limit our ability to increase dues without a material loss in membership, attract new members and attract and retain qualified personnel. Additionally, consolidation in the fitness club industry could result in increased competition among participants, particularly as large multi-facility operators are better able to compete for attractive acquisition candidates, thereby increasing costs associated with expansion through acquisitions, as well as negotiation of leases and the availability of real estate.

(4) We could be subject to future claims related to our operation at our facilities.

We may be subject to legal and compensation claims against us for our operation at our fitness clubs, including accidents which members are suffered by. We currently maintain general liability insurance coverage but there can be no assurance that such insurance will provide adequate coverage against potential claims. Any liability claim in excess of our insurance coverage may adversely affect our results of operations as well as damage our brand image.

(5) We are subject to various governmental regulations, any non-compliance with which could result in temporary closings and negative publicity, causing damage to our corporate image.

Our operations are subject to national, local and municipal government regulation in the various jurisdictions in which our clubs are located. These regulations include, but are not limited to, health, sanitation and safety regulations with respect to the sale of food and beverages and the operation of swimming pools and baths. Any failure to comply with these regulations could result in the temporary suspension or loss of licenses necessary for food service and other operations at our clubs. In addition, any resulting negative publicity could have an adverse effect on our reputation, resulting in deterioration of our brand image and ability to attract, acquire, and retain club members.

(6) We may be unable to get refunds of deposits and guarantee money relating to leases of land and buildings for the use of our fitness club facilities.

In many cases, we rent land and buildings when we open new fitness clubs. Under the lease agreements that we enter into with landowners, we are often required to make deposits and to provide guarantee money in case we default in payment of rent or neglect to restore the property to its original state upon termination of the lease agreement. Under such lease agreements, if we pay our rent and restore the property as stipulated, we are entitled to obtain refund of such deposits and guarantee money. However, if the owner of the property faces financial difficulty or is otherwise unable or unwilling to return these funds, we may not be able to obtain full refunds of such deposits and guarantee money.

(7) Inability to procure licenses for fitness programs from third parties or changes in the conditions of such licenses may adversely affect our revenues.

We obtain licenses for programs that have worldwide popularity, and supply the programs to not only our own facilities but also to other fitness clubs. In the event that it becomes difficult to renew licenses or if any changes are made to the conditions of such licenses, there may be a material adverse effect on our ability to supply programs to each facility and on our business results.

(8) The need to suspend our business operations due to unexpected epidemic diseases may adversely affect our revenues.

Due to the H1N1 influenza pandemic during fiscal 2010, the business operations of fitness clubs in some areas of Japan were suspended at the discretion of the government.

If an unexpected epidemic of an unknown or known disease in the future results in the suspension of business operations of our fitness clubs at the instruction of the government or at our own discretion, our business results could be affected.

(9) Abrupt changes in consumer tastes may adversely affect our business results.

Revenues due to usage of our facilities are highly dependent upon how consumers chose to spend their money, which makes it imperative that we unremittingly provide high quality services in line with customer needs. For example, our business results could be negatively affected if fitness trends which don't require the spending of money catch on, such as home fitness, running or walking.

(10) We may be adversely affected by natural disasters such as the Great East Japan Earthquake and Kumamoto earthquakes.

Due to natural disasters as typified by the Great East Japan Earthquake and Kumamoto earthquakes, our directly-owned fitness clubs may be damaged and the sports facilities outsourced to us may become evacuation centers in some regions, which could result in the suspension of operations at some of our fitness clubs. In the future, similar earthquake disasters and other natural disasters may occur again and the operations of some of our fitness clubs may be suspended, which could adversely affect the financial performance of our Health & Fitness segment.

Risks Relating to Our Gaming & Systems Segment

(1) If our gaming products are not accepted in the competitive market for gaming machines, we may be unable to compete in the gaming machine market.

Our success as a gaming machine manufacturer and supplier in overseas markets is dependent upon numerous factors, including our ability to design, manufacture, market and service gaming machines and casino management systems that achieve player and casino acceptance while maintaining product quality and acceptable margins and to obtain approvals for our products from gaming authorities. In addition, we must compete against gaming equipment and system companies. Some of our competitors have greater financial resources, name recognition, established service networks and customer relationships than we do, and are licensed in more jurisdictions than we are.

In order to diversify and expand sales, we have obtained licenses in every state and territory in Australia, the majority of states and territories in the United States, and the majority of legal gaming provinces in Canada, and we are marketing and selling gaming products in those markets. If our games and our system products fail to be accepted by the market, and we are otherwise unable to develop products that offer technological advantages or unique entertainment features, we will be unable to generate the revenues necessary to compete effectively in the competitive gaming product market. Consequently, the results of our operations could suffer.

(2) An adverse change affecting the gaming and systems industries, including a change in the economy, in gaming regulations or in the expansion and popularity of casino gaming, will negatively impact our profitability and our potential for growth.

Our ability to grow our business and operate profitably is substantially dependent upon the expansion of the gaming industry and factors that are beyond our control. These factors include, among others:

- changes in the economy;
- the pace of market expansion;
- changes in regulation;
- fluctuations in popularity of the casino industry; and
- changes in tax rates concerning the gaming industry instituted by national, state or province governments.

An adverse change in any of these political, legal and other factors may negatively impact our results of operations.

(3) Our failure to obtain or retain required licenses for our Gaming & Systems segment could prevent us from expanding our market and prohibit us from generating revenue in certain jurisdictions.

In North America, the manufacture and distribution of gaming products is subject to numerous federal, state, territory, provincial, tribal, international and local regulations. In addition, we may also be subject to regulation as a gaming operator for participation agreements under which we share in the revenues generated by gaming machines. These regulations are constantly changing and evolving, and may curtail gaming in various jurisdictions in the future, which would decrease the number of jurisdictions from which we can generate revenues.

Together with our key personnel, we undergo extensive investigation before each jurisdictional license is issued. Our gaming products are subjected to independent testing and evaluation prior to approval from each jurisdiction in which we do business. Generally, legal authorities have broad discretion when granting, renewing or revoking these game approvals and licenses. Our failure to obtain or retain a required license or approval in one jurisdiction could negatively impact our ability to obtain or retain required licenses and approvals in other jurisdictions. The failure to obtain or retain a required license or approval in any jurisdiction would decrease the geographic areas where we may operate and generate revenues, decrease our share in the gaming marketplace and put us at a disadvantage compared with our competitors. Consequently, the market price of our ordinary share may suffer.

(4) Natural disasters such as the damage caused by the record rainfall in northeastern Australia in January 2011 and the surrounding areas of the Mississippi River in May 2011 could have material adverse effects on our Gaming & Systems segment.

The record rainfall in the Australian northeastern region in January 2011 and in the surrounding areas of the Mississippi River in the U.S. in May 2011 raised concerns about a delay in transporting equipment for our products. Similar natural disasters could adversely affect the future business results of our Gaming & Systems segment.

Risks Relating to Our Pachislot & Pachinko Machines Segment

(1) Due to changes in various regulations concerning pachislot and pachinko machine business, this may adversely affect our business and financial results.

As for development, manufacture and sales of pachislot and pachinko machines, various regulations, including Act on Control and Improvement of Amusement Business, etc., are required to be strictly enforced. In the event that these regulations will change significantly or be violated by some occasions, our pachislot and pachinko machines may not be able to be sold. As for development of new machines, upon receipt of commission by a prefectural public safety commission, the Security Association conducts a regulatory check as to whether pachislot and pachinko machines fulfill prescribed conditions on the basis of documents submitted by the pachislot and pachinko makers. The date of release for a product may be delayed if reapplication and retest becomes necessary in the process of the procedures due to failure to gain an application lot, changes to the test standards and tightening of regulations, and judgment of non-conformance by the National Police Agency.

(2) Our pachislot and pachinko machines may be adversely affected because of groups attempting to make money through illicit methods (commonly referred to as goto-shi) in the pachislot and pachinko slot industry.

Our pachislot and pachinko machines may be adversely affected because of groups attempting to make money through illicit methods (commonly referred to as *goto-shi*) in the pachislot and pachinko industries. In the event of such manipulation by *goto-shi*, there may be a decline in sales volume due to the tarnishing of our brand image, and delays in the dates of release due to measures to prevent *goto-shi* manipulation of our other products.

(3) If our sales of pachislot and pachinko machines are below the original plan and the surplus of raw materials has occurred, our results of operations may be affected because loss on disposal of raw materials has occurred.

While we focus on and analyze order trends to inform our activities, due to long procurement times for certain raw materials and the short permitted time we have available to fulfill orders, we are required to procure raw materials to be used in production in advance of receiving confirmed sales from customers. Konami Group has implemented measures to allow for inventory reduction to mitigate this risk, including component standardization and shortening of the procurement period for raw materials. However, if sales of new product are significantly below the original forecast and we are unable to utilize surplus raw materials effectively in other products, large losses on disposal of raw materials may occur, and may affect our operating results.

(4) We may be adversely affected by natural disasters such as the Great East Japan Earthquake and Kumamoto earthquakes.

Natural disasters such as the Great East Japan Earthquake may cause postponement of the release of our products, delays in shipments due to the disruption of the distribution network, decreases in or cancellation of orders from facilities located in disaster-stricken areas, delays in delivery of parts procured from suppliers in the disaster-stricken areas and related revisions to our production system, as well as increases in procurement costs for parts and delays in procurement caused by increased scarcity of parts and inventory supply shortages in the market. Any of these factors could have an adverse effect on our business.

July 15, 2016

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.