FIVE-YEAR SUMMARY OF SELECTED FINANCIAL DATA

KADOKAWA CORPORATION and Consolidated Subsidiaries
Years ended March 31

	Millions of yen					Thousands of U.S. dollars (Note)
	2013	2012	2011	2010	2009	**2013**
For the Year:						
Net Sales	**¥ 161,602**	¥ 147,393	¥ 140,055	¥ 135,923	¥ 141,611	**$ 1,719,353**
Operating Income	**7,952**	5,656	7,794	5,165	3,566	**84,605**
Income (Loss) before Income Taxes and Minority Interests	**7,182**	4,836	5,678	5,143	(1,158)	**76,412**
Net Income (Loss)	**5,040**	3,604	6,368	1,430	(5,206)	**53,623**
	Percent					
Shareholders' Equity Ratio	**61.78 %**	59.21 %	59.43 %	55.96 %	54.24 %	
Return on Assets	**3.75**	2.88	5.28	1.18	—	
Return on Equity	**6.20**	4.85	9.15	2.14	—	
	Millions of yen					Thousands of U.S. dollars (Note)
At Year-End:						
Net Assets	**¥ 87,545**	¥ 77,051	¥ 73,151	¥ 67,461	¥ 67,510	**$ 931,429**
Total Assets	**139,899**	128,751	121,951	119,253	123,176	**1,488,446**
	Yen					U.S. dollars (Note)
Per Share:						
Net Assets	**¥ 3,339.17**	¥ 2,945.20	¥ 2,881.46	¥ 2,645.78	¥ 2,649.06	**$ 35.53**
Net Income (Loss)						
-basic	**194.72**	140.03	252.65	56.68	(203.94)	**2.07**
-diluted	**171.03**	124.18	221.33	54.58	—	**1.82**
Cash Dividends	**45.00**	35.00	35.00	30.00	30.00	**0.48**

Note: U.S.dollar amounts are translated from Japanese yen, for convenience only, at the rate of ¥93.99=U.S.$1.00, the approximate exchange rate prevailing on the Tokyo Foreign Exchange Market as of March 31, 2013.

CONSOLIDATED BALANCE SHEETS

KADOKAWA CORPORATION and Consolidated Subsidiaries
March 31, 2013, 2012 and 2011

	Millions of yen			Thousands of U.S. dollars (Note 1)
ASSETS	**2013**	2012	2011	**2013**
Current Assets:				
Cash and cash equivalents (Note 4)	**¥ 17,876**	¥ 11,934	¥ 26,008	**$ 190,190**
Marketable securities (Notes 4 and 5)	—	602	—	—
Notes and accounts receivable (Note 4)	**43,219**	44,315	32,853	**459,826**
Inventories (Note 6)	**14,224**	14,062	12,474	**151,335**
Deferred tax assets (Note 13)	**4,517**	4,544	3,885	**48,058**
Others	**3,518**	3,890	2,874	**37,430**
Less: Allowance for doubtful accounts	**(92)**	(111)	(152)	**(979)**
Total Current Assets	**83,262**	79,236	77,942	**885,860**
Property and Equipment (Note 7):				
Land (Note 12)	**10,497**	10,497	10,531	**111,682**
Buildings and structures (Note 8)	**14,622**	17,924	15,301	**155,570**
Furniture and fixtures	**5,016**	5,121	4,362	**53,367**
Others	**2,251**	2,342	3,301	**23,950**
Total	**32,386**	35,884	33,495	**344,569**
Less: Accumulated depreciation	**(12,796)**	(14,682)	(13,614)	**(136,142)**
Net Property and Equipment	**19,590**	21,202	19,881	**208,427**
Investments and Other Non-Current Assets:				
Investment securities (Notes 4 and 5)	**24,064**	13,880	11,679	**256,027**
Goodwill (Note 17)	**643**	892	672	**6,841**
Deferred tax assets (Note 13)	**469**	1,947	2,239	**4,990**
Others (Notes 7 and 8)	**12,159**	11,858	9,869	**129,365**
Less: Allowance for doubtful accounts	**(288)**	(264)	(331)	**(3,064)**
Total Investments and Other Non-Current Assets	**37,047**	28,313	24,128	**394,159**
Total Assets	**¥ 139,899**	¥ 128,751	¥ 121,951	**$ 1,488,446**

See accompanying notes to consolidated financial statements.

LIABILITIES AND NET ASSETS	Millions of yen 2013	2012	2011	Thousands of U.S. dollars (Note 1) 2013
Current Liabilities:				
Short-term borrowings (Notes 4 and 8)	¥ —	¥ 45	¥ 112	$ —
Current portion of long-term debt (Notes 4 and 8)	**56**	76	462	**596**
Notes and accounts payable (Note 4)	**19,675**	19,780	17,203	**209,331**
Income taxes payable (Notes 4 and 13)	**961**	682	1,755	**10,224**
Allowance for employees' bonuses	**1,569**	1,367	1,356	**16,693**
Allowance for sales returns	**3,887**	3,906	3,526	**41,355**
Others	**9,123**	10,273	9,180	**97,064**
Total Current Liabilities	**35,271**	36,129	33,594	**375,263**
Non-Current Liabilities:				
Long-term debt (Notes 4 and 8)	**11,340**	11,175	11,034	**120,651**
Deferred tax liabilities (Note 13)	**2,196**	350	353	**23,364**
Employees' severance and retirement benefits (Note 9)	**2,716**	2,616	2,201	**28,897**
Others	**831**	1,430	1,618	**8,842**
Total Non-Current Liabilities	**17,083**	15,571	15,206	**181,754**
Contingent Liabilities	—	—	—	—
Net Assets (Notes 10 and 11):				
Shareholders' Equity:				
Common stock Authorized: 100,000,000 shares Issued: 27,260,800 shares in 2013, 2012 and 2011	**26,331**	26,331	26,331	**280,147**
Capital surplus	**27,375**	27,375	27,704	**291,254**
Retained earnings	**34,788**	30,695	27,908	**370,125**
Treasury stock, at cost	**(3,933)**	(3,933)	(6,015)	**(41,845)**
Total Shareholders' Equity	**84,561**	80,468	75,928	**899,681**
Accumulated Other Comprehensive Income:				
Net unrealized holding gain (loss) on securities	**4,248**	(885)	(687)	**45,196**
Revaluation reserve for land (Note 12)	**(328)**	(328)	(257)	**(3,490)**
Foreign currency translation adjustments	**(2,052)**	(3,024)	(2,505)	**(21,832)**
Total Accumulated Other Comprehensive Income	**1,868**	(4,237)	(3,449)	**19,874**
Minority Interests	**1,116**	820	672	**11,874**
Total Net Assets	**87,545**	77,051	73,151	**931,429**
Total Liabilities and Net Assets	**¥ 139,899**	¥ 128,751	¥ 121,951	**$ 1,488,446**

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF INCOME

KADOKAWA CORPORATION and Consolidated Subsidiaries
Years ended March 31, 2013, 2012 and 2011

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2013	2012	2011	**2013**
Net Sales	**¥161,602**	¥ 147,393	¥ 140,055	**$ 1,719,353**
Cost of Sales	**119,793**	110,524	102,892	**1,274,529**
Gross Profit	**41,809**	36,869	37,163	**444,824**
Selling, General and Administrative Expenses	**33,857**	31,213	29,369	**360,219**
Operating Income	**7,952**	5,656	7,794	**84,605**
Other Income (Expenses)				
Interest and dividend income	**250**	221	267	**2,660**
Interest expenses	**(137)**	(144)	(156)	**(1,458)**
Other-net (Notes 7 and 14)	**(883)**	(897)	(2,227)	**(9,395)**
Other expenses, net	**(770)**	(820)	(2,116)	**(8,193)**
Income before Income Taxes and Minority Interests	**7,182**	4,836	5,678	**76,412**
Income Taxes (Note 13)				
Current	**1,311**	976	2,548	**13,948**
Deferred	**732**	139	(3,304)	**7,788**
Total income taxes	**2,043**	1,115	(756)	**21,736**
Income before Minority Interests	**5,139**	3,721	6,434	**54,676**
Minority Interests in Consolidated Subsidiaries	**99**	117	66	**1,053**
Net Income	**¥ 5,040**	¥ 3,604	¥ 6,368	**$ 53,623**

	Yen			U.S.dollars (Note 1)
	2013	2012	2011	**2013**
Per Share of Common Stock (Note 2 (n)):				
Net income -basic	**¥ 194.72**	¥ 140.03	¥ 252.65	**$ 2.07**
-diluted	**171.03**	124.18	221.33	**1.82**
Cash dividends applicable to the year	**45.00**	35.00	35.00	**0.48**

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

KADOKAWA CORPORATION and Consolidated Subsidiaries
Years ended March 31, 2013, 2012 and 2011

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2013	2012	2011	**2013**
Income before Minority Interests	**¥ 5,139**	¥ 3,721	¥ 6,434	**$ 54,676**
Other Comprehensive Income				
Net unrealized holding gain (loss) on securities	**5,133**	(198)	1,325	**54,612**
Foreign currency translation adjustments	**973**	(521)	(989)	**10,352**
Share of other comprehensive income of affiliated companies accounted for using equity method	**72**	(21)	(56)	**766**
Total Other Comprehensive Income	**6,178**	(740)	280	**65,730**
Comprehensive Income	**11,317**	2,981	6,714	**120,406**
Comprehensive Income Attributable to:				
Owners of the parent company	**11,144**	2,888	6,699	**118,566**
Minority interests	**173**	93	15	**1,840**

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS

KADOKAWA CORPORATION and Consolidated Subsidiaries
Years ended March 31, 2013, 2012 and 2011

	Millions of yen								
	Common stock	Capital surplus	Retained earnings	Treasury stock	Net unrealized holding gain (loss) on securities	Revaluation reserve for land	Foreign currency translation adjustments	Minority interests	Total net assets
Balance at March 31, 2010	¥ 26,331	¥ 27,704	¥ 22,353	¥ (5,879)	¥ (2,012)	¥ (257)	¥ (1,512)	¥ 733	¥ 67,461
Cash dividends paid			(757)						(757)
Net income			6,368						6,368
Purchases of treasury stock				(162)					(162)
Change in scope of equity method			(56)	26					(30)
Net changes					1,325		(993)	(61)	271
Balance at March 31, 2011	26,331	27,704	27,908	(6,015)	(687)	(257)	(2,505)	672	73,151
Cash dividends paid			(880)						(880)
Net income			3,604						3,604
Disposal of treasury stock		(329)	(36)	2,082					1,717
Change in scope of equity method			28						28
Reversal of reserve for land			71						71
Net changes					(198)	(71)	(519)	148	(640)
Balance at March 31, 2012	26,331	27,375	30,695	(3,933)	(885)	(328)	(3,024)	820	77,051
Cash dividends paid			(906)						(906)
Net income			5,040						5,040
Change in scope of equity method			(41)						(41)
Net changes					5,133		972	296	6,401
Balance at March 31, 2013	**¥ 26,331**	**¥ 27,375**	**¥ 34,788**	**¥ (3,933)**	**¥ 4,248**	**¥ (328)**	**¥ (2,052)**	**¥ 1,116**	**¥ 87,545**

	Thousands of U.S. dollars (Note 1)								
	Common stock	Capital surplus	Retained earnings	Treasury stock	Net unrealized holding gain (loss) on securities	Revaluation reserve for land	Foreign currency translation adjustments	Minority interests	Total net assets
Balance at March 31, 2012	$ 280,147	$ 291,254	$ 326,578	$ (41,845)	$ (9,416)	$ (3,490)	$ (32,173)	$ 8,724	$ 819,779
Cash dividends paid			(9,639)						(9,639)
Net income			53,623						53,623
Change in scope of equity method			(437)						(437)
Net changes					54,612		10,341	3,150	68,103
Balance at March 31, 2013	**$ 280,147**	**$ 291,254**	**$ 370,125**	**$ (41,845)**	**$ 45,196**	**$ (3,490)**	**$ (21,832)**	**$ 11,874**	**$ 931,429**

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

KADOKAWA CORPORATION and Consolidated Subsidiaries
Years ended March 31, 2013, 2012 and 2011

	Millions of yen			Thousands of U.S. dollars (Note1)
	2013	2012	2011	**2013**
Cash Flows from Operating Activities:				
Income before income taxes and minority interests	¥ **7,182**	¥ 4,836	¥ 5,678	$ **76,412**
Adjustments to reconcile income before income taxes and minority interests to net cash provided by (used in) operating activities:				
Depreciation and amortization	**2,481**	2,236	2,259	**26,396**
Impairment loss on long-lived assets (Note 7)	**—**	571	282	**—**
Equity in (earnings) losses of affiliated companies	**(185)**	232	7	**(1,968)**
Loss on valuation of investment securities	**632**	477	2,226	**6,724**
Decrease (increase) in notes and accounts receivable	**1,387**	(5,235)	2,084	**14,757**
Decrease (increase) in inventories	**(129)**	857	(1,196)	**(1,372)**
Decrease in notes and accounts payable	**(124)**	(513)	(1,358)	**(1,319)**
Other—net	**(121)**	(1,557)	(471)	**(1,288)**
Subtotal	**11,123**	1,904	9,511	**118,342**
Interest and dividends received	**261**	250	325	**2,777**
Interest paid	**(135)**	(144)	(155)	**(1,436)**
Income taxes paid	**(913)**	(2,194)	(4,039)	**(9,714)**
Net Cash Provided by (Used in) Operating Activities	**10,336**	(184)	5,642	**109,969**
Cash Flows from Investing Activities:				
Net changes in time deposits	**517**	(1,158)	2,268	**5,501**
Purchases of marketable securities	**—**	(606)	—	**—**
Proceeds from sales of marketable securities	**600**	—	—	**6,384**
Purchases of investment securities	**(2,845)**	(3,142)	(678)	**(30,269)**
Proceeds from sales of investment securities	**35**	180	563	**372**
Payment for acquisition of interests in subsidiaries newly consolidated (Note 3)	**—**	(4,483)	—	**—**
Purchases of property and equipment	**(776)**	(3,336)	(2,004)	**(8,256)**
Purchases of intangible assets	**(1,354)**	(1,048)	(392)	**(14,406)**
Other—net	**(238)**	(496)	581	**(2,533)**
Net Cash Provided by (Used in) Investing Activities	**(4,061)**	(14,089)	338	**(43,207)**
Cash Flows from Financing Activities:				
Net changes in short-term borrowings	**(50)**	(62)	(268)	**(532)**
Proceeds from issuance of long-term debt	**200**	250	—	**2,128**
Repayment of long-term debt	**(85)**	(473)	(130)	**(904)**
Purchases of treasury stock	**—**	—	(162)	**—**
Proceeds from disposal of treasury stock	**—**	1,717	—	**—**
Cash dividends paid	**(906)**	(880)	(757)	**(9,639)**
Other—net	**53**	28	23	**563**
Net Cash Provided by (Used in) Financing Activities	**(788)**	580	(1,294)	**(8,384)**
Effect of Exchange Rate Changes	**455**	(381)	(426)	**4,841**
Net Increase (Decrease) in Cash and Cash Equivalents	**5,942**	(14,074)	4,260	**63,219**
Cash and Cash Equivalents at Beginning of Year	**11,934**	26,008	21,748	**126,971**
Cash and Cash Equivalents at End of Year	¥ **17,876**	¥ 11,934	¥ 26,008	$ **190,190**

See accompanying notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

KADOKAWA CORPORATION and Consolidated Subsidiaries
Years ended March 31, 2013, 2012 and 2011

1. Basis of Presenting Consolidated Financial Statements

The accompanying consolidated financial statements of KADOKAWA CORPORATION (the "Company") and its consolidated subsidiaries (collectively the "Group") have been prepared in accordance with the provisions set forth in the Japanese Financial Instruments and Exchange Law and its related accounting regulations, and in conformity with accounting principles generally accepted in Japan ("Japanese GAAP"), which are different in certain respects as to application and disclosure requirements of International Financial Reporting Standards.

The accounts of consolidated overseas subsidiaries are prepared in accordance with either Japanese GAAP or International Financial Reporting Standards with adjustments for the specified five items as applicable under Japanese GAAP.

The accompanying consolidated financial statements are translated into English from the consolidated financial statements of the Company prepared in accordance with Japanese GAAP and filed with the appropriate Local Finance Bureau of the Ministry of Finance as required by the Japanese Financial Instruments and Exchange Law and its related accounting regulations. In preparing the accompanying financial statements, certain reclassifications have been made to the financial statements issued domestically in order to present them in a form which is more familiar to readers outside Japan. Certain supplementary information included in the statutory Japanese language consolidated financial statements, but not required for fair presentation, is not presented in the accompanying consolidated financial statements.

The translation of the Japanese yen amounts into U.S. dollars is included solely for the convenience of readers outside Japan, using the prevailing exchange rate at March 31, 2013, which was ¥93.99 to U.S. $1.00. The convenience translation should not be construed as representations that the Japanese yen amounts have been, could have been, or could in the future be, converted into U.S. dollars at this or any other rate of exchange.

2. Summary of Significant Accounting Policies

(a) Principles of Consolidation

The consolidated financial statements include the accounts of the Company and all of its 48 subsidiaries (48 in 2012 and 46 in 2011). All significant inter-company transactions, balances and unrealized profits or losses have been eliminated in consolidation.

The investments in 13 affiliated companies (13 in 2012 and 14 in 2011: all 20% to 50% owned and certain others 15% to 20% owned) are accounted for under the equity method.

Certain subsidiaries have their fiscal year-end on December 31 and their operating results and financial positions are consolidated by making appropriate adjustments of inter-company transactions during the three-month period.

The excess cost of the Company's investment in subsidiaries over the underlying net assets of these companies at the date of acquisition is recorded as goodwill and amortized over five years on a straight-line basis.

In the elimination of investments in subsidiaries, the assets and liabilities of the subsidiaries, including the portion attributable to minority shareholders, are evaluated using the fair value at the time the Company acquired control of the respective subsidiaries.

(b) Foreign Currency Translation

Assets and liabilities denominated in foreign currencies are translated into Japanese yen at the rate prevailing at the balance sheet date. Resulting exchange gains and losses are included in other income (expenses).

The assets and liabilities as well as income and expense accounts of overseas subsidiaries are translated into Japanese yen at the exchange rate of their balance sheet dates. Differences arising from such translation are included in "Foreign currency translation adjustments" and "Minority interest" accounts under net assets.

(c) Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, readily available deposits and short-term highly liquid investments with maturities not exceeding three months at the time of purchase.

(d) Marketable Securities and Investment Securities

Upon applying the accounting standard for financial instruments, all companies are required to examine the intent of holding each security and classify those securities as (a) securities held for trading purposes (hereafter, "trading securities"), (b) debt securities intended to be held to maturity (hereafter, "held-to-maturity debt securities"), (c) equity securities issued by subsidiaries and affiliated companies, and (d) all other securities that are not classified in any of the above categories (hereafter, "available-for-sale securities").

The Group does not have any trading securities. Held-to-maturity debt securities are stated at amortized cost.

Available-for-sale securities whose fair market values are available are stated at fair market value. Unrealized gains and losses on these securities are reported, net of applicable income taxes, as a separate component of net assets. Cost of such securities for sale is computed using the moving-average method.

Available-for-sale securities that are not marketable are stated at cost determined by the moving-average method.

(e) Inventories

Inventories are stated at the lower of cost or net realizable value.

Merchandise, finished products, raw materials and supplies are stated at cost determined mainly by the weighted-average method. Films and work-in-process are stated at cost determined mainly by the specific identification method. Costs of films are amortized using the method prescribed by the Japanese corporation tax laws.

(f) Property and Equipment

Property and equipment are stated at cost. The Company and its domestic subsidiaries compute depreciation mainly under the declining-balance method. Buildings (excluding accompanying facilities) acquired after March 31, 1998 are depreciated using the straight-line method.

Certain overseas subsidiaries compute depreciation using the straight-line method based on the accounting standard prevailing in the country of domicile.

Property and equipment capitalized under finance lease arrangements are depreciated using the straight-line method over the lease term of the assets.

Ranges of useful lives are generally as follows:

Buildings and structures	2-50 years
Furniture and fixtures	2-20 years

(g) Amortization

Internally used software is amortized using the straight-line method over the estimated useful lives (five years). Other intangible assets and long-term prepaid expenses are amortized using the straight-line method. Software, other intangible assets and long-term prepaid expenses are included in other non-current assets.

(h) Impairment Loss on Long-Lived Assets

Accumulated loss on impairment is deducted directly from the acquisition costs of the related assets.

(i) Allowance for Doubtful Accounts

Allowance for doubtful accounts is provided in an amount sufficient to cover possible losses on collection by estimating individually uncollectible amounts and applying a percentage based on the past credit loss experience to the remaining accounts.

(j) Allowance for Employees’ Bonuses

The Group provides for an allowance for employees’ bonuses based on estimated amounts to be paid in subsequent periods.

(k) Allowance for Sales Returns

For certain subsidiaries, an allowance for sales returns is provided for estimated losses on sales returns subsequent to the balance sheet date based on historical sales returns.

(l) Employees' Severance and Retirement Benefits

The Group provides for an allowance for employees' severance and retirement benefits at the balance sheet date based on estimated amounts of projected benefit obligation and the fair value of plan assets as of the balance sheet date.

Past service cost is amortized using the straight-line method over the average of the estimated remaining service period of five years.

Actuarial gains and losses are amortized using the straight-line method over five years commencing from the subsequent period.

(m) Income Taxes

Income taxes comprise corporate, enterprise and inhabitant taxes. Deferred income taxes are recognized for temporary differences between the book value and the tax basis of assets and liabilities.

The Company and wholly-owned consolidated domestic subsidiaries adopt the consolidated taxation system for corporate income tax.

(n) Net Income Per Share

Net income per share of common stock is based on the weighted-average number of shares outstanding during the year.

Diluted net income per share is based on the weighted-average number of shares of common stock issued and dilutive common stock equivalents. The share subscription rights are considered as common stock equivalents and are included in the calculation of earnings per share when they are dilutive.

(o) Leases

Finance lease assets which do not deem to transfer ownership of the leased property to the lessee are depreciated using the straight-line method over the period of the lease with zero residual value. However, certain immaterial or short-term finance leases are accounted for as operating leases.

As permitted under Japanese GAAP, finance leases with a commencement date prior to April 1, 2008 that have been accounted for as operating leases continue to be accounted for as operating leases with disclosure of certain "as if capitalized" information.

(p) Reclassification

Certain prior year amounts have been reclassified to conform to the current year's presentation. The reclassifications had no effect on previously reported results of operations or retained earnings.

3. Consolidated Statements of Cash Flows

For the year ended March 31, 2012, the Company newly consolidated a subsidiary due to the acquisition of shares. The assets and liabilities of the newly consolidated subsidiary at the beginning of the consolidation period for March 31, 2012 and the net acquisition cost of investments are as follows:

	Millions of yen
	2012
Current assets	¥ 12,944
Non-current assets	719
Goodwill	430
Current liabilities	(5,408)
Non-current liabilities	(605)
Acquisition cost	8,080
Cash and cash equivalents of the subsidiary	(3,597)
Net acquisition cost of investments	¥ 4,483

4. Financial Instruments

Information on financial instruments for the years ended March 31, 2013, 2012 and 2011 is as follows:

A. Qualitative Information on Financial Instruments

(a) Policies for Financial Instruments

The Group establishes projections for working capital and investment purpose in order to carry out its business. The Group raises long-term funds through the issuance of bonds and stocks, and short-term working capital through bank loans.

The Group limits its fund management of temporary surplus to safe and secure monetary assets, and does not enter into any speculative transactions.

(b) Details of Financial Instruments and Associated Risk

Notes and accounts receivable for trading purposes are exposed to the credit risk of customers. Receivables from distributors, who distribute products to bookstores, comprise a large part of total receivables. Although it is deemed that the credit risk of distributors is low, the receivable balance from distributors is quite significant.

Marketable and investment securities are mainly composed of held-to-maturity debt securities or equity securities held for maintaining business relationships with other companies, and are exposed to market price fluctuation risk.

Notes and accounts payable for trading purposes are mostly settled within one year.

Borrowings and debts are for the financing of capital expenditure and business investments.

(c) Risk Management for Financial Instruments

<Credit risk management (risk in relation to the default of business partners)>

Credits risks for the trade receivables of major customers are regularly monitored by a consolidated subsidiary of the Company. Monitoring includes management of each major customer by their payment term and receivable balance to identify or mitigate any default risk at an early stage.

Credit risks related to held-to-maturity debt securities are minimal because the Group limits its investment to bonds with high-credit ratings in accordance with its fund management policy.

<Market risk management (fluctuation risk in relation to interest and market prices)>

The Group utilizes interest rate swaps to hedge the interest rate risk on its long-term debt.

As for marketable and investment securities, the Group regularly monitors market values and the financial position of issuers (business partners). Further, securities other than held-to-maturity debt securities are regularly reviewed for their status based on relationships with the business partners.

Execution and management of derivative transactions are conducted in accordance with internal policies which stipulate authorization and the credit limit amount. Further, the Finance Division of the Group obtains an approval from authorized personnel in relation to derivative transactions.

<Management of liquidity risk in relation to raising funds (default risk at due dates)>

The Group adopts a Cash Management System to manage liquidity risk. Certain consolidated subsidiaries report to the Company under this system. The Cash Management System enables the Treasury Division of the Company to prepare and update cash flow plans in a timely manner and maintain an adequate level of liquidity on hand. In addition, flexible group finance is provided to other consolidated subsidiaries that do not adopt the Cash Management System based on their cash flow status.

Bonds are convertible bonds with a five-year maturity. Although the Group is exposed to liquidity risks with respect to the redemption of unexercised bonds, it manages the risk by maintaining an adequate level of liquidity on hand as stated above.

(d) Supplementary Explanation of the Fair Value of Financial Instruments

Fair values of financial instruments are based on quoted market prices, if applicable, or assessed reasonably when there is no quoted market price. Since the assessment is based on certain assumptions, the amount of fair value may differ when different assumptions are used.

B. Fair Values of Financial Instruments

The book values on the consolidated balance sheets, fair values and their differences at March 31, 2013, 2012 and 2011 are as follows. Financial instruments whose fair values are difficult to measure are not included in the following table (see Note 2 of this section for further details):

	Millions of yen		
	Book value	Fair value	Difference
March 31, 2013			
Cash and cash equivalents	¥ **17,876**	¥ **17,876**	¥ —
Notes and accounts receivable	**43,219**	**43,219**	—
Investment securities	**19,030**	**18,997**	**(33)**
Assets-total	**80,125**	**80,092**	**(33)**
Notes and accounts payable	**19,675**	**19,675**	—
Short-term borrowings and current portion of long-term debt	**56**	**56**	—
Income taxes payable	**961**	**961**	—
Long-term debt	**11,340**	**11,435**	**95**
Liabilities-total	**32,032**	**32,127**	**95**
March 31, 2012			
Cash and cash equivalents	11,934	11,934	—
Notes and accounts receivable	44,315	44,315	—
Marketable and investment securities	10,365	10,068	(297)
Assets-total	66,614	66,317	(297)
Notes and accounts payable	19,780	19,780	—
Short-term borrowings and current portion of long-term debt	121	121	—
Income taxes payable	682	682	—
Long-term debt	11,175	11,264	89
Liabilities-total	31,758	31,847	89
March 31, 2011			
Cash and cash equivalents	26,008	26,008	—
Notes and accounts receivable	32,853	32,853	—
Investment securities	7,482	7,192	(290)
Assets-total	66,343	66,053	(290)
Notes and accounts payable	17,203	17,203	—
Short-term borrowings and current portion of long-term debt	574	574	—
Income taxes payable	1,755	1,755	—
Long-term debt	11,034	11,079	45
Liabilities-total	¥ 30,566	¥ 30,611	¥ 45

	Thousands of U.S. dollars		
	Book value	Fair value	Difference
March 31, 2013			
Cash and cash equivalents	$ **190,190**	$ **190,190**	$ —
Notes and accounts receivable	**459,826**	**459,826**	—
Investment securities	**202,468**	**202,117**	**(351)**
Assets-total	**852,484**	**852,133**	**(351)**
Notes and accounts payable	**209,331**	**209,331**	—
Short-term borrowings and current portion of long-term debt	**596**	**596**	—
Income taxes payable	**10,224**	**10,224**	—
Long-term debt	**120,651**	**121,662**	**1,011**
Liabilities-total	$ **340,802**	$ **341,813**	$ **1,011**

Note 1: Fair value measurements of financial instruments are as follows:

(a) Cash and cash equivalents, Notes and accounts receivable

The book value approximates fair value because of their short maturities.

(b) Marketable and investment securities

The fair value of equity securities is measured at the quoted market price obtained from the relevant stock exchange. The fair value of debt securities is measured at the quoted market price obtained from the stock exchanges or financial institutions. Marketable and investment securities by classification are described in Note 5 "Securities."

(c) Notes and accounts payable, Short-term borrowings and current portion of long-term debt, Income taxes payable

The book value approximates fair value because of their short maturities.

(d) Long-term debt

The fair value of bonds is based on the present value of the aggregate of principal and interest discounted at an interest rate taking into account the remaining term of each bond and current credit risk.

The fair value of long-term loans is based on the present value of the aggregate of principal and interest discounted at an interest rate if similar new loans are to be made.

Note 2: Financial instruments whose fair value is extremely difficult to measure

The following financial instruments are not included in the above table as no quoted market price is available for the instruments and the fair value is extremely difficult to be measured as of March 31, 2013, 2012 and 2011:

	Millions of yen			Thousands of U.S. dollars
	2013	2012	2011	**2013**
Non-listed equity securities issued by affiliated companies	**¥ 2,242**	¥ 1,436	¥ 1,537	**$ 23,854**
Non-listed equity securities other than the above	**2,789**	2,677	2,634	**29,673**
Total	**5,031**	4,113	4,171	**53,527**
Investments in business limited partnership	**3**	4	26	**32**

Note 3: Maturity analysis for monetary assets as well as investment securities with contractual maturities as of March 31, 2013 are as follows:

	Millions of yen			
	Due within one year	Due after one year through five years	Due after five years through 10 years	Due after 10 years
Cash and cash equivalents	**¥ 17,846**	**¥** —	**¥** —	**¥** —
Notes and accounts receivable	**43,219**	—	—	—
Investment securities				
Held-to-maturity debt securities	—	**866**	—	**866**
Total	**¥ 61,065**	**¥ 866**	**¥** —	**¥ 866**

	Thousands of U.S. dollars			
	Due within one year	Due after one year through five years	Due after five years through 10 years	Due after 10 years
Cash and cash equivalents	**$ 189,871**	**$** —	**$** —	**$** —
Notes and accounts receivable	**459,826**	—	—	—
Investment securities				
Held-to-maturity debt securities	—	**9,214**	—	**9,214**
Total	**$ 649,697**	**$ 9,214**	**$** —	**$ 9,214**

Note 4: Repayment schedule for long-term debt as of March 31, 2013 shall be referred to Note 8 "Short-Term Borrowings and Long-Term Debt."

5. Securities

A. The following table summarizes acquisition costs, book values and fair values of securities as of March 31, 2013, 2012 and 2011:

(a) Held-to-Maturity Debt Securities:

	Millions of yen			
	Book value	Unrealized gains	Unrealized losses	Fair value
March 31, 2013				
Securities with available fair values:				
Bonds	**¥ 1,732**	**¥ —**	**¥ (33)**	**¥ 1,699**
March 31, 2012				
Securities with available fair values:				
Bonds	2,156	—	(297)	1,859
March 31, 2011				
Securities with available fair values:				
Bonds	1,663	—	(290)	1,373

	Thousands of U.S. dollars			
	Book value	Unrealized gains	Unrealized losses	Fair value
March 31, 2013				
Securities with available fair values:				
Bonds	**$ 18,427**	**$ —**	**$ (351)**	**$ 18,076**

(b) Available-for-Sale Securities:

	Millions of yen			
	Acquisition cost	Unrealized gains	Unrealized losses	Book value
March 31, 2013				
Securities with available fair values:				
Equity securities	**¥ 10,696**	**¥ 7,137**	**¥ (535)**	**¥ 17,298**
March 31, 2012				
Securities with available fair values:				
Equity securities	9,368	911	(2,070)	8,209
March 31, 2011				
Securities with available fair values:				
Equity securities	6,308	77	(1,028)	5,357
Bonds	38	424	—	462

	Thousands of U.S. dollars			
	Acquisition cost	Unrealized gains	Unrealized losses	Book value
March 31, 2013				
Securities with available fair values:				
Equity securities	**$ 113,799**	**$ 75,934**	**$ (5,692)**	**$ 184,041**

B. The following table summarizes book values of available-for-sale securities with no fair value information as of March 31, 2013, 2012 and 2011:

	Millions of yen			Thousands of U.S. dollars
	2013	2012	2011	**2013**
Non-listed equity securities	**¥ 2,789**	¥ 2,677	¥ 2,634	**$ 29,673**
Investments in business limited partnership	**3**	4	26	**32**
Total	**¥ 2,792**	¥ 2,681	¥ 2,660	**$ 29,705**

C. Net proceeds and gross realized gains from sales of available-for-sale securities for the years ended March 31, 2013, 2012 and 2011 are as follows:

	Millions of yen			Thousands of U.S. dollars
	2013	2012	2011	**2013**
Proceeds	**¥ 35**	¥ 180	¥ 558	**$ 372**
Gross realized gains	**9**	—	335	**96**

6. Inventories

Inventories at March 31, 2013, 2012 and 2011 are summarized as follows:

	Millions of yen			Thousands of U.S. dollars
	2013	2012	2011	**2013**
Merchandise	**¥ 468**	¥ 418	¥ 359	**$ 4,979**
Finished products	**4,411**	4,685	3,600	**46,931**
Films	**1,045**	888	326	**11,118**
Raw materials and supplies	**33**	46	47	**351**
Work-in-process	**8,267**	8,025	8,142	**87,956**
Total	**¥ 14,224**	¥ 14,062	¥ 12,474	**$ 151,335**

7. Impairment Loss on Long-Lived Assets

The Group recognized certain impairment on its long-lived assets in fiscal 2012 and 2011. There was no impairment loss recognized for the year ended March 31, 2013.

Breakdown of impairment loss on long-lived assets for the years ended March 31, 2012 and 2011 is as follows:

Year ended March 31, 2012

Use and location	Category	Millions of yen
Idle assets:		
Machida-shi, Tokyo	Land	¥ 71
Chiyoda-ku, Tokyo	Software	20
Subtotal		91
Cinema complex:		
Chiba-shi, Chiba	Buildings and structures	222
	Others	6
Tsukuba-shi, Ibaraki	Buildings and structures	188
	Others	4
Others	Buildings and structures	23
	Software	23
	Others	14
Subtotal		480
Total		¥ 571

Year ended March 31, 2011

Use and location	Category	Millions of yen
Idle assets:		
Chiyoda-ku, Tokyo	Software	¥ 206
Kawagoe-shi, Saitama	Buildings and structures	29
Subtotal		235
Assets used by Kadokawa Gakugei Shuppan Publishing Co., Ltd.:		
Bunkyo-ku, Tokyo	Finance lease assets	26
	Others	9
Subtotal		35
Assets used by the head office of Kadokawa Pictures, Inc.:		
Chiyoda-ku, Tokyo, etc.	Land	1
	Finance lease assets	7
Subtotal		8
Assets used by Words Gear, Inc.:		
Chiyoda-ku, Tokyo	Software	2
	Others	2
Subtotal		4
Total		¥ 282

The Group adopts accounting for impairment of long-lived assets, namely property and equipment, goodwill and other long-lived assets. The Group, as a general rule, categorizes operating assets by business unit based on whether the cash flows can be estimated independently, and idle assets by individual units. The book value of assets was reduced to their recoverable amount when there was a significant decline in profitability. Such reduction was recorded as an impairment loss on long-lived assets in other expenses of ¥571 million and ¥282 million for the years ended March 31, 2012 and 2011, respectively. There was no impairment loss recognition for the year ended March 31, 2013.

The recoverable amounts for the following represent their net realizable value: assets used by the head office of Kadokawa Pictures, Inc. and "land" and "buildings and structures" categorized in idle assets.

The recoverable amounts for other assets are measured at their value in use with discount rates of 4.15% and 4.78% for the years ended March 31, 2012 and 2011, respectively.

8. Short-Term Borrowings and Long-Term Debt

Short-term borrowings at March 31, 2012 and 2011 consist of notes to banks. The interest rate on short-term borrowings at March 31, 2012 was 1.70% and at March 31, 2011 ranged from 1.69% to 2.23%, respectively. There was no short-term borrowing at March 31, 2013.

The Company has commitment-line contracts of ¥16,000 million ($170,231 thousand) with certain financial institutions. The contracts contain restrictive financial covenants where the Company is obliged to repay all the debt at once in the event of a conflict with the covenants. The Company did not utilize the commitment-line contracts as of March 31, 2013, 2012 and 2011.

Long-term debt at March 31, 2013, 2012 and 2011 consists of the following:

	Millions of yen			Thousands of U.S. dollars
	2013	2012	2011	**2013**
Unsecured Japanese yen convertible bonds—bonds with share subscription rights and with an interest rate of 1.00% per annum—due in 2014, convertible at ¥2,498.00 for one common share, redeemable before the due date	**¥ 11,000**	¥ 11,000	¥ 11,000	**$ 117,034**
Loans from banks				
Unsecured loans				
0.62-1.35%, due 2013-2016	**396**			**4,213**
1.54-5.50%, due 2012-2016		251		
1.60-5.50%, due 2011-2014			496	
Total	**11,396**	11,251	11,496	**121,247**
Less current portion	**(56)**	(76)	(462)	**(596)**
Long–term debt, less current portion	**¥ 11,340**	¥ 11,175	¥ 11,034	**$ 120,651**

The aggregate annual maturities of long-term debt at March 31, 2013 are as follows:

	Millions of yen	Thousands of U.S. dollars
2014	**¥ 56**	**$ 596**
2015	**11,056**	**117,630**
2016	**146**	**1,553**
2017	**138**	**1,468**
Total	**¥ 11,396**	**$ 121,247**

At March 31, 2013, the following assets were pledged as collateral for opening letters of guarantee and credit, and bank overdrafts:

	Millions of yen	Thousands of U.S. dollars
Buildings and structures	**¥ 58**	**$ 617**
Long-term prepaid expenses	**85**	**904**
Total	**¥ 143**	**$ 1,521**

9. Employees' Severance and Retirement Benefits

Liability for severance and retirement benefits as of March 31, 2013, 2012 and 2011 consists of the following:

	Millions of yen			Thousands of U.S. dollars
	2013	2012	2011	**2013**
Projected benefit obligation	**¥ 5,390**	¥ 5,049	¥ 4,308	**$ 57,347**
Unrecognized actuarial differences	**(134)**	(41)	107	**(1,426)**
Unrecognized prior service cost	**14**	18	–	**149**
Less fair value of plan assets	**(2,554)**	(2,410)	(2,214)	**(27,173)**
Liability for severance and retirement benefits	**¥ 2,716**	¥ 2,616	¥ 2,201	**$ 28,897**

Severance and retirement benefit expenses in the consolidated statements of income for the years ended March 31, 2013, 2012 and 2011 comprise the following:

	Millions of yen			Thousands of U.S. dollars
	2013	2012	2011	**2013**
Service cost – benefits earned during the year	**¥ 586**	¥ 529	¥ 516	**$ 6,235**
Interest cost on projected benefit obligation	**38**	39	44	**404**
Expected return on plan assets	**(10)**	(12)	(18)	**(106)**
Amortization of actuarial differences	**22**	(2)	(3)	**234**
Amortization of prior service cost	**(4)**	(1)	—	**(43)**
Contribution to welfare pension fund	**330**	332	316	**3,511**
Extra retirement benefits paid	**5**	—	13	**53**
Severance and retirement benefit expenses	**¥ 967**	¥ 885	¥ 868	**$ 10,288**

Discount rate and expected rate of return on plan assets for the years ended March 31, 2013, 2012 and 2011 are as follows:

	2013	2012	2011
Discount rate	**0.6% - 1.5%**	1.0% - 1.8%	1.3% - 1.7%
Expected rate of return on plan assets	**0.5% - 1.0%**	0.7% - 1.0%	1.0%

The estimated amount of all retirement benefits to be paid at the future retirement date is allocated on a straight-line basis to each service period based on the estimated number of total service periods.

10. Net Assets

Net assets is composed of three sections, which are shareholders' equity, accumulated other comprehensive income, and minority interests.

Under the Companies Act of Japan and related regulations, the entire amount paid for new shares is required to be designated as common stock. However, a company may, by a resolution of the board of directors, designate an amount not exceeding one-half of the price of the new shares as additional paid-in capital, which is included in capital surplus.

When a dividend distribution is made, the smaller of an amount equal to 10% of the dividend or the excess of 25% of common stock over the total of additional paid-in capital and legal earnings reserve must be appropriated as additional paid-in capital or legal earnings reserve. Legal earnings reserve is included in retained earnings in the accompanying consolidated balance sheets.

Additional paid-in capital and legal earnings reserve may not be distributed as dividends. However, all additional paid-in capital and all legal earnings reserve may be transferred to other capital surplus and retained earnings which are potentially available for dividends.

The maximum amount that the Company can distribute as dividends is calculated based on the non-consolidated financial statements of the Company in accordance with the above laws and regulations.

At the annual shareholders' meeting held on June 22, 2013, shareholders approved cash dividends amounting to ¥1,165 million ($12,395 thousand). Such appropriations have not been accrued in the consolidated financial statements as of March 31, 2013 and would be recognized in the period they are approved by the shareholders.

11. Consolidated Statements of Changes in Net Assets

Changes in the number of shares issued and outstanding during the years ended March 31, 2013, 2012 and 2011 are as follows:

Common stock outstanding	**2013**	2012	2011
Balance at beginning of year	**27,260,800**	27,260,800	27,260,800
Balance at end of year	**27,260,800**	27,260,800	27,260,800

Treasury stock outstanding	**2013**	2012	2011
Balance at beginning of year	**1,377,472**	2,107,214	2,040,224
Increase:			
Purchases based on a resolution of the board of directors	**—**	—	79,200
Purchases of odd stock	**68**	258	104
Decrease:			
Disposal by third-party allotment based on a resolution of the board of directors	**—**	(730,000)	—
Change in the scope of the equity method	**—**	—	(12,314)
Sales of odd stock	**(66)**	—	—
Balance at end of year	**1,377,474**	1,377,472	2,107,214

12. Revaluation Reserve for Land

Pursuant to Article 2, Paragraph 3 of the Enforcement Ordinance for the Law concerning Revaluation Reserve for Land, the Company recorded its own land used for business at the fair value of ¥3,517 million (the original book value was ¥4,236 million) as of March 31, 2002, and related net unrealized loss was debited to “Revaluation reserve for land,” in net assets.

As of March 31, 2013, 2012 and 2011, the fair value of the land declined ¥548 million ($5,830 thousand), ¥493 million and ¥495 million, respectively.

13. Income Taxes

Taxes on income applicable to the Group resulted in a normal statutory tax rate of 38.01% for the year ended March 31, 2013 and 40.69% for the years ended March 31, 2012 and 2011. The difference between the actual effective tax rate in the accompanying consolidated statements of income and normal statutory tax rate is mainly due to certain expenses that are permanently non-deductible for tax purposes.

The following table summarizes the significant differences between the normal statutory tax rate and the actual effective tax rate for the years ended March 31, 2013, 2012 and 2011:

	2013	2012	2011
Normal statutory tax rate	**38.01 %**	40.69 %	40.69 %
(Reconciliation)			
Non-deductible expenses	**2.84**	4.24	2.93
Change in valuation allowance on deferred tax	**(11.93)**	(34.41)	(60.19)
Amortization of goodwill	**1.04**	1.08	2.64
Tax rate change due to tax reform	**—**	11.38	—
Others	**(1.51)**	0.08	0.62
Actual effective tax rate	**28.45 %**	23.06 %	(13.31)%

Significant components of the Group's deferred tax assets and liabilities as of March 31, 2013, 2012 and 2011 are as follows:

	Millions of yen			Thousands of U.S. dollars
	2013	2012	2011	**2013**
Deferred tax assets (current assets):				
Write–down of inventories	**¥ 1,351**	¥ 977	¥ 721	**$ 14,374**
Allowance for employees' bonuses	**585**	575	541	**6,224**
Accrued enterprise taxes	**164**	61	123	**1,745**
Accrued expenses	**317**	452	377	**3,373**
Tax loss carryforwards	**1,454**	2,021	1,591	**15,470**
Other temporary differences	**727**	527	690	**7,734**
Gross deferred tax assets (current assets)	**4,598**	4,613	4,043	**48,920**
Less: Valuation allowance	**(81)**	(69)	(158)	**(862)**
Total deferred tax assets (current assets)	**4,517**	4,544	3,885	**48,058**
Deferred tax assets (non-current assets):				
Impairment loss	**205**	1,379	1,527	**2,181**
Loss on valuation of investment securities	**1,353**	1,444	1,861	**14,395**
Loss on valuation of memberships	**204**	201	240	**2,170**
Employees' severance and retirement benefits	**993**	955	899	**10,565**
Long-term accounts payable	**124**	174	280	**1,319**
Unrealized gain on fixed assets	**224**	209	206	**2,383**
Tax loss carryforwards	**3,967**	4,180	5,755	**42,207**
Revaluation reserve for land	**117**	117	105	**1,245**
Net unrealized holding loss on securities	**—**	415	389	**—**
Other temporary differences	**399**	381	603	**4,246**
Gross deferred tax assets (non-current assets)	**7,586**	9,455	11,865	**80,711**
Less: Valuation allowance	**(6,190)**	(7,013)	(9,043)	**(65,858)**
Total deferred tax assets (non-current assets)	**1,396**	2,442	2,822	**14,853**
Deferred tax liabilities (non-current liabilities):				
Unrealized loss on fixed assets	**(623)**	(650)	(652)	**(6,628)**
Net unrealized holding gain on securities	**(2,375)**	—	—	**(25,269)**
Other temporary differences	**(125)**	(195)	(284)	**(1,330)**
Total deferred tax liabilities (non-current liabilities)	**(3,123)**	(845)	(936)	**(33,227)**
Net deferred tax assets	**¥ 2,790**	¥ 6,141	¥ 5,771	**$ 29,684**

(Adjustment of deferred tax assets and liabilities for enacted changes in tax laws and rates)

On December 2, 2011, new tax reform laws were enacted in Japan, which changed the normal effective statutory tax rate from 40.69% to 38.01% effective for the fiscal years beginning on or after April 1, 2012 through March 31, 2015, and to 35.64% afterwards. The effect of this change was to decrease net deferred tax assets by ¥599 million and decrease net unrealized holding loss on available-for-sale securities by ¥48 million in the consolidated balance sheet as of March 31, 2012, and to increase income taxes-deferred by ¥550 million in the consolidated statement of income for the year ended March 31, 2012.

14. Other Income (Expenses), Other—Net

Other income (expenses), other—net for the years ended March 31, 2013, 2012 and 2011 consists of the following:

	Millions of yen			Thousands of U.S. dollars
	2013	2012	2011	**2013**
Net gain (loss) on sales of investment securities	**¥ (571)**	¥ —	¥ 680	**$ (6,075)**
Net loss on valuation of investment securities	**(632)**	(486)	(1,951)	**(6,724)**
Gain on change in equity	**121**	—	—	**1,287**
Equity in earnings (losses) of affiliated companies	**185**	(232)	(7)	**1,968**
Gain on sales of used papers	**165**	163	159	**1,756**
Insurance income received	**195**	72	58	**2,075**
Loss on disposal of non-current assets	**(250)**	(218)	(124)	**(2,660)**
Impairment loss on long-lived assets	—	(571)	(282)	—
Special retirement expenses	**(134)**	(74)	(139)	**(1,426)**
Loss on adjustment for changes of accounting standard for asset retirement obligations	—	—	(408)	—
Reversal of allowance for loss on disaster	—	309	—	—
Allowance for loss on disaster	—	—	(412)	—
Other—net	**38**	140	199	**404**
Total	**¥ (883)**	¥ (897)	¥ (2,227)	**$ (9,395)**

15. Leases

As discussed in Note 2 (o), finance leases with a commencement date prior to April 1, 2008 which do not deem to transfer ownership of the leased assets to lessees are accounted for as operating leases.

Pro forma information of such finance leases for the years ended March 31, 2013, 2012 and 2011 is as follows:

(a) Finance Lease Assets:

	Millions of yen			Thousands of U.S. dollars
	March 31,			March 31,
	2013	2012	2011	**2013**
Acquisition cost:				
Buildings and structures	**¥ 203**	¥ 1,473	¥ 1,473	**$ 2,160**
Furniture and fixtures	**4**	66	346	**43**
Other property and equipment	—	164	193	—
Intangible assets	—	11	24	—
Total	**¥ 207**	¥ 1,714	¥ 2,036	**$ 2,203**
Accumulated depreciation:				
Buildings and structures	**¥ 35**	¥ 533	¥ 469	**$ 372**
Furniture and fixtures	**3**	31	190	**32**
Other property and equipment	—	70	92	—
Intangible assets	—	5	17	—
Total	**¥ 38**	¥ 639	¥ 768	**$ 404**
Accumulated impairment loss:				
Buildings and structures	**¥ 168**	¥ 168	¥ 168	**$ 1,788**
Furniture and fixtures	—	32	138	—
Other property and equipment	—	91	91	—
Intangible assets	—	5	5	—
Total	**¥ 168**	¥ 296	¥ 402	**$ 1,788**
Book value:				
Buildings and structures	**¥ —**	¥ 772	¥ 836	**$ —**
Furniture and fixtures	**1**	3	18	**11**
Other property and equipment	—	3	10	—
Intangible assets	—	1	2	—
Total	**¥ 1**	¥ 779	¥ 866	**$ 11**

(b) Finance Lease Obligations:

	Millions of yen March 31, 2013	2012	2011	Thousands of U.S. dollars March 31, 2013
Due within one year	**¥ 14**	¥ 91	¥ 154	**$ 149**
Due after one year	**113**	920	1,011	**1,202**
Total	**¥ 127**	¥ 1,011	¥ 1,165	**$ 1,351**
Accumulated impairment loss	**¥ 146**	¥ 175	¥ 262	**$ 1,553**

(c) Lease Expenses, Depreciation and Other Information under Finance Leases:

	Millions of yen 2013	2012	2011	Thousands of U.S. dollars 2013
Lease expenses	**¥ 119**	¥ 186	¥ 310	**$ 1,266**
Reversal of accumulated impairment loss	**29**	80	156	**309**
Depreciation	**70**	83	129	**745**
Interest expenses	**24**	26	29	**255**

Depreciation is computed under the straight-line method over the lease terms with no residual value.

The minimum rental commitments under non-cancelable operating leases as of March 31, 2013, 2012 and 2011 are as follows:

	Millions of yen 2013	2012	2011	Thousands of U.S. dollars 2013
Due within one year	**¥ 640**	¥ 764	¥ 487	**$ 6,809**
Due after one year	**1,394**	2,764	2,033	**14,832**
Total	**¥ 2,034**	¥ 3,528	¥ 2,520	**$ 21,641**

16. Segment Information

The Group does not present segment information by reportable segment, as the Group operates in one business category of the "Content business" under which the Group creates, produces, purchases and sells publications, films and other media.

(Related Information)

(a) Information about Products and Services

	Millions of yen 2013	2012	2011	Thousands of U.S. dollars 2013
Net sales to outside customers				
Publications	**¥ 81,659**	¥ 79,627	¥ 76,588	**$ 868,805**
Advertising	—	14,864	—	—
DVD and Blu-ray disc	**16,341**	—	—	**173,859**
Others	**63,602**	52,902	63,467	**676,689**
Total	**¥ 161,602**	¥ 147,393	¥ 140,055	**$1,719,353**

Note: The Group presents sales information by each product or service whose aggregate sales amount is over 10% of the consolidated net sales for each fiscal year.

(b) Information about Major Customers

	Millions of yen 2013	2012	2011	Thousands of U.S. dollars 2013
Net sales to major customers				
Nippon Shuppan Hanbai Inc.	**¥ 34,729**	¥ 32,212	¥ 30,252	**$ 369,497**
Tohan Corporation	**25,049**	24,008	23,180	**266,507**

17. Business Combinations

(Acquisition)

On November 15, 2011, the Company acquired 100% of the issued shares of Media Factory, Inc. ("Media Factory").

Primary reasons for the acquisition are as follows. The Group creates further corporate value by exchanging content among the Group and exerts synergy effects through large-scale operations. Because Media Factory would be able to expand the business and to increase corporate value by using its originality and advantage as a core business company of the Group and would contribute to enhancing the business base and the corporate growth of the Group in the future, the Company resolved to acquire the shares of Media Factory.

Media Factory mainly engages in the magazine and book publishing business as well as the animation business. The results of operations for Media Factory are included in the consolidated statements of income from December 1, 2011, the day following the deemed acquisition date. The acquisition is accounted for under the purchase method.

The acquisition cost was ¥8,080 million in cash, which included the purchase price of ¥8,000 million and direct costs of acquisition of ¥80 million.

The total cost of acquisition was allocated to the assets acquired and the liabilities assumed based on their respective fair values.

Goodwill arising from the acquisition as the expected future excess earning power based on future business operations was ¥430 million and amortized on a straight-line basis over five years.

Estimated fair values of the assets acquired and the liabilities assumed at the acquisition date are as follows:

	Millions of yen
Current assets	¥ 12,944
Non-current assets	719
Total assets	13,663
Current liabilities	(5,408)
Non-current liabilities	(605)
Total liabilities	¥ (6,013)

Had the acquisition been completed on April 1, 2011, the beginning of the fiscal year, net sales and operating income in the consolidated statement of income for the year ended March 31, 2012 would have increased by ¥15,965 million and ¥768 million, respectively, due to the acquisition. Please note that the pro forma information on net sales and operating income are not audited by independent auditors.

18. Related Party Transactions

The Company had several related party transactions with Kadokawa Investment which directly owned 2.3% of the Company's shares. Kadokawa Investment is a company that engages in rental and management of real estate. A director of the Company and his relatives own a majority of the voting rights of Kadokawa Investments.

The related party transactions with Kadokawa Investment for the year ended March 31, 2013 include the following: outstanding long-term debt of ¥70 million ($745 thousand) from Kadokawa Investment as of March 31, 2013; and a payment of ¥100 million ($1,064 thousand) from Kadokawa Investment when a subsidiary of the Company increased its capital through an allocation of new shares to third parties during the year ended March 31, 2013. For the year ended March 31, 2012, the Company purchased real estate property for ¥443 million.

19. Subsequent Events

(Merger of Kadokawa Group Publishing Co., Ltd.)

The Company resolved a merger of Kadokawa Group Publishing Co., Ltd. ("KGP"), a consolidated subsidiary of the Company engaged in sales of publications, at the board meeting on January 9, 2013. In accordance with the merger agreement entered into by both parties on January 31, 2013, the merger took effect on April 1, 2013.

Under the merger, the Company becomes the surviving company, whereas KGP becomes the merged company.

The Company aims for further growth through the merger transaction. The merger will enable the Company to strengthen the following areas on top of its already existing function of managing and controlling group companies: taking initiative on promoting digital strategies at the group level; developing sales and marketing strategies; achieving economies of scale in purchasing materials; and responding swiftly to the market by assigning appropriate sales personnel.

As KGP is a wholly-owned subsidiary of the Company, the merger transaction has no effect on the consolidated financial statements of the Company.

The merger transaction will be accounted for as a business combination of entities under common control in accordance with the “Accounting Standard for Business Combinations” (ASBJ Statement No.21, December 26, 2008) and “Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures” (ASBJ Guidance No.10, December 26, 2008).

(Merger of Nine Consolidated Subsidiaries)

A merger of nine consolidated subsidiaries, which will take effect on October 1, 2013, was approved at the 59th General Meeting of Shareholders held on June 22, 2013.

The Company merges the following nine consolidated subsidiaries of which the Company holds the entire outstanding shares directly or indirectly. Under the merger, the Company becomes the surviving company, whereas the nine subsidiaries become the merged companies. In addition, effective June 22, 2013, the Company has changed its company name from KADOKAWA GROUP HOLDINGS, INC. to KADOKAWA CORPORATION.

The nine subsidiaries subject to the merger transaction:

Kadokawa Shoten Co., Ltd. (Publishing/editing, video content production, production/distribution/import of films, etc.)
Ascii Media Works Inc. (Publishing/editing, etc.)
Kadokawa Magazines Inc. (Publishing/editing, etc.)
Media Factory, Inc. (Publishing/editing, production/sales of media products, etc.)
Enterbrain, Inc. (Publishing/editing, production/sales of media products, etc.)
Chukei Publishing Company (Publishing/editing, etc.)
Fujimi Shobo Co., Ltd. (Publishing/editing, etc.)
Kadokawa Gakugei Shuppan Publishing Co., Ltd. (Publishing/editing, etc.)
Kadokawa Production Co., Ltd. (Copyright business, etc.)

The Company expects to achieve the following through the merger: incorporate the power of creating high-quality contents and the brands that have been established by the subsidiaries and further enhance their values; integrate similar functions among the subsidiaries; establish the “KADOKAWA” brand name to promote both domestic and overseas business development and create a global standard IP; accelerate new business development by swiftly and dynamically responding to drastic market changes and by improving profitability and cash flows as a group.

The merger transaction will be accounted for as a business combination of entities under common control in accordance with the “Accounting Standard for Business Combinations” (ASBJ Statement No.21, December 26, 2008) and “Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures” (ASBJ Guidance No.10, December 26, 2008).

(Sales of Investments in Subsidiaries)

On July 5, 2013, the Company passed a resolution at its board of directors meeting to sell all of its shares in Intercontinental Development and Services Ltd. (a consolidated subsidiary of the Company in Hong Kong, “IDSL”) and Kadokawa Intercontinental Group Holdings Ltd. (a consolidated subsidiary of the Company in Hong Kong, “KIGHL”).

IDSL is wholly owned by KIGHL and is mainly engaged in management of KIGHL’s subsidiaries and real estates. KIGHL is mainly engaged in operation of cinema complexes and distribution of cinemas in Hong Kong. 70% of KIGHL’s outstanding shares are held by Kadokawa Holdings Asia Ltd., a wholly-owned subsidiary in Hong Kong of the Company.

Although the Company acknowledges the importance of expanding its overseas business, the sales transactions would become part of the Company’s strategy to shift its operating resources to internet and digital areas of its contents business.

The sales transactions for both IDSL and KIGHL will take place in mid-August 2013 through share transfers. The entire outstanding shares of IDSL held by KIGHL (30,000 shares) will be sold to Lai Sun Development Company Ltd. in Hong Kong for HK$130 million. 70% of the outstanding shares of KIGHL held by Kadokawa Holdings Asia Ltd. (35,000 shares) will be sold to eSun Holdings Ltd. in Hong Kong for

HK$175 million.

As a result of these sales transactions, gain on sales of investments in subsidiaries of approximately ¥2.6 billion ($28 million) is to be recognized in other income (expenses) in the second quarter of the fiscal year ending March 31, 2014. Further, KIGHL and its 12 subsidiaries (including IDSL) will be excluded from the scope of consolidation from the second quarter of the fiscal year ending March 31, 2014.

KPMG

Independent Auditor's Report

To the Board of Directors of KADOKAWA CORPORATION.

We have audited the accompanying consolidated financial statements of KADOKAWA CORPORATION and its consolidated subsidiaries, which comprise the consolidated balance sheets as at March 31, 2013, 2012 and 2011, and the consolidated statements of income and comprehensive income, statements of changes in net assets and statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

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 accounting principles generally accepted in Japan, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatements, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits 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 our judgement, 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, we consider 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 objective of the financial statement audit is not for the purpose of expressing 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 KADOKAWA CORPORATION and its consolidated subsidiaries as at March 31, 2013, 2012 and 2011, and their financial performance and cash flows for the years then ended in accordance with accounting principles generally accepted in Japan.

Emphasis of Matter

A subsequent resolution of the merger of nine subsidiaries within the consolidating entities is indicated in Note 19 to the consolidated financial statements. This event has no effect on the Company's consolidation and on our opinion.

Convenience Translation

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2013 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1 to the consolidated financial statements.

KPMG AZSA LLC

August 8, 2013
Tokyo, Japan