

ANNUAL REPORT 2011

Year ended March 31, 2011

Kadokawa Group Holdings, Inc.



Our Theory of Evolution

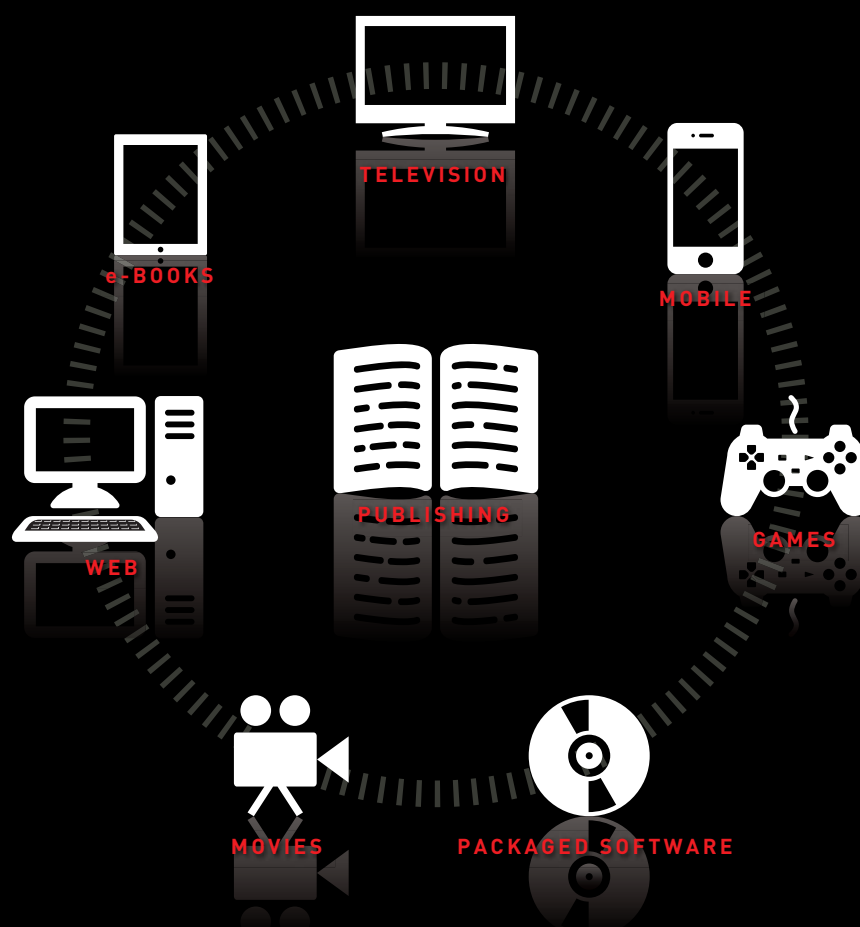


The foundation of Kadokawa Group Holdings, Inc. dates back to 1945, when literary scholar Genyoshi Kadokawa established an independent publishing company with an ambition to revitalize Japanese culture through publishing.

Initially engaged mainly in literary publications of Japan's national history and literature, the Company embarked upon the filmmaking business in the 1970s and succeeded in promoting media mix marketing in which movie screenings coincide with paperback book fairs at bookstores. As a result, the Company gradually expanded its corporate foundation.

In the 1980s, the Company began publishing TV program guides, town guides, and lifestyle information magazines and subsequently made inroads into the Movie/Visual and IT businesses via an effective merger and acquisition strategy, while also cultivating new segments and genres in the publishing field. The Company was listed on the Tokyo Stock Exchange in 1998.

Kadokawa has been steadily expanding its business domains with the aim of becoming a Mega Software Publisher. The arrival of tablet PCs and smartphones is currently drawing attention to e-books. The Company has launched services for "Book Walker," an in-house developed e-book platform. In partnership with companies that operate social networking services, Kadokawa is seeking to offer services that will provide a whole new reading experience.



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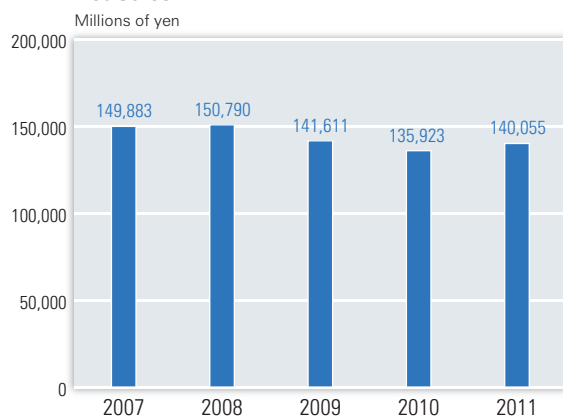
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FINANCIAL HIGHLIGHTS

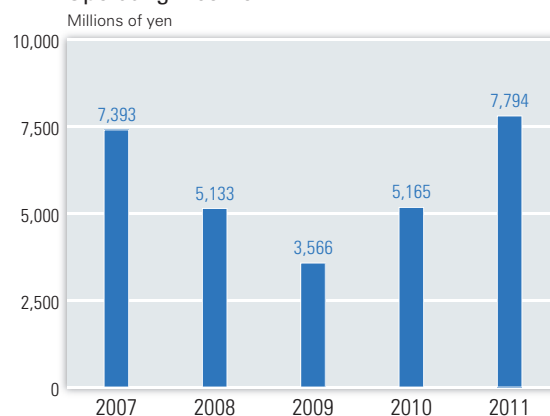
Kadokawa Group Holdings, Inc. and Consolidated Subsidiaries

Fiscal years ended March 31

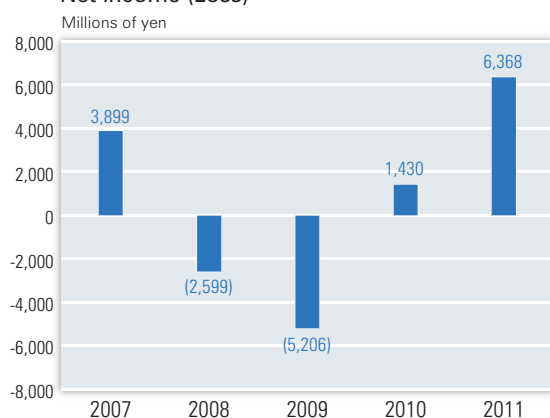
Net Sales



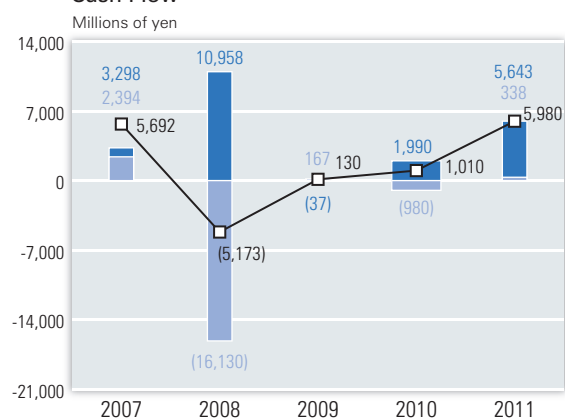
Operating Income



Net Income (Loss)

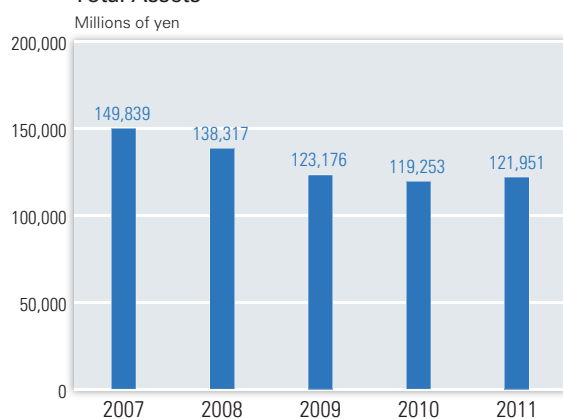


Cash Flow

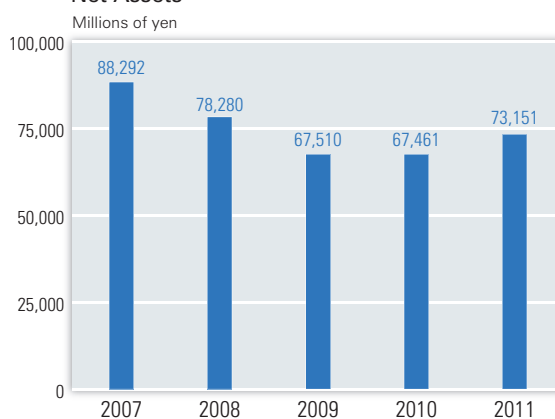


■ Cash flows from operating activities
 ■ Cash flows from investing activities
 — Free cash flow
 (Combined total of cash flows from operating and investing activities)

Total Assets



Net Assets



CHAIRMAN'S MESSAGE

Becoming a “Mega Applications Publisher” —The Key to the Kadokawa Group's Future

The outlook for Japan is becoming more and more tumultuous in the wake of political and economic stagnation and the devastation of the Great East Japan Earthquake.

Amid various challenges, the Kadokawa Group reported favorable results in the year under review. This is because we finally fulfilled our vision of becoming a “Mega Software Publisher,” an innovative business model cited when the Company's shares were publicly listed in 1998. In the year under review, we increased profitability by maximizing synergies across our businesses, centering on light novels, in which we hold an overwhelming share in the publishing market. We are drawing ahead of the competition thanks to our firmly entrenched media mix—the result of our active advancement into animations, games, and other media featuring original content.

With the launch of the iPad, the publishing industry is enjoying a boom in e-books. How should the Kadokawa Group, which includes powerful publishers of printed books, address this situation? In which direction should we steer the ship? One year ago, we identified three choices: (1) Remain solely a content provider; (2) Form alliances with tablet computer providers; or (3) Transform ourselves into a platform provider attuned to the Internet era.

Following the ordinary logic, we could stay within the traditional boundaries of the publishing industry and solidify our position as a content provider. If we do that, however, before long we face the risk of having Apple and

Amazon rob us of the added value that our contents provide, and ultimately following the same path as the U.S. music industry. In times of dramatic change, we have learned repeatedly that “waiting” is the greatest risk of all. We have held in-depth discussions about teaming up with terminal providers to sell terminals. However, today's hardware manufacturers, having witnessed the success of the iTunes Store, embrace a store-based concept but seem unable to come up with an all-inclusive business model. This is because they are too busy making and delivering terminals. If we team up with an unprepared hardware maker, we feel that the risk would increase unnecessarily.

So we have chosen to create a stronger presence in the e-book market as a platform provider. We feel that this move (of becoming a platform provider in this new market) will be the key to success in the next-generation business domain and reflects the crucial need to tackle the challenges we face as a competitor in the Internet era. In December 2010, we launched our e-book distribution platform “Book Walker” after obtaining official approval from Apple. While retaining a top-level ranking in the App Store in Japan, in April 2011 we also entered the Android market. In charge of this initiative is Kadokawa Contents Gate Co., Ltd., which is working hard to forge a path to success with the strong support of other Group companies. The service called “Fan+” that we have launched in collaboration with NTT is off to a good start.

HINC OMNE PRINCIPIVM

Everything Starts from Here

Our creations will be seeds for people to cultivate a richness of spirit. Everything starts from that pride.

Our creations will build the future and remain in history. Everything starts from that foresight.

Our creations will constantly strive for novelty. Everything starts from that innovation.

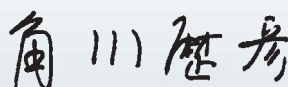
Our creations will be the fulfillment of our ambitions. Everything starts from that passion.

Our creations will be the result of a steady accumulation of small steps. Everything starts from that constancy.

Our creations will promote culture and contribute to the development of society. Everything starts from that commitment.

Based on our experience with "Book Walker," we are at the stage in which we need to elevate our management skills to the next level. It is time to transform ourselves into an Internet-related company by developing attractive applications which make full use of our contents. This means becoming a "Mega Applications Publisher," which embodies the Kadokawa Group's future vision. We also recently formed an alliance with the GREE social networking service (SNS), and in May 2011 we tied up with Dwango Co., Ltd., operator of the "Nico Nico Douga" video-sharing website, through an exchange of shares and the purchase of new shares. Together with GREE and Dwango, we will leverage their strengths to deliver the "Book Walker" service to the more than 20 million members of the Nico Nico Douga website. This move, we believe, will be a crucial part of our effort to implement our new business model.

We at the Kadokawa Group request your warm support as we continue to think on our feet and resolutely embrace the challenges of the social networking era. Finally, I would like to extend my heartfelt condolences to all those affected by the Great East Japan Earthquake.



Tsuguhiko Kadokawa
Chairman and Director
Kadokawa Group Holdings, Inc.



MESSAGE FROM THE PRESIDENT

The Growth Story of the Transformed Kadokawa Group —Achieved through Business Structure Reforms



Tatsuo Sato
President and Representative Director
Kadokawa Group Holdings, Inc.

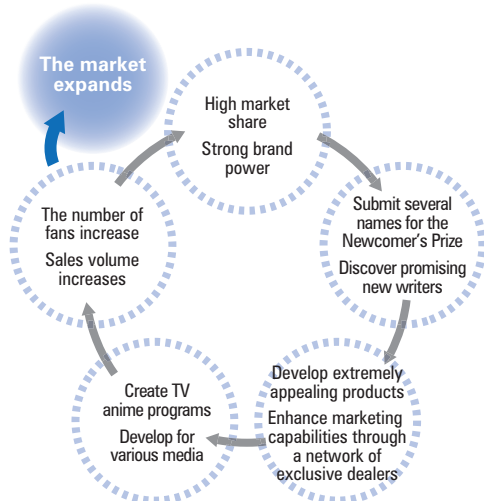
佐藤辰男

In fiscal 2011, ended March 31, 2011, the Kadokawa Group's net income reached a record high since its listing, catapulted by the success of its structural reforms and brisk media-mix activities centering on its publications. Our structural reforms were successful in reorganizing our businesses and strengthening our financial position. We implemented five key restructuring measures aimed at increasing business synergies in fiscal 2011 and will introduce a consolidated tax payment system intended to bolster our financial standing this term (fiscal 2012). The Kadokawa Group's media-mix activities, its forte, remain brisk. Here, I would like to discuss our future growth scenario.

The Source of Our Competitiveness: Content Production Capabilities

The Kadokawa Group's media-mix activities center on its publications, and the Book business segment is highly profitable. What's more, the earnings of this business are unswayed by the fate of just one hit title but instead remain stable due to **a system***¹ we have put in place within the Company that enables us to generate a steady

*1 Our System for Generating a Steady Stream of Hit Titles



*2 Representative Works of the Kadokawa Group Light Novel Labels

Kadokawa Sneaker Bunko (KADOKAWA SHOTEN) Dengeki Bunko (ASCII MEDIA WORKS)



Haruhi Suzumiya Series

This series, which is representative of Kadokawa products, has been popular since its release in June 2003. The 10th collection in the series released in May 2011 has sold over 531,000 copies (1,062,000 units including Part 1 and 2), a record high for a first edition light novel. The series has sold a cumulative total of over 8 million units and together with related products some 16.5 million units.



Toarumajutsuno Index Series

This 26-volume series and its related print publications have sold more than 16.35 million copies from its April 2004 release through September 2011. The current second chapter, *Shinyaku*, shifts to a different setting and takes the story in a new direction. The spin-off comic book series *Toarukagakuno Railgun* is also very popular.

Famitsu Bunko (ENTERBRAIN)



Baka and Test—Summon the Beasts— Series

This series generated much buzz after its release in January 2007, but the TV anime programs aired in 2010 catapulted it to hit status. The series also became the Kadokawa Group's first hit in the social game segment, and the Group continues to develop it for new media. Total cumulative sales for the series have surpassed 5.3 million units.

Fujimi Fantasia Bunko (Fujimi Shobo)



Seitokai no Ichizon Series

The *Seitokai no Ichizon* Series was instantly popular upon its release in January 2008, and the decision was quickly made to develop it into a TV anime program. The TV show debuted in 2009 followed by the development of products for various media. With the decision already made to broadcast Season 2, the show is expected to continue attracting much attention. Total cumulative sales for the series have topped 5 million units.

stream of hit titles. So, what kind of system is that? Let me elaborate using the light novel genre as an example.

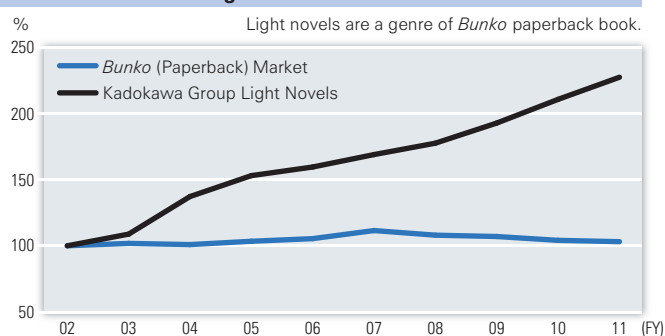
Light novels are novels written for young people, the market for which is dominated by the Kadokawa Group. Four Kadokawa Group companies each have **a label***² and they expand **the market***³ and form their own original brands as they compete among themselves. Each of the companies holds **a contest for new writers***⁴ under their respective labels to unearth new works. Each year many contestants, attracted by the brand power of each label of the Kadokawa Group, submit their novels to the various contests, competing for the "Newcomer's Prize." The number of new contestants has reached several thousand and still continues to grow. We discover talented new writers from among the contestants and publish their novels. Of those, novels that generate sequels and become popular are then adapted into "anime" (Japanese animation). Anime productions are highly effective tools in helping us acquire new readers because they go a long way toward promoting and gaining widespread recognition for the original novels. As a result, the sales of some of these novels rise dramatically. The fact that this system,

which allows us to stack up hit novels and bring to light a succession of new works, was forged within our group significantly contributes to our steady earnings growth.

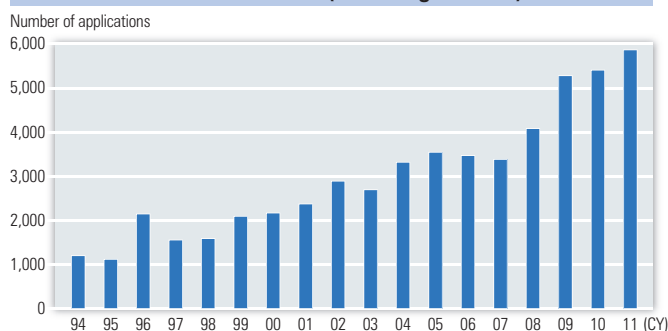
Furthermore, our expertise in raising our content value through **the deployment of contents across a wide range of media***⁵ is another reason that we are a unique Company unlike any other in the publishing industry and are drawing much attention. Our operations go beyond the publishing field and include not only anime and movies but also video packages, game software products, character merchandise, and event planning. Recently, we have been concentrating on e-books and social media, which we consider new growth areas.

However, a system for discovering and nurturing new products as well as "production capabilities" to skillfully develop these products are essential in making our media mix a success. Since the launch of Kadokawa Pictures Inc. in 1976, the Group has been developing its production capabilities drawing on its long accumulated experience and expertise, and still continues to achieve success with its diverse media mix. The source of the Kadokawa Group's competitiveness is its production capabilities.

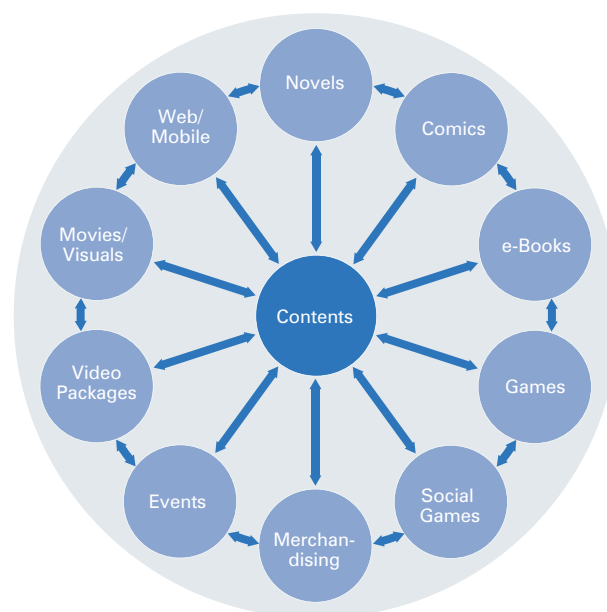
*3 Light Novel Sales Growth



*4 Trend in the Number of Applications for the *Dengeki Bunko* Newcomer's Prize (The Dengeki Prize)



*5 Deployment of Contents Across a Wide Range of Media



Expansion of the Publishing Business Domain by Leveraging Group Management Strengths

We are keen on creating a sturdy publishing operation by expanding our business areas focusing on children, females and the elderly and further leveraging the advantages of our group management. I would like to present as one successful example the expansion of our business for children's products. Two years ago, we released **Kadokawa Tsubasa Bunko**,*6 a label for children cutting across our Group companies. This marked our first attempt to have each of our Group companies supply products under the same label. The *Kadokawa Tsubasa Bunko* label soon captured the second largest share among rivals in the children's paperback market as all the Group companies released their books en masse. Currently, we are striving to acquire the largest market share.

Here I would like to cite another example of successful results achieved through collaboration by the Group, involving the utilization of **our popular characters**.*7 This example focuses on Chuukei Publishing Company, one of our Group companies noted for its strengths in the business and how-to book genres. When Chuukei Publishing made its full-scale entry into the study guide market, it adapted the strategy of using popular characters featured in popular comics such as *Lucky Star*, *Sergeant Keroro* and

The Melancholy of Haruhi Suzumiya, which are all owned by Kadokawa Shoten Co., Ltd., one of our Group companies. This strategy proved to be a resounding success, with its sales volume in this category reaching unprecedented heights. The Kadokawa Group is a business entity comprised of extremely unique companies and one of the few that can manage its group companies quickly and flexibly. Our market share for products for children, females and the elderly has sufficient latitude for growth. Looking ahead, the Kadokawa Group will endeavor to enlarge its business domains through its unified front consisting of each of its Group companies.

New Potential for Movie/Visual Business with "Revitalized Kadokawa Shoten Co., Ltd."

Between January and March 2011, we implemented five key restructuring measures as part of our structural reform efforts. We hope that these measures will allow us to retrieve hitherto missed profit earning opportunities, thereby bolstering our profitability. Taking the merger of Kadokawa Shoten Co., Ltd. and Kadokawa Pictures Inc. as an example, I am certain that the integration of our Publishing and Movie/Visual businesses will make our media-mix activities consistent and enable us to plan and manage far more effectively. For example, we are now

*6 Kadokawa Tsubasa Bunko

Kadokawa Tsubasa Bunko publishes children's books created to encourage a love of reading in elementary-grade readers. Since its founding in 2009, the imprint, which is the first integrated Group-wide effort, has proven successful and the label continues to grow.



*7 Utilizing Popular Characters

We are taking advantage of our Group synergies for collaborative development of study guides by Chuukei Publishing and Kadokawa Shoten. This collaboration in both content and marketing strategy applies the Kadokawa Group's strengths, taking the development a step beyond the level of copyright licenses.



able to produce movies based on marketing efforts using our Publishing business data. In addition, we have created an environment conducive to the production of successive motion picture adaptations of the bestsellers of our Group publishing company. In fact, we can clearly discern the impact of such measures on **our movie lineup***⁸ in 2011 and 2012. The increase in the number of movies based on Kadokawa Group publications and the launch of dynamic movie campaigns at bookstores will enable us to mount effective promotional campaigns that are tied to our books. Henceforth, in this way we will work to improve our profitability by using the synergies generated by the merger. We have now created an environment that has considerable potential to improve the profitability of the Movie/Visual business segment by fully leveraging our strength, namely our content production capabilities.

A Shift in Magazine and Advertising Trends Owing to the Advent of Social Media

The magazine and advertising industries continue to face tough conditions as Internet companies such as Yahoo! and Google make huge inroads into their markets. Although we are no exception, we have managed to remain in the black by taking advantage of the top TV program and town guide brands, *The Television* and *Walker*,

which have boosted orders for our custom magazines.* A new trend has emerged in the Internet industry and is now trying to dominate the world. The forces that have come to the fore are social networking services, such as Facebook and the Nico Nico Douga video-sharing website. With the advent of the social networking era, people are turning their attention to what their social media friends are saying. Information acquired through “social search” tools, including question-and-answer sites, has replaced information actively obtained via “search engines” in importance. Instead of viewing them as an even greater threat, we consider them to be formidable allies. The game magazine **Famitsu Mobage**,*⁹ which was recently published for the social networking service “Mobage,” was an instant sell-out and has the remarkable distinction of going into reprint. In addition, “**Maho i-Land**,”*¹⁰ a cell phone novel community site that has 6 million users, is expected to generate ¥300 million in advertising revenue annually. Paper magazines are no different from social networks in that they are both “communities.” Looking ahead, the Kadokawa Group will build a new earnings model for its Magazine/Advertising business while collaborating more closely with social networking sites.

* Custom magazines are sold and distributed by corporations to serve as public relations or sales promotion tools.

*⁸ 2011 Kadokawa Group Movie Lineup



**Gekijoban
Soranotoshimono
Tokeijikakeno Angeloid**
June 25 nationwide
feature release

Author: Suu Minazuki
(Contributor to the monthly
Shonen Ace, Kadokawa Comics Ace)
Director: Tetsuya Yanagisawa
Screenplay: Yuko Kakiyama
Producer: AIC ASTA



The Legacy of the Sun
August 27 nationwide
feature release

Author: Jiro Asada
(*Kodansha Bunko*, *Tokuma Bunko*,
Kadokawa Shoten)
Director: Kiyoshi Sasabe
Screenplay: Takeshi Aoshima
Starring: Masato Sakai, Shido
Nakamura, Seiji Fukushi



Before Sunrise
October 8 nationwide
feature release

Author: Keigo Higashino
Director: Setsuro Wakamatsu
Screenplay: Izumi Kawasaki
Starring: Goro Kishitani,
Kyoko Fukada, Tae Kimura



**Tale of Genji
—A Thousand Year Enigma—**
December 10 nationwide
feature release

Author and
screenplay: Yukiko Takayama
Director: Yasuo Tsuruhashi
Screenplay: Izumi Kawasaki
Starring: Toma Ikuta, Miki Nakatani,
Noriyuki Higashiyama,
Yosuke Kubozuka

Development of Magazines and Advertising for the Social Networking Era



*⁹ **Famitsu Mobage**

Famitsu Mobage was the
first official magazine for
“Mobage,” Japan’s largest
social networking service.



*¹⁰ **Maho i-Land**

Maho i-Land is a highly
popular mobile phone novel
site in Japan with 6 million
members and monthly page
views reaching 2.7 billion.

BUSINESS AREAS THAT WILL CREATE THE KADOKAWA GROUP'S FUTURE

The Kadokawa Group plans to form a new type of media conglomerate as a "Mega Software Publisher" in the Internet/digital era and focus on strengthening its e-book and gaming businesses and actively developing its overseas operations.

The 1st Key to Growth

The Kadokawa Group Launches an e-Book Content Platform "Book Walker" ^{*11}

In December 2010, the Kadokawa Group released "Book Walker" as its e-book content platform. We assemble not only books but also the Kadokawa Group's other various contents into this platform and collaborate to build a major entertainment platform. These initiatives indicate that the time has come for us to acquire the skills required for a web-based entity, rather than just relying on publishing and motion picture production expertise. To this end, we have acquired a stake in **Dwango Co., Ltd.** ^{*12} and formed a business alliance with **GREE, Inc.** ^{*13} Together with these leading Japanese social media companies, we are scheduled to kick off within the year a social media service providing users with a new reading experience akin to "social reading." From July, prior to the launch of the site,

we are expanding and upgrading our lineup of contents through the successive additions of the Kadokawa Group's popular contents into our "Book Walker" site. The strong affinity between the Kadokawa Group's contents and social media services is recognized widely, and uniting the two forces are likely to yield numerous advantages, such as encouraging content users to take advantage of such services and vice versa. Therefore, looking ahead, we are exploring the possibility of offering the type of services that could only be provided by our e-book platform, and feel that it shows considerable promise as "single source, multi-use" media. Although the "Book Walker" platform is constantly ranked among the top sellers in the App Store's book category in Japan, we will raise the presence of our e-book platform by expanding and upgrading our contents and providing new services.

The 2nd Key to Growth

Expansion of the Gaming Business

The gaming business is an important medium in "single source, multi-use" activities. In fact, sales of game software applications using popular characters in light novels and comics doubled year on year in fiscal 2011. However, to become a global comprehensive media company, we must fortify our gaming business, which will give

*11 The "Book Walker" e-Book Content Platform Developed by the Kadokawa Group

iPad and iPhone service was launched in December 2010, and Android service began in April 2011.



Smartphone



Tablet PC



*12 Dwango Partnership

In October 2010, the Kadokawa Group announced a business alliance for e-books and content delivery with Dwango Co., Ltd., operator of the Nico Nico Douga video-sharing site.



*13 Alliance with GREE

In February 2011, the Kadokawa Group announced a business alliance for e-books and social networking applications with GREE, Inc.

us a foothold in the overseas market. To that end, we need to develop game contents suitable for world markets. The very significance of our establishment of KADOKAWA GAMES, LTD. lies in its specialization in the development of game software for core gamers, which is different from character games produced by each publisher. We unveiled **LOLLIPOP CHAINSAW**,^{*14} the first game software targeting overseas markets, at **KADOKAWA GAMES CONFERENCE 2011 SUMMER**,^{*15} which was held in August. We are targeting ever-increasing growth in our gaming business based on our three-pronged business strategy focusing on our character games (a part of our media mix), and social games that we began developing in 2010, in addition to our game software for core gamers worldwide.

The 3rd Key to Growth

Active Overseas Business Expansion

Our overseas business activities, which got underway with the establishment of a local subsidiary in Taiwan in 1999, took a decade to finally bear fruit. Although we knew Chinese people were highly interested in Japanese comics and light novels, we were not sure as to how to develop our business. In April 2010, the Kadokawa Group established Guangzhou Tianwen Kadokawa Animation & Comics Co., Ltd. (non-consolidated), a joint

venture established in Guangzhou City, Guangdong Province, through a capital alliance with the Hunan Publishing Investment Holding Group, a Chinese state-owned publishing conglomerate. We will make this the Kadokawa Group's publishing center in China. We are developing the Kadokawa Group's translated publications, which we have thus far built up in Taiwan, for the Chinese market. In September, Kadokawa became the first Japanese publishing company to launch a comics magazine in the Chinese market, and in the future the Company plans to produce TV anime products. We have already sent some expert media-mix editors from Japan and Taiwan to China in an effort to train local editors and discover talented new writers. In May 2011, "**The Surprise of Haruhi Suzumiya**"^{*16} was released simultaneously throughout the world. As in Japan, people in China lined up at some bookstores before they opened to purchase our products. I sense the strong potential of the Chinese market from the popularity of our products. As for the serious issue regarding pirated editions, which we faced when we entered the Chinese market, we were able to contain the problem, owing to the effectiveness of the simultaneous launch of our products both in China and Japan. I believe the Chinese market has considerable potential. We will cultivate this market, which we have positioned as a future growth area.

Global Development of Game Software



^{*14} **LOLLIPOP CHAINSAW**

The first game software for global markets
Scheduled release date: 2012
Platforms: PlayStation® 3, Xbox 360®
Publisher: KADOKAWA GAMES, LTD.
Developer: GRASSHOPPER MANUFACTURE, INC.



^{*15} **KADOKAWA GAMES CONFERENCE 2011 SUMMER**

^{*16} Release of 10th Collection in the Haruhi Suzumiya Series: *The Surprise of Haruhi Suzumiya* Worldwide Release on May 25



Chinese edition of
The Surprise of Haruhi Suzumiya



The Chinese version of *The Surprise of Haruhi Suzumiya* was released with a special issue magazine.

OVERVIEW OF THE KADOKAWA GROUP

The Kadokawa Group, which aims to become a Mega Software Publisher, is moving beyond its existing publishing business, and is working to achieve sustainable growth by expanding its business domains in the Movie/Visual business and the Internet-related business (which includes websites and mobile sites) and by developing business overseas with an emphasis on Asia. We have implemented five key restructuring measures to meet the requirements of the new digital media era, including e-books, and to pursue further growth as a Mega Software Publisher.

1. Movie/Visual Business Fortification

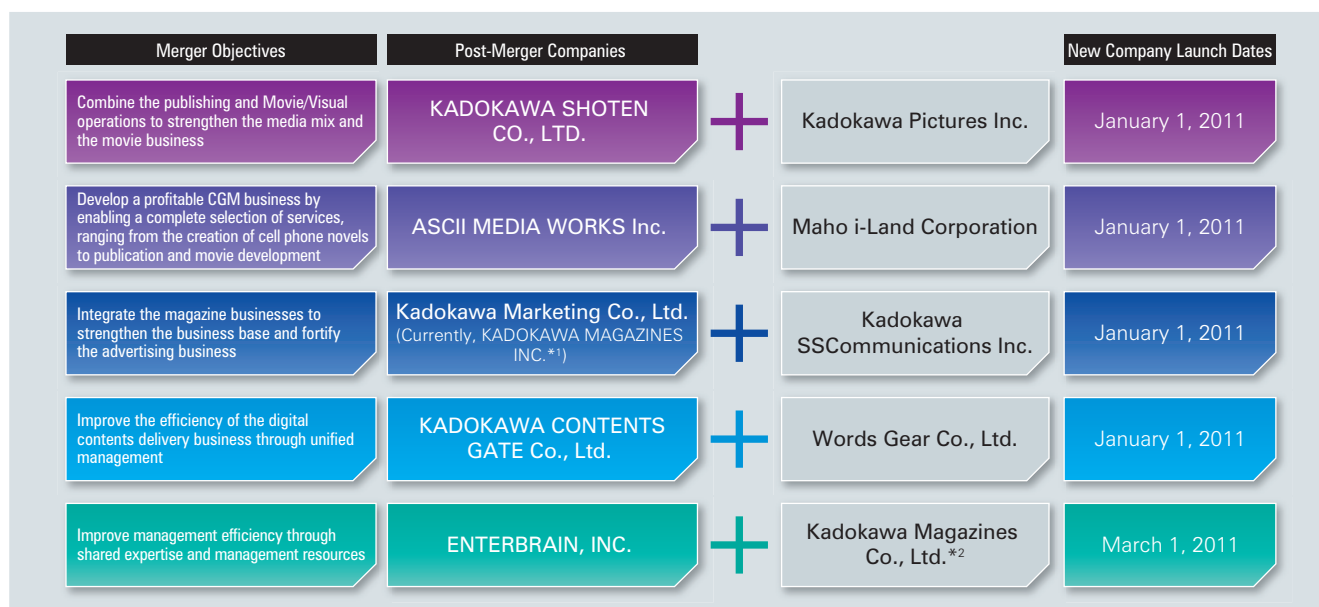
Integrating the publishing and Movie/Visual operations allows us to dramatically enhance content value and generates a multiplier effect for other business areas, through the deployment of contents across a wide range of media. Kadokawa Shoten Publishing Co., Ltd. and Kadokawa Pictures Inc. were merged to maximize these strengths, with the aims of enhancing the earnings power of the Movie/Visual business and setting a course for further business growth. The merger seeks to enable the new Kadokawa Shoten to fully integrate its publishing and Movie/Visual operations and build its capabilities as a general movie production company (ranging from movie planning and production to movie distribution), with the aim of becoming a unique content provider capable of realizing the highest level of media-mix performance.

2. Magazine/Advertising Business Fortification

The magazine business, which is one of the Group's core operations, is facing declining trends in both magazine sales and advertising revenue. However, substantial growth opportunity continues to exist for the development of composite businesses, in areas including websites, cell phones, custom magazines for corporate clients, and the mail-order business. We merged the operations of Kadokawa Marketing Co., Ltd. and Kadokawa SSCommunications Inc. to further advance our structural reforms and fortify our competitiveness. In the publication of entertainment-related magazines and books, we merged ENTERBRAIN, INC. and Kadokawa Magazines Co., Ltd. to improve operating efficiency by enabling them to share expertise and management resources, as well as to fill out the product lineup and further enhance the services of our existing product brands.

3. Digital Business Fortification

The arrival of new types of computer terminals presents new business opportunities for the Group's wealth of content. We have merged ASCII MEDIA WORKS Inc. and Maho i-Land Corporation and have also merged KADOKAWA CONTENTS GATE Co., Ltd. and Words Gear Co., Ltd. with the aim of boosting operating efficiency and strengthening business development in areas expected to see strong growth, such as e-books, applications for social networking services, e-magazines, and consumer generated media (CGM).



^{*1} On July 1, 2011, Kadokawa Marketing Co., Ltd. was renamed KADOKAWA MAGAZINES INC.

^{*2} Kadokawa Magazines Co., Ltd. was dissolved following the merger with ENTERBRAIN, INC. on March 1, 2011.

**Kadokawa Group's Major Consolidated Subsidiaries
and Business Activities**

	Books	Magazines/ Advertising	Publishing Support	Movies/ Visuals	Internet/ Digital	Overseas
KADOKAWA SHOTEN CO., LTD.						
KADOKAWA GAKUGEI SHUPPAN PUBLISHING CO., LTD.						
Chara-Ani Corporation						
Kadokawa Editorial Co., Ltd.						
KADOKAWA CINEPLEX, INC.						
Glovision, Inc.						
ASCII MEDIA WORKS Inc.						
KADOKAWA MAGAZINES INC.						
Movie Time Co., Ltd.						
K.Sense Inc.						
Kadokawa Media House Inc.						
Mubichike, Inc.						
Kadokawa Digix Inc.						
KADOKAWA CONTENTS GATE Co., Ltd.						
ENTERBRAIN, INC.						
eb-creative, Inc.						
Fujimi Shobo Co., Ltd.						
Chuhei Publishing Company						
Shin-Jinbutsuoraisha Co., Ltd.						
KADOKAWA PRODUCTION Co., Ltd.						
KADOKAWA GAMES, LTD.						
ATX Inc.						
KADOKAWA GROUP PUBLISHING CO., LTD.						
Kadokawa Shuppan Hanbai Co., Ltd.						
Building Book Center Co., Ltd.						
Kadokawa Media (Taiwan) Co., Ltd.						
Kadokawa Intercontinental Group Holdings Ltd.						
Kadokawa Intercontinental Publishing Asia Ltd.						

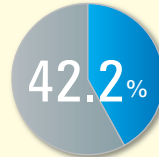
(As of August 31, 2011)

OVERVIEW OF BUSINESSES

Books

In the Book business, sales rose for the ninth consecutive year in fiscal 2011 on brisk sales of original anime-based light novels and comics, reflecting an ongoing strong performance of our media mix. Sales were strong for the paperback title *Yoake no Machi de* (a movie by the same name was released in 2011) and also the paperback titles *Mioka* and *Tsukumogami Kashimasu* (television dramas based on these two novels have been created). Business-related book sales were solid as well with several new titles becoming social topics, including *Shiranaito Hajiwokaku Sekaino Daimondai 2*, the follow-up edition to the hit seller released in the previous fiscal year, and *The True Nature of Deflation*, presenting a new angle on the nature of the Japanese economy. The 2010 Honya Taisho (The Booksellers Prize) award winner *Tenchi Meisatsu* and the 2010 Manga Taisho award winner *Thermae Romae* series were also popular, and sales rose sharply for both titles. Expectations remain high as movie versions of both titles are scheduled to be released in 2012.

Composition of Sales



Sales
Fiscal 2010
¥ 57,015 million
↓
Fiscal 2011
¥ 59,043 million

Light Novels



Toarumajutsuno Index Series
Author: Kazuma Kamachi
Illustrations: Kiyotaka Haimura



Oreimo Series
Author: Tsukasa Fushimi
Illustrations: Hiro Kanzaki

Comics



High School of the Dead Series
Story: Daisuke Sato
Art: Shouji Sato



Thermae Romae Series
Author: Mari Yamazaki

Paperback Shinsho



Shiranaito Hajiwokaku Sekaino Daimondai 2
Author: Akira Ikegami



The True Nature of Deflation
Author: Kosuke Motani

Paperback Bunko



Yoake no Machi de
Author: Keigo Higashino



Tsukumogami Kashimasu
Author: Megumi Hatanaka

Hardcover Books

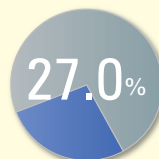


Tenchi Meisatsu
Author: Tow Ubukata



Mariabeetle
Author: Kotaro Isaka

Composition of Sales



Sales
Fiscal 2010
¥ 40,310 million
↓
Fiscal 2011
¥ 37,750 million

Magazines/Advertising

In the Magazine/Advertising business, magazine sales and magazine advertising revenue declined during the year, reflecting the sluggish market conditions, but custom magazine sales provided solid support for advertising revenue. Custom magazines are sold and distributed by corporations to serve as public relations or sales promotion tools. The Kadokawa Group's status as the publisher of leading TV program guides and town guides, as well as its ability to utilize its magazine brand and editing know-how is generating a steadily increasing number of orders for the production of custom magazines. We plan to continue expanding our custom magazine production operations in the future.



Highway Walker

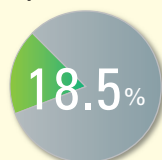


WOWOW Monthly Program Guide

Movies/Visuals

In the Movie/Visual business, profit improved despite a decline in sales from the lack of a major in-house produced or distributed product during the year. Strong sales of video packages provided a particularly strong boost to profit. Video package sales rose sharply due particularly to solid sales of Blu-ray/DVD anime products, led by the *Haruhi Suzumiya* series and the *Strike Witches* series. In addition, the ongoing shift to Blu-ray products in our video package sales was another factor supporting the strong profit performance.

Composition of Sales



Sales

Fiscal 2010

¥ 26,093 million

↓

Fiscal 2011

¥ 25,965 million



The Melancholy of Haruhi Suzumiya
Blu-ray Disc Set



The Disappearance of
Haruhi Suzumiya Blu-ray/DVD



Strike Witches Blu-ray Disc Set



Metal Max 3



Toarumajutsuno Index

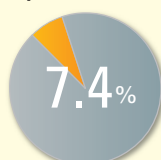


An event to announce the Kadokawa
Group's "Book Walker" lineup.
Surprise guest Arimasa Osawa (center).



Amagami

Composition of Sales



Sales

Fiscal 2010

¥ 5,819 million

↓

Fiscal 2011

¥ 10,363 million

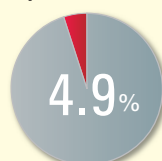
Internet/Digital

In the Internet/Digital business, sales expanded rapidly during the year, and this is a genre with future growth potential. We launched services for the e-book content platform "Book Walker," and we will continue to steadily expand our service offerings through business alliances with leading social networking service providers in Japan. The solid results in this segment also reflect brisk sales of game software, particularly the character games of media-mix products. The e-commerce business posted growth in mail order sales of CDs by popular singers.

Overseas

In Taiwan, where we focus primarily on the publishing business, sales were brisk for translated light novels. In Hong Kong, where our primary operations include the movie and visual business and sales of game software, sales were strong for distributed movies and game software. In April 2010, we established Guangzhou Tianwen Kadokawa Animation & Comics Co., Ltd. (non-consolidated) through a capital alliance with a Chinese state-owned publishing conglomerate, making this company the hub for full-fledged business development in China.

Composition of Sales



Sales

Fiscal 2010

¥ 6,683 million

↓

Fiscal 2011

¥ 6,932 million



The opening ceremony for Guangzhou Tianwen Kadokawa
Animation & Comics Co., Ltd.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Principle Accounting Policies and Estimates

The Kadokawa Group prepares its consolidated financial statements in conformity with accounting principles generally accepted in Japan ("Japanese GAAP"). In preparing the financial statements, with regard to matters requiring estimates, the Kadokawa Group considers past results and future plans and implements accounting procedures based on reasonable criteria that include the Accounting Standards for Measurement of Inventories, Accounting Standards for Financial Instruments, Accounting Standards for Impairment of Fixed Assets, Accounting Standards for Retirement Benefits, and Accounting Standards on Tax-Effect Accounting.

Operational Results

During the fiscal year under review, consolidated net sales amounted to ¥140,055 million, up ¥4,132 million from the previous fiscal year. The Book-related business posted a 3.5% year-on-year increase in net sales on steady sales of media-mix products, derived from light novels and comics, business books, gaming strategy guides, and other products. The Magazine/Advertising-related business continued to face a difficult operating environment for both magazine sales and advertising revenue, resulting in a 6.4% decline in net sales. The Movie/Visual-related business recorded hit products with its Blu-ray versions of animation, but net sales dipped 0.5% due in part to box-office revenue for movie releases falling short of the target. Net sales in the Internet/Digital-related business surged 78.0% on the release of new game software titles that became hits and growing e-commerce business. Net sales in the Overseas-related business rose 3.7% on continuing steady growth for our subsidiaries in Hong Kong and Taiwan.

Gross profit increased ¥2,297 million, to ¥37,163 million, and the gross margin rose 0.8 percentage point from the previous fiscal year, to 26.5%. The increase was largely the result of strong sales of subsequent printings of books and sales growth for Blu-ray products, game software, and other items with high profit margins.

Operating income increased ¥2,629 million, to ¥7,793 million, and the operating income margin rose 1.8 percentage points from the previous fiscal year, to 5.6%. Major factors included cost-cutting efforts, particularly with respect to advertising expenditures.

Income before income taxes and minority interests amounted to ¥5,678 million, an increase of ¥535 million from the previous fiscal year. Extraordinary income, net of extraordinary losses, declined ¥2,661 million year on year. This was primarily due to an increase in the loss on devaluation of investment securities and the application of a new accounting standard for asset retirement obligations.

Net income amounted to ¥6,367 million, an increase of ¥4,938 million from the previous fiscal year. Net income per share was ¥252.65. The increase was largely due to the restructuring of Group companies and a rise in deferred tax assets associated with the application of the consolidated tax payment system in the coming fiscal year, which resulted in a decrease in the income tax burden during the fiscal year under review.

Financial Condition

At March 31, 2011, the Company had total assets of ¥121,951 million, an increase of ¥2,698 million from a year earlier. Within this amount, current assets increased ¥3,429 million, to ¥77,942 million, and fixed assets declined ¥731 million, to ¥44,008 million.

Within current assets, cash and deposits increased ¥1,739 million from the end of the previous fiscal year, thanks to the increased profits, and there was a ¥3,364 million increase in inventories and deferred tax assets due to the application of the consolidated tax payment system in the coming fiscal year.

Within non-current assets, construction in progress was up ¥1,368 million from the end of the previous fiscal year due to the expansion of film studios, and deferred tax assets were up ¥1,090 million, just as in the case of current assets.

Total liabilities decreased ¥2,992 million from a year earlier, to ¥48,800 million. Within this amount, current liabilities declined ¥1,923 million, to ¥33,594 million, and long-term liabilities decreased ¥1,069 million, to ¥15,206 million.

In current liabilities, notes and accounts payable and income taxes payable declined ¥2,477 million from the end of the previous fiscal year as a result of the restructuring of Group companies.

As for long-term liabilities, long-term debt and deferred tax liabilities declined ¥886 million from the end of the previous fiscal year.

Net assets at the fiscal year-end totaled ¥73,151 million, an increase of ¥5,690 million from a year earlier. Within this amount, shareholders' equity increased ¥5,419 million from the previous fiscal year-end, to ¥75,928 million; total accumulated other comprehensive income amounted to a loss of ¥3,449 million, compared to a loss of ¥3,781 million at the previous fiscal year-end; and minority interests declined ¥61 million, to ¥672 million.

Within shareholders' equity, retained earnings increased ¥5,555 million from the previous fiscal year-end owing to the posting of net income.

In accumulated other comprehensive income, the net unrealized holding loss on securities decreased ¥1,325 million from the end of the previous fiscal year, due to devaluation of investment securities and a ¥993 million deterioration in foreign currency translation adjustments owing to the appreciation of the yen against the U.S. dollar.

The shareholders' equity ratio at the term-end increased 3.4 percentage points to 59.4%.

Cash Flows

Cash and cash equivalents (hereinafter, "net cash") at the fiscal year-end stood at ¥26,007 million, an increase of ¥4,259 million from the end of the previous fiscal year. The increase was largely due to the recording of ¥5,678 million in income before income taxes and minority interests, an increase in the collection of notes and accounts receivable, and proceeds from the maturity of time deposits.

Cash flow conditions and factors influencing cash flows during the fiscal year under review were as follows:

Cash Flows from Operating Activities

Net cash provided by operating activities amounted to ¥5,642 million, compared with ¥1,990 million provided in the previous fiscal year. The primary factors were the recording of income before income taxes and minority interests, an increase in the loss on devaluation of investment securities booked as an unexpended balance, and an increase in the collection of notes and accounts receivable.

Cash Flows from Investing Activities

Net cash provided by investing activities amounted to ¥337 million, compared with ¥980 million in net cash used in investing activities in the previous fiscal year. Major factors were increases owing to proceeds from the maturity of time deposits and from the cancellation of insurance funds, and decreases due to the purchase of property and plant and investment securities.

Cash Flows from Financing Activities

Net cash used in financing activities amounted to ¥1,293 million, compared with ¥5,593 million used in the previous fiscal year. The decline was primarily due to loan repayments, the purchase of treasury stock, and the distribution of cash dividends.

Trends in Cash Flow Indicators

	March 2007	March 2008	March 2009	March 2010	March 2011
Shareholders' equity ratio (%)	57.9	55.3	54.2	56.0	59.4
Shareholders' equity ratio at market value (%)	68.8	44.9	42.8	44.7	39.3
Interest-bearing debt to cash flow ratio (years)	1.8	0.5	—	6.1	2.1
Interest coverage ratio (times)	26.7	90.0	—	13.7	36.4

Notes

- The various indicators were calculated using the following calculation methods.
Shareholders' equity ratio: Shareholders' equity/total assets
Shareholders' equity ratio at market value: Total market capitalization/total assets
Interest-bearing debt to cash flow ratio: Interest-bearing debt/operating cash flow
Interest coverage ratio: Operating cash flow/interest expense
- All indicators were calculated using consolidated financial figures.
- Total market capitalization is calculated by multiplying the fiscal year-end closing stock price by the total number of shares outstanding (excluding treasury shares) at the end of the fiscal year.
- Interest-bearing debt includes all debt that pays interest as listed on the Consolidated Balance Sheets.
- Operating cash flow refers to cash flows from operating activities on the Consolidated Statements of Cash Flows. Interest expense refers to the amount of interest paid as listed on the Consolidated Statements of Cash Flows.
- Interest-bearing debt to cash flow ratio and interest coverage ratio for the year ended March 2009 are omitted because operating cash flow was negative.

FIVE-YEAR SUMMARY OF SELECTED FINANCIAL DATA

Kadokawa Group Holdings, Inc. and Consolidated Subsidiaries

Years ended March 31

	Millions of yen					Thousands of U.S. dollars (Note)
	2011	2010	2009	2008	2007	2011
For the Year:						
Net Sales	¥ 140,055	¥ 135,923	¥ 141,611	¥ 150,790	¥ 149,883	\$ 1,684,366
Operating Income	7,794	5,165	3,566	5,133	7,393	93,734
Income (Loss) before Income Taxes and Minority Interests	5,678	5,143	(1,158)	1,821	9,280	68,286
Net Income (Loss)	6,368	1,430	(5,206)	(2,599)	3,899	76,584
	Percent					
Shareholders' Equity Ratio	59.43%	55.96%	54.24%	55.33%	57.87%	
Return on Assets	5.28	1.18	—	—	2.61	
Return on Equity	9.15	2.14	—	—	4.71	
	Millions of yen					Thousands of U.S. dollars (Note)
At Year-End:						
Net Assets	¥ 73,151	¥ 67,461	¥ 67,510	¥ 78,280	¥ 88,292	\$ 879,747
Total Assets	121,951	119,253	123,176	138,317	149,839	1,466,639
	Yen					U.S. dollars (Note)
Per Share:						
Net Assets	¥2,881.46	¥ 2,645.78	¥ 2,649.06	¥ 2,971.31	¥ 3,239.48	\$ 34.65
Net Income (Loss)						
-basic	252.65	56.68	(203.94)	(99.59)	154.13	3.04
-diluted	221.33	54.58	—	—	140.64	2.66
Cash dividends	35.00	30.00	30.00	31.00	31.00	0.42

Note: U.S.dollar amounts have been translated from yen, for convenience only, at the rate of ¥83.15=U.S.\$1.00, the approximate exchange rate prevailing on the Tokyo Foreign Exchange Market as of March 31, 2011.

CONSOLIDATED BALANCE SHEETS

Kadokawa Group Holdings, Inc. and Consolidated Subsidiaries
March 31, 2011, 2010 and 2009

	Millions of yen			Thousands of U.S. dollars (Note 1)
ASSETS	2011	2010	2009	2011
Current Assets:				
Cash and cash equivalents (Notes 4 and 5)	¥ 26,008	¥ 21,748	¥ 26,578	\$ 312,784
Marketable securities (Note 5)	—	—	499	—
Notes and accounts receivable (Note 4)	32,853	34,830	33,119	395,105
Inventories (Note 7)	12,474	11,279	9,182	150,018
Deferred tax assets (Note 15)	3,885	1,716	1,655	46,723
Others (Note 9)	2,874	5,103	3,149	34,564
Less: Allowance for doubtful accounts	(152)	(163)	(184)	(1,828)
Total Current Assets	77,942	74,513	73,998	937,366
Property and Equipment (Note 8):				
Land (Note 14)	10,531	10,532	10,509	126,651
Buildings and structures (Note 9)	15,301	15,384	15,350	184,017
Furniture and fixtures	4,362	4,287	4,410	52,459
Others	3,301	1,929	1,642	39,699
Total	33,495	32,132	31,911	402,826
Less: Accumulated depreciation	(13,614)	(13,094)	(12,387)	(163,728)
Net Property and Equipment	19,881	19,038	19,524	239,098
Investments and Other Non-Current Assets:				
Investment securities (Notes 4 and 5)	11,679	12,670	14,017	140,457
Goodwill (Note 20)	672	1,078	602	8,082
Deferred tax assets (Note 15)	2,239	1,149	932	26,927
Others (Notes 8 and 9)	9,869	11,269	14,498	118,690
Less: Allowance for doubtful accounts	(331)	(464)	(395)	(3,981)
Total Investments and Other Non-Current Assets	24,128	25,702	29,654	290,175
Total Assets	¥ 121,951	¥ 119,253	¥ 123,176	\$ 1,466,639

The accompanying notes are an integral part of these balance sheets.

	Millions of yen			Thousands of U.S. dollars (Note 1)
LIABILITIES AND NET ASSETS	2011	2010	2009	2011
Current Liabilities:				
Short-term borrowings (Notes 4 and 9)	¥ 112	¥ 399	¥ 4,150	\$ 1,347
Current portion of long-term debt (Notes 4 and 9)	462	65	11,660	5,556
Notes and accounts payable (Note 4)	17,203	18,702	19,285	206,891
Income taxes payable (Notes 4 and 15)	1,755	2,733	2,230	21,106
Allowance for employees' bonuses	1,356	1,442	1,178	16,308
Allowance for sales returns	3,526	3,820	3,305	42,405
Others (Note 10)	9,180	8,356	9,234	110,404
Total Current Liabilities	33,594	35,517	51,042	404,017
Long-Term Liabilities:				
Long-term debt (Notes 4 and 9)	11,034	11,613	939	132,700
Deferred tax liabilities (Note 15)	353	660	677	4,245
Employees' severance and retirement benefits (Note 11)	2,201	2,461	2,008	26,470
Others (Note 10)	1,618	1,541	1,000	19,460
Total Long-Term Liabilities	15,206	16,275	4,624	182,875
Contingent Liabilities	—	—	—	—
Net Assets (Notes 12 and 13):				
Shareholders' Equity:				
Common stock				
Authorized: 100,000,000 shares				
Issued: 27,260,800 shares				
in 2011, 2010 and 2009	26,331	26,331	26,331	316,669
Capital surplus	27,704	27,704	27,705	333,181
Retained earnings	27,908	22,353	21,680	335,634
Treasury stock, at cost	(6,015)	(5,879)	(5,880)	(72,339)
Total Shareholders' Equity	75,928	70,509	69,836	913,145
Accumulated Other Comprehensive Income:				
Net unrealized holding loss on securities	(687)	(2,012)	(1,585)	(8,262)
Revaluation reserve for land (Note 14)	(257)	(257)	(257)	(3,091)
Foreign currency translation adjustments	(2,505)	(1,512)	(1,183)	(30,126)
Total Accumulated Other Comprehensive Income	(3,449)	(3,781)	(3,025)	(41,479)
Minority Interests	672	733	699	8,081
Total Net Assets	73,151	67,461	67,510	879,747
Total Liabilities and Net Assets	¥ 121,951	¥ 119,253	¥ 123,176	\$ 1,466,639

CONSOLIDATED STATEMENTS OF OPERATIONS

Kadokawa Group Holdings, Inc. and Consolidated Subsidiaries

Years ended March 31, 2011, 2010 and 2009

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2011	2010	2009	2011
Net Sales	¥ 140,055	¥ 135,923	¥ 141,611	\$ 1,684,366
Cost of Sales	102,892	101,057	106,727	1,237,427
Gross Profit	37,163	34,866	34,884	446,939
Selling, General and Administrative Expenses	29,369	29,701	31,318	353,205
Operating Income	7,794	5,165	3,566	93,734
Other Income (Expenses)				
Interest and dividend income	267	345	604	3,211
Interest expenses	(156)	(137)	(104)	(1,876)
Other-net (Notes 8 and 16)	(2,227)	(230)	(5,224)	(26,783)
Net other expenses	(2,116)	(22)	(4,724)	(25,448)
Income (Loss) before Income Taxes and Minority Interests	5,678	5,143	(1,158)	68,286
Income Taxes (Note 15)				
Current	2,548	3,840	3,465	30,643
Deferred	(3,304)	(184)	507	(39,735)
Total income taxes	(756)	3,656	3,972	(9,092)
Income (Loss) before Minority Interests	6,434	1,487	(5,130)	77,378
Minority Interests in Consolidated Subsidiaries	66	57	76	794
Net Income (Loss)	¥ 6,368	¥ 1,430	¥ (5,206)	\$ 76,584
	Yen			U.S. dollars (Note 1)
	2011	2010	2009	2011
Per Share of Common Stock (Note 2(q)):				
Net income (loss) -basic	¥ 252.65	¥ 56.68	¥ (203.94)	\$ 3.04
-diluted	221.33	54.58	—	2.66
Cash dividends applicable to the year	35.00	30.00	30.00	0.42

The accompanying notes are an integral part of these statements.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

Kadokawa Group Holdings, Inc. and Consolidated Subsidiaries

Years ended March 31, 2011, 2010 and 2009

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2011	2010	2009	2011
Income before Minority Interests	¥ 6,434	¥ —	¥ —	\$ 77,378
Other Comprehensive Income (Note 17)				
Net unrealized holding loss on securities	1,325	—	—	15,935
Foreign currency translation adjustments	(989)	—	—	(11,894)
Share of other comprehensive income of associates accounted for using equity method	(56)	—	—	(673)
Total Other Comprehensive Income	280	—	—	3,368
Comprehensive Income	6,714	—	—	80,746
Comprehensive income attributable to (Note 17):				
Owners of the parent	6,699	—	—	80,565
Minority interests	15	—	—	181

The accompanying notes are an integral part of these statements.

CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS

Kadokawa Group Holdings, Inc. and Consolidated Subsidiaries

Years ended March 31, 2011, 2010 and 2009

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, 2008	¥ 26,331	¥ 27,705	¥ 28,013	¥ (4,778)	¥ 269	¥ (586)	¥ (422)	¥ 1,748	¥ 78,280
Cash dividends paid			(798)						(798)
Net loss			(5,206)						(5,206)
Purchases of treasury stock				(1,102)					(1,102)
Disposal of treasury stock		(0)		0					0
Reversal of reserve for land			(329)						(329)
Net changes					(1,854)	329	(761)	(1,049)	(3,335)
Balance at March 31, 2009	26,331	27,705	21,680	(5,880)	(1,585)	(257)	(1,183)	699	67,510
Cash dividends paid			(757)						(757)
Net income			1,430						1,430
Purchases of treasury stock				(0)					(0)
Disposal of treasury stock		(1)		1					0
Net changes					(427)		(329)	34	(722)
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)
Reversal of reserve for land			(0)						(0)
Change in scope of equity method			(56)	26					(30)
Net changes					1,325	0	(993)	(61)	271
Balance at March 31, 2011	¥ 26,331	¥ 27,704	¥ 27,908	¥ (6,015)	¥ (687)	¥ (257)	¥ (2,505)	¥ 672	¥ 73,151

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, 2010	\$316,669	\$333,181	\$268,827	\$(70,704)	\$(24,197)	\$(3,091)	\$(18,184)	\$ 8,815	\$811,316
Cash dividends paid			(9,104)						(9,104)
Net income			76,584						76,584
Purchases of treasury stock				(1,948)					(1,948)
Reversal of reserve for land			(0)						(0)
Change in scope of equity method			(673)	313					(360)
Net changes					15,935	0	(11,942)	(734)	3,259
Balance at March 31, 2011	\$316,669	\$333,181	\$335,634	\$(72,339)	\$ (8,262)	\$ (3,091)	\$ (30,126)	\$ 8,081	\$879,747

The accompanying notes are an integral part of these statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Kadokawa Group Holdings, Inc. and Consolidated Subsidiaries

Years ended March 31, 2011, 2010 and 2009

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2011	2010	2009	2011
Cash Flows from Operating Activities:				
Income (loss) before income taxes and minority interests	¥ 5,678	¥ 5,143	¥ (1,158)	\$ 68,286
Adjustments to reconcile income (loss) before income taxes and minority interests to net cash provided by (used in) operating activities:				
Depreciation and amortization	2,259	2,243	3,341	27,168
Equity in losses of affiliated companies	7	627	510	84
Loss on devaluation of investment securities	2,226	155	4,109	26,771
Impairment loss of long-lived assets (Note 8)	282	145	2,253	3,391
Decrease (increase) in notes and accounts receivable	2,084	253	(226)	25,063
Increase in inventories	(1,196)	(1,505)	(78)	(14,384)
Decrease in notes and accounts payable	(1,358)	(1,190)	(2,858)	(16,332)
Other—net	(471)	(1,037)	(1,967)	(5,663)
Subtotal	9,511	4,834	3,926	114,384
Interest and dividends received	325	351	664	3,908
Interest paid	(155)	(145)	(95)	(1,864)
Income taxes paid	(4,039)	(3,050)	(4,532)	(48,575)
Net Cash Provided by (Used in) Operating Activities	5,642	1,990	(37)	67,853
Cash Flows from Investing Activities:				
Net changes in time deposit	2,268	(355)	(56)	27,276
Purchases of marketable securities	—	—	(1,998)	—
Proceeds from sales of marketable securities	—	500	2,500	—
Purchases of investment securities	(678)	(412)	(265)	(8,154)
Proceeds from sales of investment securities	563	1,224	1,367	6,771
Payment for acquisition of interests in subsidiaries newly consolidated (Note 3)	—	(1,922)	—	—
Purchases of property and equipment	(2,004)	(752)	(1,506)	(24,101)
Other—net	189	737	125	2,273
Net Cash Provided by (Used in) Investing Activities	338	(980)	167	4,065
Cash Flows from Financing Activities:				
Net changes in short-term borrowings	(268)	(3,833)	129	(3,223)
Proceeds from issuance of long-term debt	—	10,990	—	—
Repayment of long-term debt	(130)	(12,015)	(368)	(1,563)
Purchases of treasury stock	(162)	(0)	(1,075)	(1,948)
Cash dividends paid	(757)	(757)	(798)	(9,104)
Other—net	23	21	(81)	276
Net Cash Used in Financing Activities	(1,294)	(5,594)	(2,193)	(15,562)
Effect of Exchange Rate Changes	(426)	(246)	(504)	(5,123)
Net Increase (Decrease) in Cash and Cash Equivalents	4,260	(4,830)	(2,567)	51,233
Cash and Cash Equivalents at Beginning of Year	21,748	26,578	29,145	261,551
Cash and Cash Equivalents at End of Year	¥ 26,008	¥ 21,748	¥ 26,578	\$ 312,784

The accompanying notes are an integral part of these statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Kadokawa Group Holdings, Inc. and Consolidated Subsidiaries
Years ended March 31, 2011, 2010 and 2009

1. Basis of Presenting Consolidated Financial Statements

The accompanying consolidated financial statements of Kadokawa Group Holdings, Inc. ("the Company") and its consolidated subsidiaries 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 from International Financial Reporting Standards.

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

The accompanying consolidated financial statements have been restructured and translated into English from the consolidated finan-

cial 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. 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, 2011, which was ¥83.15 to U.S. \$1.00. The convenience translation should not be construed as representation 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 subsidiaries. All significant inter-company transactions, balances and unrealized profits or losses have been eliminated in consolidation.

The investments in affiliated companies (all 20% to 50% owned and certain others 15% to 20% owned) are accounted for by the equity method.

Certain subsidiaries have their fiscal year-end at December 31 and their operating results and financial position are consolidated by making appropriate adjustments of inter-company transactions during three months 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 in 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 recorded based on the fair value at the time the Company acquired control of the respective subsidiaries.

(b) Derivatives and Hedge Accounting

The accounting standard for financial instruments requires companies to state derivative financial instruments at fair value and to recognize changes in the fair value as gains or losses unless derivative financial instruments are used for and qualify as hedges, in which case the instrument gains and losses are deferred until the related losses or gains on the hedged items are also recognized.

However, if interest rate swap contracts are used as hedges and meet certain hedging criteria, the net amount to be paid or received under the interest rate swap contract is reported as part of net interest expense.

(c) 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 financial statements of overseas subsidiaries are translated into Japanese yen using the year-end rate except for shareholders' equity using the historical rate.

(d) 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.

(e) 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) for all other securities that are not classified in any of the above categories (hereafter, "available-for-sale securities").

The Company and its subsidiaries (the "Companies") don't have trading securities. Held-to-maturity debt securities are stated at amortized cost.

The other securities with available fair market values are stated at fair market value. Unrealized gains and unrealized losses on these securities are reported, net of applicable income taxes, as a separate component of net assets. Cost of such securities for sales is computed using the moving-average method. Derivatives, which are embedded in hybrid financial instruments and cannot be accounted separately from the host contracts, are stated at fair

market value and their valuation gains (losses) are recorded as other income (expenses).

The other securities without available fair market values are stated at cost determined by the moving-average method.

(f) Inventories

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

Merchandises and raw materials are stated at cost determined by the first-in first-out method. Finished products and supplies are stated at cost determined by the weighted-average method. Films and work-in-process are stated at cost determined by the specific identification method. Costs of films are amortized using the method prescribed by the Japanese tax laws.

(g) Property and Equipment

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

Some 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 is depreciated using the straight-line method over the lease term of the respective assets.

The ranges of useful lives for computing depreciation are generally as follows:

Buildings and structures	3 to 50 years
Furniture and fixtures	2 to 20 years

(h) Amortization

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

(i) Impairment Loss of Long-Lived Assets

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

(j) Allowance for Doubtful Accounts

The 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.

(k) Allowance for Employees' Bonuses

The Companies provide allowance for employees' bonuses based on estimated amounts to be paid in the subsequent period.

(l) 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 the historical sales returns.

(m) Allowance for loss on disaster

The Companies provide allowance for estimated losses on assets damaged by the Great East Japan Earthquake. The allowance for loss on disaster is included in other current liabilities.

(n) Employees' Severance and Retirement Benefits

The Companies provide allowance for employees' severance and retirement benefits at the balance sheet date based on the estimated amounts of the projected benefit obligation and the fair value of the plan assets at that date.

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

(Change in accounting policy)

Effective from the year ended March 31, 2010, the Company and consolidated domestic subsidiaries adopted the "Partial Amendments to Accounting Standard for Retirement Benefits (Part 3)" (Accounting Standards Board of Japan ("ASBJ") Statement No.19 issued on July 31, 2008).

The new accounting standard requires domestic companies to use the rate of return on long-term government or gilt-edged bonds as of the end of the fiscal year for calculating the projected benefit obligation of a defined-benefit plan.

Previously, domestic companies were allowed to use a discount rate determined taking into consideration fluctuations in the yield of long-term government or gilt-edged bonds over a certain period.

The change had no effect on the consolidated statement of income for the year ended March 31, 2010.

The difference in the projected benefit obligations at March 31, 2010 calculated pursuant to the new accounting standard and the previous accounting standard amounted to ¥12 million, which will be recognized as loss in the periods commencing after March 31, 2010.

(o) Bond Issue Costs

All bond issue costs are charged to income when incurred and included in other expenses.

(p) Income Taxes

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

(Additional information)

The Company and some of its domestic subsidiaries are approved to adopt the consolidated taxation system in March 2011. Accordingly, deferred tax assets as of March 31, 2011 are accounted for based on the adoption of the consolidated taxation system in accordance with "Accounting for income taxes in the adoption of the consolidated taxation system No. 1 and No. 2" (ASBJ Practical Issues Task Force No.5 and No.7).

(q) Net Income (Loss) Per Share

Net income (loss) 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.

(r) Accounting for Leases

The Company and consolidated domestic subsidiaries capitalize finance lease assets which do not transfer ownership of the leased property to the lessee, except for certain immaterial or short-term finance leases, which are accounted for as operating leases.

As permitted, finance leases which commenced prior to April 1, 2008 and have been accounted for as operating leases, continue to be accounted for as operating leases with disclosure of certain "as if capitalized" information.

(s) Accounting standard for Asset Retirement Obligations

Effective April 1, 2010, the Company and its consolidated domestic subsidiaries adopted "Accounting Standards for Asset Retirement Obligations" (ASBJ Statement No. 18 issued on March 31, 2008) and "Guidance on Accounting Standards for Assets Retirement Obligations" (ASBJ Guidance No. 21, issued on March 31, 2008).

As a result of adopting these standards, operating income and

income before income taxes and minority interests decreased by ¥67 million (\$806 thousand) and ¥475 million (\$5,713 thousand), respectively for the year ended March 31, 2011.

(t) Presentation of Comprehensive income

Effective from the year ended March 31, 2011, the Companies adopted "Accounting Standard for Presentation of Comprehensive Income" (ASBJ Statement No. 25 on June 30, 2010) and "Revised Accounting Standard for Consolidated Financial Statements" (ASBJ Statement No. 22, revised on June 30, 2010).

As a result of the adoption of these standards, the Companies have presented the consolidated statement of comprehensive income in the consolidated financial statements for the year ended March 31, 2011.

The consolidated balance sheets as of March 31, 2010 and 2009 have been modified to conform to the new presentation rules of 2011.

(u) Reclassification and Restatement

Certain prior year amounts have been reclassified to conform to the current year presentation.

The reclassifications had no effect on previously reported results of operations or retained earnings.

3. Consolidated Statement of Cash Flows

For the year ended March 31, 2010, the Company newly consolidated subsidiaries due to the acquisition of the shares. The assets and liabilities at the beginning of the consolidation period of newly

consolidated subsidiaries utilized in the computation of consolidation for the year ended March 31, 2010 and the net acquisition cost of investments are as follows:

	Millions of yen
	2010
Current assets	¥ 4,549
Non-current assets	543
Goodwill	809
Current liabilities	(1,567)
Long-term liabilities	(578)
Negative goodwill	(408)
Acquisition costs	3,348
Cash and cash equivalents of the subsidiaries	(1,486)
Loan to subsidiaries until deemed date of acquisition	60
Net acquisition cost of investments	¥ 1,922

4. Financial Instruments

Effective from the fiscal year ended March 31, 2010, the Company and consolidated domestic subsidiaries adopted the revised accounting standard, "Accounting Standard for Financial Instruments" (ASBJ Statement No. 10 revised on March 10, 2008) and the "Guidance on Disclosures about Fair Value of Financial Instruments" (ASBJ Guidance No. 19 revised on March 10, 2008).

Information on financial instruments for the years ended March 31, 2011 and 2010 required pursuant to the revised accounting standards is as follows.

A. Qualitative Information on Financial Instruments

(a) Policies for using Financial Instruments

The Companies draw up projections for working capital and investment in order to carry out their business. The Companies

raise the long-term funds through bonds and stock issuances, the short-term working capital through bank loans.

The Companies manage temporary surplus through financial instruments with low risk and have a policy not to conclude any speculative transactions.

(b) Details of Financial Instruments and Associated Risk

Trade receivables—trade notes and accounts receivable—are exposed to credit risk in relation to customers. Trade receivables for distributors which mediate bookstores account for the large part in the Companies and their amounts are quite high level even though the credit risk is recognized as low. The Companies are exposed to decreasing risk of share value in relation to investment securities which are owned in order to keep good

business relationships.

Almost all the trade payables—trade notes and accounts payable—are settled within one year.

Loans and bonds for capital and business investment are redeemed within four years after the fiscal year ended.

Derivative transactions are interest rate swap transactions for hedging of interest rate fluctuation risk.

(c) Risk Management System Relating to Financial Instruments

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

The Companies periodically monitor credit status of main business partners as to the trade receivables. The Companies also manage due dates and balances of the trade receivables as well as attempt to grasp the doubtful accounts and to reduce them if the financial situations of the business partners become worse.

With regard to the held-to-maturity debt securities, the credit risk is minimal because the Companies invest only bonds with high credit ratings in accordance with the stipulation of fund management.

As for the derivative transactions, the Companies contract with banks with high credit ratings so that the Companies recognize that there is little credit risk due to the default by the contractors.

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

The Companies use interest rate swaps to control fluctuation risk of interest in relation to loans.

As for investment securities, the Companies periodically grasp the market price and financial situation of the issuer (business partners). And also, for investment securities excluding held-to-maturity debt securities, the Companies consecutively reconsider shareholding status depending on the relationship

with the business partners.

With respect to the execution and managing of derivative transactions, the finance division must obtain approval from an authorized person in accordance with the rule of the Companies.

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

The Companies adopt a Cash-Management-System, and the treasury division prepares and renews financial plans in a timely manner based on the reports by the consolidated subsidiaries which participate in this system as well as manages liquidity risk by keeping liquidity adequately in hand.

Bonds payable are convertible-bonds with five-year-maturities and the Companies are exposed to liquidity risk of redemption of bonds without being exercised. The Companies manage the risk by keeping liquidity in hand with the method stated above.

(d) Supplementary Explanation on Fair value of Financial Instruments

Fair values of financial instruments are based on market price and calculated reasonably when there is no market price. Since fluctuating factors are incorporated in calculating the relevant fair values, such fair values may fluctuate depending on the different assumptions. The notional amounts and other information described in the Note 6 “Derivative Financial Instruments and Hedging Transactions” do not indicate the amounts of market risk exposed to derivative transactions.

B. Fair Values of Financial Instruments

The book value on the consolidated balance sheet, fair value and its differences at March 31, 2011 and 2010 are as follows. Financial instruments for which it is difficult to measure the fair value are not included in the following tables. Please see Note 3:

	Millions of yen		
	Book value	Fair value	Difference
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)
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
Total	¥ 30,566	¥ 30,611	¥ 45
March 31, 2010			
Cash and cash equivalents	¥ 21,748	¥ 21,748	¥ —
Notes and accounts receivable	34,830	34,830	—
Investment securities	8,149	7,853	(296)
Total	64,727	64,431	(296)
Notes and accounts payable	18,702	18,702	—
Short-term borrowings and current portion of long-term debt	464	464	—
Income taxes payable	2,733	2,733	—
Long-term debt	11,613	11,618	5
Total	¥ 33,512	¥ 33,517	¥ 5

	Thousands of U.S. dollars		
	Book value	Fair value	Difference
March 31, 2011			
Cash and cash equivalents	\$ 312,784	\$ 312,784	\$ —
Notes and accounts receivable	395,105	395,105	—
Investment securities	89,982	86,494	(3,488)
Total	797,871	794,383	(3,488)
Notes and accounts payable	206,891	206,891	—
Short-term borrowings and current portion of long-term debt	6,903	6,903	—
Income taxes payable	21,106	21,106	—
Long-term debt	132,700	133,241	541
Total	\$ 367,600	\$ 368,141	\$ 541

Note 1: Fair value measurement of financial instruments

(a) Cash and cash equivalents and Notes and accounts receivables

The book value approximates fair value because of the short maturity of these instruments.

(b) Investment securities

The fair value of equity securities equals quoted market price, if available. The fair value of debt securities equals quoted market price or provided price by financial institutions. Investment securities based on holding purpose are described in Note 5 "Securities."

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

The book value approximates fair value because of the short maturity of these instruments.

(d) Long-term debt

The fair value of bonds payable is based on the present value of the total amount of principal and interest discounted by an interest rate determined taking into account the remaining term of each bond and current credit risk.

The fair value of long-term loans payable is based on the present value of the total amount of principal and interest discounted by the interest rate to be applied if similar new loans are made.

Note 2: Derivative financial instruments

For information on derivative financial instruments, please see Note 6 "Derivative Financial Instruments and Hedging Transactions."

Note 3: Financial instruments for which the fair value is extremely difficult to measure.

	Millions of yen		Thousands of U.S. dollars
	2011	2010	2011
Non-listed equity securities issued by affiliated companies	¥ 1,537	¥ 1,336	\$ 18,484
Non-listed equity securities other than the above	2,634	3,121	31,678
Total	4,171	4,457	50,162
Investments in business limited partnership	26	64	313

Because no quoted market price is available and it is extremely difficult to determine the fair value, the above financial instruments are not included in the above table.

Note 4: Planned redemption amounts after the balance sheet date for monetary assets and investment securities are as follows:

	Millions of yen			
	Due within one year	Due after one year through five years	Due after five years through ten years	Due after ten years
Cash and cash equivalents	¥ 25,905	¥ —	¥ —	¥ —
Notes and accounts receivables	32,853	—	—	—
Investment securities	—	—	—	—
Held-to-maturity debt securities	—	—	832	832
Available-for-sale securities	—	1,000	—	—
Total	¥ 58,758	¥ 1,000	¥ 832	¥ 832

	Thousands of U.S. dollars			
	Due within one year	Due after one year through five years	Due after five years through ten years	Due after ten years
Cash and cash equivalents	\$ 311,546	\$ —	\$ —	\$ —
Notes and accounts receivables	395,105	—	—	—
Investment securities	—	—	—	—
Held-to-maturity debt securities	—	—	10,006	10,006
Available-for-sale securities	—	12,026	—	—
Total	\$ 706,651	\$ 12,026	\$ 10,006	\$ 10,006

Note 5: For redemption schedule of long-term debt after March 31, 2011, refer to Note 9 "Short-Term Borrowings and Long-Term Debt."

5. Securities

A. The following tables summarize acquisition costs, book values and fair values of securities with available fair values as of March 31, 2011, 2010 and 2009:

(a) Held-to-Maturity Debt Securities:

	Millions of yen			
	Book value	Unrealized gains	Unrealized losses	Fair value
March 31, 2011				
Securities with available fair values:				
Corporate bonds	¥ —	¥ —	¥ —	¥ —
Others	1,663	—	290	1,373
March 31, 2010				
Securities with available fair values:				
Corporate bonds	—	—	—	—
Others	1,861	—	296	1,565
March 31, 2009				
Securities with available fair values:				
Corporate bonds	499	0	—	499
Others	2,964	1	221	2,744

	Thousands of U.S. dollars			
	Book value	Unrealized gains	Unrealized losses	Fair value
March 31, 2011				
Securities with available fair values:				
Corporate bonds	\$ —	\$ —	\$ —	\$ —
Others	20,000	—	3,488	16,512

(b) Available-for-Sale Securities:

	Millions of yen			
	Acquisition cost	Unrealized gains	Unrealized losses	Book value
March 31, 2011				
Securities with available fair values:				
Equity securities	¥ 6,308	¥ 77	¥ 1,028	¥ 5,357
Bonds	38	424	—	462
March 31, 2010				
Securities with available fair values:				
Equity securities	8,132	388	2,401	6,119
Bonds	38	131	—	169
March 31, 2009				
Securities with available fair values:				
Equity securities	8,508	984	2,555	6,937
Bonds	153	—	111	42

	Thousands of U.S. dollars			
	Acquisition cost	Unrealized gains	Unrealized losses	Book value
March 31, 2011				
Securities with available fair values:				
Equity securities	\$ 75,863	\$ 926	\$ 12,363	\$ 64,426
Bonds	457	5,099	—	5,556

(c) Change the Intent of Holding:

For the year ended March 31, 2009, the Company had changed the intent of holding some three bonds held as "held-to-maturity debt securities" as of March 31, 2008 to "available-for-sale securities" due to declining the credit rating of the bonds.

The Company had devaluated book value of the bonds and charged ¥2,345 million to income statement as "loss on devaluation of investment securities" with the change in the intent of holding for the year ended March 31, 2009.

B. The following tables summarize book values of available-for-sale securities with no available fair values as of March 31, 2011, 2010 and 2009:

	Millions of yen			Thousands of U.S. dollars
	2011	2010	2009	2011
Non-listed equity securities	¥ 2,634	¥ 3,121	¥ 2,812	\$ 31,678
Investments in business limited partnership	26	64	102	313
Total	¥ 2,660	¥ 3,185	¥ 2,914	\$ 31,991

C. The proceeds and gross realized gains (losses) from sales of available-for-sale securities for the years ended March 31, 2011, 2010 and 2009 are as follows:

	Millions of yen			Thousands of U.S. dollars
	2011	2010	2009	2011
Proceeds	¥ 558	¥ 963	¥ 1,453	\$ 6,711
Gross realized gains	335	596	898	4,029
Gross realized losses	—	(10)	(71)	—

6. Derivative Financial Instruments and Hedging Transactions

Certain subsidiaries use interest rate swaps as derivative financial instruments only for the purpose of mitigating future risks of fluctuation of interest rates.

The subsidiaries evaluate hedge effectiveness, however if an important condition of hedging instruments and hedged items is the same, the verification of the effect of hedging is omitted.

The following tables summarize derivative transactions for which hedge accounting has been adopted for the year ended March 31, 2011 and 2010:

<Interest-related transactions>

Year ended March 31, 2011

Hedge accounting method	Type of transaction	Main hedge items	Millions of yen		
			Contracted amount	Over one year	Fair value (Note 1)
Special method for interest rate swaps	Interest rate swap Pay fixed receive floating	Current portion of long-term loan payable	¥ 418	¥ —	¥ —

Year ended March 31, 2010

Hedge accounting method	Type of transaction	Main hedge items	Millions of yen		
			Contracted amount	Over one year	Fair value (Note 1)
Special method for interest rate swaps	Interest rate swap Pay fixed receive floating	Long-term loan payable	¥ 475	¥ 475	¥ —

Year ended March 31, 2011

Hedge accounting method	Type of transaction	Main hedge items	Thousands of U.S. dollars		
			Contracted amount	Over one year	Fair value (Note 1)
Special method for interest rate swaps	Interest rate swap Pay fixed receive floating	Current portion of long-term loan payable	\$ 5,027	\$ —	\$ —

Note 1: Items calculated by the special method for interest rate swaps are treated together with long-term loan payable that are taken to be hedged items, so their fair value is booked as part of the appropriate long term loan payable.

Note 2: As discussed in Note 4, effective from the fiscal year ended March 31, 2010, the revised accounting standard, "Accounting Standard for Financial Instruments" had been applied, so information for the year ended March 31, 2009 are not listed.

7. Inventories

Inventories at March 31, 2011, 2010 and 2009 are summarized as follows:

	Millions of yen			Thousands of U.S. dollars
	2011	2010	2009	2011
Merchandise	¥ 595	¥ 519	¥ 661	\$ 7,156
Finished products	3,601	4,127	3,434	43,307
Films	89	727	385	1,070
Raw materials and supplies	47	50	47	565
Work-in-process	8,142	5,856	4,655	97,920
Total	¥ 12,474	¥ 11,279	¥ 9,182	\$ 150,018

8. Impairment Loss of Long-Lived Assets

Breakdown of impairment loss of long-lived assets for the years ended March 31, 2011, 2010 and 2009 are as follows:

Year ended March 31, 2011

Use and location	Category	Millions of yen	Thousands of U.S. dollars
Idle assets:			
Chiyoda-ku, Tokyo	Software	¥ 206	\$ 2,477
Kawagoe-shi, Saitama	Buildings and structures	29	349
Sub-total		235	2,826
Assets used by Kadokawa Gakugei Shuppan Publishing Co., Ltd.:			
Bunkyo-ku, Tokyo	Finance lease assets	26	313
	Others	9	108
Sub-total		35	421
Assets used by head office of Kadokawa Pictures, Inc.:			
Chiyoda-ku, Tokyo, etc.	Land	1	12
	Finance lease assets	7	84
Sub-total		8	96
Assets used by Words Gear, Inc.:			
Chiyoda-ku, Tokyo	Software	2	24
	Others	2	24
Sub-total		4	48
Total		¥ 282	\$ 3,391

Year ended March 31, 2010

Use and location	Category	Millions of yen
Assets used by head office of Kadokawa Pictures, Inc.:		
Chiyoda-ku, Tokyo, etc.	Buildings and structures	¥ 30
	Furniture and fixtures	13
	Land	10
	Software	22
	Finance lease assets	40
	Others	0
Sub-total		115
Theater:		
Shinjuku-ku, Tokyo	Furniture and fixtures	30
Sub-total		30
Total		¥ 145

Year ended March 31, 2009

Use and location	Category	Millions of yen
Assets used by head office of Kadokawa Pictures, Inc.:		
Chiyoda-ku, Tokyo, etc.	Buildings and structures	¥ 108
	Furniture and fixtures	25
	Land	34
	Software	29
	Finance lease assets	21
	Others	3
Sub-total		220
Theater:		
Shinjuku-ku, Tokyo	Buildings and structures	110
	Furniture and fixtures	227
	Others	7
Shibuya-ku, Tokyo	Buildings and structures	8
	Others	6
Osaka-shi, Osaka	Buildings and structures	64
	Others	2
Sub-total		424
Cinema complex:		
Satte-shi, Saitama	Buildings and structures	217
	Finance lease assets	17
	Others	1
Okazaki-shi, Aichi	Buildings and structures	488
	Finance lease assets	118
	Others	17
Hirakata-shi, Osaka	Buildings and structures	439
	Finance lease assets	96
	Others	12
Kumamoto-shi, Kumamoto	Buildings and structures	142
	Finance lease assets	11
	Others	1
Sub-total		1,559
Assets owned by Kadokawa Mobile Corporation:		
Chiyoda-ku, Tokyo	Software	30
	Others	12
Sub-total		42
Assets owned by Kadokawa Magazines Co., Ltd.:		
Chiyoda-ku, Tokyo	Others	8
Total		¥ 2,253

The Companies adopt accounting for impairment of long-lived assets, namely property and equipment, goodwill and other long-lived assets. The Companies, as a general rule, categorize operating assets by business unit based on whether their cash flows can be estimated independently, whereas idle assets are assigned to a particular asset group on an individual basis. The Companies marked down the book value of asset groups where there had been a significant decline in profitability, valued to the recoverable amount and recorded the impairment loss on long lived assets of ¥282 million (\$3,391 thousand), ¥145 million and ¥2,253 million for

the years ended March 31, 2011, 2010 and 2009 respectively, under the other expenses section.

For assets used by head office of Kadokawa Pictures, Inc. and “building and structures” categorized in idle assets, the recoverable amount was computed by the net realizable value.

For the other assets in use, the recoverable amount was computed by the net discounted cash flow with the discounted rate of 4.78%, 4.62% and 5.61% for the years ended March 31, 2011, 2010 and 2009, respectively.

9. Short-Term Borrowings and Long-Term Debt

Short-term borrowings at March 31, 2011, 2010 and 2009 consist of notes to banks. The interest rates on short-term borrowings at March 31, 2011, 2010 and 2009 ranged from 1.69% to 2.23%, from 0.00% to 2.30%, and from 1.07% to 3.43%, respectively.

The Company has commitment-line contract of ¥10,000 million

(\$120,265 thousand) with some financial institutions. The contract includes restrictive financial covenants, so the Company takes risks to repay all the debt at once if conflict with the covenants. The Company does not utilize the commitment-line contract as of March 31, 2011, 2010 and 2009.

Long-term debt at March 31, 2011, 2010 and 2009 are summarized as follows:

	Millions of yen			Thousands of U.S. dollars
	2011	2010	2009	2011
Unsecured Japanese yen convertible bonds—bonds with share subscription rights and with interest rate of 1.00% per annum—due in 2014, convertible at ¥2,802.00 for one common share, redeemable before due date	¥ 11,000	¥ 11,000	¥ —	\$ 132,291
Unsecured zero coupon Japanese yen convertible bonds—bonds with share subscription rights—due in 2009, convertible at ¥4,760.20 for one common share, redeemable before due date	—	—	11,400	—
Loans from banks				
Unsecured loans				
1.60-5.50%, due 2011 to 2014	496			5,965
2.00-5.50%, due 2010 to 2014		678		
2.55-5.50%, due 2009 to 2012			1,199	
Total	11,496	11,678	12,599	138,256
Less current portion	(462)	(65)	(11,660)	(5,556)
Long-term debt, less current portion	¥ 11,034	¥ 11,613	¥ 939	\$ 132,700

The aggregate annual maturities of long-term debt are as follows:

Years ended March 31	Millions of yen	Thousands of U.S. dollars
2012	¥ 462	\$ 5,556
2013	31	373
2014	2	24
2015	11,001	132,303
Total	¥ 11,496	\$ 138,256

At March 31, 2011, the following assets were pledged as collateral for opening letters of guarantee and credit, and bank overdraft:

	Millions of yen	Thousands of U.S. dollars
Time deposits	¥ 1	\$ 12
Buildings and structures	59	710
Long-term prepaid expenses	84	1,010
Total	¥ 144	\$ 1,732

10. Asset Retirement Obligations

The asset retirement obligations are based on estimated future restoration obligations pursuant to the land lease agreements of cinema-complex and other obligations. The asset retirement obli-

gation is calculated based on the estimated period and discounted principally by 1.8% discount rate.

The asset retirement obligations as of March 31, 2011 are as follows:

	Millions of yen	Thousands of U.S. dollars
	2011	2011
Beginning of balance (Note)	¥ 145	\$ 1,744
Foreign currency translation adjustments	(0)	(0)
Reconciliation associated with passage of time	2	24
End of balance	¥ 147	\$ 1,768

Note: The balance of the asset retirement obligation at beginning of the year was determined based on the guidance set forth in "Accounting Standards for Asset Retirement Obligations" (ASBJ Statement No.18 issued on March 31, 2008) and "Guidance on Accounting Standards for Assets Retirement Obligations" (ASBJ Guidance No. 21, issued on March 31, 2008).

The Company and its domestic subsidiaries newly adopted the above standard and guidance effective April 1, 2010.

11. Employees' Severance and Retirement Benefits

The liabilities for severance and retirement benefits included in the liability section of the consolidated balance sheets as of March 31, 2011, 2010 and 2009 consist of the following:

	Millions of yen			Thousands of U.S. dollars
	2011	2010	2009	2011
Projected benefit obligation	¥ 4,308	¥ 4,626	¥ 4,470	\$ 51,810
Unrecognized actuarial differences	107	137	(318)	1,287
Less fair value of pension assets	(2,214)	(2,302)	(2,144)	(26,627)
Liability for severance and retirement benefits	¥ 2,201	¥ 2,461	¥ 2,008	\$ 26,470

Severance and retirement benefit expenses included in the consolidated statements of operations for the years ended March 31, 2011, 2010 and 2009 comprise the following:

	Millions of yen			Thousands of U.S. dollars
	2011	2010	2009	2011
Service costs—benefits earned during the year	¥ 516	¥ 428	¥ 538	\$ 6,206
Interest cost on projected benefit obligation	44	53	53	529
Expected return on plan assets	(18)	(18)	(8)	(216)
Amortization of actuarial differences	(3)	85	59	(36)
Contribution to welfare pension fund	316	337	363	3,800
Extra retirement benefits paid	13	31	22	156
Severance and retirement benefit expenses	¥ 868	¥ 916	¥ 1,027	\$ 10,439

The discount rate and the rate of expected return on plan assets are from 1.3% to 1.7% and 1.0%, respectively for the years ended March 31, 2011 and 2010, are 1.5% and 1.0%, respectively for the year ended March 31, 2009.

The estimated amount of all retirement benefits to be paid at the future retirement date is allocated equally to each service year using the estimated number of total service years. Actuarial gains and losses are recognized in the statement of operations using the straight-line method over the next five years.

(Additional information)

Certain domestic subsidiary had changed computation method of liability for severance and retirement benefits due to increases in employees for the year ended March 31, 2010. This change is to calculate the liabilities more accurately than prior computation method.

As a result of change, differences of the liability for severance and retirement benefits computed by new method and by prior method as of April 1, 2009 is ¥278 million, and the subsidiary charges the differences to income statement as "Retirement benefit expenses for prior periods" in other income (expenses) section.

12. Net Assets

Net assets comprise four sections, which are shareholders' equity, accumulated other comprehensive income, share subscription rights and minority interests.

Under the Japanese Corporate Laws ("the Law") and 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.

In cases where a dividend distribution of surplus is made, the smaller of an amount equal to 10% of the dividend or the excess, if any, of 25% of common stock over the total of additional paid-in capital and legal earnings reserve must be set aside 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, respectively, 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 Laws.

At the annual shareholders' meeting held on June 25, 2011, the shareholders approved cash dividends amounting to ¥880 million (\$10,583 thousand). Such appropriations have not been accrued in the consolidated financial statements as of March 31, 2011. Such appropriations are recognized in the period in which they are approved by the shareholders.

13. Consolidated Statements of Changes in Net Assets

Changes in number of shares issued and outstanding during the years ended March 31, 2011, 2010 and 2009 are as follows:

	2011	2010	2009
Common stock outstanding			
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			
Balance at beginning of year	2,040,224	2,040,248	1,504,002
Increases:			
Purchases based on resolution of the board of directors	79,200	—	523,700
Purchases by affiliated company	—	—	12,173
Purchases of odd stock	104	74	601
Decreases:			
Change in scope of equity method	(12,314)	—	—
Sales of odd stock	—	(98)	(228)
Balance at end of year	2,107,214	2,040,224	2,040,248

14. Revaluation Reserve for Land

Pursuant to Article 2, Paragraphs 3 Enforcement Ordinance for the Law concerning Revaluation Reserve for Land (the "Law"), the Company recorded its owned 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 the net assets.

As of March 31, 2011, 2010 and 2009, the fair value of the land declined ¥495 million (\$5,953 thousand), ¥159 million and ¥661 million, respectively.

15. Income Taxes

Taxes on income applicable to the Companies resulted in a normal statutory tax rate of approximately 40.69% for the years ended March 31, 2011, 2010 and 2009, respectively. The actual effective

tax rate in the accompanying consolidated statements of operations differed from the normal statutory tax rate due principally to certain expenses that are permanently non-deductible for tax purposes.

The following table summarizes the significant differences between the statutory tax rate and effective tax rate of the Companies for financial statement purposes for the years ended March 31, 2011, 2010 and 2009:

	2011	2010	2009
Statutory tax rate	40.69 %	40.69 %	40.69 %
Non-deductible expenses	2.93	3.09	(16.69)
Change in valuation allowance on deferred tax	(60.19)	20.72	(304.41)
Amortization of goodwill	2.64	1.99	(38.74)
Equity in losses of affiliated companies	0.05	4.96	(17.90)
Others	0.57	(0.36)	(5.76)
Effective tax rate	(13.31)%	71.09 %	(342.81)%

Significant components of the Companies' deferred tax assets and liabilities as of March 31, 2011, 2010 and 2009 are as follows:

	Millions of yen			Thousands of U.S. dollars
	2011	2010	2009	2011
Deferred tax assets (Current assets):				
Devaluation of inventories	¥ 721	¥ 656	¥ 723	\$ 8,671
Allowance for employees' bonuses	541	560	456	6,506
Accrued enterprise taxes	123	213	180	1,479
Accrued expenses	377	445	316	4,534
Tax loss carry-forwards	1,591	—	235	19,134
Other temporary difference	690	441	348	8,299
Gross deferred tax assets (Current assets)	4,043	2,315	2,258	48,623
Less: Valuation allowance	(158)	(599)	(603)	(1,900)
Total deferred tax assets (Current assets)	3,885	1,716	1,655	46,723
Deferred tax assets (Non-current assets):				
Impairment loss	1,527	1,644	1,760	18,364
Loss on devaluation of investment securities	1,861	1,063	1,698	22,381
Loss on devaluation of memberships	240	234	233	2,886
Liability for severance and retirement benefits	899	1,006	817	10,812
Long-term accounts payable	280	323	178	3,367
Unrealized gain on fixed assets	206	203	199	2,477
Tax loss carry-forwards	5,755	8,303	5,225	69,212
Revaluation reserve for land	105	105	105	1,263
Net unrealized holding loss on securities	389	822	660	4,678
Other temporary difference	603	368	278	7,254
Gross deferred tax assets (Non-current assets)	11,865	14,071	11,153	142,694
Less: Valuation allowance	(9,043)	(12,901)	(10,221)	(108,755)
Total deferred tax assets (Non-current assets)	2,822	1,170	932	33,939
Deferred tax liabilities (Non-current liabilities):				
Unrealized loss on fixed assets	652	654	656	7,841
Net unrealized holding gain on securities	—	—	21	—
Other temporary difference	284	27	—	3,416
Total deferred tax liabilities (Non-current liabilities)	936	681	677	11,257
Net deferred tax assets	¥ 5,771	¥ 2,205	¥ 1,910	\$ 69,405

16. Other Income (Expenses), Other—Net

Other income (expenses), other—net consisted of the following:

	Millions of yen			Thousands of U.S. dollars
	2011	2010	2009	2011
Net gain on sales of investment securities	¥ 680	¥ 510	¥ 828	\$ 8,178
Net loss on valuation of investment securities	(1,951)	(16)	(4,064)	(23,464)
Net gain (loss) on changes holding ratio of subsidiaries and affiliated companies	—	(80)	15	—
Equity in losses of affiliated companies	(7)	(627)	(510)	(84)
Gain on sales of used papers	159	131	222	1,912
Insurance received	58	187	219	698
Gain from settlement of beneficial interest in trust	—	—	115	—
Impairment loss of long-lived assets	(282)	(145)	(2,253)	(3,391)
Retirement benefit expenses for prior periods	—	(278)	—	—
Special retirement expenses	(139)	(7)	(152)	(1,672)
Loss on adjustment for changes of accounting standard for asset retirement obligations	(408)	—	—	(4,907)
Allowance for loss on disaster	(412)	—	—	(4,955)
Other—net	75	95	356	902
Total	¥ (2,227)	¥ (230)	¥ (5,224)	\$ (26,783)

17. Consolidated Statements of Comprehensive Income

Comprehensive income for the year ended March 31, 2010 is as follows:

	Millions of yen
	2010
Attributable to owners of the parent	¥ 674
Attributable to minority interests	65
Total	¥ 739

Other comprehensive income for the year ended March 31, 2010 is as follows:

	Millions of yen
	2010
Net unrealized holding loss on securities	¥ (427)
Foreign currency translation adjustments	(324)
Share of other comprehensive income of associates accounted for using equity method	3
Total	¥ (748)

18. Lease Transactions

As discussed in Note 2 (r), finance leases commenced prior to April 1, 2008 which do not transfer ownership of leased assets to lessees are accounted for as operating leases.

Assumed amounts of such finance leases as of and for the years ended March 31, 2011, 2010 and 2009, are as follows:

(a) Finance Lease Assets:

	Millions of yen			Thousands of U.S. dollars
	2011	2010	2009	2011
Acquisition cost:				
Buildings and structures	¥ 1,473	¥ 1,473	¥ 1,734	\$ 17,715
Furniture and fixtures	346	648	1,187	4,161
Other property and equipment	193	400	703	2,321
Intangible fixed assets	24	165	243	289
Total	¥ 2,036	¥ 2,686	¥ 3,867	\$ 24,486
Accumulated depreciation:				
Buildings and structures	¥ 469	¥ 405	¥ 387	\$ 5,640
Furniture and fixtures	190	357	822	2,285
Other property and equipment	92	230	483	1,106
Intangible fixed assets	17	130	188	205
Total	¥ 768	¥ 1,122	¥ 1,880	\$ 9,236
Accumulated impairment loss:				
Buildings and structures	¥ 168	¥ 168	¥ 216	\$ 2,020
Furniture and fixtures	138	237	248	1,660
Other property and equipment	91	140	162	1,094
Intangible fixed assets	5	4	4	61
Total	¥ 402	¥ 549	¥ 630	\$ 4,835
Book value:				
Buildings and structures	¥ 836	¥ 900	¥ 1,131	\$ 10,055
Furniture and fixtures	18	54	117	216
Other property and equipment	10	30	58	121
Intangible fixed assets	2	31	51	23
Total	¥ 866	¥ 1,015	¥ 1,357	\$ 10,415

(b) Finance Lease Obligations:

	Millions of yen			Thousands of U.S. dollars
	2011	2010	2009	2011
Due within one year	¥ 154	¥ 273	¥ 422	\$ 1,852
Due after one year	1,011	1,147	1,418	12,159
Total	¥ 1,165	¥ 1,420	¥ 1,840	\$ 14,011
Accumulated impairment loss	¥ 262	¥ 421	¥ 618	\$ 3,151

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

	Millions of yen			Thousands of U.S. dollars
	2011	2010	2009	2011
Lease expenses	¥ 310	¥ 469	¥ 395	\$ 3,728
Reversal of accumulated impairment loss	156	197	132	1,876
Depreciation	129	217	360	1,551
Interest expenses	29	33	55	349
Impairment loss	0	—	454	0

Depreciation is computed by 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, 2011, 2010 and 2009, are as follows:

	Millions of yen			Thousands of U.S. dollars
	2011	2010	2009	2011
Due within one year	¥ 487	¥ 500	¥ 529	\$ 5,857
Due after one year	2,033	2,077	2,531	24,450
Total	¥ 2,520	¥ 2,577	¥ 3,060	\$ 30,307

19. Segment Information

Effective April 1, 2010, the Companies adopted "Accounting Standard for Disclosures about Segments of an Enterprise and Related Information" (ASBJ Statement No. 17 on March 27, 2009) and "Guidance on Accounting Standard for Disclosures about Segments of an Enterprise and Related Information" (ASBJ Guid-

ance No. 20, issued on March 21, 2008).

The Companies do not present segment information by reportable segment, as the Companies operate in one business category, "Content business," namely publications, films and others which is created, produced, purchased and soled by the Companies.

(Related information)

(a) Information about products and services

	Millions of yen	Thousands of U.S. dollars
	2011	2011
Net sales to outside customers		
Publications	¥ 76,588	\$ 921,082
Others	63,467	763,284
Total	¥ 140,055	\$ 1,684,366

(b) Information about major customers

	Millions of yen	Thousands of U.S. dollars
	2011	2011
Net sales to major customers		
Nippon Shuppan Hanbai Inc.	¥ 30,252	\$ 363,824
Tohan Corporation	23,180	278,773

20. Business Combinations

Kadokawa The Television Co., Ltd. merged with Kadokawa Cross Media Co., Ltd., both of which are consolidated subsidiaries of the Company, and changed the corporate name to Kadokawa Marketing Co., Ltd. on March 1, 2009.

Amount of goodwill that resulted from the merger was ¥2 million, and all the goodwill was charged to the income statements for the year ended March 31, 2009.

21. Related Party Transactions

For the year ended March 31, 2009, the Company disposed of real estate property for ¥1,437 million to Kadokawa Culture Promotion Foundation ("the Foundation"). Tsuguhiko Kadokawa is serving as director of the Company and the chairman of the Foundation, who

owned 8.1% of the Company's shares as of March 31, 2009. The transaction amount was determined based on appraisal reports obtained from external real estate appraisers.

22. Subsequent Events**Disposal of treasury stock by third party allotment**

The Company's board of directors held on May 26, 2011 resolved disposal of treasury stock by third party allotment, and the Company disposed treasury stock based on the resolution on June 13, 2011.

Reason	Though the Company and Dwango Co., Ltd. formed business tie-up contract on October 28, 2010, they had formed capital tie-up on May 26, 2011 in order to perform the business tie up surly and to build up their stable trustful relations.
Method of disposal	To be allocated to Dwango Co., Ltd. by third party allotment
Number of shares to be disposed	730,000 shares of common stock (2.68% of outstanding shares)
Disposal price	¥2,352 (\$28) per share
Total disposal amount	¥1,716,960,000 (\$20,648,948)
Due date of payment	June 13, 2011
Other important matter	The Company purchased 16,800 shares of Dwango's at ¥3,017 million (\$36,283 thousand).

Independent Auditors' Report

To the Board of Directors of Kadokawa Group Holdings, Inc.

We have audited the accompanying consolidated balance sheets of Kadokawa Group Holdings, Inc. and its consolidated subsidiaries as of March 31, 2011, 2010 and 2009, the related consolidated statements of operations for the years ended March 31, 2011, 2010 and 2009, statement of comprehensive income for the year ended March 31, 2011, and statements of changes in net assets and cash flows for each of the years then ended expressed in Japanese yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to independently 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 plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Kadokawa Group Holdings, Inc. and its consolidated subsidiaries as of March 31, 2011, 2010 and 2009, and the results of their operations and their cash flows for the years then ended, in conformity with accounting principles generally accepted in Japan.

Without qualifying our opinion, we draw attention to the following:

As discussed in Note 22, the Company's board of directors held on May 26, 2011 resolved disposal of treasury stock by third party allotment, and the Company disposed treasury stock based on the resolution on June 13, 2011.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2011 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

Tokyo, Japan
June 27, 2011

CORPORATE DATA

Company Profile (as of March 31, 2011)

Company Name

Kadokawa Group Holdings, Inc.

Head Office

**2-13-3 Fujimi, Chiyoda-ku,
Tokyo 102-8177, Japan**

Representative Director

Tatsuo Sato

Founded

November 10, 1945

Established

April 2, 1954

Common Stock

¥26,331 million

Major Corporate Shareholders

**Nippon Life Insurance Company
Namco Bandai Holdings Inc.
Kadokawa Culture Promotion Foundation
Mizuho Bank, Ltd.
NTT Docomo, Inc.**

Number of Employees

2,643 (consolidated)**45 (non-consolidated)**

Main Banks

**Mizuho Bank, Ltd.
Sumitomo Mitsui Banking Corporation
Resona Bank, Ltd.
The Bank of Tokyo-Mitsubishi UFJ, Ltd.**

Board of Directors and Auditors (as of June 25, 2011)

Chairman and Director

Tsuguhiko Kadokawa

President and Representative Director

Tatsuo Sato

Managing Director

Shinichiro Inoue

Directors

**Koichi Sekiya
Yasushi Shiina
Osamu Ohta
Tsuneo Taniguchi
Takashi Yamaguchi
Yasuaki Takayama
Masaki Matsubara**

Outside Directors

**Ken Kutaragi
Koji Funatsu
Tomoyuki Moriizumi
Nobuo Kawakami**

Corporate Auditors (Full-time)

**Takeru Egawa
Shin Mizushima**

Outside Corporate Auditors

**Yasushi Ikeda
Akira Watanabe**

