Annual Financial Report

KONAMI HOLDINGS CORPORATION and its subsidiaries

Consolidated Financial Statements
For the fiscal year ended March 31, 2021

KONAMI HOLDINGS CORPORATION

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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

Consolidated Financial Statements

(1) Consolidated Statement of Financial Position

Millions of Yen

	Note	As of March 31, 2020	As of March 31, 2021
Assets			
Current assets			
Cash and cash equivalents	5,23	¥131,432	¥202,430
Trade and other receivables	6,23,24	29,894	31,874
Inventories	7	10,000	10,391
Income tax receivables		1,924	12,470
Other current assets	14,23	14,493	9,516
Total current assets		187,743	266,681
Non-current assets			
Property, plant and equipment, net	8,10	116,631	106,025
Goodwill and intangible assets	9	34,423	36,813
Investment property	11	32,484	32,433
Investments accounted for using the equity method	12	3,128	3,128
Other investments	13,23	1,554	1,590
Other financial assets	14,23	17,229	15,491
Deferred tax assets	19	23,735	25,051
Other non-current assets		2,207	1,794
Total non-current assets		231,391	222,325
Total assets		¥419,134	¥489,006

	Note	As of March 31, 2020	As of March 31, 2021
			Millions of Yen
Liabilities and equity			
Liabilities			
Current liabilities			
Bonds and borrowings	15,23,30	¥28,265	¥5,535
Other financial liabilities	10,18,23,30	12,187	12,570
Trade and other payables	16,23	31,264	32,827
Income tax payables		2,997	3,027
Other current liabilities	17,24	22,053	25,901
Total current liabilities		96,766	79,860
Non-current liabilities			
Bonds and borrowings	15,23,30	9,855	69,640
Other financial liabilities	10,18,23,30	34,553	26,227
Provisions	17	6,674	10,694
Deferred tax liabilities	19	886	1,332
Other non-current liabilities	20,24	1,457	1,711
Total non-current liabilities		53,425	109,604
Total liabilities		150,191	189,464
Equity			
Share capital	21	47,399	47,399
Share premium	21	74,399	74,399
Treasury shares	21	(27,836)	(27,843)
Other components of equity	28	(89)	2,173
Retained earnings	21	174,268	202,599
Total equity attributable to owners of the parent		268,141	298,727
Non-controlling interests		802	815
Total equity		268,943	299,542
Total liabilities and equity		¥419,134	¥489,006

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

(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, 2020	Fiscal year ended March 31, 2021
Revenue			
Product sales revenue		¥69,298	¥61,177
Service and other revenue		193,512	211,479
Total revenue	4,24	262,810	272,656
Cost of revenue			
Cost of product sales revenue		(36,431)	(31,237)
Cost of service and other revenue		(126,612)	(127,978)
Total cost of revenue	25	(163,043)	(159,215)
Gross profit		99,767	113,441
Selling, general and administrative expenses	25	(55,470)	(49,277)
Other income and other expenses, net	26	(13,325)	(27,614)
Operating profit		30,972	36,550
Finance income	27	352	78
Finance costs	27	(903)	(1,104)
(Loss) profit from investments accounted for using the equity method		(26)	57
Profit before income taxes		30,395	35,581
Income taxes	19	(10,498)	(3,307)
Profit for the year		19,897	32,274
Profit attributable to:			
Owners of the parent		19,892	32,261
Non-controlling interests		¥5	¥13

Yen

	Note	Fiscal year ended March 31, 2020	Fiscal year ended March 31, 2021
Earnings per share (attributable to owners of the parent)			
Basic	29	¥147.26	¥242.17
Diluted	29	¥145.08	¥238.33

Consolidated Statement of Comprehensive Income

Millions of Yen

	Note	Fiscal year ended March 31, 2020	Fiscal year ended March 31, 2021
Profit for the year		¥19,897	¥32,274
Other comprehensive income			
Items that will not be reclassified to profit or loss:			
Net change in fair value of equity financial assets measured at fair value through other comprehensive income	28	(28)	23
Share of other comprehensive income of entity accounted for using the equity method	28	0	-
Total items that will not be reclassified to profit or loss		(28)	23
Items that may be reclassified to profit or loss:			
Exchange differences on foreign operations	28	(1,635)	2,239
Total items that may be reclassified to profit or loss		(1,635)	2,239
Total other comprehensive income		(1,663)	2,262
Total comprehensive income for the year		18,234	34,536
Comprehensive income attributable to:			
Owners of the parent		18,229	34,523
Non-controlling interests		¥5	¥13

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

(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 April 1, 2019		¥47,399	¥74,426	¥(21,325)	¥1,583	¥173,544	¥275,627	¥777	¥276,404
Changes in accounting policies						(5,180)	(5,180)		(5,180)
Beginning balance after adjusting		47,399	74,426	(21,325)	1,583	168,364	270,447	777	271,224
Profit for the year						19,892	19,892	5	19,897
Other comprehensive income					(1,663)		(1,663)	0	(1,663)
Total comprehensive income for the year		-	-	-	(1,663)	19,892	18,229	5	18,234
Purchase of treasury shares	21			(6,511)			(6,511)		(6,511)
Disposal of treasury shares	21		0	0			0		0
Dividends	22					(13,997)	(13,997)		(13,997)
Changes in ownership interests in subsidiaries			(27)				(27)	20	(7)
Transfer from other components of equity to retained earnings					(9)	9	-		-
Total transactions with the owners		-	(27)	(6,511)	(9)	(13,988)	(20,535)	20	(20,515)
Balance at March 31, 2020		47,399	74,399	(27,836)	(89)	174,268	268,141	802	268,943
Profit for the year						32,261	32,261	13	32,274
Other comprehensive income					2,262		2,262		2,262
Total comprehensive income for the year		-	-	-	2,262	32,261	34,523	13	34,536
Purchase of treasury shares	21			(7)			(7)		(7)
Disposal of treasury shares	21		0	0			0		0
Dividends	22					(3,930)	(3,930)		(3,930)
Total transactions with the owners		-	0	(7)	-	(3,930)	(3,937)	-	(3,937)
Balance at March 31, 2021		¥47,399	¥74,399	¥(27,843)	¥2,173	¥202,599	¥298,727	¥815	¥299,542

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

(4) Consolidated Statement of Cash Flows

Millions of Yen

	Note	Fiscal year ended March 31, 2020	Fiscal year ended March 31, 2021
Operating activities			
Profit for the year		¥19,897	¥32,274
Depreciation and amortization		26,585	19,172
Impairment losses		10,985	22,232
Interest and dividends income		(312)	(76)
Interest expense		882	899
Loss on sale or disposal of property, plant and equipment		1,353	415
Loss (profit) from investments accounted for using the equity method		26	(57)
Income taxes		10,498	3,307
Decrease (increase) in trade and other receivables		2,250	(1,352)
(Increase) decrease in inventories		(1,703)	62
(Decrease) increase in trade and other payables		(448)	3,686
Increase in prepaid expense		(444)	(560)
(Decrease) increase in contract liabilities		(2,289)	3,506
Other, net		(1,204)	3,689
Interest and dividends received		309	90
Interest paid		(873)	(773)
Income taxes paid		(14,346)	(16,744)
Net cash provided by operating activities		51,166	69,770
Investing activities			
Capital expenditures		(62,565)	(23,561)
Payments for lease deposits		(739)	(827)
Proceeds from refunds of lease deposits		1,627	5,538
Payments for asset retirement obligations		(77)	(3,377)
Payments into time deposits		(1,034)	(423)
Proceeds from withdrawal of time deposits		357	586
Other, net		284	(348)
Net cash used in investing activities		(62,147)	(22,412)
Financing activities			
Proceeds from short-term (more than 3 months) borrowings	30	33,721	10,561
Repayments of short-term (more than 3 months) borrowings	30	(10,906)	(33,413)
Proceeds from the issuance of bonds	15,30	-	60,000
Redemption of bonds	15,30	(5,000)	-
Principal payments of lease liabilities	30	(13,182)	(10,485)
Dividends paid	22	(13,984)	(3,929)
Purchase of treasury shares	21	(6,511)	(7)
Other, net		(7)	(301)
Net cash (used in) provided by financing activities		(15,869)	22,426
Effect of exchange rate changes on cash and cash equivalents		(960)	1,214
Net (decrease) increase in cash and cash equivalents		(27,810)	70,998
Cash and cash equivalents at the beginning of the year	5	159,242	131,432
Cash and cash equivalents at the end of the year	5	¥131,432	¥202,430

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

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, Amusement, Gaming & Systems, and Sports businesses. The operations of each business segment are presented in Note 4 "Segment Information."

2. Basis of Preparation

(1) Compliance with IFRS

The 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 applied 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- (15) Revenue" and Note 24 "Revenue."
- Recognition of deferred tax assets: Note 19 "Deferred Taxes and Income Tax Expense."
- Impairment losses for property, plant and equipment, goodwill and intangible assets: Note 3 "Significant Accounting Policies- (10) Impairment (ii) Non-financial assets," Note 8 "Property, Plant and Equipment, net" and Note 9 "Goodwill and Intangible Assets."

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

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

(5) Changes in presentation

(Consolidated Statement of Cash Flows)

Although "payments for asset retirement obligations" had been included in "other, net" in Investing activities of the Consolidated Statement of Cash Flows for the fiscal year ended March 31, 2020, it is separately presented for the fiscal year ended March 31, 2021 due to an increase in the financial significance of the balance. To reflect this change in presentation in the Consolidated Statement of Cash Flows, the comparative balance of the fiscal year ended March 31, 2020 has been reclassified.

Thus, ¥207 million presented in "other, net" in Investing activities of the Consolidated Statement of Cash Flows for the fiscal year ended March 31, 2020 has been reclassified as "payments for asset retirement obligations" of ¥(77) million and "other, net" of ¥284 million.

(6) Early adoption of new accounting standards

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

Konami Group has elected to adopt this practical expedient for rent concessions that meet certain prescribed conditions; however, the impact on profit before income taxes for the fiscal year ended March 31, 2021 was immaterial.

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

There were no significant 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 adopted by the Company as of March 31, 2021.

3. Significant Accounting Policies

(1) Basis of consolidation

(1) 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.

(2) 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

(1) Foreign currency transactions

Foreign currency transactions are translated into the functional currencies of each of Konami Group companies using the appropriate exchange rate 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 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.

(2) 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

(1) 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.

(2) 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.

(3) 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.

Right-of-use assets are 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.

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

(1) Goodwill

(i) 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.

(ii) 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 indicators of impairment exist.

(2) Intangible assets acquired in business combinations

Intangible assets, such as trademarks, and patents, 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.

(3) 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.

(4) Other intangible assets

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

(5) 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 are indicators 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	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, 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 indicators of impairment exist.

(8) Leases

(Lessee)

At inception of a contract, Konami Group assesses whether the contract is, or contains, a lease, based on the substance of the contract. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

At the commencement date of a lease, the right-of-use asset is measured at cost which comprises the amount of the initial measurement of lease liability, any lease payments made at or before the commencement date less any lease incentives received, any initial direct costs and restoration costs. The right-of-use asset is depreciated on a straight-line basis from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The lease liability is measured at the discounted present value of the lease payments that are not paid at that date. Based on the effective interest method, the lease liability is allocated between the finance cost and the lease liability to be repaid.

Konami Group recognizes the lease payments associated with short-term leases and leases for which the underlying asset is of low value as an expense on a straight-line basis over the lease term.

(Lessor)

Konami Group has classified leases as operating leases if they do not transfer substantially all the risks and rewards incidental to ownership of underlying assets. In operating leases, the leases' underlying assets are carried on the Consolidated Statement of Financial Position and lease payments are recognized as income on a straight-line basis over the lease term.

(9) Investment Property

Investment property is presented at cost less any accumulated depreciation and any accumulated impairment losses.

After initial recognition, investment property is measured by the cost model using estimated useful life and depreciation method on the same basis as property, plant and equipment.

(10) Impairment

(1) Impairment of non-derivative financial assets

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 indicators 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.

(2) 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 indicators of impairment exist at the end of each reporting period. If indicators of impairment exist, 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 indicators of impairment exist.

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 allocated 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 are indicators 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 are indicators that the losses may no longer exist or may have decreased. Such impairment losses are reversed if there have been indicators 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.

(11) 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.

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.

(12) 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.

(13) Financial instruments

(1) Financial assets

(i) Initial recognition and measurement

Konami Group initially recognizes financial assets when it becomes a party to the contract, and classifies them into the following categories: financial assets measured at amortized cost, financial assets measured at fair value through other comprehensive income, and financial assets measured at fair value through profit or loss.

At initial recognition, all financial assets are measured at fair value. However, in the case of a financial asset that is not classified as a financial asset measured at fair value through profit or loss, it is measured at the fair value plus any transaction costs directly attributable to the acquisition of the financial asset. The transaction costs of financial assets measured at fair value through profit or loss are recognized in profit or loss.

(a) Financial assets measured at amortized cost

Of the financial assets held by Konami Group, those that meet both of the following conditions are classified as financial assets measured at amortized cost:

- The financial asset is held within a business model whose objective is to hold financial assets to collect contractual cash flows.
- The contractual terms of the financial asset give rise on specified dates to cash flows.

(b) Financial assets measured at fair value through other comprehensive income

Equity instruments such as shares held mainly for the purpose of maintaining or strengthening business relationships with investees are designated at initial recognition as financial assets measured at fair value through other comprehensive income. Subsequent to initial recognition, the financial assets are measured at fair value and changes in the fair value are recognized in other comprehensive income. Debt instruments, which are held to achieve an objective by both collecting contractual cash flows and selling and those contractual cash flows represent solely payments of principal and interest, are designated as financial assets measured at fair value through other comprehensive income.

(c) Financial assets measured at fair value through profit or loss

Financial assets other than (a) and (b) as above are classified as financial assets measured at fair value through profit or loss.

(ii) Subsequent measurement after initial recognition

Based on the classifications, subsequent measurement of financial assets after initial recognition are as follows.

(a) Financial assets measured at amortized cost

Financial assets measured at amortized cost are measured at amortized cost using the effective interest method subsequent to the initial recognition.

(b) Financial assets measured at fair value through other comprehensive income

As for financial assets measured at fair value through other comprehensive income, changes in the fair value are recognized in other comprehensive income subsequent to the initial recognition. In the event of derecognition of equity instruments, the cumulative amount of gains or losses recognized through other comprehensive income is directly transferred from other component of equity to retained earnings. Dividends from the relevant financial asset are recognized in profit or loss for the reporting period. In the event of derecognition of debt instruments, the cumulative amount of gains or losses recognized through other comprehensive income is transferred to profit or loss.

(c) *Financial assets measured at fair value through profit or loss*

As for financial assets measured at fair value through profit or loss, changes in the fair value are recognized in profit or loss subsequent to the initial recognition. Dividends from the relevant financial asset are recognized in profit or loss for the reporting period.

(iii) Impairment of financial assets

For financial assets measured at amortized cost and debt instruments measured at fair value through other comprehensive income, Konami Group records allowance for expected credit losses. Konami Group evaluates at the end of each reporting period whether there is a significant increase in credit risk of financial assets since initial recognition. When there is a significant increase in credit risk since initial recognition, the amount equal to expected credit losses for the remaining life of the financial assets are measured as allowance for expected credit losses. When there is no significant increase in the credit risk since initial recognition, the amount equal to expected credit losses for 12 months are measured as allowance for expected credit losses. For trade and other receivables, allowance for expected credit losses are always measured at the amount equal to expected credit losses for the remaining life of the assets.

Expected credit losses are measured based on the present value of the difference between all contractual cash flows to be paid to Konami Group and all cash flows expected to be received by Konami Group, and are recognized in profit or loss. If the amount of impairment losses decreased due to any event that occurred after the initial recognition of the impairment losses, the previously recognized impairment losses are reversed and recognized in profit or loss.

If there is any objective evidence of credit impairment for financial assets such as significant financial difficulty of a debtor, and a contract violation, including a default or delinquency in payment, interest income is measured at the amount calculated by multiplying the carrying amount less the loss allowance by the effective interest rate. If the recovery of all or part of the contractual cash flows of a certain financial asset cannot be reasonably estimated, the carrying amount is directly reduced in the total amount of financial assets.

(iv) Derecognition of financial assets

Konami Group derecognizes a financial asset only if the contractual rights to the cash flows from the financial asset expire or if it transfers the contractual rights to receive the cash flows of the financial asset in a transaction where it transfers substantially all risks and rewards of ownership of the financial asset. If Konami Group continues to control the transferred assets, it recognizes retained interests in the financial assets and liabilities that might be payable in association therewith, to the extent of its continuing involvement in the financial assets.

(2) Financial liabilities

(i) Initial recognition and measurement

Konami Group initially classifies financial liabilities into either a financial liability measured at amortized cost or a financial liability measured at fair value through profit or loss. This classification is determined at initial recognition of the financial liabilities.

While financial liabilities measured at fair value through profit or loss are measured at fair value at initial recognition, financial liabilities measured at amortized cost are measured at the amount less directly attributable transaction costs.

(ii) Subsequent measurement after initial recognition

Based on the classifications, subsequent measurement of financial liabilities after initial recognition are as follows.

(a) Financial liabilities measured at amortized cost

Financial liabilities measured at amortized cost are measured at amortized cost using the effective interest method subsequent to the initial recognition.

Amortization by the effective interest method, as well as gains and losses associated with the derecognition shall be measured in profit or loss for the reporting period.

(b) Financial liabilities measured at fair value through profit or loss

As for financial liabilities measured at fair value through profit or loss, changes in the fair value are recognized in profit or loss for the reporting period subsequent to the initial recognition.

(iii) Derecognition of financial liabilities

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

(3) Offsetting financial assets and liabilities

Financial assets and liabilities are offset, with the net amount presented in the Consolidated Statement of Financial Position, only if Konami Group holds a legal right to set off the balance, and there is an intention to settle on a net basis or to realize the asset and settle the liability simultaneously.

(4) 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.

(5) Derivatives and hedge accounting

Derivatives are initially recognized at fair value on the date when the derivative contracts are entered into, and are subsequently remeasured to their fair value at the end of each reporting period.

Konami Group uses derivatives such as forward exchange contracts to determine cash flows related to recognized financial asset and liabilities and the future transactions. Interest rate swaps have also agreed with as hedging instruments against foreign exchange risk and interest rate risk.

Hedge accounting is not applied to the above derivatives.

(14) Equity

(1) Ordinary shares

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

(2) 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.

(15) Revenue

Konami Group recognizes revenue from contracts with customers based on the following five step approach, (excluding interest, dividend and other such income from financial instruments recognized in accordance with IFRS 9 and insurance revenues recognized in accordance with IFRS 4.)

Step 1: Identify the contract(s) with a customer
Step 2: Identify the performance obligations in the contract
Step 3: Determine the transaction price
Step 4: Allocate the transaction price to the performance obligations in the contract
Step 5: Recognize revenue when (or as) the entity satisfies a performance obligation

Revenue is recognized at the amount of consideration promised in the contract with the customer after deduction of refund liabilities, including returned goods, trade discounts, and rebates.

(16) Finance income and finance costs

Finance income mainly consists of interest income, dividend income, foreign currency exchange gains and gains on sales of equity 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 equity financial assets. Interest expenses are recognized using the effective interest method as incurred.

(17) 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.

(18) 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, card games and computer and video games.
2. Amusement:	Production, manufacture and sale of amusement machines.
3. Gaming & Systems:	Production, manufacture, sale and service of gaming machines and casino management systems for overseas markets.
4. Sports:	Operation of fitness activities and sports classes, including swimming, gymnastics, dance, soccer, tennis, and golf, and production and sale of sports related goods.

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

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 Statement 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, 2020 and 2021.

(1) Operating segment information

	Fiscal year ended March 31, 2020	Fiscal year ended March 31, 2021
		Millions of Yen
Revenue:		
Digital Entertainment –		
External customers	¥152,725	¥203,527
Intersegment	670	658
Total	¥153,395	¥204,185
Amusement –		
External customers	¥23,022	¥16,384
Intersegment	696	1,252
Total	¥23,718	¥17,636
Gaming & Systems –		
External customers	¥28,401	¥16,643
Intersegment	-	-
Total	¥28,401	¥16,643
Sports –		
External customers	¥58,662	¥36,102
Intersegment	322	307
Total	¥58,984	¥36,409
Intersegment eliminations	¥(1,688)	¥(2,217)
Consolidated	¥262,810	¥272,656

Konami Group defines business profit associated with each segment as segment profit. Business profit is calculated by deducting “cost of revenue” and “selling, general and administrative expenses” from “revenue.”

	Fiscal year ended March 31, 2020	Fiscal year ended March 31, 2021
		Millions of Yen
Business profit (loss):		
Digital Entertainment	¥43,198	¥73,446
Amusement	5,339	2,413
Gaming & Systems	1,782	(2,077)
Sports	33	(5,873)
Total segment profit	50,352	67,909
Corporate expenses and eliminations	(6,055)	(3,745)
Total business profit	44,297	64,164
Other income and other expenses, net	(13,325)	(27,614)
Finance income and finance costs, net	(551)	(1,026)
(Loss) profit from investments accounted for using the equity method	(26)	57
Profit before income taxes	¥30,395	¥35,581

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

	As of March 31, 2020	As of March 31, 2021
		Millions of Yen
Segment assets:		
Digital Entertainment	¥191,928	¥209,241
Amusement	56,063	51,536
Gaming & Systems	34,014	33,412
Sports	84,032	63,620
Total	366,037	357,809
Corporate assets	53,097	131,197
Consolidated	¥419,134	¥489,006

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 Sports segment are discussed in Note 12" 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, 2020	Fiscal year ended March 31, 2021
		Millions of Yen
Impairment losses:		
Digital Entertainment	¥1,101	¥2,832
Amusement	382	640
Sports	6,445	18,587
Total	7,928	22,059
Corporate assets	3,057	173
Consolidated	¥10,985	¥22,232

	Fiscal year ended March 31, 2020	Fiscal year ended March 31, 2021
		Millions of Yen
Depreciation and amortization:		
Digital Entertainment	¥9,657	¥4,319
Amusement	3,494	2,246
Gaming & Systems	1,999	1,699
Sports	9,090	8,135
Total	24,240	16,399
Corporate assets	2,345	2,773
Consolidated	¥26,585	¥19,172

	Fiscal year ended March 31, 2020	Fiscal year ended March 31, 2021
		Millions of Yen
Investments in non-financial assets:		
Digital Entertainment	¥13,150	¥11,695
Amusement	3,414	3,221
Gaming & Systems	1,484	2,220
Sports	3,028	900
Total	21,076	18,036
Corporate assets	41,861	5,938
Consolidated	¥62,937	¥23,974

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

(2) Geographic Information

Revenue from external customers

	Fiscal year ended March 31, 2020	Fiscal year ended March 31, 2021
		Millions of Yen
Revenue:		
Japan	¥204,518	¥221,512
United States	36,746	28,551
Europe	12,551	13,478
Asia/Oceania	8,995	9,115
Consolidated	¥262,810	¥272,656

	As of March 31, 2020	As of March 31, 2021
		Millions of Yen
Non-current assets:		
Japan	¥168,031	¥157,858
United States	14,253	16,118
Europe	351	346
Asia/Oceania	903	949
Consolidated	¥183,538	¥175,271

Non-current assets consist of property, plant and equipment as well as intangible assets including goodwill and investment property.

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, 2020	As of March 31, 2021
Cash and cash equivalents:		
Cash and deposits	¥125,475	¥201,606
Short-term deposits with maturities of three months or less	5,957	824
Total cash and cash equivalents on the Consolidated Statement of Financial Position	¥131,432	¥202,430

The balances of cash and cash equivalents on the Consolidated Statement of Financial Position agreed with the respective balances in Consolidated Statement of Cash Flows as of March 31, 2020 and 2021.

6. Trade and Other Receivables

The breakdown of trade and other receivables is as follows:

Millions of Yen

	As of March 31, 2020	As of March 31, 2021
Notes receivables	¥746	¥478
Accounts receivables	28,389	31,036
Other receivables	858	739
Less: allowance for expected credit losses	(99)	(379)
Total	¥29,894	¥31,874

7. Inventories

The breakdown of inventories is as follows:

Millions of Yen

	As of March 31, 2020	As of March 31, 2021
Finished products	¥4,351	¥6,153
Work in process	469	466
Raw materials and supplies	5,180	3,772
Total	¥10,000	¥10,391

Inventories recognized as the cost of revenue for the fiscal years ended March 31, 2020 and 2021 were ¥28,826 million and ¥26,261 million, respectively.

Loss on valuation recognized as an expense for the fiscal years ended March 31, 2020 and 2021 were ¥413 million and ¥913 million, respectively.

8. Property, Plant and Equipment, net

(1) Reconciliations

Changes in acquisition cost, accumulated depreciation, accumulated impairment loss and the carrying amount of 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, 2019	¥35,114	¥111,510	¥31,690	¥8,067	¥186,381
Changes in accounting policies	3,317	36,750	-	-	40,067
Beginning balance after adjusting	38,431	148,260	31,690	8,067	226,448
Acquisitions	2,849	13,041	5,275	861	22,026
Sales and disposal	(252)	(5,673)	(3,397)	-	(9,322)
Transfer from construction in progress	-	8,194	(305)	(8,740)	(851)
Effect of foreign currency	(9)	(281)	(168)	(1)	(459)
Others	1	(1,119)	(63)	13	(1,168)
Balance as of March 31, 2020	41,020	162,422	33,032	200	236,674
Acquisitions	3,805	4,973	2,591	2,185	13,554
Sales and disposal	(21)	(14,472)	(2,161)	-	(16,654)
Transfer from construction in progress	57	1,462	(148)	(1,820)	(449)
Effect of foreign currency	32	465	260	1	758
Others	(146)	6,084	69	(112)	5,895
Balance as of March 31, 2021	¥44,747	¥160,934	¥33,643	¥454	¥239,778

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, 2019	¥(141)	¥(79,381)	¥(24,618)	-	¥(104,140)
Depreciation expenses	(508)	(12,279)	(3,271)	-	(16,058)
Sales and disposal	-	3,100	3,346	-	6,446
Impairment losses	(37)	(6,808)	(200)	-	(7,045)
Transfer from construction in progress	-	-	525	-	525
Effect of foreign currency	-	65	152	-	217
Others	(1)	26	(13)	-	12
Balance as of March 31, 2020	(687)	(95,277)	(24,079)	-	(120,043)
Depreciation expenses	(546)	(9,077)	(3,195)	-	(12,818)
Sales and disposal	21	14,416	2,033	-	16,470
Impairment losses	(1,336)	(15,241)	(651)	-	(17,228)
Transfer from construction in progress	-	-	230	-	230
Effect of foreign currency	-	(138)	(183)	-	(321)
Others	-	(112)	69	-	(43)
Balance as of March 31, 2021	¥(2,548)	¥(105,429)	¥(25,776)	-	¥(133,753)

Millions of Yen

	Land	Buildings and structures	Tools, furniture and fixtures	Construction in progress	Total
Carrying amount					
Balance as of March 31, 2020	¥40,333	¥67,145	¥8,953	¥200	¥116,631
Balance as of March 31, 2021	¥42,199	¥55,505	¥7,867	¥454	¥106,025

1) Depreciation expenses on property, plant and equipment are included in "costs of revenue," "selling, general and administrative expenses" and "other income and other expenses, net."
2) The balance of right-of-use assets are included in above.
3) The impact of updated estimate for asset retirement obligations are included in "others" in "buildings and structures" in above.

(2) Impairment losses

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

Millions of Yen

	As of March 31, 2020	As of March 31, 2021
Amusement segment		
Tools, furniture and fixtures	-	¥16
Sports segment		
Land	¥37	1,336
Buildings and structures	3,751	15,155
Tools, furniture and fixtures	200	562
Corporate assets		
Buildings and structures	3,057	86
Tools, furniture and fixtures	-	73
Total	¥7,045	¥17,228

Impairment losses are presented in the line item "other income and other expenses, net" in the Consolidated Statement of Profit or Loss.

Konami Group allocates 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.

(1) Sports segment

Konami Group determines its property, plant and equipment separated by geographical areas as the smallest cash-generating unit ("CGU") that generates largely independent cash inflows.

In the third quarter of the fiscal year ended March 31, 2020, for certain CGUs where indicators of impairment, including continuous deterioration of operating profits falling below zero, were identified, impairment tests were performed. As a result, impairment loss of ¥3,750 million was recognized on the CGUs where the recoverable amounts fell below their carrying amounts. The recoverable amount of CGUs was measured on the basis of its value in use which is the discounted present value of expected future cash flow on the medium-term management plans approved by management. The recoverable amount of the CGUs in which impairment loss was recognized was ¥3,044 million.

In the fourth quarter of the fiscal year ended March 31, 2020, all of CGUs were tested for impairment since the significant change of business environment would be concerned by the impact of coronavirus outbreak and indicators of impairment were identified. Therefore, impairment loss of ¥238 million was recognized. The recoverable amount of CGUs was measured on the basis of its value in use which is the discounted present value of expected future cash flow on the medium-term management plans above, which was affected by the coronavirus outbreak on certain assumptions. The recoverable amount of the CGUs in which impairment loss was recognized was ¥2,956 million.

In the fourth quarter of the fiscal year ended March 31, 2021, indicators of impairment were identified for all of CGUs due to degradation in the business environment expected as a result of the impact of prolonged coronavirus outbreak, and, as a result, impairment tests were performed. Therefore, impairment loss of ¥17,053 million was recognized. The recoverable amount of CGUs was measured as the higher of its value in use which is the discounted present value of expected future cash flow or fair value less costs of disposal, on the updated medium-term management plans. The recoverable amount of the CGUs in which impairment loss was recognized was ¥27,929 million.

The key assumption for measurement of value in use is mainly sales growth rate based on membership trends. The fair value less costs of disposal was measured with external sources of information and the relevant fair value is categorized as Level 3.

The discount rate used in calculating its value in use on the basis of weighted average cost of capital corresponding to the CGUs for the fiscal year ended March 31, 2020 and 2021 were 5.3 % and 6.2%, respectively.

(2) Corporate assets

For the fiscal year ended March 31, 2020, the right-of-use assets (Buildings and structures), related to the contract for building which we had rented, was identified as an idle asset by relocation to our new building "Konami Creative Center Ginza." Thus, the carrying amount of the right-of-use asset was reduced to its recoverable amount and impairment loss of ¥3,057 million was recognized in "other income and other expenses, net" in the Consolidated Statement of Profit or Loss.

The recoverable amount of the asset was determined based mainly on value in use, and the carrying amount impaired to zero.

(3) Borrowing costs

During the fiscal year ended March 31, 2020, Konami Group capitalized borrowing costs amounting to ¥14 million. Borrowing costs on qualifying assets were capitalized at the weighted average rate for general borrowings of 0.66%.

During the fiscal year ended March 31, 2021, there were no capitalized borrowing costs on qualifying assets.

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, 2019	¥22,018	¥52,148	¥50,561	¥6,640	¥7,657	¥139,024
Acquisitions	-	2,134	-	-	-	2,134
Internally generated development costs	-	9,881	-	-	-	9,881
Sales and disposals	-	(12,587)	-	-	(30)	(12,617)
Effect of foreign currency	(11)	(31)	-	-	(98)	(140)
Others	-	(49)	-	-	(30)	(79)
Balance as of March 31, 2020	22,007	51,496	50,561	6,640	7,499	138,203
Acquisitions	108	1,564	-	-	621	2,293
Internally generated development costs	-	11,746	-	-	-	11,746
Sales and disposals	-	(42,690)	-	-	-	(42,690)
Effect of foreign currency	16	26	-	-	135	177
Others	-	(449)	-	-	868	419
Balance as of March 31, 2021	¥22,131	¥21,693	¥50,561	¥6,640	¥9,123	¥110,148

Millions of Yen

	Goodwill	Internally generated intangible assets	Trademarks	Memberships	Others	Total
Accumulated amortization and impairment losses						
Balance as of March 31, 2019	¥(4,127)	¥(42,103)	¥(41,859)	¥(6,640)	¥(6,215)	¥(100,944)
Amortization expenses	-	(10,184)	-	-	(322)	(10,506)
Sales and disposals	-	11,461	-	-	30	11,491
Impairment losses	(2,441)	(1,482)	-	-	0	(3,923)
Effect of foreign currency	-	24	-	-	42	66
Others	-	36	-	-	-	36
Balance as of March 31, 2020	(6,568)	(42,248)	(41,859)	(6,640)	(6,465)	(103,780)
Amortization expenses	-	(5,876)	-	-	(427)	(6,303)
Sales and disposals	-	42,267	-	-	-	42,267
Impairment losses	-	(3,456)	(1,534)	-	(14)	(5,004)
Effect of foreign currency	-	(3)	-	-	(55)	(58)
Others	-	291	-	-	(748)	(457)
Balance as of March 31, 2021	¥(6,568)	¥(9,025)	¥(43,393)	¥(6,640)	¥(7,709)	¥(73,335)

	Goodwill	Internally generated intangible assets	Trademarks	Memberships	Others	Total
Carrying amount						
Balance as of March 31, 2020	¥15,439	¥9,248	¥8,702	-	¥1,034	¥34,423
Balance as of March 31, 2021	¥15,563	¥12,668	¥7,168	-	¥1,414	¥36,813

Millions of Yen

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, 2020 and 2021, the carrying amounts of intangible assets with indefinite useful lives included in above were ¥8,940 million and ¥7,472 million, respectively. Since those identifiable intangible assets primarily consist of trademarks 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, 2021.

(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, 2020	As of March 31, 2021
Goodwill		
Digital Entertainment	¥15,314	¥15,324
Gaming & Systems	125	239
Total	¥15,439	¥15,563
Intangible assets with an indefinite life		
Gaming & Systems	¥238	¥304
Sports	8,702	7,168
Total	¥8,940	¥7,472

Intangible assets with an indefinite useful life mainly consist of trademarks attributable to the Sports segment.

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

(1) 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. Even if the key assumptions used in the impairment test have changed within a reasonably predictable range, 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.

(2) Sports segment

In the Sports segment, the goodwill are grouped into the smallest CGU, which generates largely independent cash inflows. The recoverable amount of a CGU is calculated on the basis of its fair value less costs of disposal. The fair value less costs of disposal is determined to consider the results of multiple valuation techniques, including discounted cash flow method and comparable listed company comparison method, and the relevant fair value is categorized as Level 3.

Discounted cash flow method uses the discounted present value of the future cash flows based on the medium-term management plans approved by management based on the 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.

For the fiscal year ended March 31, 2020, impairment loss of ¥2,441 million was recognized in "other income and other expenses, net" in the Consolidated Statement of Profit or Loss since the recoverable amount of goodwill fell below its carrying amount. The recognition of impairment loss was mainly due to the revision of business plan under ongoing rapid change of market structure.

The recoverable amounts of trademarks identified as the component of the Sports segment is calculated as fair value less costs of disposal using the relief-from-royalty method and the fair value is categorized as Level 3. The key assumption for the calculation of fair value less costs of disposal is sales growth rate based on membership trends.

For the fiscal year ended March 31, 2021, impairment loss of ¥1,534 million was recognized in "other income and other expenses, net" in the Consolidated Statement of Profit or Loss as Konami Group concluded that the recoverable amounts of trademarks fell below its carrying amount. The recognition of impairment loss was mainly due to difficulty in achieving growth forecasted previously for this business, which was a result of the impact of the prolonged coronavirus outbreak.

The discount rate is calculated based on the weighted average capital cost of the relevant CGU. For the fiscal year ended March 31, 2020 and 2021, the discount rates were 5.3% and 6.2%, respectively.

(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 indicators of impairment exist. If there are indicators of impairment, 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 estimating future cash flows using assumptions, including sales projections and estimated costs of each title.

Impairment losses recognized and included in the line item "other income and other expenses, net" in the Consolidated Statement of Profit or Loss for the fiscal years ended March 31, 2020 and 2021 are as follows:

Millions of Yen

	Fiscal year ended March 31, 2020	Fiscal year ended March 31, 2021
Digital Entertainment	¥1,100	¥2,832
Amusement	382	624
Total	¥1,482	¥3,456

(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, 2020 and 2021, research and development costs recognized as expense incurred were ¥4,224 million and ¥3,293 million, respectively.

10. Leases

(1) Lessee

Konami Group occupies, among other things, land and buildings attributable to certain offices and facilities in the Sports segment under lease arrangements. Right-of-use assets are included in "property, plant and equipment, net" and lease liabilities are included in "other financial liabilities," respectively, in the Consolidated Statement of Financial Position.

The breakdown of profit or loss under leases is as follows:

Millions of Yen

	As of March 31, 2020	As of March 31, 2021
Depreciation expenses for right-of-use assets		
Land	¥508	¥546
Buildings and structures	9,424	6,265
Tools, furniture and fixtures	1	1
Total	¥9,933	¥6,812
Interest expense on lease liabilities	691	578
Expense associated with short-term leases	¥4,590	¥5,602

The breakdown of carrying amount of right-of-use assets is as follows:

	Millions of Yen	
	As of March 31, 2020	As of March 31, 2021
Right-of-use assets		
Land	¥4,198	¥2,452
Buildings and structures	25,303	14,586
Tools, furniture and fixtures	5	4
Total	¥29,506	¥17,042

Increases in right-of-use assets for the fiscal years ended March 31, 2020 and 2021 were ¥3,235 million and ¥3,300 million, respectively.

The total cash outflow for leases for the fiscal years ended March 31, 2020 and 2021 were ¥13,873 million and ¥11,064 million, respectively.

Maturity analysis of lease liabilities are further discussed in Note 23 “Financial Instruments (5) Liquidity risk management”.

(2) Lessor

Konami Group holds an investment property and it generates income which consists of rental income from external tenants. The rental income accounts for lease transactions.

Maturity analysis of lease payments under operating leases is as follows:

Millions of Yen

Balance at March 31, 2020	Less than 1 year	More than 1 year and less than 2 years	More than 2 years and less than 3 years	More than 3 years and less than 4 years	More than 4 years and less than 5 years	More than 5 years	Total
Lease payments	¥891	817	-	-	-	-	¥1,708

Millions of Yen

Balance at March 31, 2021	Less than 1 year	More than 1 year and less than 2 years	More than 2 years and less than 3 years	More than 3 years and less than 4 years	More than 4 years and less than 5 years	More than 5 years	Total
Lease payments	¥817	-	-	-	-	-	¥817

11. Investment Property

(1) Overview of investment property

Konami Group holds an office building for rent.

As for the building recognized as investment property, commencement of our owner-occupation is scheduled from February 1, 2022 due to expiration of current fixed-term building lease agreement on January 31, 2022. Property is transferred from investment property to property, plant and equipment as of commencement of our owner-occupation.

(2) Changes

Changes in the carrying amounts, acquisition cost, accumulated depreciation and accumulated impairment losses of investment property are as follows:

	Millions of Yen
	Investment property
Carrying amount	
Balance as of March 31, 2019	-
Acquisition	¥32,505
Depreciation expenses	(21)
Balance as of March 31, 2020	32,484
Depreciation expenses	(51)
Balance as of March 31, 2021	¥32,433

	Millions of Yen
	Investment property
Acquisition cost	
Balance as of March 31, 2019	-
Balance as of March 31, 2020	¥32,505
Balance as of March 31, 2021	¥32,505

	Millions of Yen
	Investment property
Accumulated depreciation and impairment losses	
Balance as of March 31, 2019	-
Balance as of March 31, 2020	¥21
Balance as of March 31, 2021	¥72

(3) Fair value

Fair value of investment property is as follows:

		Millions of Yen
	Balance as of March 31, 2020	Balance as of March 31, 2021
Investment property	¥32,200	¥29,460

The fair value of investment property is determined mainly on the basis of a valuation conducted by an independent real estate appraiser. The valuation is based on, among other things, discounted cash flow or observable market prices for similar assets. The entire fair value is categorized within Level 3 of fair value hierarchy. The level of fair value hierarchy is further discussed in Note 23 “Financial Instruments (7) Fair value of financial instruments (ii)Fair value hierarchy.”

(4) Income or expense from investment property

The amounts of rental income from investment property and direct operating expenses arising from investment property that generated rental income are as follows:

Millions of Yen

	Fiscal year ended March 31, 2020	Fiscal year ended March 31, 2021
Rental income	¥310	¥903
Direct operating expenses	¥81	¥297

12. Investments Accounted for Using the Equity Method

At March 31, 2020 and 2021, Konami Group held the following investments accounted for using the equity method:

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

At March 31, 2020 and 2021, 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, 2020	As of March 31, 2021
Carrying amount	¥3,128	¥3,128
Fair value	¥3,824	¥4,690

Summarized financial information is omitted since it is not material to the Consolidated Financial Statements.

13. Other Investments

The breakdown of other investments is as follows:

Millions of Yen

	As of March 31, 2020	As of March 31, 2021
Equity financial assets measured at fair value through other comprehensive income		
Securities	¥1,462	¥1,498
Other investments	72	72
Financial assets measured at fair value through profit or loss		
Other investments	20	20
Total	¥1,554	¥1,590

14. Other Financial Assets

The breakdown of other financial assets is as follows:

Millions of Yen

	As of March 31, 2020	As of March 31, 2021
Financial assets measured at amortized cost		
Loans receivable	¥244	¥203
Lease deposits	22,581	18,046
Other financial assets	1,181	1,303
Less: allowance for expected credit losses	(22)	(37)
Total	¥23,984	¥19,515
Current	6,755	4,024
Non-current	¥17,229	¥15,491

Other financial assets (current) are included in “other current assets” in the accompanying Consolidated Statement of Financial Position.

15. Bonds and Borrowings

At March 31, 2020 and 2021, the details of short-term borrowings is as follows:

Millions of Yen

	As of March 31, 2020	As of March 31, 2021
Unsecured short-term borrowings from banks	¥28,265	¥5,535
Total	¥28,265	¥5,535

Weighted-average interest rates on short-term borrowings were 0.48% and 0.65% at March 31, 2020 and 2021, respectively. In addition, unsecured short-term borrowings from banks included $30,000 thousand (¥3,265 million) and $50,000 thousand (¥5,535 million) of loans denominated in foreign currencies at March 31, 2020 and 2021, respectively.

At March 31, 2020 and 2021, the breakdown of bonds is as follows:

Millions of Yen

	As of March 31, 2020	As of March 31, 2021
Unsecured 0.22% per-annum bonds due in July 2025	-	¥19,919
Unsecured 0.38% per-annum bonds due in July 2027	-	19,913
Unsecured 0.48% per-annum bonds due in July 2030	-	19,900
-% per annum euro-yen convertible bond-type bonds with subscription rights to shares due in December 2022	¥9,855	9,908
Total	9,855	69,640
Less: current portion	-	-
Long-term debt, non-current portion	¥9,855	¥69,640

At March 31, 2020 and 2021, Konami Group did not have any assets pledged as collateral for any of the debt obligations.

16. Trade and Other Payables

The breakdown of trade and other payables is as follows:

Millions of Yen

	As of March 31, 2020	As of March 31, 2021
Notes payables	¥405	¥189
Accounts payables	10,529	9,796
Accrued expenses	17,714	19,639
Refund liabilities	1,267	830
Other payables	1,349	2,373
Total	¥31,264	¥32,827

17. Provisions

The changes in provisions during the year ended March 31, 2021 were as follows:

Millions of Yen

	Asset retirement obligations	Others	Total
Balance as of March 31, 2020	¥9,789	¥891	¥10,680
Additional provisions	6,430	172	6,602
Amounts utilized	(3,261)	(573)	(3,834)
Unused amounts reversed	-	(294)	(294)
Discounted interest costs and effect of change in discount rate.	(82)	-	(82)
Others	-	0	0
Effect of foreign currency	5	5	10
Balance as of March 31, 2021	¥12,881	¥201	¥13,082
Current liabilities	2,187	¥201	2,388
Non-current liabilities	¥10,694	-	¥10,694

Konami Group recognizes asset retirement obligations arising from the contractual requirements to perform certain asset retirement activities in case it disposes certain right-of-use assets primarily relating to the office and the Sports 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 fiscal year ended March 31, 2021, Konami Group updated the estimate of expenditures which will be incurred in the event of disposal of right-of-use assets, mainly in the Sports segment, as a result of new information regarding expected restoration costs. Accordingly, asset retirement obligations increased by ¥6,424 million and are included in "additional provisions" in above.

Those provisions (current) are included in "other current liabilities" in the accompanying Consolidated Statement of Financial Position.

18. Other Financial Liabilities

The breakdown of trade and other payables are as follows:

Millions of Yen

	As of March 31, 2020	As of March 31, 2021
Financial liabilities measured at amortized cost		
Lease liabilities	¥43,703	¥35,762
Other financial liabilities	3,037	3,035
Total	¥46,740	¥38,797
Current liabilities	12,187	12,570
Non-current liabilities	¥34,553	¥26,227

19. Deferred Taxes and Income Tax Expense

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

Millions of Yen

	As of April 1, 2019	Recognized through profit or loss (Note)	Recognized in other comprehensive income	Recognized in equity directly	As of March 31, 2020
Deferred tax assets:					
Accrued expenses	¥4,787	¥(566)	-	-	¥4,221
Inventories	1,301	1,022	-	-	2,323
Net operating loss carryforwards	1,139	(484)	-	-	655
Property, plant and equipment basis differences	1,971	1,192	-	-	3,163
Asset retirement obligations	1,398	(436)	-	-	962
Intangible assets	10,340	(351)	-	-	9,989
Deferred revenue	2,670	(1,591)	-	-	1,079
Investments in associates	1,109	63	-	-	1,172
Others	2,384	2,795	¥6	-	5,185
Total	¥27,099	¥1,645	¥6	-	¥28,749
Deferred tax liabilities:					
Intangible assets	¥(3,372)	¥46	-	-	¥(3,326)
Investments in subsidiaries	(1,205)	12	-	-	(1,193)
Others	(1,379)	18	¥(20)	-	(1,381)
Total	¥(5,956)	¥76	¥(20)	-	¥(5,900)
Deferred tax assets, net	¥21,143	¥1,720	¥(14)	-	¥22,849

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 April 1, 2020	Recognized through profit or loss (Note)	Recognized in other comprehensive income	Recognized in equity directly	As of March 31, 2021
Deferred tax assets:					
Accrued expenses	¥4,221	¥1,663	-	-	¥5,884
Inventories	2,323	(161)	-	-	2,162
Net operating loss carryforwards	655	(189)	-	-	466
Property, plant and equipment basis differences	3,163	1,965	-	-	5,128
Asset retirement obligations	962	(780)	-	-	182
Intangible assets	9,989	(1,842)	-	-	8,147
Deferred revenue	1,079	1,378	-	-	2,457
Investments in associates	1,172	0	-	-	1,172
Others	5,185	(1,811)	¥19	-	3,393
Total	¥28,749	¥223	¥19	-	¥28,991
Deferred tax liabilities:					
Intangible assets	¥(3,326)	¥560	-	-	¥(2,766)
Investments in subsidiaries	(1,193)	(3)	-	-	(1,196)
Others	(1,381)	59	¥12	-	(1,310)
Total	¥(5,900)	¥616	¥12	-	¥(5,272)
Deferred tax assets, net	¥22,849	¥839	¥31	-	¥23,719

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.

Deferred tax assets and deferred tax liabilities included in the accompanying Consolidated Financial Statements are as follows:

Millions of Yen

	As of March 31, 2020	As of March 31, 2021
Deferred tax assets	¥23,735	¥25,051
Deferred tax liabilities	¥886	¥1,332

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, 2020 and 2021, the amount of deferred tax assets attributable to tax entities which had recognized losses for the fiscal year ended March 31, 2020 and 2021 were ¥337 million and ¥21,917 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 and the expiry date of unused tax losses carryforwards in the country where the entity is located.

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

Millions of Yen

	As of March 31, 2020	As of March 31, 2021
Deductible temporary differences	¥29,274	¥64,346
Unused tax losses carryforwards	30,878	89,583
Total	¥60,152	¥153,929
Unused tax credits carryforwards	-	¥303

Note) The amounts of deductible temporary differences and unused tax losses for which deferred tax assets have not been recognized are primarily related to local taxes (Inhabitant tax and enterprise tax).

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, 2020	As of March 31, 2021
First year	¥6,006	¥1,034
Second year	1,022	1,589
Third year	456	4,259
Fourth year	4,291	5,066
Fifth year and thereafter	19,103	77,635
Total	¥30,878	¥89,583

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, 2020 and 2021, 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:

Millions of Yen

	Fiscal year ended March 31, 2020	Fiscal year ended March 31, 2021
Income taxes:		
Current tax expense		
Current tax on profits for the year	¥11,003	¥4,088
Total current tax expense	11,003	4,088
Deferred tax expense		
Origination and reversal of temporary difference	(1,382)	(12,344)
Changes in tax rates	-	2,024
Reassessment of recoverability of deferred tax assets	877	9,539
Total deferred tax expense	(505)	(781)
Total income tax expense	¥10,498	¥3,307

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 ¥1,208 million and ¥102 million in the fiscal years ended March 31, 2020 and 2021, 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.

For the fiscal year ended March 31, 2021, a size-based business tax has applied to a domestic subsidiary of the Company since its share capital exceeded more than ¥100 million. Accordingly, the statutory income tax rate used to calculate deferred tax assets and liabilities of the domestic subsidiary was changed from 34.59% to 30.62%.

Konami Group 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, 2020	Fiscal year ended March 31, 2021
Statutory income tax rate	30.6%	30.6%
Increase (reduction) in taxes resulting from:		
Non-deductible expenses	0.5	0.2
Non-taxable income	(0.5)	(0.5)
Changes of unrecognized deferred tax assets in previous years	2.9	26.8
Adjustment of estimated income tax accruals	(1.9)	0.1
Tax credit, principally research	(3.8)	(1.7)
Effect of changes in tax rate	-	5.7
Impairment of goodwill	2.5	-
Non-deductible local taxes	0.8	2.1
Revision to the carrying amount of investments in relation to the consolidated taxation system	-	(8.4)
Loss on valuation of shares of subsidiaries and associates	-	(41.7)
Other, net	3.4	(3.9)
Effective income tax rate	34.5%	9.3%

20. Employee Benefits

(1) 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.

The Company and certain domestic subsidiaries' contributions to the defined contribution plans amounted to ¥3,689 million and ¥3,637 million for the fiscal years ended March 31, 2020 and 2021, respectively. The expenses were reported as "cost of revenue" and "selling, general and administrative expenses" in the accompanying Consolidated Statement of Profit or Loss. These expenses include the amount recognized as expenses for the public pension plan.

(2) Accrued pension and severance costs

The Company has accrued a liability for retirement benefits for directors and corporate auditors in the amount of ¥1,050 million and ¥1,050 million at March 31, 2020 and 2021, respectively, which are included in "other non-current liabilities" in the accompanying Consolidated Statement of Financial Position.

21. Shareholders' Equity

(1) Share capital

The total number of ordinary shares authorized to be issued and issued shares was as follows:

Number of shares

	Fiscal year ended March 31, 2020	Fiscal year ended March 31, 2021
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, 2020 and 2021:

	Number of shares	Millions of Yen
Balance as of March 31, 2019	8,266,959	¥21,325
Acquisition resolved at the Board of Directors' meeting	2,017,700	6,507
Acquisition through purchase of odd-lot shares	852	4
Sell upon request for purchase of odd-lot shares	(11)	(0)
Balance as of March 31, 2020	10,285,500	27,836
Acquisition through purchase of odd-lot shares	1,352	7
Sell upon request for purchase of odd-lot shares	(79)	(0)
Balance as of March 31, 2021	10,286,773	¥27,843

(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, 2020 and 2021, retained earnings available for dividends recorded on the Company’s books of account were ¥154,060 million and ¥164,032 million, respectively.

22. 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, 2019	Ordinary shares	8,858	65.50	March 31, 2019	June 12, 2019
Board of Directors' meeting held on October 31, 2019	Ordinary shares	5,139	38.00	September 30, 2019	November 21, 2019
Board of Directors' meeting held on May 21, 2020	Ordinary shares	933	7.00	March 31, 2020	June 10, 2020
Board of Directors' meeting held on November 5, 2020	Ordinary shares	2,997	22.50	September 30, 2020	November 26, 2020

Note) Dividends per share resolved on May 28, 2019, include a commemorative dividend of 25 yen for the 50th anniversary of the Company’s founding.

(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 20, 2021	Ordinary shares	Retained earnings	6,727	50.50	March 31, 2021	June 8, 2021

23. Financial Instruments

(1) Categories of financial instruments

(1) Financial assets

Millions of Yen

	As of March 31, 2020	As of March 31, 2021
Financial assets measured at amortized cost		
Cash and cash equivalents	¥131,432	¥202,430
Trade and other receivables	29,894	31,874
Other financial assets	23,984	19,515
Equity financial assets measured at fair value through other comprehensive income		
Other investments	1,534	1,570
Financial assets measured at fair value through profit or loss		
Other investments	20	20
Total	¥186,864	¥255,409

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

In light of the purpose of holding, equity instruments such as shares held mainly for the purpose of maintaining or strengthening business relationships with investees are designated at initial recognition as equity financial assets measured at fair value through other comprehensive income.

The securities' names and fair values of equity financial assets measured at fair value through other comprehensive income mainly are as follows.

Millions of Yen

	As of March 31, 2020	As of March 31, 2021
TV TOKYO Holdings Corporation	¥286	¥284
Gamecard-Joyco Holdings, Inc	¥208	¥246

(3) Financial liabilities

Millions of Yen

	As of March 31, 2020	As of March 31, 2021
Financial liabilities measured at amortized cost		
Trade and other payables	¥31,264	¥32,827
Bonds and borrowings	38,120	75,175
Other financial liabilities	46,740	38,797
Total	¥116,124	¥146,799

(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, 2020	As of March 31, 2021
Cash and cash equivalents	¥131,432	¥202,430
Interest-bearing borrowings	81,823	110,937
Capital	268,141	298,727
Net debt-to-equity ratio (%)	64.0%	61.1%

Interest-bearing borrowings: Total of long-term debt, short-term borrowings and lease liabilities
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 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 expected credit losses 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 expected credit losses based on past actual rates of credit losses, probability of future default and other information.

The changes in allowance for expected credit losses are as follows:

Millions of Yen

	Fiscal year ended March 31, 2020	Fiscal year ended March 31, 2021
Balance at beginning of year	¥326	¥121
Allowance for expected credit losses	95	325
Utilization of allowance	(148)	-
Reversal	(149)	(41)
Effect of foreign currency	(3)	11
Balance at end of year	¥121	¥416

The balances of trade and other receivables and the corresponding allowance for expected credit losses for the fiscal years ended March 31, 2020 and 2021 are as follows.

Millions of Yen, except percentages

Balance at March 31, 2020

	Trade and other receivables						Doubtful accounts receivable	Total
	Not past due	Within 30 days	Over 30 days through 180 days	Over 180 days through 1 year	Over 1 year	Total		
Expected credit loss rates	0.02%	0.51%	-	3.41%	21.69%	0.18%	100.00%	0.40%
Trade and other receivables	¥27,666	¥1,370	¥569	¥176	¥166	¥29,947	¥67	¥30,014
Allowance for expected credit losses	¥5	¥7	-	¥6	¥36	¥54	¥67	¥121

Millions of Yen, except percentages

Balance at March 31, 2021

	Trade and other receivables						Doubtful accounts receivable	Total
	Not past due	Within 30 days	Over 30 days through 180 days	Over 180 days through 1 year	Over 1 year	Total		
Expected credit loss rates	0.02%	-	-	15.32%	27.91%	0.36%	100.00%	1.29%
Trade and other receivables	¥29,353	¥479	¥1,610	¥333	¥215	¥31,990	¥300	¥32,290
Allowance for expected credit losses	¥5	-	-	¥51	¥60	¥116	¥300	¥416

(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 by due date is as follows:

Millions of Yen

	Carrying amount	Contractual cash flows	Less than 1 year	More than 1 year and less than 2 years	More than 2 years and less than 3 years	More than 3 years and less than 4 years	More than 4 years and less than 5 years	More than 5 years
Balance at March 31, 2020								
Bonds	¥9,855	¥10,000	-	-	¥10,000	-	-	-
Borrowings	28,265	28,321	¥28,321	-	-	-	-	-
Lease liabilities	43,703	46,059	10,612	¥7,681	6,374	¥5,109	¥4,417	¥11,866
Trade and other payables	31,264	31,264	31,264	-	-	-	-	-
Other financial liabilities	3,037	3,037	3,037	-	-	-	-	-
Total	¥116,124	¥118,681	¥73,234	¥7,681	¥16,374	¥5,109	¥4,417	¥11,866

Millions of Yen

	Carrying amount	Contractual cash flows	Less than 1 year	More than 1 year and less than 2 years	More than 2 years and less than 3 years	More than 3 years and less than 4 years	More than 4 years and less than 5 years	More than 5 years
Balance at March 31, 2021								
Bonds	¥69,640	¥71,568	¥216	¥10,216	¥216	¥216	¥20,187	¥40,517
Borrowings	5,535	5,545	5,545	-	-	-	-	-
Lease liabilities	35,762	37,400	10,008	6,350	4,884	4,309	3,879	7,970
Trade and other payables	32,827	32,827	32,827	-	-	-	-	-
Other financial liabilities	3,035	3,035	3,035	-	-	-	-	-
Total	¥146,799	¥150,375	¥51,631	¥16,566	¥5,100	¥4,525	¥24,066	¥48,487

While Konami Group has committed lines of credit with large, reputable banks available for immediate borrowing in the amount of ¥25,000 million. The balance which had been drawn down under any of these agreements were ¥25,000 million and ¥- million as of March 31, 2020 and 2021, respectively.

(6) Market risk management

(1) Foreign currency risk

(i) 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, 2020 and 2021 were as follows:

Millions of Yen

	As of March 31, 2020	As of March 31, 2021
Financial assets denominated in foreign currencies	¥21,137	¥18,945
Financial liabilities denominated in foreign currencies	¥4,905	¥3,262

(ii) 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 fiscal years ended March 31, 2020 and 2021. 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, 2020	Fiscal year ended March 31, 2021
United States dollar	¥67	¥69
Euro	¥37	¥21

(2) Interest rate risk

(i) Interest rate risk management

Konami Group's interest-bearing borrowings are mainly bonds, borrowings and lease liabilities 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, 2020 and 2021.

(7) Fair value of financial instruments

(1) Measuring fair value of financial instruments

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

(i) Financial assets and liabilities measured at amortized cost

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

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

The fair values of bonds and borrowings, and other financial liabilities are calculated as the present value of the total principal and interest, discounted at interest rates that would be applied to new borrowings of Konami Group with similar terms and the same remaining maturity, and categorized as Level 2.

(ii) Equity financial assets measured at fair value through other comprehensive income

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

(iii) Financial assets and liabilities measured at fair value through profit or loss

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

(2) Fair value hierarchy

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

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

(3) Fair value of financial instruments

The breakdown of financial instruments showing carrying amounts and fair values is as follows:

Millions of Yen

	As of March 31, 2020		As of March 31, 2021	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets:				
Financial assets measured at amortized cost				
Loans receivable	¥244	¥282	¥203	¥227
Lease deposits	22,581	22,845	18,046	18,654
Other financial assets	1,159	1,148	1,266	1,256
Equity financial assets measured at fair value through other comprehensive income				
Securities	1,462	1,462	1,498	1,498
Other investments	72	72	72	72
Financial assets measured at fair value through profit or loss				
Other investments	20	20	20	20
Financial liabilities:				
Financial liabilities measured at amortized cost				
Bonds and borrowings	¥38,120	¥38,008	¥75,175	¥73,082
Other financial liabilities	3,037	3,037	3,035	3,035

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.

(4) Fair values measured and disclosed on the Consolidated Statement of Financial Position

The following is a breakdown of financial assets that are measured at fair value on a recurring basis at March 31, 2020 and 2021.

Millions of Yen

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

Millions of Yen

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

Securities and other investments, which are classified as Level 3, have no significant changes for the fiscal year ended March 31, 2020 and 2021.

24. Revenue

(1) Disaggregated revenue information

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

For the fiscal year ended March 31, 2020

Millions of Yen

	Japan	United States	Europe	Asia/Oceania	Total revenue
Digital Entertainment	¥123,185	¥13,237	¥12,551	¥3,752	¥152,725
Amusement	22,671	-	-	351	23,022
Gaming & Systems	-	23,509	-	4,892	28,401
Sports	58,662	-	-	-	58,662
Total revenue	¥204,518	¥36,746	¥12,551	¥8,995	¥262,810

Note) Revenues from contracts with customers show revenues from external customers.

For the fiscal year ended March 31, 2021

Millions of Yen

	Japan	United States	Europe	Asia/Oceania	Total revenue
Digital Entertainment	¥169,204	¥15,541	¥13,478	¥5,304	¥203,527
Amusement	16,206	-	-	178	16,384
Gaming & Systems	-	13,010	-	3,633	16,643
Sports	36,102	-	-	-	36,102
Total revenue	¥221,512	¥28,551	¥13,478	¥9,115	¥272,656

Note) Revenues from contracts with customers show revenues from external customers.

(1) Digital Entertainment segment

In the Digital Entertainment segment, Konami Group mainly distributes mobile games and sells card games and computer and video games.

With respect to products that we determine the performance obligations are satisfied at the time when they are delivered to customers, we recognize the revenue at the time.

In terms of games with online functionality, the revenue is recognized at a predetermined amount over the estimated usage period because the performance obligations, such as online play functions, are continuously provided after sales.

Revenue from the sale of virtual items within games is recognized at the time they are consumed or over the estimated usage period of the items, depending on the nature of the items, when the performance obligation is determined to have been completely satisfied.

(2) Amusement segment

With respect to amusement machines, we determine that the performance obligations are satisfied at the time when the products are delivered to customers, and we recognize the revenue at the time.

In addition, Konami Group renders services where we interface with amusement machines and multiple amusement arcades online and share user playing fees with customers (amusement facility operators). As these performance obligations are satisfied at the time when the user plays the game, the revenue is recognized at the time.

(3) Gaming & Systems segment

With respect to the sale of gaming machines, we determine that the performance obligations are satisfied at the time when the products are delivered to customers, and we recognize the revenue at the time.

In addition, Konami Group renders services where we share user playing fees with customers (casino facility operators). As this performance obligation is satisfied at the time when the user plays the game, the revenue is recognized at the time.

(4) Sports segment

In the Sports segment, Konami Group operates mainly fitness activities and exercise schools and sells sports related goods.

Revenue from fitness activities and exercise schools consists primarily of membership fees received from members, and is recognized over periods when the services are rendered.

In terms of sports related goods, we determine that the performance obligations are satisfied at the time when they are delivered to customers, and we recognize the revenue at the time.

Konami Group recognizes revenues whose performance obligations are satisfied at a point in time are mainly recorded as “product sales revenue” in revenue and revenues whose performance obligations are satisfied over time are mainly recorded as “service and other revenue” in revenue.

(2) Contract balances

Details of receivables-contracts from customers and contract liabilities are as follows:

For the fiscal year ended March 31, 2020

Millions of Yen

	As of April 1, 2019	As of March 31, 2020
Receivables-contracts from customers	¥32,530	¥29,834
Contract liabilities	¥13,092	¥10,672

For the fiscal year ended March 31, 2021

Millions of Yen

	As of April 1, 2020	As of March 31, 2021
Receivables-contracts from customers	¥29,834	¥32,061
Contract liabilities	¥10,672	¥14,157

Receivables-contracts from customers are included in “trade and other receivables” and contract liabilities are included in “other current liabilities” and “other non-current liabilities” in the accompanying Consolidated Statement of Financial Position.

The balance of contract liabilities as of April 1, 2019 and 2020 included the revenue of ¥13,001 million and ¥10,579 million for the fiscal year ended March 31, 2020 and 2021, respectively.

Contract liabilities mainly consist of advances received from customers or consideration received for future services that the Company continues to provide.

(3) Transaction price allocated to the remaining performance obligations

There is no significant transaction of which individual contracts exceed one year. There is no significant amount of considerations from the contract with the customers which are not included in the transaction price.

(4) Assets recognized in respect of the costs to obtain or fulfil a contract with customers

For the fiscal year ended March 31, 2020 and 2021, there is no significant amount of assets recognized in respect of the costs to obtain or fulfil a contract with customers. In some cases, when the depreciation period of an asset to be recognized is within one year, the incremental cost of obtaining the contract is recognized as an expense at the time it incurs by optionally applying practical expedients to each contract.

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

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

Millions of Yen

	Fiscal year ended March 31, 2020	Fiscal year ended March 31, 2021
Employee benefit expenses	¥58,292	¥51,983
Commission paid	¥35,660	¥46,730
Rental expenses	¥10,758	¥8,690
Royalties	¥18,951	¥25,388
Depreciation and amortization expenses	¥26,096	¥17,888

26. Other Income and Other Expenses

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

Millions of Yen

	Fiscal year ended March 31, 2020	Fiscal year ended March 31, 2021
Other income		
Gain on sale of property, plant and equipment, net	¥22	¥51
Others	1,002	909
Total	¥1,024	¥960
Other expenses		
Impairment losses	¥10,985	¥22,232
Loss on sale of property, plant and equipment, net	1,375	466
Relocation related expenses	1,487	-
COVID-19-related loss	-	4,648
Others	502	1,228
Total	¥14,349	¥28,574

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

The COVID-19-related loss is comprised of fixed costs of ¥5,723 million related to running sports clubs, including personnel expenses, depreciation expenses and rent expenses, which were incurred, mainly in the Sports segment, during the period when sports clubs all over Japan were closed temporarily in line with state-of-emergency declaration from government and business suspension requests from local governments in response to the coronavirus outbreak. In addition, employment adjustment subsidies from the government of ¥1,075 million was deducted from the COVID-19-related loss in accordance with IAS 20 "Accounting for Government Grants and Disclosure of Government Assistance," which was a leave allowance related to fixed costs incurred during the temporary closures.

27. Finance Income and Finance Cost

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

Millions of Yen

	Fiscal year ended March 31, 2020	Fiscal year ended March 31, 2021
Finance income		
Dividend income		
Equity financial assets measured at fair value through other comprehensive income	¥26	¥29
Interest income		
Financial assets measured at amortized cost	286	47
Foreign exchange gains	9	-
Others	31	2
Total	¥352	¥78
Finance costs		
Interest expenses		
Financial liabilities measured at amortized cost	¥882	¥899
Foreign exchange losses	-	191
Others	21	14
Total	¥903	¥1,104

28. 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	Net change in fair value of equity financial assets measured at fair value through other comprehensive income	Share of other comprehensive income of entity accounted for using the equity method	Total
Balance as of March 31, 2019	¥1,473	¥110	¥(0)	¥1,583
Net change during the year	(1,635)	(28)	¥0	(1,663)
Transfer to retained earnings	-	(9)	-	(9)
Balance as of March 31, 2020	(162)	73	-	(89)
Net change during the year	2,239	23	-	2,262
Transfer to retained earnings	-	-	-	-
Balance as of March 31, 2021	¥2,077	¥96	-	¥2,173

(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, 2020			Fiscal year ended March 31, 2021		
	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	¥(1,629)	¥(6)	¥(1,635)	¥2,149	¥(19)	¥2,130
Reclassification adjustments to profit for the year	-	-	-	109	-	109
Net change during the year	(1,629)	(6)	(1,635)	2,258	(19)	2,239
Fair value of equity financial assets measured at fair value through other comprehensive income						
Net unrealized gains (losses) during the year	(48)	20	(28)	35	(12)	23
Net change during the year	(48)	20	(28)	35	(12)	23
Share of other comprehensive income of entity accounted for using the equity method						
Net unrealized gains (losses) during the year	0	-	0	-	-	-
Reclassification adjustments to profit for the year	-	-	-	-	-	-
Net change during the year	0	-	0	-	-	-
Total other comprehensive income	¥(1,677)	¥14	¥(1,663)	¥2,293	¥(31)	¥2,262

29. Earnings per Share

The breakdown of the basic and diluted earnings per share attributable to owners of the parent for the fiscal years ended March 31, 2020 and 2021 is as follows:

	Fiscal year ended March 31, 2020	Fiscal year ended March 31, 2021
Profit attributable to owners of the parent	19,892 million yen	32,261 million yen
Adjustments for profit used in the calculation of diluted earnings per share	36 million yen	36 million yen
Profit used in the calculation of diluted earnings per share	19,928 million yen	32,297 million yen
Basic weighted average ordinary shares outstanding	135,077,487 shares	133,214,149 shares
Adjustments for convertible bond-type bonds with subscription rights to shares	2,285,662 shares	2,299,114 shares
Basic weighted average ordinary shares outstanding used in the calculation of diluted earnings per share	137,363,149 shares	135,513,263 shares
Earnings per share attributable to owners of the parent for the period		
Basic	147.26 yen	242.17 yen
Diluted	145.08 yen	238.33 yen

30. Cash Flow Information

(1) Liabilities for financing activities

For the fiscal year ended March 31, 2020, changes in liabilities for financing activities are as follows:

Millions of Yen

	Balance as of April 1, 2019	Changes in accounting policies	Beginning balance after adjusting	Cash flows	Exchange differences on foreign operations	Others	Balance as of March 31, 2020
Short-term borrowings	¥5,550	-	¥5,550	¥22,815	¥(100)	-	¥28,265
Bonds	14,800	-	14,800	(5,000)	-	¥55	9,855
Lease liabilities	12,060	¥45,751	57,811	(13,182)	(64)	(862)	43,703
Total	¥32,410	¥45,751	¥78,161	¥4,633	¥(164)	¥(807)	¥81,823

For the fiscal year ended March 31, 2021, changes in liabilities for financing activities are as follows:

Millions of Yen

	Balance as of April 1, 2020	Cash flows	Exchange differences on foreign operations	Others	Balance as of March 31, 2021
Short-term borrowings	¥28,265	¥(22,852)	¥122	-	¥5,535
Bonds	9,855	60,000	-	¥(215)	69,640
Lease liabilities	43,703	(10,485)	137	2,407	35,762
Total	¥81,823	¥26,663	¥259	¥2,192	¥110,937

(2) Non-cash Transactions

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

Millions of Yen

	Fiscal year ended March 31, 2020	Fiscal year ended March 31, 2021
Increase in property, plant and equipment related to recognition of asset retirement obligations	¥1,060	¥6,430
Increase in right-of-use assets related to lease transactions	¥3,035	¥3,293

31. Related Party Disclosures

(1) Related party transactions

For the fiscal year ended March 31, 2020

Millions of Yen

Classification	Company’s name	Details of transaction	Amount of transaction	Amount of outstanding balance
Company in which officers and close relatives hold majority of voting rights.	Kozuki Capital Corporation	Transfer of real estate	¥603	-

Note) The amount of transaction was determined according to a third-party appraisal report.

For the fiscal year ended March 31, 2021

Not applicable.

(2) Remuneration of key management personnel

The amounts of directors' remuneration for the fiscal years ended March 31, 2020 and 2021 were ¥349 million and ¥285 million, respectively. There was not any payment of remuneration other than basic remuneration to directors.

32. 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.	Chuo-ku, Tokyo, JAPAN	Digital Entertainment Business	100
Konami Amusement Co., Ltd.	Ichinomiya, Aichi, JAPAN	Amusement Business	100
Konami Sports Co., Ltd.	Shinagawa-ku, Tokyo, JAPAN	Sports Business	100
Konami Real Estate, Inc.	Chuo-ku, Tokyo, JAPAN	Intersegment	100
Internet Revolution, Inc.	Chuo-ku, Tokyo, JAPAN	Digital Entertainment Business and Amusement Business	70
Konami Corporation of America	California, U.S.A	Intersegment	100
Konami Digital Entertainment, Inc.	California, U.S.A	Digital Entertainment Business and Amusement Business	100
Konami Cross Media NY, Inc.	New York, 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 and Amusement Business	100
Konami Digital Entertainment Limited	Hong Kong, PRC	Digital Entertainment Business	100
Konami Amusement (Thailand) Co., Ltd.	Bangkok, Thailand	Amusement Business	100
Konami Australia Pty Ltd	New South Wales, Australia	Gaming & Systems Business	100

Associates

Name	Location	Principal business	Ownership interest Voting rights (%)
RESOL HOLDINGS Co., Ltd.	Shinjuku-ku, Tokyo, JAPAN	Sports Business	20

33. 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 ¥5,486 million and ¥486 million as of March 31, 2020 and 2021, respectively.

34. 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.

35. Subsequent Events

There have been no events after March 31, 2021 that would require adjustments to the Consolidated Financial Statements or disclosures in the notes to the Consolidated Financial Statements.

36. Approval of Consolidated Financial Statements

The Consolidated Financial Statements were approved by Representative Director, President, Kimihiko Higashio, on June 22, 2021.

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of KONAMI HOLDINGS CORPORATION

Opinion

We have audited the consolidated financial statements of KONAMI HOLDINGS CORPORATION and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at March 31, 2021, and the 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 consolidated financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at March 31, 2021, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in Japan. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Japan, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

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Valuation of Property, plant and equipment, net of the Sports segment	
Key audit matter description	How our audit addressed the key audit matter

In the Sports segment, the Company operates a large number of sports clubs. The balance of Property, plant and equipment, net of the segment was ¥28,208 million (5.7% of total assets) at March 31, 2021. As described in Note 8 "Property, Plant and Equipment, net" to the consolidated financial statements, the Company recognized an impairment loss of ¥17,053 million for Property, plant and equipment, net of the sports clubs for the year.
The sports-related market where the Company operates businesses is faced with changing consumer needs and diversifying competition. Further, due to the measures to prevent the spread of COVID-19, there is a possible effect of business stagnation and slowdown of future demand caused by the temporary closure of sports clubs operated by the Company.
The Company determines whether indicators of impairment exist at the end of each reporting period, and if there are indicators of impairment, the asset is tested for impairment based on its recoverable amount. 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 allocated 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. This grouping is primarily based on geographical areas.
Future cash flows underlying value in use, are estimated based on the medium-term management plans approved by management and on remaining lives of the asset. Key assumptions used in estimating value in use are future cash flows and discount rates used in the medium-term management plans. The Company's medium-term management plans are affected primarily by sales growth rate based on membership trends.
	Our audit procedures for the valuation of Property, plant and equipment, net of the Sports segment primarily included following:
	• We obtained an understanding of and evaluated internal controls related to the preparation and approval processes for medium-term management plans which constitute the basis for accurate calculation of value in use and impairment test processes for Property, plant and equipment, net.
	• We examined whether CGUs of Property, plant and equipment, net were appropriately grouped in accordance with the Company's policy.
	• We examined whether management's judgments regarding whether indicators of impairment existed were appropriately made based on operating profit and other indicators. We also examined whether management appropriately conducted impairment tests for CGUs with indicators of impairment based on the recoverable amount.
	• We evaluated the following significant management judgments and estimates when determining value in use:
	  • We made inquiries of management regarding sales growth rate based on membership trends, considering the recent market environment, and compared the figure to historical experience.
	  • We made inquiries of management regarding the feasibility of cost reductions, and compared the figure to historical experience.
	  • We confirmed that the forecast periods of future cash flows were determined considering the remaining useful lives of the assets or groups of assets.
	  • We confirmed that the discount rate applied was determined considering external data available.

In terms of the valuation of Property, plant and equipment, net, the Company is required to determine whether indicators of impairment exist and to estimate value in use if indications of impairment exist. This process requires management's judgment and this estimate involves uncertainty. Accordingly, we determined that this was a key audit matter.	

Valuation of Internally generated intangible assets	
Key audit matter description	How our audit addressed the key audit matter

The Company's development and production activities are primarily conducted in the production divisions of subsidiaries within the Digital Entertainment and the Amusement segments. The balance of Internally generated intangible assets was ¥12,668 million (2.5% of total assets) at March 31, 2021, as described in Note 9 "Goodwill and Intangible Assets" to the consolidated financial statements.
Impairment losses for Internally generated intangible assets amounting to ¥2,832 million in the Digital Entertainment segment and ¥624 million in the Amusement segment were included in "Other income and other expenses, net" on the Consolidated Statement of Profit or Loss.
The costs of Internally generated intangible assets are initially recognized at the sum of expenditures incurred from the date when they first meet all the capitalization criteria until the day the development is completed. Subsequent to the initial recognition, Internally generated intangible assets are measured at their costs less any accumulated amortization and any impairment losses.
Internally generated intangible assets are grouped at the individual title level to determine the CGU, and tested at each reporting date to determine whether indicators of impairment exist. If there are indicators of impairment, including if estimated earnings fall below zero, or if the market value of the assets declines significantly below their carrying amounts, those Internally generated intangible assets are tested for impairment. Impairment losses are recognized on certain Internally generated intangible assets where the recoverable amounts fall below their carrying amounts.
The recoverable amount of Internally generated intangible assets for impairment test purpose is
	Our audit procedures for the valuation of Internally generated intangible assets primarily included following:
	• We obtained an understanding of following internal controls established by management for determination of value in use:
	  • Internal controls related to the planning and approval processes for the Internally generated intangible assets.
	  • Internal controls related to the preparation and approval processes of the future cash flows including sales projections, and internal controls related to impairment test processes for Internally generated intangible assets.
	• We examined whether management's judgment regarding whether indicators of impairment existed was appropriate. We also examined whether management appropriately conducted impairment tests for the title with indicators of impairment based on the recoverable amount.
	• We performed the following procedures regarding assumptions approved by management and used in determination of value in use as well as significant management judgments and estimates:
	  • We examined the management approval status of future sales projections within the Company. We also evaluated accuracy of the estimates considering achievement of the sales projections of prior years.
	  • Through inquiries with management, we obtained an understanding of the business strategies and market environment of the Digital Entertainment and the Amusement segments.

determined based on the value in use, which is calculated by estimating future cash flows using assumptions, including sales projections and estimated costs of each title. In terms of the valuation of Internally generated intangible assets, the Company is required to estimate the future cash flows based on the assumptions, including sales projections and estimated costs of each title. This process requires management's judgment. Accordingly, we determined that this was a key audit matter.	• Based on inquiries with management responsible for development of sales projections and estimated costs, we compared these projections and estimates with historical experience of similar titles or series, and evaluated the reasonableness.

Revenue recognition in the Digital Entertainment segment	
Key audit matter description	How our audit addressed the key audit matter
The Company recognized revenues of ¥203,527 million (74.6% of Konami Group's revenues) within the Digital Entertainment segment as described in Note 24 "Revenue" to the consolidated financial statements. The Company recognizes revenue at a point in time or over time, depending on how the performance obligation is satisfied. With respect to products that the Company determines the performance obligations are satisfied at the time when they are delivered to customers, revenue is recognized at a point in time. As for games with online functionality, the revenue is recognized at a predetermined amount over the estimated usage period because the performance obligations, such as online play functions, are continuously provided after sales. Revenue from the sale of virtual items within games is recognized at the time they are consumed or over the estimated usage period of the items, depending on the nature of the items, when the performance obligation is determined to have been completely satisfied. For games with online functionality, management's judgment based on the terms and conditions of each contract is required to determine the timing of satisfaction of performance obligations. Assumptions for the estimated usage period of online functionality and the estimated usage period of virtual items require management's judgment. Accordingly, we determined that this was a key audit matter.	Our audit procedures for revenue recognition in the Digital Entertainment segment primarily included following: • For revenue recognition in the Digital Entertainment segment, we obtained an understanding of internal controls established by management to examine the adequacy of revenue recognition, including trend analysis of deferred amounts. • We made inquiries of management in order to obtain an understanding of the business strategies and market environment of the Digital Entertainment segment. • For games with online functionality, we obtained an understanding of the processes to estimate stand-alone selling prices underlying the performance obligations and to allocate the transaction price to each performance obligation (which constitute the basis of determining the timing of satisfaction of performance obligations), conducted following procedures for assumptions approved by management, and evaluated significant management judgments and estimates: • We made inquiries with management from the responsible department over the game content and market environment, and evaluated if the judgment as to whether performance obligation be satisfied at a point in time or over time was reasonable. • We obtained an understanding of the processes of determining the estimated usage period of online functionality and virtual items based on historical experience of each

	game, conducted following procedures for assumptions approved by management, and evaluated significant management judgments and estimates: • We made inquiries with management from the responsible department over the game content and market environment underlying estimated usage period of online functionality, and evaluated the reasonableness of the basis of the measurement method adopted by the Company by comparing it to the customers' actual usage period in prior years as well as the amortization period adopted by comparable companies. • We made inquiries with management from the responsible department over the game content and market environment underlying the estimated usage period of virtual items, and evaluated the reasonableness of the basis of the measurement method adopted by the Company by comparing the amount of revenue to be deferred and the deferral rate with those of historical experience in prior years.

Responsibilities of Management, Audit & Supervisory Board Members and the Audit & Supervisory Board for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the 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.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Audit & Supervisory Board Members and the Audit & Supervisory Board are responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with auditing standards generally accepted in Japan will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with auditing standards generally accepted in Japan, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, while the purpose of the consolidated financial statement audit is not to express an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate whether the presentation and disclosures of the consolidated financial statements are in accordance with International Financial Reporting Standards, the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with Audit & Supervisory Board Members and the Audit & Supervisory Board regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide Audit & Supervisory Board Members and the Audit & Supervisory Board with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with Audit & Supervisory Board Members and the Audit & Supervisory Board, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

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Interest required to be disclosed by the Certified Public Accountants Act of Japan

Our firm and its designated engagement partners do not have any interest in the Group which is required to be disclosed pursuant to the provisions of the Certified Public Accountants Act of Japan.

PricewaterhouseCoopers Aarata LLC

July 15, 2021

2. Business Review

(1) Business Overview

For the fiscal year ended March 31, 2021, the economy remains stagnant with global restrictions on social and economic activities, due to the coronavirus outbreak. The prolonged coronavirus outbreak continues to impact the economy and the future business environment remains highly uncertain. It is expected that world-wide economic recovery requires more time.

Under such circumstances, revenues of some business segments were impacted from measures to prevent the coronavirus outbreak as well as a result of the world-wide economic slowdown. However, strong performance of products and services in the Digital Entertainment business including mobile games, computer and video games and card games led to an increase in revenues and business profit has reached a record high. Moreover, operating profit, profit before income tax and profit attributable to owners of the parent for the fiscal year ended March 31, 2021 have all increased.

Starting from the fiscal year ended March 31, 2021, Konami Group uses “Business profit” to measure results, which is calculated by deducting “cost of revenue” and “selling, general and administrative expenses” from “revenue”.

In terms of the consolidated results for the fiscal year ended March 31, 2021, total revenue amounted to ¥272,656 million (a year-on-year increase of 3.7%), business profit was ¥64,164 million (a year-on-year increase of 44.8%), operating profit was ¥36,550 million (a year-on-year increase of 18.0%), profit before income taxes was ¥35,581 million (a year-on-year increase of 17.1%), and profit attributable to owners of the parent was ¥32,261 million (a year-on-year increase of 62.2%).

(2) Performance by Business Segment

Summary of total revenue by business segment:

Millions of Yen

	Year ended March 31, 2020	Year ended March 31, 2021	% change
Total revenue:			
Digital Entertainment	¥153,395	¥204,185	33.1
Amusement	23,718	17,636	(25.6)
Gaming & Systems	28,401	16,643	(41.4)
Sports	58,984	36,409	(38.3)
Intersegment eliminations	(1,688)	(2,217)	-
Total revenue	¥262,810	¥272,656	3.7

Digital Entertainment

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

Under such circumstances, in the global market, as for mobile games in the Digital Entertainment segment, *eFootball Winning Eleven 2021* (Known overseas as *eFootball PES 2021*) and *Yu-Gi-Oh! DUEL LINKS* led our revenue. Furthermore, we have introduced a major update to *Frogger in Toy Town*, which has been released via Apple Arcade.

In the domestic market, *PROFESSIONAL BASEBALL SPIRITS A (Ace)* has continued to perform strongly and various titles, including *JIKKYOU PAWAFURU PUROYAKYU*, have received favorable reviews. In particular for *JIKKYOU PAWAFURU PUROYAKYU*, we started providing online animated videos to make the story in the “SUCCESS MODE,” one of the most attractive modes, more fun for more users.

As for card games, we continued to expand *Yu-Gi-Oh! TRADING CARD GAME* globally and received favorable reviews in the global and domestic market even in the coronavirus crisis. Through sales promotions in conjunction with the latest TV commercial, we continue to generate interest for *Yu-Gi-Oh! RUSH DUEL* among younger users, mainly elementary school students.

As for computer and video games, *Momotaro Dentetsu: Showa, Heisei, Reiwa mo teiban* became a hot title for online content and various media, and its cumulative sales shipments since release are on track to exceed three million units. Furthermore, the shipments have reached over three million units as of May 2021. VR band performance game *BEAT ARENA* was released as the first title for the *Oculus Quest* series, which is a VR game system offered by Facebook and a digital version of *Solomon Program* for Nintendo Switch™ was released for free with basic gameplay. Furthermore, we made an announcement that the latest title for the *PROFESSIONAL BASEBALL SPIRITS* series, *eBASEBALL PROFESSIONAL BASEBALL SPIRITS 2021 Grand slam*, and *Yu-Gi-Oh! RUSH DUEL: Saikyou Battle Royale!!* are intended to be released in summer 2021. In addition, the latest title for the *Bomberman* series, a digital version of *SUPER BOMBERMAN R ONLINE*, is intended to be released for multiple platforms.

As part of our continued active efforts in eSports, with the selection of “*eBASEBALL PAWAFURU PUROYAKYU 2020*” for “TOKYO eSPORTS FESTA 2021,” an exciting online competition was held. In the “eBASEBALL Pro League” 2020 season, which is organized along with Nippon Professional Baseball (NPB), the “eClimax Series” and “eNippon Series” were held to decide the best baseball clubs in Japan. A game competition, “Momotetsu Grand Prix,” which featured *Momotaro Dentetsu: Showa, Heisei, Reiwa mo teiban* in a celebrity-only exhibition match, was held and attracted many fans. In the “eFootball League 2020-21 Season,” the official eSports tournament for the *Winning Eleven* series, the tournament was divided into two categories: “eFootball.Pro,” a professional tournament and “eFootball.Open,” a tournament open to all players. The qualifying rounds for both tournaments are still being held.

In terms of financial performance, total revenue for the fiscal year ended March 31, 2021 in this segment amounted to ¥204,185 million (a year-on-year increase of 33.1%) and business profit for the fiscal year ended March 31, 2021 amounted to ¥73,446 million (a year-on-year increase of 70.0%).

Amusement

In the amusement industry market, the coronavirus outbreak around the world had an effect on sales of amusement machines and e-amusement participation (revenue share business) due to the temporary closure of amusement facilities. The facilities in Japan have resumed operations since state-of-emergency declaration from government and business suspension request from local governments were lifted last year and the number of visitors has been recovering in phases, however, the domestic market is uncertain at present. As for the global market, recovery will take more time.

Under such circumstances, in regard to our video games for amusement facilities, *BUSOU SHINKI: Armored Princess Battle Conductor* was released and the latest title for the *SOUND VOLTEX* series, *SOUND VOLTEX -Valkyrie model-*, was also released. In addition, the latest title for the *FORTUNE TRINITY* series, *FORTUNE TRINITY: Treasure Festival of Spirits*, and the latest title for the *Anima Lotta* series, *Anima Lotta: A Tale of Anima and Stars*, were released. In regard to “KONAMI AMUSEMENT GAME STATION,” which delivers arcade games to PCs and smartphones, various titles were released, such as the music games *pop’n music Lively*, *GITADORA*, *NOSTALGIA* and medal game *Medal corner*.

In terms of financial performance, total revenue for the fiscal year ended March 31, 2021 in this segment amounted to ¥17,636 million (a year-on-year decrease of 25.6%) and business profit for the fiscal year ended March 31, 2021 amounted to ¥2,413 million (a year-on-year decrease of 54.8%).

Gaming & Systems

In the gaming market, various measures were taken by governments of each nation to mitigate the coronavirus outbreak. As a result, casino facilities were closed temporarily from March 2020, except in some areas. Although certain restrictions remain, most casino facilities in the U.S. have resumed operations in phases and the market is recovering. Despite uncertainties due to continued travel restrictions and other measures, the market is expected to recover gradually.

Under these circumstances, we launched a new slot machine, the *DIMENSION 49J*™, featuring a "J" curve display dedicated to participation (revenue share business). In addition, we recognized revenue for the sale of slot machines including our core *KX 43*™ upright cabinet, the *DIMENSION 27*™ and the *DIMENSION 49*™ as well as revenue from participation agreements (in which profits are shared with casino operators). The *SYNKROS*® casino management system was introduced into major casino operators in the North American and Australian markets, and new contracts are being entered into.

In terms of financial performance, total revenue for the fiscal year ended March 31, 2021 in this segment amounted to ¥16,643 million (a year-on-year decrease of 41.4%) and business loss for the fiscal year ended March 31, 2021 amounted to ¥2,077 million (business profit for the fiscal year ended March 31, 2020 amounted to ¥1,782 million).

Sports

Through the change of lifestyle, such as voluntary stay-at-home to avoid the coronavirus outbreak and encouraged work-from-home, concerns about health effects which are caused by lack of exercise and feeling stressed are socially growing. In connection with the sports industry, improved hygiene managements and new services for health have been required so that customers can exercise safely.

Under such circumstances, state-of-emergency declaration from government and business suspension request from local governments forced us to take measures to avoid the coronavirus outbreak, such as the temporary closure of both directly managed and outsourced facilities and shortened business hours. As a result, total revenue from this business decreased. In addition to complying with the guidelines determined by general incorporated association FIA (Fitness Industry Association of Japan), we are taking measures to prevent the coronavirus outbreak in line with our company standards, such as ozone sanitization, which has been proven to inactivate COVID-19, the introduction of an online fitness reservation system, and online announcements regarding crowding situations at our facilities to avoid outbreaks and the "Three Cs" with the highest priority of ensuring safety and security of customers and employees.

As for the operation of outsourced facilities, the facilities are forced to be closed temporarily and shortened its business hours due to requests mainly from local governments and corporate companies entering into contracts. Meanwhile, we started the operation of new outsourced facilities such as the Kawasaki Shimin Plaza (Kawasaki City, Kanagawa Prefecture), Sakai City Ebara Oike Gymnasium (Sakai City, Osaka Prefecture), Oita City Comprehensive Gymnasium (Oita City, Oita Prefecture), Funabashi City Sports Park and Hoten Park (Funabashi City, Chiba Prefecture) using our know-how accumulated through sports club operation over many years.

We continue to enhance our products and services, including offering original Konami Sports Club exercise videos for free; releasing "AEROBIKE EXS," a new fitness bike for use at home that links to an app; starting the sale of original protein supplement "asu-body"; and providing a variety of home fitness equipment via our official online shop. We are also focusing on the need to address concerns about exercising at our facilities under the current situation and increasing opportunities to exercise at home.

In this segment, we are working hard to reform our cost structure through reductions in fixed costs, including strategic closure of unprofitable facilities. As part of these measures, we decided to close nine directly managed facilities in February 2021 and sixteen facilities in May 2021. We continue to make sure to improve profitability.

In terms of financial performance, total revenue for the fiscal year ended March 31, 2021 in this segment amounted to ¥36,409 million (a year-on-year decrease of 38.3%) and business loss for the fiscal year ended March 31, 2021 amounted to ¥5,873 million (business profit for the fiscal year ended March 31, 2020 amounted to ¥33 million).

(3) Cash Flows

Millions of Yen

	Fiscal year ended March 31, 2020	Fiscal year ended March 31, 2021	Change
Cash flow summary:			
Net cash provided by operating activities	¥51,166	¥69,770	¥18,604
Net cash used in investing activities	(62,147)	(22,412)	39,735
Net cash (used in) provided by financing activities	(15,869)	22,426	38,295
Effect of exchange rate changes on cash and cash equivalents	(960)	1,214	2,174
Net (decrease) increase in cash and cash equivalents	(27,810)	70,998	98,808
Cash and cash equivalents at the end of the year	¥131,432	¥202,430	¥70,998

Comparison of fiscal year ended March 31, 2021 with fiscal year ended March 31, 2020

Cash and cash equivalents (hereafter, referred to as “Net cash”), as of March 31, 2021, amounted to ¥202,430 million, an increase of ¥70,998 million compared to the year ended March 31, 2020.

Net cash provided by operating activities amounted to ¥69,770 million for the year ended March 31, 2021, a year-on-year increase of 36.4%. This primarily resulted from a net change in contract liabilities and increase in profit for the year despite a decrease in depreciation and amortization.

Net cash used in investing activities amounted to ¥22,412 million for the year ended March 31, 2021, a year-on-year decrease of 63.9%. This mainly resulted from a decrease in capital expenditures.

Net cash provided by financing activities amounted to ¥22,426 million for the year ended March 31, 2021 (Net cash used in financing activities amounted to ¥15,869 million for the year ended March 31, 2020). This primarily resulted from proceeds from issuance of bonds despite an increase in expenditure in repayment of 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, Amusement, and Gaming & Systems businesses;
- our ability to successfully expand the scope of our business and broaden our customer base through our Sports business;
- 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.

(1) Risks relating to timely introduction of new products and services.

The timely releases of a new product and service highly depend on various factors, including production capacity and capability of adapting to new platforms and regulations. If we are unable to release our new products and services in a timely fashion in accordance with our plans, our business results could be negatively affected.

(2) Risks relating to competition.

The markets for entertainment and sports-oriented products and services we involve are intensely competitive, and new products and services are regularly introduced. Also, new type of entertainment and leisure activities which may become our competitors continue to be introduced. This may cause new competitions, and our business results could be negatively impacted.

(3) Risks relating to unfavorable economic conditions.

Any significant downturn in economic conditions which results in a reduction in consumer spending could highly reduce demand for entertainment and sports-oriented products and services we involve and may harm our business results.

(4) Risks relating to aging population and declining birth rate in Japan.

If rapidly growing aging population and declining birth rate in Japan significantly were to change demand for entertainment and sports-oriented products and services we involve, our business results could be negatively affected.

(5) Risks relating to changing consumer preferences.

Many of our markets are characterized by rapidly changing trends and fads, and frequent innovations and improvements to products and services are necessary to maintain consumer interest. Our business results may be harmed if we are unable to successfully adapt and offer our products and services to changing consumer preferences.

(6) Risks relating to governmental restrictions and legal systems.

If governmental restrictions and legal systems in each country were to be changed significantly, we may have to change our products and services, marketing strategies and business models in order to observe new regulations. As a result, this could delay or suspend the delivery of our products and services in those relevant countries and may harm our business results.

(7) Risks relating to intellectual property rights.

Products and services, that we manufacture, develop, sell, distribute and provide, use and incorporate certain copyrights and other intellectual properties which are owned by outside. If these outside intellectual properties are unable to be licensed, our business results could be negatively affected as the relevant products and services are unable to be provided.

In addition, though we are making efforts such as improvement of operation flows to prevent the possibility that our products and services violate the intellectual property rights of others, it is not zero that third parties still may claim infringement. In this event, the management may determine additional costly litigation to solve the dispute or to cease using the relevant intellectual property of others, and our business results could be negatively affected.

(8) Risks relating to our products containing defect.

Although extensive tests are made to our products prior to release, errors may be found in products after shipment. If these errors were to result in a loss of market demand, our business results could be negatively impacted.

(9) Risks relating to acquisition opportunities and investments.

We are seeking opportunities in and outside Japan to make acquisitions and investments that will not only expand our current businesses but also be expected to grow new businesses in the medium- and long-term. In the event we make such acquisitions or investments, our business results could be negatively affected since we may face additional financial and operational risks, including:

- impairment losses could occur in future if the relevant acquisitions and investments are unable to be carried out at reasonable costs; and
- If acquired companies are unable to be successfully integrated as we intend, sufficient effects could not be obtained from the acquisitions and investments.

(10) Risks relating to personnel resources.

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. In particular, the software industry is characterized by a high level of employee mobility and aggressive recruiting among competitors for personnel. Retention of those human resources is extremely difficult. In addition, the hiring of international-skilled employees is urgently required in order to expand overseas operations further. If we are unable to attract and retain skilled personnel, our business results could be adversely affected.

(11) Risks relating to overseas operations.

Operations in foreign countries are required to address social turmoil generated by terrorism or conflicts, unexpected political factors, each country-specific business practice, tariff trends in each country and fluctuation of exchange rates. If we are unable to take appropriate actions to all of these and other factors that are specific to overseas, our business results could be negatively affected.

(12) Risks relating to natural disasters and other incidents.

Incidents such as natural disasters, including earthquake, flood and typhoon, and pandemic may adversely affect society and economy and even supply chain of our products. Appropriate measures such as earthquake resistance of buildings, emergency drill, hygiene measures in our offices, construction of safety confirmation system and consideration of alternative suppliers for our main parts are implemented, however, if these incidents happen in each of the regions we conduct our operations, our business results may be adversely affected.

(The impact of COVID-19)

The impact of coronavirus outbreak depends on factors such as the declaration of states-of-emergency and vaccine rollout, and thus the outlook remains uncertain. For Konami Group, as a result of voluntary temporary closures of stores and lockdown in line with the governments of various nations' policies, business stagnation and slowdown of future demand caused by these temporary closures and shortened business hours of amusement facilities, casino facilities and sports clubs had an effect on Konami Group's performance. If such measures are taken in the future, business activities may be limited and therefore our performance may be affected due to our inability to sell products and provide services.

We continue to take measures to minimize any potential impacts, including adequate measures to avoid infection of COVID-19 in our offices and facilities and to support employees' working environment for development and operation from home.

(13) Risks relating to unexpected network interruptions or security breaches.

Through utilizing information system connected with communication network, various measures to improve usability and security are taken in our business activities.

Nevertheless, cyber-attacks against our information and network system, unexpected disasters, accidents and infrastructure outages in electricity and communication could cause our information system failure. As a result, in case the system failure prevents us from providing our services, it may harm our business results.

(14) Risks relating to protection of personal information.

If it may cause that leaks of personal information on account of inappropriate administration, security breaches, including hacking and unauthorized access, and others, our reputation and brands and business results may be negatively affected. On the other hand, we endeavor to maintain robust protections to prevent such leaks of personal information, including establishment of information management policy, adequate training for officers and employees, security measures and complying with GDPR, personal data protection policy in EU.

(15) Risks relating to future lawsuits.

If our business operations were to be charged by legal claims, lawsuits and other legal proceedings and these conclusions were to be adverse conditions to us, our business results may be negatively impacted.

(16) Risks relating to dishonest actions.

We are not only putting systems in place to prevent dishonest actions through illicit means and use on our products and services, 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 results could be adversely affected as trust in Konami Group and its brand could be impaired.

July 15, 2021

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.

Kimihiko Higashio, 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.