

# **KONAMI HOLDINGS CORPORATION**

Quarterly Condensed Consolidated Financial Statements  
for the Six Months Ended September 30, 2016

English translation and a part of summary of the Quarterly Securities Report (Shihanki Hokokusho) for the six-month period ended September 30, 2016 pursuant to the Financial Instruments and Exchange Law of Japan

KONAMI HOLDINGS CORPORATION filed its Quarterly Securities Report for the six-month period ended September 30, 2016 with the Director of the Kanto Local Finance Bureau of the Ministry of Finance of Japan on November 11, 2016. The following is the outline of the Quarterly Securities Report.

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# 1. Quarterly Condensed Consolidated Financial Statements

## (1) Quarterly Condensed Consolidated Statement of Financial Position

Millions of Yen

	Note	As of March 31, 2016	As of September 30, 2016
<b>Assets</b>			
<b>Current assets</b>			
Cash and cash equivalents		¥113,907	¥114,712
Trade and other receivables		23,401	20,975
Inventories		9,170	11,698
Income tax receivables		2,139	3,442
Other current assets	8	5,618	6,162
<b>Total current assets</b>		<b>154,235</b>	<b>156,989</b>
<b>Non-current assets</b>			
Property, plant and equipment, net		80,264	77,487
Goodwill and intangible assets		39,470	40,278
Investments accounted for using the equity method		2,585	2,678
Other investments	8	1,268	1,207
Other financial assets	8	24,123	22,836
Deferred tax assets		22,651	21,237
Other non-current assets		3,591	3,337
<b>Total non-current assets</b>		<b>173,952</b>	<b>169,060</b>
<b>Total assets</b>		<b>328,187</b>	<b>326,049</b>
<b>Liabilities and equity</b>			
<b>Liabilities</b>			
<b>Current liabilities</b>			
Bonds and borrowings	8	9,014	13,084
Other financial liabilities	8	4,126	4,024
Trade and other payables		24,757	22,210
Income tax payables		9,261	1,684
Other current liabilities	5	14,335	17,486
<b>Total current liabilities</b>		<b>61,493</b>	<b>58,488</b>
<b>Non-current liabilities</b>			
Bonds and borrowings	8	24,606	19,647
Other financial liabilities	8	16,459	15,557
Provisions		8,679	8,687
Deferred tax liabilities		280	155
Other non-current liabilities		3,195	3,057
<b>Total non-current liabilities</b>		<b>53,219</b>	<b>47,103</b>
<b>Total liabilities</b>		<b>114,712</b>	<b>105,591</b>
<b>Equity</b>			
Share capital		47,399	47,399
Share premium		74,426	74,426
Treasury shares		(21,284)	(21,295)
Other components of equity	6	2,407	(1,141)
Retained earnings		109,802	120,328
<b>Total equity attributable to owners of the parent</b>		<b>212,750</b>	<b>219,717</b>
Non-controlling interests		725	741
<b>Total equity</b>		<b>213,475</b>	<b>220,458</b>
<b>Total liabilities and equity</b>		<b>¥328,187</b>	<b>¥326,049</b>

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

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

### Quarterly Condensed Consolidated Statements of Profit or Loss

Six months ended September 30, 2015 and 2016

Millions of Yen			
	Note	Six months ended September 30, 2015	Six months ended September 30, 2016
Revenue			
Product sales revenue		¥43,988	¥37,093
Service and other revenue		63,730	64,308
Total revenue	4	107,718	101,401
Cost of revenue			
Cost of product sales revenue		(24,767)	(16,928)
Cost of service and other revenue		(44,136)	(44,057)
Total cost of revenue		(68,903)	(60,985)
Gross profit		38,815	40,416
Selling, general and administrative expenses		(24,491)	(20,768)
Other income and other expenses, net	9	(1,880)	(2,608)
Operating profit		12,444	17,040
Finance income		132	92
Finance costs		(548)	(1,032)
Profit from investments accounted for using the equity method		158	148
Profit before income taxes		12,186	16,248
Income taxes		(4,339)	(4,015)
Profit for the period		7,847	12,233
Profit attributable to:			
Owners of the parent		7,847	12,217
Non-controlling interests		¥0	¥16

Yen			
	Note	Six months ended September 30, 2015	Six months ended September 30, 2016
Earnings per share (attributable to owners of the parent)			
Basic	10	¥56.61	¥90.33
Diluted	10	¥56.61	¥89.02

### Three months ended September 30, 2015 and 2016

Millions of Yen			
	Note	Three months ended September 30, 2015	Three months ended September 30, 2016
Revenue			
Product sales revenue		¥24,476	¥19,906
Service and other revenue		32,040	32,078
Total revenue	4	56,516	51,984
Cost of revenue			
Cost of product sales revenue		(13,747)	(9,272)
Cost of service and other revenue		(21,946)	(21,862)
Total cost of revenue		(35,693)	(31,134)
Gross profit		20,823	20,850
Selling, general and administrative expenses		(13,327)	(10,411)
Other income and other expenses, net	9	(1,536)	(2,488)
Operating profit		5,960	7,951
Finance income		50	32
Finance costs		(840)	(292)
Profit from investments accounted for using the equity method		154	138
Profit before income taxes		5,324	7,829
Income taxes		(1,765)	(1,418)
Profit for the period		3,559	6,411
Profit attributable to:			
Owners of the parent		3,565	6,403
Non-controlling interests		¥(6)	¥8

Yen			
	Note	Three months ended September 30, 2015	Three months ended September 30, 2016
Earnings per share (attributable to owners of the parent)			
Basic	10	¥25.72	¥47.34
Diluted	10	¥25.72	¥46.65

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

**Quarterly Condensed Consolidated Statements of Comprehensive Income**  
**Six months ended September 30, 2015 and 2016**

		Millions of Yen	
	Note	Six months ended September 30, 2015	Six months ended September 30, 2016
Profit for the period		¥7,847	¥12,233
Other comprehensive income			
Items that may be reclassified to profit or loss:			
Exchange differences on foreign operations		(574)	(3,510)
Net change in fair values of available-for-sale financial assets		(30)	(38)
Total items that may be reclassified to profit or loss		(604)	(3,548)
Total other comprehensive income		(604)	(3,548)
<b>Total comprehensive income for the period</b>		7,243	8,685
Comprehensive income attributable to:			
Owners of the parent		7,243	8,669
Non-controlling interests		¥0	¥16

**Three months ended September 30, 2015 and 2016**

		Millions of Yen	
	Note	Three months ended September 30, 2015	Three months ended September 30, 2016
Profit for the period		¥3,559	¥6,411
Other comprehensive income			
Items that may be reclassified to profit or loss:			
Exchange differences on foreign operations		(1,227)	(547)
Net change in fair values of available-for-sale financial assets		2	13
Total items that may be reclassified to profit or loss		(1,225)	(534)
Total other comprehensive income		(1,225)	(534)
<b>Total comprehensive income for the period</b>		2,334	5,877
Comprehensive income attributable to:			
Owners of the parent		2,340	5,869
Non-controlling interests		¥(6)	¥8

### (3) Quarterly Condensed Consolidated Statement of Changes in Equity

Millions of Yen									
	Note	Equity attributable to owners of the parent						Non-controlling interest	Total equity
		Share capital	Share premium	Treasury shares	Other components of equity	Retained earnings	Total		
<b>Balance at April 1, 2015</b>		¥47,399	¥74,175	¥(11,271)	¥5,012	¥102,474	¥217,789	¥710	¥218,499
Profit for the period	7					7,847	7,847	0	7,847
Other comprehensive income					(604)		(604)		(604)
Total comprehensive income for the period		-	-	-	(604)	7,847	7,243	0	7,243
Purchase of treasury shares				(5)			(5)		(5)
Disposal of treasury shares			0	0			0		0
Dividends						(1,733)	(1,733)		(1,733)
Total transactions with the owners		-	0	(5)	-	(1,733)	(1,738)	-	(1,738)
<b>Balance at September 30, 2015</b>		¥47,399	¥74,175	¥(11,276)	¥4,408	¥108,588	¥223,294	¥710	¥224,004

Millions of Yen									
	Note	Equity attributable to owners of the parent						Non-controlling interest	Total equity
		Share capital	Share premium	Treasury shares	Other components of equity	Retained earnings	Total		
<b>Balance at April 1, 2016</b>		¥47,399	¥74,426	¥(21,284)	¥2,407	¥109,802	¥212,750	¥725	¥213,475
Profit for the period	7					12,217	12,217	16	12,233
Other comprehensive income					(3,548)		(3,548)		(3,548)
Total comprehensive income for the period		-	-	-	(3,548)	12,217	8,669	16	8,685
Purchase of treasury shares				(11)			(11)		(11)
Disposal of treasury shares			0	0			0		0
Dividends						(1,691)	(1,691)		(1,691)
Total transactions with the owners		-	0	(11)	-	(1,691)	(1,702)	-	(1,702)
<b>Balance at September 30, 2016</b>		¥47,399	¥74,426	¥(21,295)	¥(1,141)	¥120,328	¥219,717	¥741	¥220,458

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

#### (4) Quarterly Condensed Consolidated Statement of Cash Flows

		Millions of Yen	
	Note	Six months ended September 30, 2015	Six months ended September 30, 2016
<b>Operating activities</b>			
Profit for the period		¥7,847	¥12,233
Depreciation and amortization		8,736	5,365
Impairment losses	9	1,500	2,219
Interest and dividends income		(127)	(90)
Interest expense		480	478
Loss on sale or disposal of property, plant and equipment		128	59
Profit from investments accounted for using the equity method		(158)	(148)
Income taxes		4,339	4,015
(Increase) decrease in trade and other receivables		(9,812)	1,635
Increase in inventories		(6,957)	(2,979)
Increase (decrease) in trade and other payables		1,798	(956)
Increase in prepaid expense		(701)	(1,459)
Increase in deferred revenue		23,577	4,699
Other, net		1,763	(1,046)
Interest and dividends received		120	69
Interest paid		(512)	(484)
Income taxes paid		(1,437)	(11,332)
<b>Net cash provided by operating activities</b>		<b>30,584</b>	<b>12,278</b>
<b>Investing activities</b>			
Capital expenditures		(11,466)	(7,340)
Decrease in lease deposits, net		79	403
(Increase) decrease in term deposits, net		(5)	143
Other, net		1	3
<b>Net cash used in investing activities</b>		<b>(11,391)</b>	<b>(6,791)</b>
<b>Financing activities</b>			
Increase in short-term (within 3 months) borrowings, net		405	-
Proceeds from short-term (more than 3 months) borrowings		-	8,229
Repayments of short-term (more than 3 months) borrowings		-	(8,229)
Principal payments under capital lease and financing obligations		(1,075)	(1,025)
Dividends paid	7	(1,732)	(1,688)
Other, net		(4)	(11)
<b>Net cash used in financing activities</b>		<b>(2,406)</b>	<b>(2,724)</b>
Effect of exchange rate changes on cash and cash equivalents		(426)	(1,958)
Net increase in cash and cash equivalents		16,361	805
Cash and cash equivalents at the beginning of the period		64,654	113,907
<b>Cash and cash equivalents at the end of the period</b>		<b>¥81,015</b>	<b>¥114,712</b>

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



# Notes to Quarterly Condensed Consolidated Financial Statements

## 1. Reporting Entity

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

The accompanying consolidated financial statements consist of the Company and its consolidated subsidiaries (collectively, “Konami Group”) as well as equity interests in its associates.

Konami Group engages in the following four business operations: Digital Entertainment, Health & Fitness, Gaming & Systems and Amusement businesses. The operations of each business segment are presented in Note 4 “Segment Information”.

## 2. Basis of Preparation

### (1) Compliance with IFRS

The quarterly condensed consolidated financial statements meet the requirements set out under Article 1-2, Paragraph 1, Item 2 of the Rules on Terminology, Formats and Compilation Methods of Quarterly Consolidated Financial Statements under which the Company is qualified as a “specified company applied Designated International Accounting Standards” and duly adopted the provisions of Article 93 of the foregoing rules.

Therefore, the Company prepares such quarterly condensed consolidated financial statements in accordance with IAS 34 “Interim Financial Reporting”. Since the quarterly condensed consolidated financial statements do not contain all the information required in the consolidated financial statements for the fiscal year ended March 31, 2016, it should be read in combination with the annual consolidated financial statements.

### (2) Use of estimates and judgments

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

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

Information about estimates and judgments made by management that would have significant effects on the amounts recognized in the quarterly condensed consolidated financial statements is in the same manner of the consolidated financial statements for the fiscal year ended March 31, 2016.

### **3. Significant Accounting Policies**

The Company did not change the significant accounting policies adopted for the quarterly condensed consolidated financial statements from ones to the consolidated financial statements for the fiscal year ended March 31, 2016.

### **4. Segment Information**

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

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

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

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

a) Digital Entertainment:	Production, manufacture and sale of digital content and related products including mobile games, card games and computer and video games.
b) Health & Fitness:	Operation of health and fitness clubs, and production, manufacture and sale of health and fitness related goods.
c) Gaming & Systems:	Production, manufacture, sale and service of gaming machines and casino management systems for overseas markets.

d) Amusement:	Production, manufacture and sale of arcade games and pachislot and pachinko machines.
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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.

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 six months ended September 30, 2016.

Effective from the six months ended September 30, 2016, we combined the arcade games business segment, which formed part of our Digital Entertainment Business, with another BtoB business, the Pachislot & Pachinko Machines Business, and the segment classification was changed to the “Amusement Business” in order to further strengthen our business operating structure. As a result, segment information for the six month and three month ended September 30, 2015 is disclosed with based on the new segment classification.

## (1) Operating segment information

Revenue for the six months ended September 30, 2015 and 2016

	Millions of Yen	
	Six months ended September 30, 2015	Six months ended September 30, 2016
<b>Revenue:</b>		
Digital Entertainment –		
External customers	¥43,696	¥44,869
Intersegment	22	25
<b>Total</b>	<b>¥43,718</b>	<b>¥44,894</b>
Health & Fitness –		
External customers	¥35,724	¥34,859
Intersegment	165	164
<b>Total</b>	<b>¥35,889</b>	<b>¥35,023</b>
Gaming & Systems –		
External customers	¥14,979	¥13,789
Intersegment	-	-
<b>Total</b>	<b>¥14,979</b>	<b>¥13,789</b>
Amusement –		
External customers	¥13,319	¥7,884
Intersegment	57	54
<b>Total</b>	<b>¥13,376</b>	<b>¥7,938</b>
Intersegment eliminations	¥(244)	¥(243)
<b>Consolidated</b>	<b>¥107,718</b>	<b>¥101,401</b>

Revenue for the three months ended September 30, 2015 and 2016

	Millions of Yen	
	Three months ended September 30, 2015	Three months ended September 30, 2016
<b>Revenue:</b>		
Digital Entertainment –		
External customers	¥23,857	¥23,229
Intersegment	9	12
<b>Total</b>	<b>¥23,866</b>	<b>¥23,241</b>
Health & Fitness –		
External customers	¥18,226	¥17,710
Intersegment	79	83
<b>Total</b>	<b>¥18,305</b>	<b>¥17,793</b>
Gaming & Systems –		
External customers	¥8,150	¥7,015
Intersegment	-	-
<b>Total</b>	<b>¥8,150</b>	<b>¥7,015</b>
Amusement –		
External customers	¥6,283	¥4,030
Intersegment	28	26
<b>Total</b>	<b>¥6,311</b>	<b>¥4,056</b>
Intersegment eliminations	¥(116)	¥(121)
<b>Consolidated</b>	<b>¥56,516</b>	<b>¥51,984</b>

Segment profit (loss) for the six months ended September 30, 2015 and 2016

	Millions of Yen	
	Six months ended September 30, 2015	Six months ended September 30, 2016
<b>Segment profit (loss):</b>		
Digital Entertainment	¥10,171	¥15,469
Health & Fitness	1,506	2,641
Gaming & Systems	1,732	1,589
Amusement	2,771	1,799
<b>Total segment profit and loss, net</b>	<b>16,180</b>	<b>21,498</b>
Corporate expenses and eliminations	(1,856)	(1,850)
Other income and other expenses, net	(1,880)	(2,608)
Finance income and finance costs, net	(416)	(940)
Profit from investments accounted for using the equity method	158	148
<b>Profit before income taxes</b>	<b>¥12,186</b>	<b>¥16,248</b>

Segment profit (loss) for the three months ended September 30, 2015 and 2016

	Millions of Yen	
	Three months ended September 30, 2015	Three months ended September 30, 2016
<b><i>Segment profit (loss):</i></b>		
Digital Entertainment	¥4,932	¥7,890
Health & Fitness	1,053	1,635
Gaming & Systems	1,096	849
Amusement	1,323	975
Total segment profit and loss, net	8,404	11,349
Corporate expenses and eliminations	(908)	(910)
Other income and other expenses, net	(1,536)	(2,488)
Finance income and finance costs, net	(790)	(260)
Profit from investments accounted for using the equity method	154	138
Profit before income taxes	¥5,324	¥7,829

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

## (2) Geographic Information

Revenue from external customers for the six months ended September 30, 2015 and 2016

	Millions of Yen	
	Six months ended September 30, 2015	Six months ended September 30, 2016
<b><i>Revenues:</i></b>		
Japan	¥78,520	¥76,487
United States	19,715	17,151
Europe	5,564	4,404
Asia/Oceania	3,919	3,359
Consolidated	¥107,718	¥101,401

Revenue from external customers for the three months ended September 30, 2015 and 2016

	Millions of Yen	
	Three months ended September 30, 2015	Three months ended September 30, 2016
<b><i>Revenues:</i></b>		
Japan	¥39,855	¥38,967
United States	11,611	8,970
Europe	3,127	2,381
Asia/Oceania	1,923	1,666
Consolidated	¥56,516	¥51,984

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

## 5. Other Current Liabilities

The following is a breakdown of other current liabilities as of March 31, 2016 and September 30, 2016.

	Millions of Yen	
	As of March 31, 2016	As of September 30, 2016
Deferred revenue	¥5,910	¥10,604
Others	8,425	6,882
<b>Total</b>	<b>¥14,335</b>	<b>¥17,486</b>

## 6. Equity

Changes in other components of equity consisted of the following:

	Millions of Yen	
	Six months ended September 30, 2015	Six months ended September 30, 2016
<b><i>Exchange differences on translation of foreign operations</i></b>		
Balance at the beginning of the period	¥4,873	¥2,297
Net change during the period	(574)	(3,510)
Transfer to retained earnings	-	-
Balance at the end of the period	¥4,299	¥(1,213)
<b><i>Available-for-sale financial assets</i></b>		
Balance at the beginning of the period	¥139	¥110
Net change during the period	(30)	(38)
Transfer to retained earnings	-	-
Balance at the end of the period	¥109	¥72

## 7. Dividends

The Company paid dividends 12.50 yen per share and the total amount of ¥1,733 million for the six months ended September 30, 2015.

The Company paid dividends 12.50 yen per share and the total amount of ¥1,691 million for the six months ended September 30, 2016.

The board of directors' meeting held on October 28, 2016 resolved a cash dividend of 17 yen per share and the total amount of 2,299 million yen will be paid for shareholders on record as of September 30, 2016.

## **8. Fair Value of Financial Instruments**

### **(1) Measuring fair value of financial instruments**

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

#### **1. Other financial assets**

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

#### **2. Other investments**

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

#### **3. Bonds, borrowings and other financial liabilities**

The carrying amounts of financial liabilities with short term maturities approximate their fair value. The fair values of bonds, borrowings and other financial liabilities that do not have short-term maturities are calculated as the value of the total principal and interest, discounted at interest rates that would be applied to new borrowings of Konami Group with similar terms and the same remaining maturity.

### **(2) Fair value hierarchy**

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

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

### **(3) Fair value of financial instruments**

The table is a breakdown of financial instruments showing carrying amounts and fair values as of March 31, 2016 and September 30, 2016.



Millions of Yen				
	As of March 31, 2016		As of September 30, 2016	
	Carrying amount	Fair value	Carrying amount	Fair value
<b>Financial assets:</b>				
Other financial assets				
Lease deposits	¥23,275	¥23,735	¥22,403	¥22,877
Others	1,284	1,290	1,013	1,055
Other investments				
Securities	1,166	1,166	1,108	1,108
Others	102	102	99	99
<b>Financial liabilities:</b>				
Bonds and borrowings	¥33,620	¥33,258	¥32,731	¥32,407
Other financial liabilities				
Capital lease and financing obligations	18,392	20,709	17,390	19,644
Others	2,193	2,193	2,191	2,191

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

Other investments are categorized in Level 1 and 3.

#### (4) Fair values measured and disclosed on the quarterly condensed consolidated statements of financial position

The following is a breakdown of financial assets that are measured at fair value on a recurring basis as of March 31, 2016 and September 30, 2016.

Millions of Yen				
<b>Balance at March 31, 2016</b>	Level 1	Level 2	Level 3	Total
<b>Financial assets:</b>				
Other investments				
Securities	¥553	-	¥613	¥1,166
Others	-	-	102	102
Total	¥553	-	¥715	¥1,268

Millions of Yen				
<b>Balance at September 30, 2016</b>	Level 1	Level 2	Level 3	Total
<b>Financial assets:</b>				
Other investments				
Securities	¥495	-	¥613	¥1,108
Others	-	-	99	99
Total	¥495	-	¥712	¥1,207

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

Securities, which are classified as Level 3, have no significant changes for the six months ended September 30, 2016.

## 9. Impairment Losses

For the six months ended September 30, 2016, impairment losses of ¥2,219 million was recognized, included in the line item “other income and other expenses, net” in the quarterly condensed consolidated statement of profit or loss.

Mainly due to rapid changes in market structure surrounding the Amusement business such as strengthening the regulations for pachislot and pachinko machines, we determined to reconsider for business plans of the pachislot and pachinko machines’ business. As a result, during the three-month period ended September 30, 2016, we recognized impairment losses of ¥2,102 million on intangible assets, including internally generated intangible assets and memberships.

## 10. Earnings per Share

The breakdown of the basic and diluted earnings per share attributable to owners of the parent for the six months ended September 30, 2015 and 2016 is as follows:

	Six months ended September 30, 2015	Six months ended September 30, 2016
Profit attributable to owners of the parent	7,847 million yen	12,217 million yen
Adjustments for profit used in the calculation of diluted earnings per share	-	17 million yen
Profit used in the calculation of diluted earnings per share	7,847 million yen	12,234 million yen
Basic weighted average ordinary shares outstanding	138,608,132 shares	135,239,654 shares
Adjustments for convertible bond-type bonds with subscription rights to shares	-	2,197,947 shares
Basic weighted average ordinary shares outstanding used in the calculation of diluted earnings per share	138,608,132 shares	137,437,601 shares
Earnings per share attributable to owners of the parent for the period		
Basic	56.61 yen	90.33 yen
Diluted	56.61 yen	89.02 yen

The breakdown of the basic and diluted earnings per share attributable to owners of the parent for the three months ended September 30, 2015 and 2016 is as follows:

	Three months ended September 30, 2015	Three months ended September 30, 2016
Profit attributable to owners of the parent	3,565 million yen	6,403 million yen
Adjustments for profit used in the calculation of diluted earnings per share	-	8 million yen
Profit used in the calculation of diluted earnings per share	3,565 million yen	6,411 million yen
Basic weighted average ordinary shares outstanding	138,607,601 shares	135,238,989 shares
Adjustments for convertible bond-type bonds with subscription rights to shares	-	2,197,947 shares
Basic weighted average ordinary shares outstanding used in the calculation of diluted earnings per share	138,607,601 shares	137,436,936 shares
Earnings per share attributable to owners of the parent for the period		
Basic	25.72 yen	47.34 yen
Diluted	25.72 yen	46.65 yen

## 11. Subsequent Events

There have been no events after September 30, 2016 that would require adjustments to the quarterly condensed consolidated financial statements or disclosures in the notes to the quarterly condensed consolidated financial statements.

## 12. Approval of Quarterly Condensed Consolidated Financial Statements

The quarterly condensed consolidated financial statements were approved by Representative Director, President, Takuya Kozuki, on November 9, 2016.

## **2. Business Review**

### **(1) Business Overview**

The economic environment surrounding the Konami Group in Japan continues to stall mainly due to concerns over prospects for capital investments and personal consumption, which have been affected by declining corporate earnings triggered by the sharply rising yen since the beginning of 2016. The global economy also remained under uncertain conditions owing to the impact of issues such as the U.K. leaving the European Union (EU) and an economic slowdown in emerging countries.

In the entertainment market, game contents continue to diversify along with functional enhancement of various devices, including mobile devices and video game consoles, and development of information and telecommunications infrastructure. As device markets utilizing virtual reality (VR) grow further, various VR software and contents are being developed. Business opportunities in the game industry are also increasing. In conjunction with the changing times, the preference for “enriching daily life through full and abundant experiences” in personal spending has been strengthened. In that context, game industry is also placing emphasis on providing opportunities to share experience, such as video streaming services and e-Sports. Points of contact between customers and games are expanding further and contributing to the increasing popularity of game contents.

In the gaming industry, opportunities of gaming business are expected to grow as the casino market worldwide continues to see the spread supported by development of resources related to tourism and opening new casino facilities.

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

In the Konami Group’s businesses — Digital Entertainment, Health & Fitness, Gaming & Systems, and Pachislot & Pachinko Machines —, we have conducted business operations based on the management strategy of evolving into a flexible and sustainable entity responding appropriately to this rapidly changing market environment which includes diversifying consumer tastes and the revision and

abolition of the various regulations surrounding the businesses. To further strengthen our business operating structure, we carried out a business restructuring to combine the arcade games business segment, which formed part of our Digital Entertainment Business, with another BtoB business, the Pachislot & Pachinko Machines Business, and changed the business domains and name of the latter to the “Amusement Business.” We are pursuing the utilization of our business knowhow in the arcade game business cultivated since the Konami Group’s foundation, provision of higher value-added products and services through the KONAMI brand and streamlining through business integration.

In terms of the overview of the Digital Entertainment segment for the six months ended September 30, 2016, which reflected the restructuring of the business segment, mobile games, including *JIKKYOU PAWAFURU PUROYAKYU*, *PROFESSIONAL BASEBALL SPIRITS A (Ace)* and *Winning Eleven CLUB MANAGER* (known in overseas as *PES CLUB MANAGER*), continued to enjoy steady sales. Meanwhile, card games continue to receive favorable reviews from many customers, including its holding of the global tournament of the *Yu-Gi-Oh! TRADING CARD GAME* in August 2016. As for computer and video games, we released *Winning Eleven 2017* (known in overseas as *PES 2017 - Pro Evolution Soccer -*) in September 2016. *JIKKYOU PAWAFURU PUROYAKYU 2016*, released in April 2016, also continued to enjoy strong performance and be available to provide the enjoyment to many customers.

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

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

In our Amusement segment, our e-AMUSEMENT Participation system titles of arcade games, centered on *MAH-JONG FIGHT CLUB ZERO* and music genre games, continued to operate steadily. As for pachislot and pachinko machines, we released a new pachislot machine, *SEVEN’S BEAT*, in collaboration with *beatmania*, a music genre game from the Konami Group.

In terms of the consolidated results for the six months ended September 30, 2016, total revenue amounted to ¥101,401 million (a year-on-year decrease of 5.9%),

operating profit was ¥17,040 million (a year-on-year increase of 36.9%), profit before income taxes was ¥16,248 million (a year-on-year increase of 33.3%), and profit attributable to owners of the parent was ¥12,217 million (a year-on-year increase of 55.7%).

## (2) Performance by Business Segment

Summary of total revenue by business segment:

	Millions of Yen, except percentages		
	Six months ended September 30, 2015	Six months ended September 30, 2016	% change
<b>Total revenue:</b>			
Digital Entertainment	¥43,718	¥44,894	2.7
Health & Fitness	35,889	35,023	(2.4)
Gaming & Systems	14,979	13,789	(7.9)
Amusement	13,376	7,938	(40.7)
Intersegment eliminations	(244)	(243)	-
Total revenue	¥107,718	¥101,401	(5.9)

(Notes)

Reportable segment classifications have been changed effective from the six months ended September 30, 2016. For the purpose of comparison to the six month ended September 30, 2015, figures for the six month ended September 30, 2015 have been reclassified under the new segment classification, and compared with those for the six month ended September 30, 2016.

### Digital Entertainment

As for mobile games, *JIKKYOU PAWAFURU PUROYAKYU* saw more excitement than the previous time, surpassing 26 million downloads, ran a campaign to mark “the day of PAWAPURO” on August 26, and held a “PAWAPURO Festival 2016” tournament. It continues to enjoy popularity among its many followers. Moreover, in domestic market, various titles continued to receive favorable reviews, including *PROFESSIONAL BASEBALL SPIRITS A (Ace)*, reproduced the real experience of a professional baseball game with top-quality graphics. In overseas markets, *Winning Eleven CLUB MANAGER* (known in overseas as *PES CLUB MANAGER*) and *Star Wars™: Force Collection* continued stable operation.

As for card games, the *Yu-Gi-Oh! TRADING CARD GAME* series continued to develop in the global market. In August 2016, the global tournament, “Yu-Gi-Oh! World Championship 2016,” was held in the U.S, with heated DUEL match-ups seen gaining, showing a great deal of excitement.

As for computer and video games, following of the releases in April 2016 of *JIKKYOU PAWAFURU PUROYAKYU 2016*, the latest title in the series, and *UEFA EURO 2016/Winning Eleven 2016*, we released *Winning Eleven 2017* (known in

overseas as *PES 2017 - Pro Evolution Soccer* -) in September 2016, the latest title in the series. The latest game has been determined by its concept of “Control reality,” with particular emphasis on the sheer fun of playing competitively against other users, which has always been a hallmark of the series. In addition, we signed a partnership agreement with a renowned soccer team in Europe to enhance reproducibility in-game. We are planning various measures to provide the most fun and exciting soccer game experiences to customers.

In terms of financial performance, total revenue for the six months ended September 30, 2016 in this segment amounted to ¥44,894 million (a year-on-year increase of 2.7%) and segment profit for the six months ended September 30, 2016 amounted to ¥15,469 million (a year-on-year increase of 52.1%).

### **Health & Fitness**

With respect to the management of facilities that we operate directly, we developed the services to meet diversifying individual needs. In addition to pricing plans that customers can select based on their frequency of use, we have promoted a per-use plan for customers who are unable to visit facilities regularly, regardless of whether they are individual or corporate customers.

At the Rio de Janeiro Olympics held in August 2016, six athletes affiliated with the Konami Sports Club Gymnastics and Swimming Teams participated as representatives of Japan and brought home many medals. These Olympians’ achievements contributed to acquisitions in new members of gymnastics and swimming school programs for children and tennis school programs since it increased the value of the KONAMI brand and broadened recognition of the Konami Sports Club.

In regard to studio programs provided by sports club facilities, we completely renewed them in September 2016 to support customers’ “sustainable fitness.” We developed various studio programs, including *Core Cross*, a self-developed program to make core training fun even for beginners who train at sports clubs. Also, we have developed various studio programs for the purpose of relaxation, shaping-up, and more to meet customers’ demands.

In regard to the management of sports club facilities, we commenced a new franchise facility in Amakusa City, Kumamoto prefecture, in July 2016. In addition, Konami Sports Club Kumamoto reopened in August 2016, which had been temporary closed due to the 2016 Kumamoto Earthquake. We will contribute to local restoration and development and offer friendly services so that we can deliver energy and smiles to customers and surrounding communities.

In regard to the sports club facilities outsourced to us, we commenced management of 29 facilities outsourced to the Konami Group since this first

quarter, as we utilize our expertise in operations and guidance that we have developed to enhance health promotion in local communities through management of commissioned facilities.

As for products relating to health and fitness, we intended to improve brand value and expand our market share including distribution of the home fitness bike *AEROBIKE S-BODY* through e-commerce site and display-sales at each Konami Sports Club facility.

For the six months ended September 30, 2016, sales from this business decreased mainly due to the previous fiscal year closing of facilities operated directly. On the other hand, expenses were reduced due to improved operational efficiency.

In terms of financial performance, total revenue for the six months ended September 30, 2016 in this segment amounted to ¥35,023 million (a year-on-year decrease of 2.4%) and segment profit for the six months ended September 30, 2016 amounted to 2,641million (a year-on-year increase of 75.4%).

## **Gaming & Systems**

The North American market environment saw harsh conditions due to the entry of European manufacturers and the resulting intensified competition, and increasingly prudent investments by casino operators when purchasing machines. On the other hand, the *Podium* series, including *Concerto* the new cabinet for video slot machine, continued to have strong sales. We also committed a wider offering in the Central and South American and European markets. In addition, we expanded our lineup of premium products and game contents which are subject to a participation agreement (in which profits are shared with casino operators). These products raised higher expectations and willingness from players, and contributed stable earnings. The *SYNKROS* casino management system performed well, including the steady introduction into BARONA Casino, which is one of the major tribal casinos located in the suburbs of San Diego in the state of California in the U.S., as well as the introduction into large cruise ships in service overseas.

In the Asian and Oceanian markets, we developed a richly diverse product lineup, including *Concerto* the new cabinet and the *Podium* series.

In addition, we presented the *Castlevania* series, which was its second title utilizing our Digital Entertainment business' intellectual properties following KONAMI's popular content *Frogger* series, at the largest gaming expo in the Oceania, Australasian Gaming Expo 2016, held in Sydney, Australia and at the world's largest gaming expo, Global Gaming Expo 2016 (G2E), held in Las Vegas in the U.S. At G2E, we also exhibited more for the first time, including *Fortune Cup*, a horserace betting station with a model track, *Crystal Cyclone*, a ball-drawing game, and *Beat Square*, a slot machine which loads a skill factor that enables the machine



to reflect players' skill based on *jubeat* of the *BEMANI* series. We showed new genres and concepts to the gaming industry through products utilizing experience and techniques developed by KONAMI's arcade games, and the exhibitions received considerable attention from visitors.

For the six months ended September 30, 2016, this business was strong mainly in the North American market, and total revenue and segment profit in local currency basis increased. In Japanese yen of the Company's presentation currency, however, total revenue and segment profit decreased due to the effect of exchange rate changes by the rising yen.

In terms of financial performance, total revenue for the six months ended September 30, 2016 in this segment amounted to ¥13,789 million (a year-on-year decrease of 7.9%) and segment profit for the six months ended September 30, 2016 amounted to ¥1,589 million (a year-on-year decrease of 8.3%).

### **Amusement**

In regards to arcade games, our e-AMUSEMENT Participation system titles, centered on *MAH-JONG FIGHT CLUB ZERO* and music genre games, continued to operate steadily. As for the online match quiz game *Quiz Magic Academy Tokyo Grimoire*, QMA JAPAN TOUR 2016 which has been held since June 2016 with given official certification, continued to receive favorable reviews. This has contributed to its strong operation.

As for pachislot and pachinko machines, business in this industry was conducted in an unusual environment, including the nationwide self-imposed moratorium on replacement of pachislot and pachinko machines over a period of one month due to the impact of the G7 Ise-Shima Summit in May 2016. Against this background, *MAGICAL HALLOWEEN 5*, a pachislot machine released in the previous fiscal year, was sold with additional orders. In the previous fiscal year, it maintained a top-class level of operation among the pachislot machines adapted to new standards after the test methods changed. Furthermore, we released a new pachislot machine, *SEVEN'S BEAT*, in collaboration with *beatmania*, a music genre game from the Konami Group.

Meanwhile, sales in this second quarter were limited because new product releases for this fiscal year are concentrated for the third quarter or later.

In terms of financial performance, total revenue for the six months ended September 30, 2016 in this segment amounted to ¥7,938 million (a year-on-year decrease of 40.7%) and segment profit for the six months ended September 30, 2016 amounted to 1,799 million (a year-on-year decrease of 35.1%).

During the six months ended September 30, 2016, in light of rapid changes in market structure such as strengthening the regulations for pachislot and pachinko machines, impairment losses on intangible assets were recognized of ¥2,102 million which is included in other income and other expenses, net in the consolidated statement of profit or loss. This is mainly due to reconsiderations for business plans of the pachislot and pachinko machines' business.

### (3) Cash Flows

	Millions of Yen		
	Six months ended September 30, 2015	Six months ended September 30, 2016	Change
<b>Cash flow summary:</b>			
Net cash provided by operating activities	¥30,584	¥12,278	¥(18,306)
Net cash used in investing activities	(11,391)	(6,791)	4,600
Net cash used in financing activities	(2,406)	(2,724)	(318)
Effect of exchange rate changes on cash and cash equivalents	(426)	(1,958)	(1,532)
Net increase in cash and cash equivalents	16,361	805	(15,556)
Cash and cash equivalents at the end of the period	¥81,015	¥114,712	¥33,697

Cash and cash equivalents (hereafter, referred to as "Net cash"), as of September 30, 2016, amounted to ¥114,712 million, an increase of ¥805 million compared to the year ended March 31, 2016.

Cash flow summary for each activity for the six months ended September 30, 2016 is as follows:

Cash flows from operating activities:

Net cash provided by operating activities amounted to ¥12,278 million for the six months ended September 30, 2016, a year-on-year decrease of 59.9%. This primarily resulted from a reduction of deferred revenue increasing and an increase in income tax paid, which offset a decrease in trade and other receivable.

Cash flows from investing activities:

Net cash used in investing activities amounted to ¥6,791 million for the six months ended September 30, 2016, a year-on-year decrease of 40.4%. This mainly resulted from a decrease in capital expenditures for property, plant and equipment.

Cash flows from financing activities:

Net cash used in financing activities amounted to ¥2,724 million for the six months ended September 30, 2016, a year-on-year increase of 13.2%. This primarily resulted from proceeds from short-term (within 3 months) borrowings during the six months ended September 30, 2015.

### **3. Risk Factors**

For the six month period ended September 30, 2016, there is no significant change in risk factors which were described on the Annual Report for the year ended March 31, 2016.

## **Responsibility Statement**

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

Takuya Kozuki, Representative Director, President, confirms that:

- to the best of his knowledge, the financial statements, prepared in accordance with International Financial Reporting Standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of KONAMI HOLDINGS CORPORATION and the undertakings included in the consolidation taken as a whole; and
- to the best of his knowledge, this annual financial information includes a fair review of the development and performance of the business and the position of KONAMI HOLDINGS CORPORATION and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.