Annual Financial Report

KONAMI HOLDINGS CORPORATION and its subsidiaries

Consolidated Financial Statements
For the fiscal year ended March 31, 2018

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, 2017	As of March 31, 2018
Assets			
Current assets			
Cash and cash equivalents	5,22	¥134,743	¥154,485
Trade and other receivables	6,22	25,951	26,092
Inventories	7	7,430	6,840
Income tax receivables	18	846	714
Other current assets	13,22	5,978	7,541
Total current assets		174,948	195,672
Non-current assets			
Property, plant and equipment, net	8,10	75,598	79,077
Goodwill and intangible assets	9	34,774	36,870
Investments accounted for using the equity method	11	2,798	3,034
Other investments	12,22	1,266	1,313
Other financial assets	13,22	22,362	22,578
Deferred tax assets	18	22,335	21,951
Other non-current assets		3,063	2,613
Total non-current assets		162,196	167,436
Total assets		¥337,144	¥363,108

	Note	As of March 31, 2017	As of March 31, 2018
		Millions of Yen	
Liabilities and equity			
Liabilities			
Current liabilities			
Bonds and borrowings	14,22,28	¥10,607	¥11,903
Other financial liabilities	10,17,22,28	4,007	3,876
Trade and other payables	15,22	25,852	31,252
Income tax payables	18	2,745	7,599
Other current liabilities	16,19	13,635	14,660
Total current liabilities		56,846	69,290
Non-current liabilities			
Bonds and borrowings	14,22,28	19,678	14,744
Other financial liabilities	10,17,22,28	14,633	13,105
Provisions	16	8,106	9,109
Deferred tax liabilities	18	0	-
Other non-current liabilities	19	2,689	2,321
Total non-current liabilities		45,106	39,279
Total liabilities		101,952	108,569
Equity			
Share capital	20	47,399	47,399
Share premium	20	74,426	74,426
Treasury shares	20	(21,304)	(21,321)
Other components of equity	26	2,157	610
Retained earnings	20	131,763	152,668
Total equity attributable to owners of the parent		234,441	253,782
Non-controlling interests		751	757
Total equity		235,192	254,539
Total liabilities and equity		¥337,144	¥363,108

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, 2017	Fiscal year ended March 31, 2018
Revenue			
Product sales revenue		¥90,787	¥89,606
Service and other revenue		139,135	149,891
Total revenue	4	229,922	239,497
Cost of revenue			
Cost of product sales revenue		(46,813)	(42,415)
Cost of service and other revenue		(94,378)	(99,810)
Total cost of revenue	23	(141,191)	(142,225)
Gross profit		88,731	97,272
Selling, general and administrative expenses	23	(45,107)	(49,025)
Other income and other expenses, net	24	(7,265)	(3,066)
Operating profit		36,359	45,181
Finance income	25	199	153
Finance costs	25	(1,305)	(917)
Profit from investments accounted for using the equity method		268	292
Profit before income taxes		35,521	44,709
Income taxes	18	(9,544)	(14,203)
Profit for the year		25,977	30,506
Profit attributable to:			
Owners of the parent		25,951	30,507
Non-controlling interests		¥26	¥(1)

Yen

	Note	Fiscal year ended March 31, 2017	Fiscal year ended March 31, 2018
Earnings per share (attributable to owners of the parent)			
Basic	27	¥191.89	¥225.59
Diluted	27	¥189.08	¥222.21

Consolidated Statement of Comprehensive Income

Millions of Yen

	Note	Fiscal year ended March 31, 2017	Fiscal year ended March 31, 2018
Profit for the year		¥25,977	¥30,506
Other comprehensive income			
Items that may be reclassified to profit or loss:			
Exchange differences on foreign operations	26	(253)	(1,612)
Net change in fair values of available-for-sale financial assets	26	2	66
Share of other comprehensive income of entity accounted for using the equity method	26	1	(1)
Total items that may be reclassified to profit or loss		(250)	(1,547)
Total other comprehensive income		(250)	(1,547)
Total comprehensive income for the year		25,727	28,959
Comprehensive income attributable to:			
Owners of the parent		25,701	28,960
Non-controlling interests		¥26	¥(1)

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 March 31, 2016		¥47,399	¥74,426	¥ (21,284)	¥2,407	¥109,802	¥212,750	¥725	¥213,475
Profit for the year						25,951	25,951	26	25,977
Other comprehensive income					(250)		(250)		(250)
Total comprehensive income for the year		-	-	-	(250)	25,951	25,701	26	25,727
Purchase of treasury shares	20			(20)			(20)		(20)
Disposal of treasury shares	20		0	0			0		0
Dividends	21					(3,990)	(3,990)		(3,990)
Total transactions with the owners		-	0	(20)	-	(3,990)	(4,010)	-	(4,010)
Balance at March 31, 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

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, 2017	Fiscal year ended March 31, 2018
Operating activities			
Profit for the year		¥25,977	¥30,506
Depreciation and amortization		16,286	12,490
Impairment losses		6,401	3,132
Interest and dividends income		(195)	(149)
Interest expense		940	824
Loss on sale or disposal of property, plant and equipment		538	62
Profit from investments accounted for using the equity method		(268)	(292)
Income taxes		9,544	14,203
Increase in trade and other receivables		(2,355)	(731)
Decrease in inventories		1,954	610
Increase in trade and other payables		1,521	2,542
Decrease (increase) in prepaid expense		84	(379)
Increase in deferred revenue		388	1,449
Other, net		(1,475)	(783)
Interest and dividends received		166	151
Interest paid		(953)	(811)
Income taxes paid		(14,794)	(8,844)
Net cash provided by operating activities		43,759	53,980
Investing activities			
Capital expenditures		(14,969)	(17,631)
Decrease in lease deposits, net		1,192	393
Decrease (increase) in term deposits, net		143	(1,295)
Other, net		19	49
Net cash used in investing activities		(13,615)	(18,484)
Financing activities			
Increase (decrease) in short-term (within 3 months) borrowings, net	28	1,134	(1,121)
Proceeds from short-term (more than 3 months) borrowings	28	12,846	12,894
Repayments of short-term (more than 3 months) borrowings	28	(17,386)	(10,098)
Redemption of bonds	14,28	-	(5,000)
Principal payments under capital lease and financing obligations	28	(2,011)	(1,866)
Dividends paid	21	(3,984)	(9,590)
Other, net		(19)	(17)
Net cash used in financing activities		(9,420)	(14,798)
Effect of exchange rate changes on cash and cash equivalents		112	(956)
Net increase in cash and cash equivalents		20,836	19,742
Cash and cash equivalents at the beginning of the year	5	113,907	134,743
Cash and cash equivalents at the end of the year	5	¥134,743	¥154,485

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

(5) Changes in presentation

(Consolidated Statement of Cash Flows)
Although "Purchase of treasury shares" had been separately presented in Financing activities of the Consolidated Statement of Cash Flows for the previous fiscal year, it is included in "Other, net" for the current fiscal year due to a decrease in the financial significance of the balance.

To reflect this change in presentation, the comparative balance of ¥(20) million presented under "Purchase of treasury shares" in the prior year Consolidated Statement of Cash Flows has been reclassified as "Other, net".

(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, 2018, are principally as shown in the table below. The Company expects that the application of these standards for the year ended March 31, 2019 will not have a significant impact on the consolidated financial statements. The Company is currently still assessing the impacts of application of the standard for the year ended March 31, 2020 and it is not possible to make an estimate of the effect at this stage.

Standards and Interpretations	**Title**	**Date of mandatory application (fiscal year beginning on or after)**	**Reporting periods of application by the Company (End date of the reporting period)**	**Overview of new/revised Standards and Interpretations**
IFRS 15	Revenue from Contracts with Customers	January 1, 2018	March 31, 2019	Proposition of a single framework for accounting for revenue recognition
IFRS 9	Financial Instruments	January 1, 2018	March 31, 2019	Revision of classification, measurement and recognition of financial instruments
IFRS 16	Leases	January 1, 2019	March 31, 2020	Revision of lease accounting

3. Significant Accounting Policies

(1) Basis of consolidation

(i) Subsidiaries

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

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

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

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

(ii) Associates

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

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

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

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

(2) Business combinations

A business combination is accounted for using the acquisition method.

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

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

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

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

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

(3) Foreign currency transactions

(i) Foreign currency transactions

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

(ii) Foreign operations

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

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

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

(4) Cash and cash equivalents

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

(5) Inventories

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

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

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

(6) Property, plant and equipment, net

(i) Recognition and measurement

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

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

(ii) Subsequent expenditures

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

(iii) Depreciation

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

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

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

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

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

(7) Goodwill and intangible assets

(i) Goodwill

(a) Initial recognition

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

(b) Measurement after initial recognition

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

(ii) Intangible assets acquired in business combinations

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

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

(iii) Internally generated intangible assets arising from development

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

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

(iv) Other intangible assets

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

(v) Amortization

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

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

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

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

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

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

(8) Leases

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

(i) Finance leases

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

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

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

(ii) Operating leases

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

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

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

(9) Impairment

(i) Impairment of non-derivative financial assets

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

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

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

(a) Financial assets measured at amortized cost

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

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

(b) Available-for-sale financial assets

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

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

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

(ii) Impairment of non-financial assets

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

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

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

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

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

(10) Employee benefits

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

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

(11) Provisions

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

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

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

(12) Financial instruments

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

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

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

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

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

(ii) Non-derivative financial assets- measurement

(a) Loans and receivables

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

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

(b) Available-for-sale financial assets

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

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

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

(iii) Non-derivative financial liabilities - measurement

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

(iv) Compound financial instruments

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

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

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

(v) Derivatives and hedging activities

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

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

Konami Group does not apply hedge accounting.

(13) Equity

(i) Ordinary shares

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

(ii) Treasury shares

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

(14) Revenue

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

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

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

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

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

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

(i) Product sales revenue

Konami Group sells goods such as computer and video games and other products, amusement machines and related equipment, and gaming machines and related casino management systems. Konami Group recognizes revenue from product sales upon delivery to customers or acceptance by customers.

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

(ii) Service and other revenues

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

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

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

(iii) Multiple-element arrangements

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

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

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

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

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

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

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

- whether Konami Group has the primary responsibility for providing the goods or services to the customer or for fulfilling the order,
- whether Konami Group has inventory risk before or after the customer order, during shipping or on return,
- whether Konami Group has latitude in establishing prices, either directly or indirectly, and

- whether Konami Group bears the customer’s credit risk for the amount of receivable from the customer.

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

(15) Finance income and finance costs

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

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

(16) Income tax expense

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

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

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

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

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

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

(17) Earnings per share

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

4. Segment Information

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

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

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

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

1. Digital Entertainment:	Production, manufacture and sale of digital content and related products including mobile games, 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. Health & Fitness:	Operation of health and fitness clubs, and production, manufacture and sale of health and fitness 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, 2017 and 2018.

(1) Operating segment information

Millions of Yen

	Fiscal year ended March 31, 2017	Fiscal year ended March 31, 2018
Revenue:		
Digital Entertainment –		
External customers	¥105,151	¥119,548
Intersegment	422	702
Total	¥105,573	¥120,250
Amusement –		
External customers	¥25,193	¥24,629
Intersegment	149	549
Total	¥25,342	¥25,178
Gaming & Systems –		
External customers	¥31,251	¥29,628
Intersegment	-	-
Total	¥31,251	¥29,628
Health & Fitness –		
External customers	¥68,327	¥65,692
Intersegment	321	312
Total	¥68,648	¥66,004
Intersegment eliminations	¥ (892)	¥(1,563)
Consolidated	¥229,922	¥239,497

	Fiscal year ended March 31, 2017	Fiscal year ended March 31, 2018
		Millions of Yen
Segment profit:		
Digital Entertainment	¥33,759	¥37,405
Amusement	5,239	7,493
Gaming & Systems	4,849	4,366
Health & Fitness	4,224	3,253
Total segment profit	48,071	52,517
Corporate expenses and eliminations	(4,447)	(4,270)
Other income and other expenses, net	(7,265)	(3,066)
Finance income and finance costs, net	(1,106)	(764)
Profit from investments accounted for using the equity method	268	292
Profit before income taxes	¥35,521	¥44,709

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

	As of March 31, 2017	As of March 31, 2018
		Millions of Yen
Segment assets:		
Digital Entertainment	¥150,218	¥166,811
Amusement	52,304	56,015
Gaming & Systems	33,178	34,106
Health & Fitness	67,489	68,880
Total	303,189	325,812
Corporate assets	33,955	37,296
Consolidated	¥337,144	¥363,108

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

	Fiscal year ended March 31, 2017	Fiscal year ended March 31, 2018
		Millions of Yen
Impairment losses:		
Digital Entertainment	¥2,387	¥1,972
Amusement	4,013	1,158
Health & Fitness	1	2
Total	¥6,401	¥3,132

	Fiscal year ended March 31, 2017	Fiscal year ended March 31, 2018
		Millions of Yen
Depreciation and amortization:		
Digital Entertainment	¥5,057	¥3,876
Amusement	4,507	2,722
Gaming & Systems	1,781	1,239
Health & Fitness	3,562	3,367
Total	14,907	11,204
Corporate assets	1,379	1,286
Consolidated	¥16,286	¥12,490

	Fiscal year ended March 31, 2017	Fiscal year ended March 31, 2018
		Millions of Yen
Investments in non-financial assets:		
Digital Entertainment	¥7,216	¥8,010
Amusement	3,878	3,849
Gaming & Systems	1,340	1,510
Health & Fitness	1,303	2,993
Total	13,737	16,362
Corporate assets	667	4,710
Consolidated	¥14,404	¥21,072

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, 2017	Fiscal year ended March 31, 2018
		Millions of Yen
Revenue:		
Japan	¥172,448	¥183,222
United States	40,445	38,168
Europe	10,257	11,067
Asia/Oceania	6,772	7,040
Consolidated	¥229,922	¥239,497

	As of March 31, 2017	As of March 31, 2018
		Millions of Yen
Non-current assets:		
Japan	¥98,882	¥105,177
United States	10,897	10,061
Europe	145	268
Asia/Oceania	448	441
Consolidated	¥110,372	¥115,947

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, 2017	As of March 31, 2018
Cash and cash equivalents:		
Cash and deposits	¥132,840	¥151,077
Short-term deposits with maturities of three months or less	1,903	3,408
Total cash and cash equivalents on the consolidated statements of financial position	¥134,743	¥154,485

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, 2017 and 2018.

6. Trade and Other Receivables

The breakdown of trade and other receivables is as follows:

Millions of Yen

	As of March 31, 2017	As of March 31, 2018
Notes receivables	¥651	¥579
Accounts receivables	25,477	25,521
Other receivables	6	49
Less: Allowance for doubtful accounts	(183)	(57)
Total	¥25,951	¥26,092

7. Inventories

The breakdown of inventories is as follows:

Millions of Yen

	As of March 31, 2017	As of March 31, 2018
Finished products	¥2,522	¥2,443
Work in process	173	82
Raw materials and supplies	4,735	4,315
Total	¥7,430	¥6,840

Inventories recognized as an expense for the fiscal years ended March 31, 2017 and 2018 were ¥31,251 million and ¥27,818 million, respectively.

Loss on valuation recognized as an expense for the fiscal years ended March 31, 2017 and 2018 were ¥965 million and ¥1,214 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, 2016	¥34,871	¥111,345	¥35,737	¥392	¥182,345
Acquisitions	-	698	2,114	601	3,413
Sales and disposal	(3)	(3,181)	(4,186)	-	(7,370)
Transfer from construction in progress	-	617	(1,175)	(408)	(966)
Effect of foreign currency	(2)	(97)	(59)	1	(157)
Others	-	(228)	289	65	126
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

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, 2016	¥(141)	¥(73,086)	¥(28,854)	-	¥(102,081)
Depreciation expenses	-	(3,936)	(2,989)	-	(6,925)
Sales and disposal	-	3,113	4,150	-	7,263
Impairment losses	-	(25)	(521)	-	(546)
Transfer from construction in progress	-	1	704	-	705
Effect of foreign currency	-	19	50	-	69
Others	-	59	(337)	-	(278)
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)

Millions of Yen

	Land	Buildings and structures	Tools, furniture and fixtures	Construction in progress	Total
Carrying amount					
Balance as of March 31, 2017	¥34,725	¥35,299	¥4,923	¥651	¥75,598
Balance as of March 31, 2018	¥34,954	¥33,833	¥5,992	¥4,298	¥79,077

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

(2) Impairment losses

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

Millions of Yen

	As of March 31, 2017	As of March 31, 2018
Digital Entertainment segment		
Buildings and structures	¥1	-
Tools, furniture and fixtures	1	-
Amusement segment		
Buildings and structures	24	-
Tools, furniture and fixtures	520	-
Total	¥546	-

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

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

For the year ended March 31, 2017, impairment losses were recognized related to idle assets (mainly “buildings and structures” and “tools, furniture and fixtures”) in the Digital Entertainment segment and Amusement segment. The recoverable amount of those assets was determined based on value in use, and the carrying value impaired to zero.

For the year ended March 31, 2018, no impairment loss was recognized

(3) Borrowing costs

During the fiscal years ended March 31, 2017 and 2018, Konami Group capitalized borrowing costs amounting to ¥82 million and ¥69 million, respectively. Borrowing costs on qualifying assets were capitalized at the weighted average rate for general borrowings of 0.55% and 0.57%, 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, 2016	¥22,027	¥57,568	¥50,561	¥6,640	¥8,606	¥145,402
Acquisitions	-	837	-	-	142	979
Internally generated development costs	-	10,012	-	-	-	10,012
Sales and disposal	-	(22,047)	-	-	(59)	(22,106)
Effect of foreign currency	(3)	(18)	-	-	(12)	(33)
Others	-	62	-	-	(29)	33
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

Millions of Yen

	Goodwill	Internally generated intangible assets	Trademarks	Memberships	Others	Total
Accumulated amortization and impairment losses						
Balance as of March 31, 2016	¥(4,127)	¥(49,943)	¥(41,701)	¥(4,277)	¥(5,884)	¥(105,932)
Amortization expenses	-	(8,815)	(11)	-	(535)	(9,361)
Sales and disposal	-	21,601	-	-	58	21,659
Impairment losses	-	(3,492)	-	(2,363)	-	(5,855)
Effect of foreign currency	-	20	-	-	2	22
Others	-	(46)	-	-	-	(46)
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)

	Goodwill	Internally generated intangible assets	Trademarks	Memberships	Others	Total
Carrying amount						
Balance as of March 31, 2017	¥17,897	¥5,739	¥8,849	-	¥2,289	¥34,774
Balance as of March 31, 2018	¥17,868	¥8,480	¥8,702	-	¥1,820	¥36,870

Millions of Yen

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

(2) Intangible assets with indefinite useful lives

At March 31, 2017 and 2018, the carrying amounts of intangible assets with indefinite useful lives included in above were ¥9,011 million and ¥8,996 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, 2018.

(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, 2017	As of March 31, 2018
Goodwill		
Digital Entertainment	¥15,331	¥15,302
Gaming & Systems	125	125
Health & Fitness	2,441	2,441
Total	¥17,897	¥17,868
Intangible assets with an indefinite life		
Gaming & Systems	¥309	¥294
Health & Fitness	8,702	8,702
Total	¥9,011	¥8,996

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

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

(i) Digital Entertainment segment

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

(ii) Amusement segment

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

During the fiscal year ended March 31, 2017, the total recoverable amount of intangible assets with indefinite useful lives based on value in use using a pre-tax discount rate of 11.0% was lower than the total carrying value, and as such impairment losses of ¥2,363 million were recognized and included in the line item "other income and other expenses, net" in the consolidated statement of profit or loss. The impairment was mainly attributable to reassessments made to the business plans in light of rapid changes in the market structure such as the strengthening of regulations.

The aggregate recoverable amount of CGUs on which impairment losses were recognized was nil.

(iii) Health & Fitness segment

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

(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, 2017 and 2018 were as follows:

Millions of Yen

	Fiscal year ended March 31, 2017	Fiscal year ended March 31, 2018
Digital Entertainment segment	¥2,385	¥1,972
Amusement segment	1,106	1,022
Health & Fitness segment	1	2
Total	¥3,492	¥2,996

(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, 2017 and 2018, research and development costs recognized as expense incurred were ¥2,761million and ¥3,131 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, 2017 and 2018 were as follows:

Millions of Yen

	As of March 31, 2017	As of March 31, 2018
Buildings and structures	¥8,191	¥7,163
Tools, furniture and fixtures	¥51	¥19

Future minimum lease payments under finance leases at March 31, 2017 and 2018 were as follows:

Millions of Yen

	As of March 31, 2017	As of March 31, 2018
Less than 1 year	¥2,437	¥2,341
More than 1 year and less than 5 years	8,184	7,664
More than 5 years	8,955	7,394
Less: future financial expenses	(3,153)	(2,505)
The present value of future minimum lease payments	¥16,423	¥14,894

The present value of future minimum lease payments under finance leases at March 31, 2017 and 2018 were as follows:

Millions of Yen

	As of March 31, 2017	As of March 31, 2018
Less than 1 year	¥1,790	¥1,790
More than 1 year and less than 5 years	6,461	6,208
More than 5 years	8,172	6,896
Total	¥16,423	¥14,894

Certain lease contracts include renewal or purchase options.

Contingent rents recognized as an expense were not material during the fiscal years ended March 31, 2017 and 2018.

(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, 2017 and 2018 were as follows:

Millions of Yen

	As of March 31, 2017	As of March 31, 2018
Less than 1 year	¥9,754	¥9,905
More than 1 year and less than 5 years	30,845	26,946
More than 5 years	21,333	18,201
Total	¥61,932	¥55,052

Certain lease contracts include renewal or purchase options.

Lease payments under operating leases recognized as an expense for the years ended March 31, 2017 and 2018 totaled ¥15,990 million and ¥16,695 million, respectively.

Contingent rents recognized as expenses were not material during the fiscal years ended March 31, 2017 and 2018.

11. Investments Accounted for Using the Equity Method

At March 31, 2017 and 2018, 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 Health &Fitness segment Certain directors or officers of the Company concurrently serve as directors or officers	March 2006	20.4%

At March 31, 2017 and 2018, 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, 2017	As of March 31, 2018
Carrying amount	¥2,798	¥3,034
Fair value	¥3,976	¥4,911

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, 2017	As of March 31, 2018
Equity securities	¥1,167	¥1,227
Others	99	86
Total	¥1,266	¥1,313

13. Other Financial Assets

The breakdown of other financial assets is as follows:

Millions of Yen

	As of March 31, 2017	As of March 31, 2018
Loans receivable	¥399	¥345
Lease deposits	22,340	21,955
Others	1,093	1,519
Less: allowance for doubtful accounts	(161)	(162)
Total	¥23,671	¥23,657
Current	1,309	1,079
Non-current	¥22,362	¥22,578

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, 2017 and 2018, the breakdown of short-term borrowings is as follows:

Millions of Yen

	As of March 31, 2017	As of March 31, 2018
Unsecured short-term borrowings from banks	¥5,610	¥6,906
Total	¥5,610	¥6,906

Weighted-average interest rates on short-term borrowings were 1.64% and 2.09% at March 31, 2017 and 2018, respectively. In addition, unsecured short-term borrowings from banks included $50,000 thousand (¥5,610 million) and $65,000 thousand (¥6,906 million) of loans denominated in foreign currencies at March 31, 2017 and 2018, respectively.

At March 31, 2017 and 2018, the breakdown of bonds is as follows:

Millions of Yen

	As of March 31, 2017	As of March 31, 2018
Unsecured 0.46% per annum bonds due in September 2017	¥4,997	-
Unsecured 0.53% per annum bonds due in September 2018	4,992	¥4,997
Unsecured 0.66% per annum bonds due in September 2019	4,988	4,993
-% per annum euro-yen convertible bond-type bonds with subscription rights to shares due in December 2022	9,698	9,751
Total	24,675	19,741
Less: current portion	(4,997)	(4,997)
Long-term debt, non-current portion	¥19,678	¥14,744

At March 31, 2017 and 2018, 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, 2017	As of March 31, 2018
Notes payables	¥246	¥419
Accounts payables	8,084	10,208
Accrued expenses	15,623	18,717
Other payables	1,899	1,908
Total	¥25,852	¥31,252

16. Provisions

The changes in provisions during the year ended March 31, 2018 were as follows:

Millions of Yen

	Asset retirement obligations	Others	Total
Balance as of March 31, 2017	¥8,563	¥809	¥9,372
Additional provisions	1,142	439	1,581
Amounts utilized	(427)	(631)	(1,058)
Unused amounts reversed	(100)	(86)	(186)
Discounted interest costs and effect of change in discount rate.	28	-	28
Effect of foreign currency	(1)	27	26
Balance as of March 31, 2018	¥9,205	¥558	¥9,763
Current liabilities	118	536	654
Non-current liabilities	¥9,087	¥22	¥9,109

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

For the year ended March 31, 2018, Konami Group changed its estimate of expenditures which will be incurred in respect of certain asset retirement obligations in cases where it disposes of certain lease assets, primarily relating to office buildings and the Health & Fitness facilities, after considering new information from its experience of the actual costs incurred in leaving facilities.

Other provisions include a reserve for sales returns.

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

17. Other Financial Liabilities

The breakdown of trade and other payables are as follows:

Millions of Yen

	As of March 31, 2017	As of March 31, 2018
Capital lease and financing obligations	¥16,423	¥14,894
Others	2,217	2,087
Total	¥18,640	¥16,981
Current liabilities	4,007	3,876
Non-current liabilities	¥14,633	¥13,105

18. Deferred Taxes and Income Tax Expense

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

Millions of Yen

	As of March 31, 2016	Recognized through profit or loss (Note)	Recognized in other comprehensive income	Recognized in equity directly	As of March 31, 2017
Deferred tax assets:					
Accrued expenses	¥4,032	¥295	-	-	¥4,327
Inventories	1,303	867	-	-	2,170
Net operating loss carryforwards	2,111	857	-	-	2,968
Property, plant and equipment basis differences	3,097	(369)	-	-	2,728
Asset retirement obligations	875	282	-	-	1,157
Intangible assets	11,797	(1,867)	-	-	9,930
Deferred revenue	1,140	40	-	-	1,180
Investments in associates	1,109	-	-	-	1,109
Others	3,440	(1,005)	¥7	-	2,442
Total	¥28,904	¥(900)	¥7	-	¥28,011
Deferred tax liabilities:					
Intangible assets	¥(4,411)	¥856	-	-	¥(3,555)
Investments in subsidiaries	(1,027)	(80)	-	-	(1,107)
Others	(1,095)	83	¥(2)	-	(1,014)
Total	¥(6,533)	¥859	¥(2)	-	¥(5,676)
Deferred tax assets, net	¥22,371	¥(41)	¥5	-	¥22,335

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

Millions of Yen

	As of March 31, 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.

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

Millions of Yen

	As of March 31, 2017	As of March 31, 2018
Deferred tax assets	¥22,335	¥21,951
Deferred tax liabilities	¥0	-

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, 2017 and 2018, the amount of deferred tax assets attributable to tax entities which had recognized operating losses in the previous fiscal year and the current year were ¥761 million and ¥277 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, 2017	As of March 31, 2018
Deductible temporary differences	¥22,877	¥20,886
Unused tax losses carryforwards	40,508	33,660
Total	¥63,385	¥54,546

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, 2017	As of March 31, 2018
First year	¥6,326	¥8,803
Second year	10,122	1,457
Third year	1,457	7,524
Fourth year	8,260	1,022
Fifth year and thereafter	14,343	14,854
Total	¥40,508	¥33,660

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, 2017 and 2018, 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, 2017	Fiscal year ended March 31, 2018
Income taxes:		
Current tax expense		
Current tax on profits for the year	¥9,515	¥13,849
Total current tax expense	9,515	13,849
Deferred tax expense		
Origination and reversal of temporary difference	3,084	2,320
Changes in tax rates	(801)	662
Reassessment of recoverability of deferred tax assets	(2,254)	(2,628)
Total deferred tax expense	29	354
Total income tax expense	¥9,544	¥14,203

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 ¥3,007 million and ¥2,075 million in the fiscal years ended March 31, 2017 and 2018, respectively.

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

For the fiscal year ended March 31, 2017, as a result of amendments to the Japanese consumption tax act, the local tax act and the local allocation tax act for fundamentally reforming the tax system to secure stable financial resources for social security that were enacted on November 18, 2016, the effective date of the planned increase in the consumption tax rate to 10% was postponed from April 1, 2017 to October 1, 2019. Accordingly, the abolition of the local corporation special tax, the application of the accompanying restoration of the corporate enterprise tax, and changes in statutory tax rates of the local corporation tax and corporate inhabitant tax were postponed from fiscal years beginning on or after April 1, 2017 to fiscal years beginning on or after October 1, 2019. Though these amendments to the tax laws did not change the aggregate statutory income tax rate used to calculate deferred tax assets and liabilities, the rate allocation between national tax and local tax was reclassified.

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.

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

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

	Fiscal year ended March 31, 2017	Fiscal year ended March 31, 2018
Statutory income tax rate	30.9%	30.9%
Increase (reduction) in taxes resulting from:		
Non-deductible expenses	0.6	0.2
Non-taxable income	(0.4)	(0.2)
Changes of unrecognized deferred tax assets in previous years	(6.3)	(5.9)
Adjustment of estimated income tax accruals	0.2	1.5
Tax credit, principally research	(1.1)	(0.8)
Effect of tax law changes	(2.3)	1.5
Non-deductible local taxes	0.7	0.5
Other, net	4.6	4.1
Effective income tax rate	26.9%	31.8%

19. Employee Benefits

(1) Multi-employer pension plan

The multi-employer pension plan in which the Company and certain domestic subsidiaries participate, the Kanto IT Software Pension Fund (the Fund), was dissolved on July 1, 2016 with permission of the Minister of Health, Labour and Welfare. The Fund was established pursuant to a Japanese law, by multi-employers consisting mainly of Software and IT industry companies, and was a welfare pension fund for a multi-employer contributory plan. The Fund's benefits were retirement plans, lump-sum severance payments and lump-sum benefits for bereaved family.

The risks of participating in a multi-employer plan are different from a single-employer plan in the following aspects; assets contributed to the multi-employer plan by one employer may have been used to provide benefits to employees of other participating employers; and if a participating employer has stopped contributing to the plan, any unfunded obligations of the plan may have been borne by the remaining participating employers. With regard to the Company and certain domestic subsidiaries, additional costs do not expect to be borne following the Fund dissolution.

Our most recent participation in the Fund is outlined in the table below. The financial information as of March 31, 2017 and thereafter is omitted since the Fund had already dissolved.

Millions of Yen except percentage

	Fiscal year ended March 31, 2016	Fiscal year ended March 31, 2017
Total plan assets	¥297,649	-
Total actuarial present value of accumulated benefit obligations	262,551	-
Overfunded	35,098	-
Percentage	113.4%	-

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

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

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

The Company and its domestic subsidiaries’ contributions to the plan amounted to ¥223 million for the period to the date of dissolution in 2017. The contributions the Company and its domestic subsidiaries made to the Fund represent more than 5% of the total Fund. The expenses were reported as “cost of revenue” and “selling, general and administrative expenses” in the accompanying consolidated statements of profit or loss. For the year ended March 31, 2018, there were no contributions to the plan.

Due to the Fund dissolution, the Company and its domestic subsidiaries are not expected to contribute to the plan during the year ending March 31, 2019.

(2) Defined contribution plans

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

Certain domestic subsidiaries began to offer participation in defined contribution plans to employees from the fiscal year ended March 31, 2012 and the Company and other domestic subsidiaries offered participation in defined contribution plans from the fiscal year ended March 31, 2014. Certain domestic subsidiaries terminated existing defined benefit plans and made a transition to defined contribution plans. Benefit obligations to be contributed to the defined contribution plans following this transition were determined to be ¥1,759 million and are to be settled over a period of 8 years.

At March 31, 2017 and 2018, 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, 2017	As of March 31, 2018
Other current liabilities	¥61	¥59
Other non-current liabilities	72	11
Total	¥133	¥70

The Company and certain domestic subsidiaries' contributions to the defined contribution plans amounted to ¥478 million and ¥502 million for the years ended March 31, 2017 and 2018, respectively. The expenses were reported as "cost of revenue" and "selling, general and administrative expenses" in the accompanying consolidated statement of profit or loss.

(3) Accrued pension and severance costs

The Company has accrued a liability for retirement benefits for directors and corporate auditors in the amount of ¥1,056 million and ¥1,050 million at March 31, 2017 and 2018, 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, 2017 and 2018 were as follows:

Number of shares

	Fiscal year ended March 31, 2017	Fiscal year ended March 31, 2018
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, 2017 and 2018:

	Number of shares	Millions of Yen
Balance as of March 31, 2016	8,258,617	21,284
Acquisition through purchase of odd-lot shares	4,783	20
Sell upon request for purchase of odd-lot shares	(44)	(0)
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

(3) Share premium and retained earnings

(i) Share premium

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

(ii) Retained earnings

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

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

At March 31, 2017 and 2018, retained earnings available for dividends recorded on the Company's books of account were ¥126,653 million and ¥130,745 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 10, 2016	Ordinary shares	1,691	12.50	March 31, 2016	June 3, 2016
Board of Directors' meeting held on October 28, 2016	Ordinary shares	2,299	17.00	September 30, 2016	November 18, 2016
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

(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 17, 2018	Ordinary shares	Retained earnings	5,139	38.00	March 31, 2018	June 6, 2018

22. Financial Instruments

(1) Categories of financial instruments

(i) Financial assets

Millions of Yen

	As of March 31, 2017	As of March 31, 2018
Cash and cash equivalents	¥134,743	¥154,485
Loans and receivables		
Trade and other receivables	25,951	26,092
Other financial assets	23,671	23,657
Available-for-sale investments		
Other investments	1,266	1,313
Total	¥185,631	¥205,547

(ii) Financial liabilities

Millions of Yen

	As of March 31, 2017	As of March 31, 2018
Financial liabilities at amortized cost		
Bonds and borrowings	¥30,285	¥26,647
Other financial liabilities	18,640	16,981
Trade and other payables	25,852	31,252
Total	¥74,777	¥74,880

(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, 2017	As of March 31, 2018
Cash and cash equivalents	¥134,743	¥154,485
Interest-bearing borrowings	46,708	41,541
Capital	234,441	253,782
Net debt-to-equity ratio (%)	69.5%	69.9%

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 doubtful receivables based upon factors surrounding the collection history and length of the period past due. Konami Group also collectively evaluates some receivables and determines an amount of allowance for doubtful receivables based on past actual rates of credit losses, probability of future default and other information.

Allowance for doubtful receivables mainly consists of provisions for the recoverability of other financial assets. The changes in allowance for doubtful receivables for the fiscal years ended March 31, 2017 and 2018 are as follows:

Millions of Yen

	Fiscal year ended March 31, 2017	Fiscal year ended March 31, 2018
Balance at beginning of year	¥260	¥344
Provision for credit losses	138	51
Utilization of allowance	(25)	(34)
Reversal	(22)	(137)
Effect of foreign currency	(7)	(5)
Balance at end of year	¥344	¥219

The following is an analysis of the age of receivables that are past due but not impaired individually at March 31, 2017 and 2018.

Millions of Yen

	As of March 31, 2017	As of March 31, 2018
Within 30 days	¥1,081	¥742
Over 30 days through 180 days	562	479
Over 180 days through 1 year	61	347
Over 1 year	51	69
Total	¥1,755	¥1,637

At March 31, 2017 and 2018, the balances of trade and other receivables impaired individually were ¥167 million and ¥51 million, respectively, and the corresponding allowances for doubtful receivables amounted to ¥166 million and ¥51 million, respectively.

(5) Liquidity risk management

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

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

The breakdown of financial liabilities (except for guarantee obligations) by due date at March 31, 2017 and 2018 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, 2017								
Bonds	¥24,675	¥25,134	¥5,071	¥5,046	¥5,017	-	-	¥10,000
Borrowings	5,610	5,637	5,637	-	-	-	-	-
Capital lease and financing obligations	16,423	19,576	2,437	2,345	2,149	¥1,925	¥1,765	8,955
Trade and other payables	25,852	25,852	25,852	-	-	-	-	-
Other financial liabilities	2,217	2,217	2,217	-	-	-	-	-
Total	¥74,777	¥78,416	¥41,214	¥7,391	¥7,166	¥1,925	¥1,765	¥18,955

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

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, 2017 and 2018.

(6) Market risk management

(i) Foreign currency risk

(a) Foreign currency risk management

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

The balance of financial assets and liabilities denominated in foreign currencies, including inter-group-company transactions, at March 31, 2017 and 2018 was as follows:

Millions of Yen

	As of March 31, 2017	As of March 31, 2018
Financial assets denominated in foreign currencies	¥5,421	¥12,838
Financial liabilities denominated in foreign currencies	¥2,275	¥1,878

(b) Foreign currency sensitivity analysis

Below is an analysis of the impact a 1% increase in the value of the yen against the United States dollar and the Euro would have on Konami Group's income before income taxes for the year ended March 31, 2017 and 2018. 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, 2017	Fiscal year ended March 31, 2018
United States dollar	¥2	¥53
Euro	¥7	¥30

(ii) Interest rate risk

(a) Interest rate risk management

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

There were no interest-bearing borrowings with variable rates at March 31, 2017 and 2018.

(7) Fair value of financial instruments

(i) Measuring fair value of financial instruments

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

(a) Other financial assets

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

(b) Other investments

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

(c) Bonds, borrowings and other financial liabilities

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

(ii) Fair value hierarchy

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

Level 1: Fair values measured at a price quoted in an active market.

Level 2: Fair values calculated directly or indirectly using an observable price except for level 1.

Level 3: Fair values calculated through valuation techniques, including inputs that are not based on observable market data.

(iii) Fair value of financial instruments

The table is a breakdown of financial instruments showing carrying amounts and fair values as at March 31, 2017 and 2018.

Millions of Yen

	As of March 31, 2017		As of March 31, 2018	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets:				
Other financial assets				
Lease deposits	¥22,340	¥22,506	¥21,955	¥22,145
Others	1,331	1,369	1,702	1,721
Other investments				
Securities	1,167	1,167	1,227	1,227
Others	99	99	86	86
Financial liabilities:				
Bonds and borrowings	¥30,285	¥30,001	¥26,647	¥26,407
Other financial liabilities				
Capital lease and financing obligations	16,423	18,275	14,894	16,956
Others	2,217	2,217	2,087	2,087

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

Other investments are categorized as Level 1 and Level 3.

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

The following is a breakdown of financial assets that are measured at fair value on a recurring basis at March 31, 2017 and 2018.

Millions of Yen

Balance at March 31, 2017	Level 1	Level 2	Level 3	Total
Financial assets:				
Other investments				
Securities	¥554	-	¥613	¥1,167
Others	-	-	99	99
Total	¥554	-	¥712	¥1,266

Millions of Yen

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

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

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

23. 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, 2017	Fiscal year ended March 31, 2018
Employee benefit expenses	¥53,343	¥54,593
Depreciation and amortization expenses	¥16,286	¥12,490
Rental expenses	¥17,394	¥18,545
Royalties	¥12,451	¥14,256

24. Other Income and Other Expenses

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

Millions of Yen

	Fiscal year ended March 31, 2017	Fiscal year ended March 31, 2018
Other income		
Gain on sale of property, plant and equipment, net	¥7	¥4
Reversal of compensation for damage	-	236
Total	¥7	¥240
Other expenses		
Impairment losses	¥6,401	¥3,132
Loss on sale of property, plant and equipment, net	545	66
Others	326	108
Total	¥7,272	¥3,306

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

25. Finance Income and Finance Cost

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

Millions of Yen

	Fiscal year ended March 31, 2017	Fiscal year ended March 31, 2018
Finance income		
Dividend income		
Available-for-sale financial assets	¥26	¥28
Interest income		
Loans and receivables	169	121
Others	4	4
Total	¥199	¥153
Finance costs		
Interest expenses		
Financial liabilities measured at amortized cost	¥940	¥824
Foreign exchange losses	345	47
Others	20	46
Total	¥1,305	¥917

26. Other Components of Equity and Other Comprehensive Income

(1) Other components of equity

Changes in other components of equity consist of the following:

Millions of Yen

	Exchange differences on translation of foreign operations	Available-for-sale financial assets	Share of other comprehensive income of entity accounted for using the equity method	Total
Balance as of March 31, 2016	¥2,297	¥110	¥ (0)	¥2,407
Net change during the year	(253)	2	1	(250)
Transfer to retained earnings	-	(0)	-	(0)
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

(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, 2017			Fiscal year ended March 31, 2018		
	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	¥(246)	¥(7)	¥(253)	¥(1,621)	¥9	¥(1,612)
Reclassification adjustments to profit for the year	-	-	-	-	-	-
Net change during the year	(246)	(7)	(253)	(1,621)	9	(1,612)
Available-for-sale financial assets						
Net unrealized gains (losses) during the year	0	2	2	98	(32)	66
Reclassification adjustments to profit for the year	(0)	0	(0)	-	-	-
Net change during the year	(0)	2	2	98	(32)	66
Share of other comprehensive income of entity accounted for using the equity method						
Net unrealized gains (losses) during the year	1	-	1	(1)	-	(1)
Reclassification adjustments to profit for the year	-	-	-	-	-	-
Net change during the year	1	-	1	(1)	-	(1)
Total other comprehensive income	¥(245)	¥(5)	¥(250)	¥(1,524)	¥(23)	¥(1,547)

27. Earnings per Share

The breakdown of the basic and diluted earnings per share attributable to owners of the parent for the years ended March 31, 2017 and 2018 is as follows:

	Fiscal year ended March 31, 2017	Fiscal year ended March 31, 2018
Profit attributable to owners of the parent	25,951 million yen	30,507 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	25,987 million yen	30,543 million yen
Basic weighted average ordinary shares outstanding	135,238,663 shares	135,234,933 shares
Adjustments for convertible bond-type bonds with subscription rights to shares	2,197,947 shares	2,215,379 shares
Basic weighted average ordinary shares outstanding used in the calculation of diluted earnings per share	137,436,610 shares	137,450,312 shares
Earnings per share attributable to owners of the parent for the period		
Basic	191.89 yen	225.59 yen
Diluted	189.08 yen	222.21 yen

28. Cash Flow Information

(1) Liabilities for financing activities

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

Millions of Yen

	Balance as of March 31, 2017	Cash flows	Non-cash movements		Balance as of March 31, 2018
			Exchange differences on foreign operations	Others	
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

(2) Non-cash Transactions

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

Millions of Yen

	Fiscal year ended March 31, 2017	Fiscal year ended March 31, 2018
Increase in property, plant and equipment related to recognition of asset retirement obligations	¥197	¥1,142

29. Related Party Disclosures

For the fiscal years ended March 31, 2017 and 2018, the amounts of directors' remuneration were ¥327 million and ¥333 million, respectively. There was not any payment of remuneration other than basic remuneration to directors.

30. Major Subsidiaries

Major subsidiaries and associates of Konami Group are as follows:

Subsidiaries

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

31. Commitments

Commitment for purchases of property, plant and equipment

Konami Group has placed firm orders for purchases of property, plant and equipment and other assets amounting to approximately ¥280 million and ¥7,635 million as of March 31, 2017 and 2018, respectively.

32. Contingencies

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

33. Subsequent Events

There have been no events after March 31, 2018 that would require adjustments to the consolidated financial statements or disclosures in the notes to the consolidated financial statements.

34. Approval of Consolidated Financial Statements

The consolidated financial statements were approved by Representative Director, President, Takuya Kozuki, on June 27, 2018.

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Independent Auditor's Report

July 9, 2018

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, 2018, 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, 2018, 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, 2018, the Japanese economy remained strong with improvement in corporate earnings and the labor environment and recovery in consumer spending. While overseas economies are also gradually recovering, the future remains uncertain because of concerns about political and policy movements and a heightening of geopolitical risks.

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. 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, efforts are accelerating to offer new experiences through game content in various ways, including eSports, which are regarded as a form of sports competition and are attracting more and more attention.

In spite of a continuously harsh market environment for the amusement industry, there are signs of recovery in the market, including an increase in users with families at arcade game areas in shopping malls due to an ease in restrictions on the hours minors can be admitted by prefectural enforcement ordinance revisions in accordance with partial revisions to the "Act on Control and Improvement of Amusement Businesses" (Entertainment Business Law) which began to be enforced from June 2016, as well as the addition of new users led by measures toward revitalizing the industry as a whole.

The gaming market is continuing to see growth with the worldwide development and opening of new casino facilities and integrated resorts (IR) which include casinos. Furthermore, measures for more development have been implemented in the gaming business, including the legalization of slot machines with skill-based elements in some states in the U.S. This will enable the machines to reflect players' skill levels, as a countermeasure against young people's lack of interest in gaming slot machines.

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 activities to improve their personal appearance and a diversification of related needs and products, including dieting, getting in shape, personal training and studio programs. Markets for household training machines also continue to grow since a wide variety of machines were released.

Under such circumstances, in terms of the mobile games in the Digital Entertainment segment, we released two titles of *Tokimeki Idol* and *Quiz Magic Academy LOST FANTARIUM* in the domestic market during the three-month period ended March 31, 2018. Other mobile game titles also continued to enjoy strong performance, including *JIKKYOU PAWAFURU PUROYAKYU*, *Yu-Gi-Oh! DUEL LINKS* and *PROFESSIONAL BASEBALL SPIRITS A (Ace)*. As for card games, the *Yu-Gi-Oh!*

TRADING CARD GAME series continued to develop in the global market. One year has passed since the introduction of the new rules in March 2017, which have become more known to customers. As for computer and video games, a spin-off title in the *METAL GEAR* series, *METAL GEAR SURVIVE*, was released during the three-month period ended March 31, 2018. *Winning Eleven 2018* (known overseas as *PRO EVOLUTION SOCCER 2018*) also continued to enjoy stable performance.

In our Amusement segment, the video game *MAH-JONG FIGHT CLUB Gouka Kenran*, which was added to high-grade model cabinets, continued to operate steadily and the music genre games of *beatmania IIDX 25 CANNON BALLERS* and *DANCERUSH STARDOM* were launched. As for medal game machines, a new cabinet of *Anima Lotta: Otogi no Kuni no Anima*, *GI-WorldClassic*, and *MARBLE FEVER* were launched. In addition, *GI Derby Club*, which was launched in the previous fiscal year, has continued a long-term stable operation and has performed strongly with support from additional orders and favorable market reviews.

In our Gaming & Systems segment, we have promoted sales of *Concerto*™, a key product of the video slot machine series, the long-selling *Podium*® series, and the *SYNKROS*® casino management system mainly in the U.S, Asian and Oceanian markets.

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 terms of the consolidated results for the fiscal year ended March 31, 2018, total revenue amounted to ¥239,497 million (a year-on-year increase of 4.2%), operating profit was ¥45,181 million (a year-on-year increase of 24.3%), profit before income taxes was ¥44,709 million (a year-on-year increase of 25.9%), and profit attributable to owners of the parent was ¥30,507 million (a year-on-year increase of 17.6%).

(2) Performance by Business Segment

Summary of total revenue by business segment:

Millions of Yen

	Fiscal year ended March 31, 2017	Fiscal year ended March 31, 2018	% change
Total revenue:			
Digital Entertainment	¥105,573	¥120,250	13.9
Amusement	25,342	25,178	(0.6)
Gaming & Systems	31,251	29,628	(5.2)
Health & Fitness	68,648	66,004	(3.9)
Intersegment eliminations	(892)	(1,563)	-
Total revenue	¥229,922	¥239,497	4.2

Digital Entertainment

As for mobile games, we released two titles of *Tokimeki Idol* and *Quiz Magic Academy LOST FANTARIUM* in the domestic market during the three-month period ended March 31, 2018. Various titles also continued stable performance, including *JIKKYOU PAWAFURU PUROYAKYU* and *PROFESSIONAL BASEBALL SPIRITS A (Ace)* with driving in the domestic market and *Yu-Gi-Oh! DUEL LINKS, Winning Eleven 2018* (known overseas as *PRO EVOLUTION SOCCER 2018*), and *Winning Eleven CLUB MANAGER* (known overseas as *PES CLUB MANAGER*) in the global markets.

As for card games, the *Yu-Gi-Oh! TRADING CARD GAME* series continued to develop in the global market. One year has passed since the introduction of the new rules in March 2017, which have become more known to customers. We also started the 20th anniversary-year project for *Yu-Gi-Oh! TRADING CARD GAME* to celebrate its 20th anniversary once it goes on sale in February 2019 and continued to work to revitalize the content.

As for computer and video games, a spin-off title in the *METAL GEAR* series, *METAL GEAR SURVIVE*, was released during the three-month period ended March 31, 2018. In addition, *Winning Eleven 2018* (known overseas as *PRO EVOLUTION SOCCER 2018*) continued to receive favorable reviews so we have continued measures, including introducing popular players from the past who played for national teams and club teams. We also held qualifying rounds for the "PES LEAGUE WORLD TOUR 2018" world championships to get involved with eSports, and fans are showing a lot of enthusiasm for it.

In terms of financial performance, total revenue for the fiscal year ended March 31, 2018 in this segment amounted to ¥120,250 million (a year-on-year increase of 13.9%) and segment profit for the fiscal year ended March 31, 2018 amounted to ¥37,405 million (a year-on-year increase of 10.8%).

Amusement

In regards to video games, the new cabinet *MAH-JONG FIGHT CLUB Gouka Kenran* continued to perform strongly. The addition of this high-grade model cabinet was to celebrate the 15th anniversary of the online versus mahjong game *MAH-JONG FIGHT CLUB*. In addition, we launched a music genre game, *beatmania IIDX 25 CANNON BALLERS*, which features a new screen function that shows live video of the player's hands and face, as well as improved music and video quality. In celebration of the 20th anniversary of the release of *DanceDanceRevolution*, we released *DANCERUSH STARDOM*, a new generation of dance games where everyone can easily enjoy "Shuffle Dance". In terms of medal games, we launched new compact cabinets for *Anima Lotta: Otogi no Kuni no Anima*, which integrate all the functions of the popular product, the latest title in the *G1* series, *GI-WorldClassic*, and a newly pusher game, *MARBLE FEVER*, which offers unconventional fun consisting of a wide variety of physical roulettes with a glass ball that runs around in a glittering cabinet. These games have received favorable reviews from a wide range of users, not only from original fans, but also from new players as well. Furthermore, *GI Derby Club*, which was launched in the previous fiscal year, has continued to experience excellent long-term and stable operation with new 2017 machines due to its rich gameplay which has earned it a large following and has often been featured in general newspapers as well as industry journals.

Towards Creating environments where amusement-facility users can easily enjoy games to use electronic money, we started the sequential introduction of the *Thincaterminal* multi-electronic money payment system services for there. In addition, the seventh KONAMI Arcade Championship was held. This championship, which has been held annually since 2011, is an official eSports tournament to decide the best arcade game players and has created a lot of excitement at amusement centers nationwide as well as in Asia and North America.

In terms of financial performance, total revenue for the fiscal year ended March 31, 2018 in this segment amounted to ¥25,178 million (a year-on-year decrease of 0.6%) and segment profit for the fiscal year ended March 31, 2018 amounted to ¥7,493 million (a year-on-year increase of 43.0%).

Gaming & Systems

With respect to our slot machines, we expanded our *Concerto*™ series in the North American market, including new cabinets of *Concerto Crescent*™, which utilizes KONAMI's first curved screen, and *Concerto Stack*™, which utilizes a large-scale vertical screen, in order to meet the various demands from players and casino operators. We also focused on sales of the long-selling *Podium*® series, which has a richly diverse product lineup and continues to receive favorable reviews in the Central and South American, African and Asian markets. In addition, we started to install a horserace betting station with a model track, *Fortune Cup*™, which was leveraged our expertise and technology accumulated through Konami Group's amusement machines. As for the development of the participation agreement (in which profits are shared with casino operators), we expanded our lineup of premium products and game contents, including the *Concerto*™ series. These premium products raised higher expectations and willingness from players. The *SYNKROS*® casino management system performed well, which included the steady introduction into casino facilities in the various states of the U.S, as well as the introduction into large cruise ships in service overseas.

For the year ended March 31, 2018, total revenue from this segment decreased because number of installation of new slot machines decreased so that opening of new casino facilities were limited and a part of installations of casino management system were postponed in the fiscal year ending March 31, 2019.

In terms of financial performance, total revenue for the fiscal year ended March 31, 2018 in this segment amounted to ¥29,628 million (a year-on-year decrease of 5.2%) and segment profit for the fiscal year ended March 31, 2018 amounted to ¥4,366 million (a year-on-year decrease of 10.0%).

Health & Fitness

With respect to the management of facilities that we operate directly, we continued to make efforts to meet recent diversifying individual needs in fitness markets. 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. We have also intended to improve facility settings by promoting renovations. As for studio programs, we have also made efforts to improve services that offer a comfortable and fit lifestyle for customers, including more enhancements of in-house development programs *Cardio Cross* and *Pelvic flexibility* and *Les Mills* programs *BODYATTACK* and *BODYJAM*. As for new facilities, we commenced a Konami Sports Club as a new franchise facility in Sasebo City, Nagasaki prefecture. We also re-branded the sports club brand *XAX*, a former pioneer in the sports club industry that was always ahead of the times. Following the opening of *XAX* Nishikujo (Konohana-ku, Osaka Prefecture), a compact facility specializing in machines and studios, we opened *XAX* Kanade no Mori (Narashino City, Chiba Prefecture). These measures are our efforts to increase the members.

As for products relating to health and fitness, 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. We also began distributing how-to-use videos featuring instructors from Konami Sports Club in order to help users use these new products more effectively.

For the year ended March 31, 2018, total revenue from this business decreased mainly due to closing of the facilities operated directly. Meanwhile, the segment profit decreased compared with those for the same period of the previous fiscal year because of an increase in fuel and light expenses by a surge in prices of crude oil, opening of new facilities and renovation of existing ones, and promotion to invite new members, despite some recovery in number of members.

In terms of financial performance, total revenue for the fiscal year ended March 31, 2018 in this segment amounted to ¥66,004 million (a year-on-year decrease of 3.9%) and segment profit for the fiscal year ended March 31, 2018 amounted to ¥3,253 million (a year-on-year decrease of 23.0%).

(3) Cash Flows

Millions of Yen

	Fiscal year ended March 31, 2017	Fiscal year ended March 31, 2018	Change
Cash flow summary:			
Net cash provided by operating activities	¥43,759	¥53,980	¥10,221
Net cash used in investing activities	(13,615)	(18,484)	(4,869)
Net cash used in financing activities	(9,420)	(14,798)	(5,378)
Effect of exchange rate changes on cash and cash equivalents	112	(956)	(1,068)
Net increase in cash and cash equivalents	20,836	19,742	(1,094)
Cash and cash equivalents at end of the year	¥134,743	¥154,485	¥19,742

Comparison of fiscal year ended March 31, 2018 with fiscal year ended March 31, 2017

Cash and cash equivalents (hereafter, referred to as “Net cash”), as of March 31, 2018, amounted to ¥154,485 million, an increase of ¥19,742 million compared to the year ended March 31, 2017.

Net cash provided by operating activities amounted to¥53,980 million for the year ended March 31, 2018, a year-on-year increase of 23.4%. This primarily resulted from an increase in profit for the year and a decrease in income taxes paid.

Net cash used in investing activities amounted to ¥18,484 million for the year ended March 31, 2018, a year-on-year increase of 35.8%. This mainly resulted from increases in capital expenditures for property, plant and equipment and term deposits, net.

Net cash used in financing activities amounted to ¥14,798 million for the year ended March 31, 2018, a year-on-year increase of 57.1%. This primarily resulted from redemption of bonds in this fiscal year and an increase in dividends paid.

3. Risk Factors

Special Note Regarding Forward-looking Statements.

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

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

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

(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 health-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 health-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 health-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 9, 2018

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.