Annual Financial Report

KONAMI HOLDINGS CORPORATION and its subsidiaries

Consolidated Financial Statements
For the fiscal year ended March 31, 2019

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, 2018	As of March 31, 2019
Assets			
Current assets			
Cash and cash equivalents	5,22	¥154,485	¥159,242
Trade and other receivables	6,22,23	26,092	32,475
Inventories	7	6,840	8,315
Income tax receivables		714	339
Other current assets	13,22	7,541	7,350
Total current assets		195,672	207,721
Non-current assets			
Property, plant and equipment, net	8,10	79,077	82,241
Goodwill and intangible assets	9	36,870	38,080
Investments accounted for using the equity method	11	3,034	3,233
Other investments	12,22	1,313	1,220
Other financial assets	13,22	22,578	22,038
Deferred tax assets	18	21,951	21,143
Other non-current assets		2,613	2,361
Total non-current assets		167,436	170,316
Total assets		¥363,108	¥378,037

	Note	As of March 31, 2018	As of March 31, 2019
			Millions of Yen
Liabilities and equity			
Liabilities			
Current liabilities			
Bonds and borrowings	14,22,29	¥11,903	¥10,547
Other financial liabilities	10,17,22,29	3,876	4,323
Trade and other payables	15,22	31,252	31,530
Income tax payables		7,599	4,771
Other current liabilities	16,19,23	14,660	19,660
Total current liabilities		69,290	70,831
Non-current liabilities			
Bonds and borrowings	14,22,29	14,744	9,803
Other financial liabilities	10,17,22,29	13,105	9,922
Provisions	16	9,109	9,182
Other non-current liabilities	19,23	2,321	1,895
Total non-current liabilities		39,279	30,802
Total liabilities		108,569	101,633
Equity			
Share capital	20	47,399	47,399
Share premium	20	74,426	74,426
Treasury shares	20	(21,321)	(21,325)
Other components of equity	27	610	1,583
Retained earnings	20	152,668	173,544
Total equity attributable to owners of the parent		253,782	275,627
Non-controlling interests		757	777
Total equity		254,539	276,404
Total liabilities and equity		¥363,108	¥378,037

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, 2018	Fiscal year ended March 31, 2019
Revenue			
Product sales revenue		¥89,606	¥74,724
Service and other revenue		149,891	187,825
Total revenue	4,23	239,497	262,549
Cost of revenue			
Cost of product sales revenue		(42,415)	(36,166)
Cost of service and other revenue		(99,810)	(119,192)
Total cost of revenue	24	(142,225)	(155,358)
Gross profit		97,272	107,191
Selling, general and administrative expenses	24	(49,025)	(52,631)
Other income and other expenses, net	25	(3,066)	(4,038)
Operating profit		45,181	50,522
Finance income	26	153	326
Finance costs	26	(917)	(817)
Profit from investments accounted for using the equity method		292	279
Profit before income taxes		44,709	50,310
Income taxes	18	(14,203)	(16,093)
Profit for the year		30,506	34,217
Profit attributable to:			
Owners of the parent		30,507	34,196
Non-controlling interests		¥(1)	¥21

Yen

	Note	Fiscal year ended March 31, 2018	Fiscal year ended March 31, 2019
Earnings per share (attributable to owners of the parent)			
Basic	28	¥225.59	¥252.86
Diluted	28	¥222.21	¥249.02

Consolidated Statement of Comprehensive Income

Millions of Yen

	Note	Fiscal year ended March 31, 2018	Fiscal year ended March 31, 2019
Profit for the year		¥30,506	¥34,217
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	27	-	(68)
Share of other comprehensive income of entity accounted for using the equity method	27	-	(0)
Total items that will not be reclassified to profit or loss		-	(68)
Items that may be reclassified to profit or loss:			
Exchange differences on foreign operations	27	(1,612)	1,040
Net change in fair values of available-for-sale financial assets	27	66	-
Share of other comprehensive income of entity accounted for using the equity method	27	(1)	-
Total items that may be reclassified to profit or loss		(1,547)	1,040
Total other comprehensive income		(1,547)	972
Total comprehensive income for the year		28,959	35,189
Comprehensive income attributable to:			
Owners of the parent		28,960	35,169
Non-controlling interests		¥(1)	¥20

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, 2017		¥47,399	¥74,426	¥(21,304)	¥2,157	¥131,763	¥234,441	¥751	¥235,192
Profit for the year						30,507	30,507	(1)	30,506
Other comprehensive income					(1,547)		(1,547)	(0)	(1,547)
Total comprehensive income for the year		-	-	-	(1,547)	30,507	28,960	(1)	28,959
Purchase of treasury shares	20			(17)			(17)		(17)
Disposal of treasury shares	20		0	0			0		0
Dividends	21					(9,602)	(9,602)		(9,602)
Increase of a subsidiary								7	7
Total transactions with the owners		-	0	(17)	-	(9,602)	(9,619)	7	(9,612)
Balance at March 31, 2018		47,399	74,426	(21,321)	610	152,668	253,782	757	254,539
Profit for the year						34,196	34,196	21	34,217
Other comprehensive income					973		973	(1)	972
Total comprehensive income for the year		-	-	-	973	34,196	35,169	20	35,189
Purchase of treasury shares	20			(4)			(4)		(4)
Disposal of treasury shares	20		0	0			0		0
Dividends	21					(13,320)	(13,320)		(13,320)
Total transactions with the owners		-	0	(4)	-	(13,320)	(13,324)	-	(13,324)
Balance at March 31, 2019		¥47,399	¥74,426	¥(21,325)	¥1,583	¥173,544	¥275,627	¥777	¥276,404

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, 2018	Fiscal year ended March 31, 2019
Operating activities			
Profit for the year		¥30,506	¥34,217
Depreciation and amortization		12,490	14,093
Impairment losses		3,132	3,290
Interest and dividends income		(149)	(306)
Interest expense		824	797
Loss on sale or disposal of property, plant and equipment		62	428
Profit from investments accounted for using the equity method		(292)	(279)
Income taxes		14,203	16,093
Increase in trade and other receivables		(731)	(5,816)
Decrease (increase) in inventories		610	(964)
Increase in trade and other payables		2,542	1,329
Increase in prepaid expense		(379)	(413)
Increase in deferred revenue		1,449	-
Increase in contract liabilities		-	5,152
Other, net		(783)	(254)
Interest and dividends received		151	282
Interest paid		(811)	(774)
Income taxes paid		(8,844)	(17,744)
Net cash provided by operating activities		53,980	49,131
Investing activities			
Capital expenditures		(17,631)	(23,809)
Payments for lease deposits		(419)	(614)
Collection of lease deposits		812	621
Payments into time deposits		(2,500)	(1)
Proceeds from withdrawal of time deposits		1,205	1,282
Other, net		49	(6)
Net cash used in investing activities		(18,484)	(22,527)
Financing activities			
Decrease in short-term (within 3 months) borrowings, net	29	(1,121)	-
Proceeds from short-term (more than 3 months) borrowings	29	12,894	12,177
Repayments of short-term (more than 3 months) borrowings	29	(10,098)	(13,826)
Redemption of bonds	14, 29	(5,000)	(5,000)
Principal payments under capital lease and financing obligations	29	(1,866)	(2,460)
Dividends paid	21	(9,590)	(13,303)
Other, net		(17)	(4)
Net cash used in financing activities		(14,798)	(22,416)
Effect of exchange rate changes on cash and cash equivalents		(956)	569
Net increase in cash and cash equivalents		19,742	4,757
Cash and cash equivalents at the beginning of the year	5	134,743	154,485
Cash and cash equivalents at the end of the year	5	¥154,485	¥159,242

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 adopted the provisions of Article 93 of the foregoing rules.

(2) Basis of measurement

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

(3) Functional currency and presentation currency

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

(4) Use of estimates and judgments

In preparing IFRS-compliant consolidated financial statements, management uses estimates and judgments. Judgments made by management, assumptions about the future and uncertainty in estimates may affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities and reported amounts of income and expenses as of the reporting date of the consolidated financial statements.

The estimates and underlying assumptions are reviewed on an ongoing basis. The impacts from revisions to accounting estimates are recognized in the period in which the estimate is revised and future periods that are affected.

Information about estimates and judgments made by management that would have significant effects on the amounts recognized in the consolidated financial statements is included in the following notes:

- Revenue recognition: Note 3 "Significant Accounting Policies- (14) Revenue" and Note 23 "Revenue".
- Recognition of deferred tax assets: Note 18 "Deferred Taxes and Income Tax Expense".
- Impairment losses for property, plant and equipment, goodwill and intangible assets: Note 3 "Significant Accounting Policies- (9) Impairment (ii) Non-financial assets", Note 8 "Property, Plant and Equipment, net" and Note 9 "Goodwill and Intangible Assets".

(5) Changes in Accounting Policies

(1) Adoption of IFRS 9 "Financial Instruments"

Konami Group has adopted IFRS 9 "Financial Instruments" from the fiscal year ended March 31, 2019. The new standard replaces IAS 39 "Financial Instruments: Recognition and Measurement". The standard deals with the classification, recognition and measurement (including impairment) of financial instruments. Konami Group takes advantage of the exemption allowing it not to restate comparative information for prior periods with respect to classification and measurement changes. There is no material impact on Konami Group's consolidated financial statements from the application of IFRS 9.

The classification and carrying amount of the financial assets in accordance with IAS 39 and IFRS 9 as of the start date to adopt IFRS 9 are as follows:

IAS 39	Carrying amount	IFRS 9	Carrying amount
Cash and cash equivalents	¥154,485	Cash and cash equivalents	¥154,485
Loans and receivables		Financial assets measured at amortized cost	
Trade and other receivables	26,092	Trade and other receivables	26,092
Other financial assets	23,657	Other financial assets	23,657
Available-for-sale investments		Equity financial assets measured at fair value through other comprehensive income	
Other investments	1,313	Other investments	1,300
		Financial assets measured at fair value through profit or loss	
		Other investments	13
Total	¥205,547	Total	¥205,547

The classification and carrying amount of the financial liabilities have no change.

(2) IFRS 15 "Revenue from Contracts with Customers"

Konami Group has adopted IFRS 15 "Revenue from Contracts with Customers" (issued in May 2014) and "Clarifications to IFRS 15" (issued in April 2016) (collectively, "IFRS 15") from the fiscal year ended March 31, 2019. Konami Group recognizes the cumulative effect of applying the new standard at the date of initial application, with no restatement of the comparative periods presented.

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. Konami Group reviewed the performance obligation in the case where other concerned parties are involved in providing goods or services to customers under the newly stipulated application guidelines in accordance with the adoption of IFRS 15. This review included whether the nature of an entity's promise represents a performance obligation of providing specified goods or services to customers by the entity itself (that is, the entity is a principal) or a performance obligation of making arrangements for these goods or services to be provided by the other concerned parties (that is, the entity is an agent). Based on the review, recognition of revenue for some transactions has been changed from "net base" to "gross base." As a result, "Revenue" and "Cost of revenue" increased by ¥5,738 million, respectively, for the fiscal year ended March 31, 2019 in the consolidated statement of profit or loss compared to what the figures would be under the prior accounting standard.

As a result of reviewing the classification of the revenue under the newly stipulated application guidelines by IFRS 15, ¥26,774 million of revenue where the performance obligations is satisfied over time is recorded as "Service and other revenue" for the year ended March 31, 2019, which was included in "Product sales revenue" under the prior classification.

(6) Early application of new accounting standards

There were no new accounting standards applied earlier than required.

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

New or revised accounting standards and interpretations that were issued by the date of approval of the consolidated financial statements but have not yet been applied by the Company as of March 31, 2019, are as shown in the table below.

Standards and Interpretations	**Title**	**Date of mandatory application (fiscal year beginning on or after)**	**Reporting periods of application by the Company (End date of the reporting period)**	**Overview of new/revised Standards and Interpretations**
IFRS 16	Leases	January 1, 2019	March 31, 2020	Revision of lease accounting

With the application of IFRS 16, in principle, lessees are required to recognize all leases as assets representing the right to use and a liability to make lease payments. In applying the standard, Konami Group intends to apply an approach that recognizes the cumulative effect of the application at the commencement date (a modified retrospective approach).

Upon the adoption of this standard to the consolidated financial statement, Konami Group expects to recognize increases mainly in total assets by approximately ¥40,400 million and in total liabilities by approximately ¥45,500 million, respectively, at the beginning of the fiscal year ending March 31, 2020 in the consolidated statement of financial position.

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.

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

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

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

(7) Goodwill and intangible assets

(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 there is any indicator of impairment.

(2) Intangible assets acquired in business combinations

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

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

(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 is any indication that they may be impaired. The straight-line method is adopted because this method best reflects the expected pattern of consumption of the future economic benefits generated by the asset.

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

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

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

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

(8) Leases

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

(1) Finance leases

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

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

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

(2) Operating leases

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

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

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

(9) Impairment

(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 an indication that an investment in an associate may be impaired at the end of each reporting period. If there is objective evidence that the investment is impaired, the investment is tested for impairment by comparing its recoverable amount (higher of value in use or fair value less costs of disposal) of the investment with its carrying amount. Previously recognized impairment losses are reversed only if there is a change in the estimates used to determine the recoverable amount of the investment after the impairment losses were recorded. In such a case, the reversal of the impairment loss is recognized to the extent that the recoverable amount of the net investment subsequently increases.

(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 there is any indication of impairment at the end of each reporting period. If there is any indication of impairment, the asset is tested for impairment based on its recoverable amount. Goodwill, intangible assets with indefinite useful lives are tested for impairment based on the recoverable amount annually at a consistent time in the year, and whenever there is any indicator of impairment.

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

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

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

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

(10) Employee benefits

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

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

(11) Provisions

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

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

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

(12) Financial instruments

Konami Group has adopted IFRS 9 from the fiscal year ended March 31, 2019 and the accounting policies are as follows.

(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 statements 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.

(The previous accounting policies adopted on or before Mach 31, 2018)

Konami Group has applied IFRS 9 retrospectively and has determined not to restate the comparative information for the fiscal year ended March 31, 2018. As a result, the comparative information is prepared based on the Konami Group’s previous accounting policies. The accounting policies Konami Group adopted on or before Mach 31, 2018 are as follows.

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

(1) Non-derivative financial assets - recognition and derecognition

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

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

(2) Non-derivative financial assets- measurement

(i) Loans and receivables

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

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

(ii) Available-for-sale financial assets

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

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

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

(3) Impairment of Non-derivative financial assets

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

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

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

(i) Financial assets measured at amortized cost

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

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

(ii) Available-for-sale financial assets

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

(13) 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.

(14) 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.

(15) 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.

(16) Income tax expense

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

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

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

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

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

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

(17) Earnings per share

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

4. Segment Information

Konami Group's reportable segments constitute units of the Konami Group for which separate financial information is available. The Chief Operating Decision Maker regularly conducts deliberations to determine the allocation of management resources and to assess performance of each segment.

Operating segments are components of business activities from which Konami Group may earn revenues and incur expenses, including revenues and expenses relating to transactions with other operating segments.

The operating segments are managed separately as each segment represents a strategic business unit that offers different products and serves different markets.

Konami Group operates on a worldwide basis principally with the following four business segments:

1. Digital Entertainment:	Production, manufacture and sale of digital content and related products including mobile games, 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 statements of financial position. Segment assets are based on those directly associated with each segment. Assets not directly associated with specific segments, except those of corporate assets, are allocated in a consistent manner which management believes to be reasonable.

Intersegment sales and revenues are generally recognized at values that represent arm's-length fair value.

Neither Konami Group nor any of its segments depended on any single customer for more than 10% of Konami Group's revenues for the years ended March 31, 2018 and 2019.

Starting from the fiscal year ended March 31, 2019, the name of a reporting segment previously stated as "Health & Fitness" business has been changed to "Sports" business. This change is limited to the name only, hence there is no impact to its segment information.

(1) Operating segment information

Millions of Yen

	Fiscal year ended March 31, 2018	Fiscal year ended March 31, 2019
Revenue:		
Digital Entertainment –		
External customers	¥119,548	¥140,955
Intersegment	702	744
Total	¥120,250	¥141,699
Amusement –		
External customers	¥24,629	¥27,249
Intersegment	549	588
Total	¥25,178	¥27,837
Gaming & Systems –		
External customers	¥29,628	¥31,170
Intersegment	-	-
Total	¥29,628	¥31,170
Sports –		
External customers	¥65,692	¥63,175
Intersegment	312	312
Total	¥66,004	¥63,487
Intersegment eliminations	¥(1,563)	¥(1,644)
Consolidated	¥239,497	¥262,549

	Millions of Yen	
	Fiscal year ended March 31, 2018	Fiscal year ended March 31, 2019
Segment profit:		
Digital Entertainment	¥37,405	¥43,833
Amusement	7,493	8,434
Gaming & Systems	4,366	4,723
Sports	3,253	2,243
Total segment profit	52,517	59,233
Corporate expenses and eliminations	(4,270)	(4,673)
Other income and other expenses, net	(3,066)	(4,038)
Finance income and finance costs, net	(764)	(491)
Profit from investments accounted for using the equity method	292	279
Profit before income taxes	¥44,709	¥50,310

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

	Millions of Yen	
	As of March 31, 2018	As of March 31, 2019
Segment assets:		
Digital Entertainment	¥166,811	¥174,027
Amusement	56,015	62,430
Gaming & Systems	34,106	37,180
Sports	68,880	73,620
Total	325,812	347,257
Corporate assets	37,296	30,780
Consolidated	¥363,108	¥378,037

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 11” Investments Accounted for Using the Equity Method”.
3) Impairment losses for property, plant and equipment, goodwill and intangible assets included in each segment asset are shown in the table below. Also, impairment losses for property, plant and equipment, goodwill and intangible asset are further discussed in Note 8 "Property, Plant and Equipment, net" and Note 9 "Goodwill and Intangible Assets".

	Millions of Yen	
	Fiscal year ended March 31, 2018	Fiscal year ended March 31, 2019
Impairment losses:		
Digital Entertainment	¥1,972	¥2,903
Amusement	1,158	387
Sports	2	-
Total	¥3,132	¥3,290

	Fiscal year ended March 31, 2018	Fiscal year ended March 31, 2019
	Millions of Yen	
Depreciation and amortization:		
Digital Entertainment	¥3,876	¥4,416
Amusement	2,722	3,289
Gaming & Systems	1,239	1,594
Sports	3,367	3,256
Total	11,204	12,555
Corporate assets	1,286	1,538
Consolidated	¥12,490	¥14,093

	Fiscal year ended March 31, 2018	Fiscal year ended March 31, 2019
	Millions of Yen	
Investments in non-financial assets:		
Digital Entertainment	¥8,010	¥8,814
Amusement	3,849	3,180
Gaming & Systems	1,510	2,002
Sports	2,993	2,790
Total	16,362	16,786
Corporate assets	4,710	5,210
Consolidated	¥21,072	¥21,996

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

(2) Geographic Information

Revenue from external customers

	Fiscal year ended March 31, 2018	Fiscal year ended March 31, 2019
	Millions of Yen	
Revenue:		
Japan	¥183,222	¥201,775
United States	38,168	40,347
Europe	11,067	12,890
Asia/Oceania	7,040	7,537
Consolidated	¥239,497	¥262,549

	As of March 31, 2018	As of March 31, 2019
	Millions of Yen	
Non-current assets:		
Japan	¥105,177	¥109,106
United States	10,061	10,549
Europe	268	255
Asia/Oceania	441	411
Consolidated	¥115,947	¥120,321

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

For the purpose of presenting its operations in the geographic areas above, Konami Group attributes revenues from external customers to individual countries in each area based on where Konami Group sold products or rendered services, and attributes assets based on where assets are located.

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

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

5. Cash and Cash Equivalents

The breakdown of cash and cash equivalents is as follows:

Millions of Yen

	As of March 31, 2018	As of March 31, 2019
Cash and cash equivalents:		
Cash and deposits	¥151,077	¥153,336
Short-term deposits with maturities of three months or less	3,408	5,906
Total cash and cash equivalents on the consolidated statements of financial position	¥154,485	¥159,242

The balances of cash and cash equivalents on the consolidated statements of financial position agreed with the respective balances in consolidated statements of cash flows as of March 31, 2018 and 2019.

6. Trade and Other Receivables

The breakdown of trade and other receivables is as follows:

Millions of Yen

	As of March 31, 2018	As of March 31, 2019
Notes receivables	¥579	¥881
Accounts receivables	25,521	31,649
Other receivables	49	109
Less: allowance for doubtful accounts / allowance for expected credit losses	(57)	(164)
Total	¥26,092	¥32,475

7. Inventories

The breakdown of inventories is as follows:

Millions of Yen

	As of March 31, 2018	As of March 31, 2019
Finished products	¥2,443	¥2,896
Work in process	82	158
Raw materials and supplies	4,315	5,261
Total	¥6,840	¥8,315

Inventories recognized as an expense for the fiscal years ended March 31, 2018 and 2019 were ¥27,818 million and ¥26,175 million, respectively.

Loss on valuation recognized as an expense for the fiscal years ended March 31, 2018 and 2019 were ¥1,214 million and ¥250 million, respectively.

8. Property, Plant and Equipment, net

(1) Reconciliations

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

Millions of Yen

	Land	Buildings and structures	Tools, furniture and fixtures	Construction in progress	Total
Acquisition cost					
Balance as of March 31, 2017	¥34,866	¥109,154	¥32,720	¥651	¥177,391
Acquisitions	252	1,250	3,792	3,858	9,152
Sales and disposal	-	(1,380)	(2,790)	-	(4,170)
Transfer from construction in progress	-	94	(1,503)	(272)	(1,681)
Effect of foreign currency	(23)	(340)	(469)	(8)	(840)
Others	-	1,102	(74)	69	1,097
Balance as of March 31, 2018	35,095	109,880	31,676	4,298	180,949
Acquisitions	-	1,365	3,583	4,516	9,464
Sales and disposal	-	(395)	(3,291)	-	(3,686)
Transfer from construction in progress	-	315	(632)	(796)	(1,113)
Effect of foreign currency	19	273	353	5	650
Others	-	72	1	44	117
Balance as of March 31, 2019	¥35,114	¥111,510	¥31,690	¥8,067	¥186,381

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, 2017	¥(141)	¥(73,855)	¥(27,797)	-	¥(101,793)
Depreciation expenses	-	(3,498)	(2,384)	-	(5,882)
Sales and disposal	-	1,349	2,745	-	4,094
Impairment losses	-	-	-	-	-
Transfer from construction in progress	-	-	1,360	-	1,360
Effect of foreign currency	-	28	351	-	379
Others	-	(71)	41	-	(30)
Balance as of March 31, 2018	(141)	(76,047)	(25,684)	-	(101,872)
Depreciation expenses	-	(3,630)	(2,531)	-	(6,161)
Sales and disposal	-	357	3,272	-	3,629
Impairment losses	-	-	-	-	-
Transfer from construction in progress	-	-	756	-	756
Effect of foreign currency	-	(31)	(263)	-	(294)
Others	-	(30)	(168)	-	(198)
Balance as of March 31, 2019	¥(141)	¥(79,381)	¥(24,618)	-	¥(104,140)

Millions of Yen

	Land	Buildings and structures	Tools, furniture and fixtures	Construction in progress	Total
Carrying amount					
Balance as of March 31, 2018	¥34,954	¥33,833	¥5,992	¥4,298	¥79,077
Balance as of March 31, 2019	¥34,973	¥32,129	¥7,072	¥8,067	¥82,241

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

(2) Impairment losses

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

For the fiscal years ended March 31, 2018 and 2019, no impairment loss was recognized

(3) Borrowing costs

During the fiscal years ended March 31, 2018 and 2019, Konami Group capitalized borrowing costs amounting to ¥69 million and ¥44 million, respectively. Borrowing costs on qualifying assets were capitalized at the weighted average rate for general borrowings of 0.57% and 0.62%, respectively.

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, 2017	¥22,024	¥46,414	¥50,561	¥6,640	¥8,648	¥134,287
Acquisitions	-	1,085	-	-	135	1,220
Internally generated development costs	-	10,700	-	-	-	10,700
Sales and disposal	-	(10,912)	-	-	(1,011)	(11,923)
Effect of foreign currency	(29)	(39)	-	-	(174)	(242)
Others	-	(176)	-	-	(34)	(210)
Balance as of March 31, 2018	21,995	47,072	50,561	6,640	7,564	133,832
Acquisitions	-	1,030	-	-	139	1,169
Internally generated development costs	-	11,363	-	-	-	11,363
Sales and disposal	-	(7,708)	-	-	(3)	(7,711)
Effect of foreign currency	23	46	-	-	125	194
Others	-	345	-	-	(168)	177
Balance as of March 31, 2019	¥22,018	¥52,148	¥50,561	¥6,640	¥7,657	¥139,024

Millions of Yen

	Goodwill	Internally generated intangible assets	Trademarks	Memberships	Others	Total
Accumulated amortization and impairment losses						
Balance as of March 31, 2017	¥(4,127)	¥(40,675)	¥(41,712)	¥(6,640)	¥(6,359)	¥(99,513)
Amortization expenses	-	(6,061)	(11)	-	(536)	(6,608)
Sales and disposal	-	10,909	-	-	1,011	11,920
Impairment losses	-	(2,996)	(136)	-	-	(3,132)
Effect of foreign currency	-	39	-	-	118	157
Others	-	192	-	-	22	214
Balance as of March 31, 2018	(4,127)	(38,592)	(41,859)	(6,640)	(5,744)	(96,962)
Amortization expenses	-	(7,395)	-	-	(537)	(7,932)
Sales and disposal	-	7,337	-	-	3	7,340
Impairment losses	-	(3,290)	-	-	-	(3,290)
Effect of foreign currency	-	(45)	-	-	(101)	(146)
Others	-	(118)	-	-	164	46
Balance as of March 31, 2019	¥(4,127)	¥(42,103)	¥(41,859)	¥(6,640)	¥(6,215)	¥(100,944)

Millions of Yen	Goodwill	Internally generated intangible assets	Trademarks	Memberships	Others	Total
Carrying amount						
Balance as of March 31, 2018	¥17,868	¥8,480	¥8,702	-	¥1,820	¥36,870
Balance as of March 31, 2019	¥17,891	¥10,045	¥8,702	-	¥1,442	¥38,080

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, 2018 and 2019, the carrying amounts of intangible assets with indefinite useful lives included in above were ¥8,996 million and ¥8,985 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, 2019.

(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, 2018	As of March 31, 2019
Goodwill		
Digital Entertainment	¥15,302	¥15,325
Gaming & Systems	125	125
Sports	2,441	2,441
Total	¥17,868	¥17,891
Intangible assets with an indefinite life		
Gaming & Systems	¥294	¥283
Sports	8,702	8,702
Total	¥8,996	¥8,985

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 Sports operations, the goodwill and intangible assets 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 disposal costs. The fair value less disposal costs 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. The discount rate is calculated based on the weighted average capital cost of the relevant CGU. For the fiscal year ended March 31, 2018 and 2019, the discount rates are 6.5% and 7.1%, respectively.

For the fiscal year ended March 31, 2019, the total recoverable amount exceeded its carrying amount. If the discount rate would increase by 3.4% points, the recoverable amount and the carrying amount are equal.

(4) Impairment of internally generated intangible assets

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

Impairment losses recognized 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, 2018 and 2019 were as follows:

Millions of Yen

	Fiscal year ended March 31, 2018	Fiscal year ended March 31, 2019
Digital Entertainment	¥1,972	¥2,903
Amusement	1,022	387
Sports	2	-
Total	¥2,996	¥3,290

(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, 2018 and 2019, research and development costs recognized as expense incurred were ¥3,131million and ¥3,253 million, respectively.

10. Leases

Lessee

(1) Finance leases

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

The carrying amounts (less cumulative amount of depreciation expenses and impairment losses) of assets leased under finance leases, which were included in property, plant and equipment in the accompanying consolidated statement of financial position, at March 31, 2018 and 2019 were as follows:

Millions of Yen

	As of March 31, 2018	As of March 31, 2019
Buildings and structures	¥7,163	¥5,418
Tools, furniture and fixtures	¥19	¥1

Future minimum lease payments under finance leases at March 31, 2018 and 2019 were as follows:

Millions of Yen

	As of March 31, 2018	As of March 31, 2019
Less than 1 year	¥2,341	¥2,602
More than 1 year and less than 5 years	7,664	6,983
More than 5 years	7,394	4,427
Total	17,399	14,012
Less: future financial expenses	(2,505)	(1,952)
The present value of future minimum lease payments	¥14,894	¥12,060

The present value of future minimum lease payments under finance leases at March 31, 2018 and 2019 were as follows:

Millions of Yen

	As of March 31, 2018	As of March 31, 2019
Less than 1 year	¥1,790	¥2,138
More than 1 year and less than 5 years	6,208	5,770
More than 5 years	6,896	4,152
Total	¥14,894	¥12,060

Certain lease contracts include renewal or purchase options.

Contingent rents recognized as an expense were not material during the fiscal years ended March 31, 2018 and 2019.

(2) Operating leases

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

Konami Group has obligations arising from non-cancelable operating leases. Future minimum lease payments under noncancelable operating leases at March 31, 2018 and 2019 were as follows:

Millions of Yen

	As of March 31, 2018	As of March 31, 2019
Less than 1 year	¥14,517	¥14,228
More than 1 year and less than 5 years	30,665	23,471
More than 5 years	14,839	11,752
Total	¥60,021	¥49,451

Certain lease contracts include renewal or purchase options.

Lease payments under operating leases recognized as an expense for the fiscal years ended March 31, 2018 and 2019 totaled ¥16,695 million and ¥19,857 million, respectively.

Contingent rents recognized as expenses were not material during the fiscal years ended March 31, 2018 and 2019.

11. Investments Accounted for Using the Equity Method

At March 31, 2018 and 2019, 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 Sports segment Certain directors or officers of the Company concurrently serve as directors or officers	March 2006	20.4%

At March 31, 2018 and 2019, 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, 2018	As of March 31, 2019
Carrying amount	¥3,034	¥3,233
Fair value	¥4,911	¥4,532

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

12. Other Investments

The breakdown of other investments is as follows:

Millions of Yen

	As of March 31, 2018	As of March 31, 2019
Equity financial assets measured at fair value through other comprehensive income		
Securities	-	¥1,128
Other investments	-	72
Financial assets measured at fair value through profit or loss		
Other investments	-	20
Available-for-sale investments		
Securities	¥1,227	-
Other investments	86	-
Total	¥1,313	¥1,220

13. Other Financial Assets

The breakdown of other financial assets is as follows:

Millions of Yen

	As of March 31, 2018	As of March 31, 2019
Financial assets measured at amortized cost		
Loans receivable	-	¥288
Lease deposits	-	22,467
Other financial assets	-	1,140
Less: allowance for expected credit losses	-	(162)
Loans and receivables		
Loans receivable	¥345	-
Lease deposits	21,955	-
Other financial assets	1,519	-
Less: allowance for doubtful accounts	(162)	-
Total	¥23,657	¥23,733
Current	1,079	1,695
Non-current	¥22,578	¥22,038

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

14. Bonds and Borrowings

At March 31, 2018 and 2019, the breakdown of short-term borrowings is as follows:

Millions of Yen

	As of March 31, 2018	As of March 31, 2019
Unsecured short-term borrowings from banks	¥6,906	¥5,550
Total	¥6,906	¥5,550

Weighted-average interest rates on short-term borrowings were 2.09% and 3.24% at March 31, 2018 and 2019, respectively. In addition, unsecured short-term borrowings from banks included $65,000 thousand (¥6,906 million) and $50,000 thousand (¥5,550 million) of loans denominated in foreign currencies at March 31, 2018 and 2019, respectively.

At March 31, 2018 and 2019, the breakdown of bonds is as follows:

Millions of Yen

	As of March 31, 2018	As of March 31, 2019
Unsecured 0.53% per annum bonds due in September 2018	¥4,997	-
Unsecured 0.66% per annum bonds due in September 2019	4,993	¥4,997
-% per annum euro-yen convertible bond-type bonds with subscription rights to shares due in December 2022	9,751	9,803
Total	19,741	14,800
Less: current portion	(4,997)	(4,997)
Long-term debt, non-current portion	¥14,744	¥9,803

At March 31, 2018 and 2019, Konami Group did not have any assets pledged as collateral for any of the debt obligations.

15. Trade and Other Payables

The breakdown of trade and other payables is as follows:

Millions of Yen

	As of March 31, 2018	As of March 31, 2019
Notes payables	¥419	¥691
Accounts payables	10,208	12,167
Accrued expenses	18,717	15,392
Refund liabilities	-	1,035
Other payables	1,908	2,245
Total	¥31,252	¥31,530

16. Provisions

The changes in provisions during the year ended March 31, 2019 were as follows:

Millions of Yen

	Asset retirement obligations	Others	Total
Balance as of March 31, 2018	¥9,205	¥558	¥9,763
Adjustment amount for adopting IFRS 15	-	(371)	(371)
Beginning balance after adjusting	9,205	187	9,392
Additional provisions	67	149	216
Amounts utilized	(62)	(108)	(170)
Unused amounts reversed	(61)	(81)	(142)
Discounted interest costs and effect of change in discount rate.	25	-	25
Others	-	1	1
Effect of foreign currency	(1)	8	7
Balance as of March 31, 2019	¥9,173	¥156	¥9,329
Current liabilities	7	140	147
Non-current liabilities	¥9,166	¥16	¥9,182

Konami Group recognizes asset retirement obligations arising from the contractual requirements to perform certain asset retirement activities in case it disposes certain lease assets primarily relating to the office and the 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.

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

17. Other Financial Liabilities

The breakdown of trade and other payables are as follows:

Millions of Yen

	As of March 31, 2018	As of March 31, 2019
Financial liabilities measured at amortized cost		
Capital lease and financing obligations	¥14,894	¥12,060
Other financial liabilities	2,087	2,185
Financial liabilities measured at fair value through profit or loss		
Other financial liabilities	-	0
Total	¥16,981	¥14,245
Current liabilities	3,876	4,323
Non-current liabilities	¥13,105	¥9,922

18. Deferred Taxes and Income Tax Expense

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

Millions of Yen

	As of April 1, 2017	Recognized through profit or loss (Note)	Recognized in other comprehensive income	Recognized in equity directly	As of March 31, 2018
Deferred tax assets:					
Accrued expenses	¥4,327	¥178	-	-	¥4,505
Inventories	2,170	(704)	-	-	1,466
Net operating loss carryforwards	2,968	11	-	-	2,979
Property, plant and equipment basis differences	2,728	34	-	-	2,762
Asset retirement obligations	1,157	103	-	-	1,260
Intangible assets	9,930	(225)	-	-	9,705
Deferred revenue	1,180	194	-	-	1,374
Investments in associates	1,109	0	-	-	1,109
Others	2,442	56	¥(9)	-	2,489
Total	¥28,011	¥(353)	¥(9)	-	¥27,649
Deferred tax liabilities:					
Intangible assets	¥(3,555)	¥113	-	-	¥(3,442)
Investments in subsidiaries	(1,107)	(28)	-	-	(1,135)
Others	(1,014)	(139)	¥32	-	(1,121)
Total	¥(5,676)	¥(54)	¥32	-	¥(5,698)
Deferred tax assets, net	¥22,335	¥(407)	¥23	-	¥21,951

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, 2018	Recognized through profit or loss (Note)	Recognized in other comprehensive income	Recognized in equity directly	As of March 31, 2019
Deferred tax assets:					
Accrued expenses	¥4,505	¥282	-	-	¥4,787
Inventories	1,466	(165)	-	-	1,301
Net operating loss carryforwards	2,979	(1,840)	-	-	1,139
Property, plant and equipment basis differences	2,762	(791)	-	-	1,971
Asset retirement obligations	1,260	138	-	-	1,398
Intangible assets	9,705	635	-	-	10,340
Deferred revenue	1,374	1,296	-	-	2,670
Investments in associates	1,109	0	-	-	1,109
Others	2,489	(111)	¥6	-	2,384
Total	¥27,649	¥(556)	¥6	-	¥27,099
Deferred tax liabilities:					
Intangible assets	¥(3,442)	¥70	-	-	¥(3,372)
Investments in subsidiaries	(1,135)	(70)	-	-	(1,205)
Others	(1,121)	(258)	-	-	(1,379)
Total	¥(5,698)	¥(258)	-	-	¥(5,956)
Deferred tax assets, net	¥21,951	¥(814)	¥6	-	¥21,143

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, 2018	As of March 31, 2019
Deferred tax assets	¥21,951	¥21,143
Deferred tax liabilities	-	-

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, 2018 and 2019, the amount of deferred tax assets attributable to tax entities which had recognized losses in the previous fiscal year and the current year were ¥277 million and ¥273 million, respectively. Konami Group recognized these deferred tax assets after considering their recoverability including whether it is probable that future taxable profit will be available based on the nature of the tax entity's businesses or expiry date of unused tax losses carryforwards in the country where the entity is located.

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

		Millions of Yen
	As of March 31, 2018	As of March 31, 2019
Deductible temporary differences	¥20,886	¥22,873
Unused tax losses carryforwards	33,660	22,634
Total	¥54,546	¥45,507

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, 2018	As of March 31, 2019
First year	¥8,803	¥1,806
Second year	1,457	5,546
Third year	7,524	1,022
Fourth year	1,022	430
Fifth year and thereafter	14,854	13,831
Total	¥33,660	¥22,634

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, 2018 and 2019, 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, 2018	Fiscal year ended March 31, 2019
Income taxes:		
Current tax expense		
Current tax on profits for the year	¥13,849	¥15,283
Total current tax expense	13,849	15,283
Deferred tax expense		
Origination and reversal of temporary difference	2,320	2,912
Changes in tax rates	662	-
Reassessment of recoverability of deferred tax assets	(2,628)	(2,102)
Total deferred tax expense	354	810
Total income tax expense	¥14,203	¥16,093

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 ¥2,075 million and ¥4,078 million in the fiscal years ended March 31, 2018 and 2019, 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.

Following the enactment of the Tax Cuts and Jobs Act in the U.S. on December 22, 2017, the federal tax rate used in the calculation of deferred tax assets and deferred tax liabilities of U.S. subsidiaries decreased from 35.0% to 21.0% from January 1, 2018.

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, 2018	Fiscal year ended March 31, 2019
Statutory income tax rate	30.9%	30.6%
Increase (reduction) in taxes resulting from:		
Non-deductible expenses	0.2	0.3
Non-taxable income	(0.2)	(0.0)
Changes of unrecognized deferred tax assets in previous years	(5.9)	(4.2)
Adjustment of estimated income tax accruals	1.5	3.2
Tax credit, principally research	(0.8)	(1.0)
Effect of tax law changes	1.5	-
Non-deductible local taxes	0.5	0.5
Other, net	4.1	2.6
Effective income tax rate	31.8%	32.0%

19. 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. Certain domestic subsidiaries terminated existing defined benefit plans and made a transition to defined contribution plans. Benefit obligations to be contributed to the defined contribution plans following this transition were determined to be ¥1,759 million and were completed to be settled by the end of the fiscal year ended March 31, 2019.

At March 31, 2018 and 2019, benefit obligations were included in “Other current liabilities” and “Other non-current liabilities” in the accompanying consolidated statements of financial position as follows:

Millions of Yen

	As of March 31, 2018	As of March 31, 2019
Other current liabilities	¥59	-
Other non-current liabilities	11	-
Total	¥70	-

The Company and certain domestic subsidiaries’ contributions to the defined contribution plans amounted to ¥3,397 million and ¥3,547 million for the fiscal years ended March 31, 2018 and 2019, 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, 2018 and 2019, respectively, which are included in “Other non-current liabilities” in the accompanying consolidated statements of financial position.

20. Shareholders' Equity

(1) Share capital

The total number of ordinary shares authorized to be issued and issued shares at March 31, 2018 and 2019 were as follows:

Number of shares

	Fiscal year ended March 31, 2018	Fiscal year ended March 31, 2019
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, 2018 and 2019:

	Number of shares	Millions of Yen
Balance as of March 31, 2017	8,263,356	¥21,304
Acquisition through purchase of odd-lot shares	3,007	17
Sell upon request for purchase of odd-lot shares	(104)	(0)
Balance as of March 31, 2018	8,266,259	21,321
Acquisition through purchase of odd-lot shares	725	4
Sell upon request for purchase of odd-lot shares	(25)	(0)
Balance as of March 31, 2019	8,266,959	¥21,325

(3) Share premium and retained earnings

(1) 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.

(2) 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, 2018 and 2019, retained earnings available for dividends recorded on the Company's books of account were ¥130,745 million and ¥139,281 million, respectively.

21. Dividends

(1) Dividends paid

Resolution	Class of shares	Amount of dividend (Millions of Yen)	Dividend per share (Yen)	Record date	Effective date
Board of Directors' meeting held on May 18, 2017	Ordinary shares	5,545	41.00	March 31, 2017	June 7, 2017
Board of Directors' meeting held on October 31, 2017	Ordinary shares	4,057	30.00	September 30, 2017	November 21, 2017
Board of Directors' meeting held on May 17, 2018	Ordinary shares	5,139	38.00	March 31, 2018	June 6, 2018
Board of Directors' meeting held on October 31, 2018	Ordinary shares	8,181	60.50	September 30, 2018	November 20, 2018

Note) Dividends per share resolved on October 31, 2018, 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 28, 2019	Ordinary shares	Retained earnings	8,858	65.50	March 31, 2019	June 12, 2019

Note) Resolved dividends per share include a commemorative dividend of 25 yen for the 50th anniversary of the Company's founding.

22. Financial Instruments

(1) Categories of financial instruments

(1) Financial assets

Millions of Yen

	As of March 31, 2018	As of March 31, 2019
Financial assets measured at amortized cost		
Cash and cash equivalents	-	¥159,242
Trade and other receivables	-	32,475
Other financial assets	-	23,733
Equity financial assets measured at fair value through other comprehensive income		
Other investments	-	1,200
Financial assets measured at fair value through profit or loss		
Other investments	-	20
Cash and cash equivalents	¥154,485	-
Loans and receivables		
Trade and other receivables	26,092	-
Other financial assets	23,657	-
Available-for-sale investments		
Other investments	1,313	-
Total	¥205,547	¥216,670

(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, 2018	As of March 31, 2019
TV TOKYO Holdings Corporation	¥332	¥277
Gamecard-Joyco Holdings, Inc	¥318	¥274

(3) Financial liabilities

Millions of Yen

	As of March 31, 2018	As of March 31, 2019
Financial liabilities measured at amortized cost		
Trade and other payables	¥31,252	¥31,530
Bonds and borrowings	26,647	20,350
Other financial liabilities	16,981	14,245
Financial liabilities measured at fair value through profit or loss		
Other financial liabilities	-	0
Total	¥74,880	¥66,125

(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, 2018	As of March 31, 2019
Cash and cash equivalents	¥154,485	¥159,242
Interest-bearing borrowings	41,541	32,410
Capital	253,782	275,627
Net debt-to-equity ratio (%)	69.9%	72.9%

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

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

(3) Financial risk management

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

(4) Credit risk management

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

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

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

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

When Konami Group initiates transactions where receivables will be generated on an ongoing basis, the finance department manages its risk exposure by setting credit limits and credit periods, as considered appropriate. It determines an amount of allowance for expected credit losses (for fiscal year ended March 31, 2018: allowance for doubtful accounts) 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 (for fiscal year ended March 31, 2018: allowance for doubtful accounts) based on past actual rates of credit losses, probability of future default and other information.

The changes in allowance for expected credit losses (for fiscal year ended March 31, 2018: allowance for doubtful accounts) for the fiscal years ended March 31, 2018 and 2019 are as follows:

Millions of Yen

	Fiscal year ended March 31, 2018	Fiscal year ended March 31, 2019
Balance at beginning of year	¥344	¥219
Allowance for doubtful accounts / Allowance for expected credit losses	51	124
Utilization of allowance	(34)	(9)
Reversal	(137)	(10)
Effect of foreign currency	(5)	2
Balance at end of year	¥219	¥326

The balances of trade and other receivables and the corresponding allowance for expected credit losses for the fiscal year ended March 31, 2019 are as follows.

Millions of Yen, except percentages

	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%	-	2.97%	47.77%	47.33%	0.50%	100.00%	0.99%
Trade and other receivables	¥30,627	¥983	¥741	¥157	¥131	¥32,639	¥162	¥32,801
Allowance for expected credit losses	¥5	-	¥22	¥75	¥62	¥164	¥162	¥326

The following is an analysis of the age of receivables that are past due but not impaired individually at March 31, 2018.

Millions of Yen

	As of March 31, 2018
Within 30 days	¥742
Over 30 days through 180 days	479
Over 180 days through 1 year	347
Over 1 year	69
Total	¥1,637

At March 31, 2018 and 2019, the balances of trade and other receivables impaired individually were ¥51 million and ¥112 million, respectively, and the corresponding allowance for expected credit losses (for fiscal year ended March 31, 2018: allowance for doubtful accounts) amounted to ¥51 million and ¥112 million, respectively.

(5) Liquidity risk management

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

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

The breakdown of financial liabilities by due date at March 31, 2018 and 2019 is as follows:

Millions of Yen

	Carrying amount	Contractual cash flows	Within 1 year	More than 1 year but within 2 years	More than 2 years but within 3 years	More than 3 years but within 4 years	More than 4 years but within 5 years	Over 5 years
Balance at March 31, 2018								
Bonds	¥19,741	¥20,063	¥5,046	¥5,017	-	-	¥10,000	-
Borrowings	6,906	6,950	6,950	-	-	-	-	-
Capital lease and financing obligations	14,894	17,399	2,341	2,178	¥1,952	¥1,792	1,742	¥7,394
Trade and other payables	31,252	31,252	31,252	-	-	-	-	-
Other financial liabilities	2,087	2,087	2,087	-	-	-	-	-
Total	¥74,880	¥77,751	¥47,676	¥7,195	¥1,952	¥1,792	11,742	¥7,394

Millions of Yen

	Carrying amount	Contractual cash flows	Within 1 year	More than 1 year but within 2 years	More than 2 years but within 3 years	More than 3 years but within 4 years	More than 4 years but within 5 years	Over 5 years
Balance at March 31, 2019								
Bonds	¥14,800	¥15,017	¥5,017	-	-	¥10,000	-	-
Borrowings	5,550	5,603	5,603	-	-	-	-	-
Capital lease and financing obligations	12,060	14,012	2,602	¥1,796	¥1,756	1,746	¥1,685	¥4,427
Trade and other payables	31,530	31,530	31,530	-	-	-	-	-
Other financial liabilities	2,185	2,185	2,185	-	-	-	-	-
Total	¥66,125	¥68,347	¥46,937	¥1,796	¥1,756	¥11,746	¥1,685	¥4,427

While Konami Group has committed lines of credit with large, reputable banks available for immediate borrowing in the amount of ¥25,000 million, no amount had been drawn down under any of these agreements as of March 31, 2018 and 2019.

(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, 2018 and 2019 was as follows:

Millions of Yen

	As of March 31, 2018	As of March 31, 2019
Financial assets denominated in foreign currencies	¥12,838	¥11,920
Financial liabilities denominated in foreign currencies	¥1,878	¥2,594

(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, 2018 and 2019. 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, 2018	Fiscal year ended March 31, 2019
United States dollar	¥53	¥36
Euro	¥30	¥29

(2) Interest rate risk

(i) Interest rate risk management

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

There were no interest-bearing borrowings with variable rates at March 31, 2018 and 2019.

(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, capital lease and financing obligations, 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 table is a breakdown of financial instruments showing carrying amounts and fair values as at March 31, 2018 and 2019.

Millions of Yen

	As of March 31, 2018		As of March 31, 2019	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets:				
Financial assets measured at amortized cost				
Loans receivable	-	-	¥288	¥330
Lease deposits	-	-	22,467	22,750
Other financial assets	-	-	978	844
Equity financial assets measured at fair value through other comprehensive income				
Securities	-	-	1,128	1,128
Other investments	-	-	72	72
Financial assets measured at fair value through profit or loss				
Other investments	-	-	20	20
Loans and receivables				
Loans receivable	¥345	¥386	-	-
Lease deposits	21,955	22,145	-	-
Other financial assets	1,357	1,335	-	-
Available-for-sale investments				
Securities	1,227	1,227	-	-
Other investments	86	86	-	-
Financial liabilities:				
Financial liabilities measured at amortized cost				
Bonds and borrowings	¥26,647	¥26,407	¥20,350	¥20,151
Capital lease and financing obligations	14,894	16,956	12,060	13,857
Other financial liabilities	2,087	2,087	2,185	2,185
Financial liabilities measured at fair value through profit or loss				
Other financial liabilities	-	-	0	0

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 statements of financial position

The following is a breakdown of financial assets that are measured at fair value on a recurring basis at March 31, 2018 and 2019.

Millions of Yen

Balance at March 31, 2018	Level 1	Level 2	Level 3	Total
Financial assets:				
Available-for-sale investments				
Securities	¥650	-	¥577	¥1,227
Other investments	-	-	86	86
Total	¥650	-	¥663	¥1,313

Millions of Yen

Balance at March 31, 2019	Level 1	Level 2	Level 3	Total
Financial assets:				
Equity financial assets measured at fair value through other comprehensive income				
Securities	¥551	-	¥577	¥1,128
Other investments	-	-	72	72
Financial assets measured at fair value through profit or loss				
Other investments	-	-	20	20
Total	¥551	-	¥669	¥1,220

Securities and other investments, which are classified as Level 3, have no significant changes for the fiscal year ended March 31, 2018 and 2019.

23. 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, 2019

Millions of Yen

	Japan	United States	Europe	Asia/Oceania	Total revenue
Digital Entertainment	¥111,800	¥12,958	¥12,890	¥3,307	¥140,955
Amusement	26,800	-	-	449	27,249
Gaming & Systems	-	27,389	-	3,781	31,170
Sports	63,175	-	-	-	63,175
Total revenue	¥201,775	¥40,347	¥12,890	¥7,537	¥262,549

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 completed.

(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 one time are mainly recorded as “Product sales revenue” in revenue and revenues whose performance obligations are satisfied over the period of 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:

Millions of Yen

	As of April 1, 2018	As of March 31, 2019
Receivables-contracts from customers	¥26,100	¥32,530
Contract liabilities	¥8,353	¥13,092

Receivables-contracts from customers are included in “Trade and other receivables” and contract liabilities are included in “Other non-current assets” in the accompanying consolidated statements of financial position.

The balance of contract liabilities as of April 1, 2018 included the revenue of ¥8,305 million for the fiscal year ended March 31, 2019.

Contract liabilities mainly consist of advances received from customers.

For the fiscal year ended March 31, 2019, the change in contract liabilities is mainly due to a temporary increase in advances received from customers at the Sports segment.

(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, 2019, 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.

24. 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, 2018	Fiscal year ended March 31, 2019
Employee benefit expenses	¥54,593	¥56,122
Commission paid	¥23,811	¥32,394
Rental expenses	¥18,545	¥22,423
Royalties	¥14,256	¥16,494
Depreciation and amortization expenses	¥12,490	¥14,093

25. Other Income and Other Expenses

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

Millions of Yen

	Fiscal year ended March 31, 2018	Fiscal year ended March 31, 2019
Other income		
Gain on sale of property, plant and equipment, net	¥4	¥0
Reversal of compensation for damage	236	-
Total	¥240	¥0
Other expenses		
Impairment losses	¥3,132	¥3,290
Loss on sale of property, plant and equipment, net	66	428
Others	108	320
Total	¥3,306	¥4,038

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

26. Finance Income and Finance Cost

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

Millions of Yen

	Fiscal year ended March 31, 2018	Fiscal year ended March 31, 2019
Finance income		
Dividend income		
Equity financial assets measured at fair value through other comprehensive income	-	¥28
Available-for-sale financial assets	¥28	-
Interest income		
Financial assets measured at amortized cost	-	278
Loans and receivables	121	-
Foreign exchange gains	-	16
Others	4	4
Total	¥153	¥326
Finance costs		
Interest expenses		
Financial liabilities measured at amortized cost	¥824	¥797
Foreign exchange losses	47	-
Others	46	20
Total	¥917	¥817

27. 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 values of available-for-sale financial assets	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, 2017	¥2,044	¥112	-	¥1	¥2,157
Net change during the year	(1,612)	66	-	(1)	(1,547)
Transfer to retained earnings	-	-	-	-	-
Balance as of March 31, 2018	432	178	-	(0)	610
Effect of accounting standards	-	¥(178)	¥178	-	-
Net change during the year	1,041	-	(68)	(0)	973
Transfer to retained earnings	-	-	-	-	-
Balance as of March 31, 2019	¥1,473	-	¥110	¥(0)	¥1,583

(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, 2018			Fiscal year ended March 31, 2019		
	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	¥(1,621)	¥9	¥(1,612)	¥1,046	¥(6)	¥1,040
Reclassification adjustments to profit for the year	-	-	-	-	-	-
Net change during the year	(1,621)	9	(1,612)	1,046	(6)	1,040
Fair values of available-for-sale financial assets						
Net unrealized gains (losses) during the year	98	(32)	66	-	-	-
Reclassification adjustments to profit for the year	-	-	-	-	-	-
Net change during the year	98	(32)	66	-	-	-
Fair value of equity financial assets measured at fair value through other comprehensive income						
Net unrealized gains (losses) during the year	-	-	-	(100)	32	(68)
Net change during the year	-	-	-	(100)	32	(68)
Share of other comprehensive income of entity accounted for using the equity method						
Net unrealized gains (losses) during the year	(1)	-	(1)	(0)	-	(0)
Reclassification adjustments to profit for the year	-	-	-	-	-	-
Net change during the year	(1)	-	(1)	(0)	-	(0)
Total other comprehensive income	¥(1,524)	¥(23)	¥(1,547)	¥946	¥26	¥972

28. 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, 2018 and 2019 is as follows:

	Fiscal year ended March 31, 2018	Fiscal year ended March 31, 2019
Profit attributable to owners of the parent	30,507 million yen	34,196 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	30,543 million yen	34,232 million yen
Basic weighted average ordinary shares outstanding	135,234,933 shares	135,233,307 shares
Adjustments for convertible bond-type bonds with subscription rights to shares	2,215,379 shares	2,233,788 shares
Basic weighted average ordinary shares outstanding used in the calculation of diluted earnings per share	137,450,312 shares	137,467,095 shares
Earnings per share attributable to owners of the parent for the period		
Basic	225.59 yen	252.86 yen
Diluted	222.21 yen	249.02 yen

29. Cash Flow Information

(1) Liabilities for financing activities

For the fiscal year ended March 31, 2018, changes in liabilities for financing activities are as follows:

Millions of Yen

	Balance as of April 1, 2017	Cash flows	Exchange differences on foreign operations	Others	Balance as of March 31, 2018
Short-term borrowings	¥5,610	¥1,675	¥(379)	-	¥6,906
Bonds	24,675	(5,000)	-	¥66	19,741
Capital lease and financing obligations	16,423	(1,866)	-	337	14,894
Total	¥46,708	¥(5,191)	¥(379)	¥403	¥41,541

For the fiscal year ended March 31, 2019, changes in liabilities for financing activities are as follows:

Millions of Yen

	Balance as of April 1, 2018	Cash flows	Exchange differences on foreign operations	Others	Balance as of March 31, 2019
Short-term borrowings	¥6,906	¥(1,649)	¥293	-	¥5,550
Bonds	19,741	(5,000)	-	¥59	14,800
Capital lease and financing obligations	14,894	(2,460)	-	(374)	12,060
Total	¥41,541	¥(9,109)	¥293	¥(315)	¥32,410

(2) Non-cash Transactions

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

Millions of Yen

	Fiscal year ended March 31, 2018	Fiscal year ended March 31, 2019
Increase in property, plant and equipment related to recognition of asset retirement obligations	¥1,142	¥67

30. Related Party Disclosures

For the fiscal years ended March 31, 2018 and 2019, the amounts of directors' remuneration were ¥333 million and ¥357 million, respectively. There was not any payment of remuneration other than basic remuneration to directors.

31. Major Subsidiaries

Major subsidiaries and associates of Konami Group are as follows:

Subsidiaries

Name	Location	Principal business	Ownership interest Voting rights (%)
Konami Digital Entertainment Co., Ltd.	Minato-ku, Tokyo, JAPAN	Digital Entertainment Business	100
Konami Amusement Co., Ltd.	Ichinomiya, Aichi, JAPAN	Amusement Business	100
KPE, Inc.	Minato-ku, Tokyo, JAPAN	Amusement Business	100
Konami Sports Co., Ltd.	Shinagawa-ku, Tokyo, JAPAN	Sports Business	100
Konami Sports Life Co., Ltd.	Zama, Kanagawa, JAPAN	Sports Business	100
Konami Real Estate, Inc.	Minato-ku, Tokyo, JAPAN	Intersegment	100
Internet Revolution, Inc.	Minato-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	49
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

Although less than 50% of the voting rights of Konami Amusement (Thailand) Co., Ltd. are held by Konami Group, it is determined to be a subsidiary due to Konami Group's ability to substantially control the entity's decision-making board.

32. 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 ¥7,635 million and ¥4,106 million as of March 31, 2018 and 2019, respectively.

33. 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.

34. Subsequent Events

There have been no events after March 31, 2019 that would require adjustments to the consolidated financial statements or disclosures in the notes to the consolidated financial statements.

35. Approval of Consolidated Financial Statements

The consolidated financial statements were approved by Representative Director, President, Takuya Kozuki, on June 24, 2019.

pwc

Independent Auditor's Report

July 10, 2019

To the Board of Directors of KONAMI HOLDINGS CORPORATION

We have audited the accompanying consolidated financial statements of KONAMI HOLDINGS CORPORATION ("the Company") and its consolidated subsidiaries, which comprise the consolidated statement of financial position as at March 31, 2019, and consolidated statement of profit or loss, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company and its consolidated subsidiaries as at March 31, 2019, and their financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

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2. Business Review

(1) Business Overview

For the fiscal year ended March 31, 2019, the Japanese economy has been gradually recovering with continuing improvements in corporate earnings and employment environment. On the other hand, the global economy continues to remain uncertain due to concerns about the declining global economy, including U.S.-China trade frictions, instability in the Middle East and the Brexit impasse.

Under such circumstances, in terms of the business results of Konami Group for the fiscal year ended March 31, 2019, both total revenue and operating profit exceeded those for the previous fiscal year because various series titles continued to perform strongly, mainly including our soccer and baseball series titles in the Digital Entertainment business.

In terms of the consolidated results for the fiscal year ended March 31, 2019, total revenue amounted to ¥262,549 million (a year-on-year increase of 9.6%), operating profit was ¥50,522 million (a year-on-year increase of 11.8%), profit before income taxes was ¥50,310 million (a year-on-year increase of 12.5%), and profit attributable to owners of the parent was ¥34,196 million (a year-on-year increase of 12.1%).

(2) Performance by Business Segment

Summary of total revenue by business segment:

Millions of Yen

	Year ended March 31, 2018	Year ended March 31, 2019	% change
Total revenue:			
Digital Entertainment	¥120,250	¥141,699	17.8
Amusement	25,178	27,837	10.6
Gaming & Systems	29,628	31,170	5.2
Sports	66,004	63,487	(3.8)
Intersegment eliminations	(1,563)	(1,644)	-
Total revenue	¥239,497	¥262,549	9.6

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 standardization 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, as for mobile games in the Digital Entertainment segment, *Yu-Gi-Oh! DUEL LINKS*, which is now celebrating its second anniversary since its release and has surpassed 90 million downloads, has led our revenue in the global market. In addition, *Winning Eleven 2019* (known overseas as *PRO EVOLUTION SOCCER 2019*) has increased its revenue through a variety of TV commercials. In the domestic market, *PROFESSIONAL BASEBALL SPIRITS A (Ace)* has continued to perform well, as it did in the third quarter, and various other titles such as *JIKKYOU PAWAFURU PUROYAKYU* also continued to perform strongly. Furthermore, as part of our continued active efforts in eSports, we announced that we would be co-hosting the "eJ.LEAGUE Winning Eleven 2019 Season" in cooperation with the Japan Professional Football League (J.LEAGUE) with our mobile game Winning Eleven 2019 as the competition title.

As for card games, February 2019 marks the 20th anniversary since *Yu-Gi-Oh! TRADING CARD GAME* first went on sale. It has received favorable reviews through various marketing efforts to celebrate this milestone, including the sale of a commemorative product, *Yu-Gi-Oh! OCG Duel Monsters 20th ANNIVERSARY LEGEND COLLECTION*. We continue to revitalize the contents further.

As for computer and video games, *myClub*, the online mode of *Winning Eleven 2019* (known overseas as *PRO EVOLUTION SOCCER 2019*), has performed well through running promotions along with its mobile version. As part of our continued active efforts in eSports, we hosted the qualifying rounds in various regions for the world championship "PES LEAGUE WORLD TOUR 2019" for *Winning Eleven 2019* (known overseas as *PRO EVOLUTION SOCCER 2019*). In regard to baseball contents, we hosted the "eBASEBALL PAWAPURO Pro League 2018-19 SMBC eNippon Series," which decided who the first best players were at the "eBASEBALL PAWAPURO Pro League" in Japan, that we organized along with Nippon Professional Baseball (NPB).

In terms of financial performance, total revenue for the fiscal year ended March 31, 2019 in this segment amounted to ¥141,699 million (a year-on-year increase of 17.8%) and segment profit for the fiscal year ended March 31, 2019 amounted to ¥43,833 million (a year-on-year increase of 17.2%).

Amusement

There are signs of recovery in the amusement industry market owing to measures taken by the industry as a whole, including increases in users with families at arcade game areas in shopping malls and senior users who play medal games since amusement facilities are becoming more recognized from a wide range of users as a place where anyone can play. Furthermore, following the spread and development of eSports in recent years, various experiences through amusement games are being offered, such as numerous tournaments held not only in Japan but also all over the world.

Under such circumstances, in regard to our video games, the latest title of the online versus mah-jong game *MAH-JONG FIGHT CLUB* series, *MAH-JONG FIGHT CLUB GRAND MASTER*, continued to perform strongly. *BOMBER GIRL*, which is based on the popular video game series *Bomberman*, has also continued to perform well. This title features fun online battles with added team-battle elements where teams try to occupy the home bases of their opponents. Furthermore, a full-scale professional baseball card game, *BASEBALL COLLECTION*, has been launched sequentially. We also launched *DanceDanceRevolution 20th anniversary model* in celebration of the 20th anniversary of *DanceDanceRevolution*. As for the medal games, *GRANDCROSS LEGEND*, a large pusher medal game upgraded for better performance and gameplay, and *Anima Lotta: Anima and the Big Tree of Clouds*, a lottery medal game, were released. In addition, the machines, which we launched in the second quarter, have continued to sell well. These titles include *BOMBERMAN THE MEDAL and ColorCoLotta: The Sun and the Secret Island*. We also launched *G1 Derby Club 2* following *SENGOKU COLLECTION! Ieyasu Tokugawa*, which was the latest title in the series and was made in accordance with the new regulations.

In terms of financial performance, total revenue for the fiscal year ended March 31, 2019 in this segment amounted to ¥27,837 million (a year-on-year increase of 10.6%) and segment profit for the fiscal year ended March 31, 2019 amounted to ¥8,434 million (a year-on-year increase of 12.6%).

Gaming & Systems

The gaming market is continuing to see growth with the worldwide development mainly in Europe and opening of new casino facilities and integrated resorts (IR) which include casinos. Furthermore, measures to revitalize the industry were implemented mainly targeting young people.

Under such circumstances, with respect to our slot machines, the sales of the latest cabinet in the *Concerto*™ series, including *Concerto Crescent*™ and *Concerto Stack*™, as well as *Concerto Opus*™, which features a 4K Ultra HD 65-inch display, continued to perform strongly. In addition, we enhanced the product range by introduction of the new upright cabinet, *KX 43*™. We also promoted market revitalization by providing new entertainments with the installation of *Fortune Cup*™ mainly in the North America and Asia, which is a horserace betting station with a model track and leveraged our expertise and technology accumulated through Konami Group's amusement machines. In regard to participation agreements (in which profits are shared with casino operators), we expanded our lineup of game content, including a key product, the *Concerto Opus*™, *Treasure Ball*™ and *Triple Sparkle* linked progressive machine with mystery trigger, which is compatible with any video game platform. The *SYNKROS*® casino management system continued to be introduced steadily into major casino operators, including casinos at large cruise ships in service overseas.

In terms of financial performance, total revenue for the fiscal year ended March 31, 2019 in this segment amounted to ¥31,170 million (a year-on-year increase of 5.2%) and segment profit for the fiscal year ended March 31, 2019 amounted to ¥4,723 million (a year-on-year increase of 8.2%).

Sports

In connection with the sports industry, we continue to see a growing awareness of sports throughout society, including the government's efforts to achieve a "sports society of all 100 million citizens," which aims to increase the number of people that participate in sports, by formulating the second phase of their "Basic Sports Plan." With the holding of the world's largest sports event, further activation and growth of the sports market is also expected.

Under such circumstances, as for fitness programs, we increased the number of facilities to 57 that offer the personal program, *BeautyHip*, our new in-house development program, and made efforts to enhance our member support and fitness services that help members achieve longer, more sustainable fitness. For example, we launched a membership plan, the "U-39 Plan," which allows members, from teenagers to those in their 30s to use the facilities at reasonable price. As for the operation of our school programs, we have moved forward with the further expansion of our classes by opening our Table Tennis School at 17 facilities and Trampoline School at 3 facilities.

As for products relating to sports, we continued to expand our specially selected lineup of "Konami Sports Club Selection" brand products as well as our "Konami Sports Club Original" Konami Sports Club brand products and redesigned our online shop to improve usability and service.

For the year ended March 31, 2019, total revenue and segment profit from this business decreased due to closing of the directly-managed facilities, the effects of repeated natural disasters, and prior investments of renovations of existing facilities including fitness machine renewals and launch of the new school programs.

In terms of financial performance, total revenue for the fiscal year ended March 31, 2019 in this segment amounted to ¥63,487 million (a year-on-year decrease of 3.8%) and segment profit for the fiscal year ended March 31, 2019 amounted to ¥2,243 million (a year-on-year decrease of 31.1%).

(3) Cash Flows

Millions of Yen

	Fiscal year ended March 31, 2018	Fiscal year ended March 31, 2019	Change
Cash flow summary:			
Net cash provided by operating activities	¥53,980	¥49,131	¥(4,849)
Net cash used in investing activities	(18,484)	(22,527)	(4,043)
Net cash used in financing activities	(14,798)	(22,416)	(7,618)
Effect of exchange rate changes on cash and cash equivalents	(956)	569	1,525
Net increase in cash and cash equivalents	19,742	4,757	(14,985)
Cash and cash equivalents at end of the year	¥154,485	¥159,242	¥4,757

Comparison of fiscal year ended March 31, 2019 with fiscal year ended March 31, 2018

Cash and cash equivalents (hereafter, referred to as "Net cash"), as of March 31, 2019, amounted to ¥159,242 million, an increase of ¥4,757 million compared to the year ended March 31, 2018.

Net cash provided by operating activities amounted to¥49,131 million for the year ended March 31, 2019, a year-on-year decrease of 9.0%. This primarily resulted from an increase in income taxes paid despite an increase in contract liabilities.

Net cash used in investing activities amounted to ¥22,527 million for the year ended March 31, 2019, a year-on-year increase of 21.9%. This mainly resulted from an increase in capital expenditures for property, plant and equipment despite a decrease in payments into time deposits.

Net cash used in financing activities amounted to ¥22,416 million for the year ended March 31, 2019, a year-on-year increase of 51.5%. This primarily resulted from an increase in dividends paid and repayment of short-term borrowings for the year ended March 31, 2019.

3. Risk Factors

Special Note Regarding Forward-looking Statements.

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

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

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

(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 not only languages but also local issues, including each country-specific business practice and suspension of currency exchange and forfeiture of property through expropriation by governments. International trade is also exposed to fluctuating 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, wars and other incidents.

Incidents such as natural disasters, wars, terrorism and pandemic may adversely affect the world economy. If these incidents may cause further social and political uncertainty in each of the regions we conduct our operations, our business results may be adversely affected.

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

Security breaches, including hacking and unauthorized access, that are affecting any of our systems may cause delays or other interruptions to our service and business activities. This may harm our business results.

On the other hand, we endeavor to maintain robust security protections to prevent such security breaches.

(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.

(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 10, 2019

Responsibility Statement

The following responsibility statement is made solely to comply with the requirements of DTR 4.1.12 of the United Kingdom Financial Conduct Authority's Disclosure Rules and Transparency Rules, in relation to KONAMI HOLDINGS CORPORATION as an issuer whose financial instruments are admitted to trading on the London Stock Exchange.

Takuya Kozuki, Representative Director, President, confirms that:

- to the best of his knowledge, the financial statements, prepared in accordance with International Financial Reporting Standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of KONAMI HOLDINGS CORPORATION and the undertakings included in the consolidation taken as a whole; and

- to the best of his knowledge, this annual financial information includes a fair review of the development and performance of the business and the position of KONAMI HOLDINGS CORPORATION and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.