

Notice Concerning Launch of New Project and Revision of Former Announcement  
by Consolidated Subsidiary KADOKAWA CORPORATION

KADOKAWA DWANGO CORPORATION (“the Company”) announces that the Company and its consolidated subsidiary KADOKAWA CORPORATION (Representative Director and President: Masaki Matsubara; Head Office: Chiyoda-ku, Tokyo; hereinafter “KADOKAWA”) have revised the plan announced on August 6, 2015 and have decided to launch a new project and acquire fixed assets at the board of directors’ meeting held today.

1. Aim of the project

KADOKAWA has worked on a variety of proactive innovations with the aim of becoming a leading company in the content industry. The market environment in the content industry is changing significantly along with the expansion of demand. The industry anticipates growth in worldwide demand for Cool Japan Content, especially in the field of animation, on the back of market globalization. The acceleration of digitization drives the diversification of media formats, and it is essential for the content and media industries to reform their business styles. On the consumer side, there are obvious needs for hands-on activities. Change is also seen in growing demand from increasing numbers of inbound tourists toward and after 2020, the year of the Olympics. The interests of tourists are shifting from shopping to cultural experiences and area excursions. Tourism and work style innovation are positioned as some of the pillars of Japan’s growth strategy, and the content industry needs to address the changes in socio-economic structures. KADOKAWA welcomes these continuous market changes as favorable tailwinds to reinforce its businesses. In addition to ongoing business expansion overseas, KADOKAWA makes capital investments to construct a manufacturing and distribution facility (hereinafter the “Factory”), and facilities to launch new businesses in Tokorozawa City, which announced the COOL JAPAN FOREST PLAN with KADOKAWA on June 4, 2015.

- i. Build the Factory with state-of-the-art equipment for book production and logistic functions, update aging facilities in other areas of Saitama prefecture, and realize a worldwide trend of a unified manufacturing and sales structure. Reinforce the creation capability of printed content, which is the origin of KADOKAWA’s media mix strategy, and improve the operating margin in the Publication segment. The new production structure will contribute to the entire publication industry, and hopefully the Japanese printed book market will be revitalized as has already occurred in North America.
- ii. Build a new office with the aim of improving business efficiency adjacent to the Factory as a base camp for developing global content and realizing work style innovation.

iii. Build facilities to host the inbound business for KADOKAWA to begin collaborating with the Kadokawa Rock Museum (provisional name), which is a cultural complex that Kadokawa Culture Promotion Foundation will operate in the same location as part of a series of businesses for public interest purposes. Create a new monetization format including the entertainment business, product sales, food service and lodging service for domestic and foreign tourists to experience the charm of Japanese pop culture. The monetization format includes a tourism program and information business.

Tokorozawa City and KADOKAWA are working closely to accelerate the COOL JAPAN FOREST PLAN, looking to construct a cultural complex and develop the area as a key site.

## 2. Revision of the previous announcement

KADOKAWA revised the maximum amount of investment for the factory to ¥24.6bn from the ¥15.5bn announced on August 6 because the recoverable value increased after careful scrutiny of the business and construction plan. Concerning the cultural complex that planned to call for outside investors, Kadokawa Culture Promotion Foundation plays the role of the constructor and operator of Kadokawa Rock Museum (provisional name) as a public utility consisting of a library and museums to support a variety of artistic and cultural activities.

## 3. Outline of the project

### (1) Company to conduct the project and amount to be invested

| Project        | Company to conduct the project | Amount to be invested |
|----------------|--------------------------------|-----------------------|
| Factory        | KADOKAWA                       | ¥24.6bn               |
| Office         | KADOKAWA                       | ¥6.4bn                |
| New businesses | KADOKAWA                       | ¥8.9bn                |
| Total          |                                | ¥39.9bn               |

For the acquisition of the above-mentioned properties, KADOKAWA utilizes its cash reserves.

The costs for the shared facilities are included (i.e. landscaping, terrace, parking lot, electrical equipment, and so on).

KADOKAWA completed the payment for the land (¥3.3bn) and the assembly procedure (¥1.3bn) before the construction of new buildings.

### (2) Details of the project

#### i. Factory

State-of-the-art equipment covering both production and logistics, which can print single copies on demand with high quality and at low cost, will enable KADOKAWA to reinforce its creation capability with a fast printing and shipping system to meet the various needs of customers.

KADOKAWA will realize a higher margin by reducing manufacturing costs through small lot production and timely shipment, and by improving the return rate. In addition, KADOKAWA will collaborate with overseas locations with similar systems, and accelerate a simultaneous publication and media mix strategy in multiple languages and countries.

ii. Office

KADOKAWA seeks to reinforce competitiveness for the next generation through the innovation of its work style to promote work-life balance, enabling workers to work wherever they like. An additional main office in Tokorozawa City will make KADOKAWA's business continuity planning (BCP) stronger, and employees' creation of global content will be stimulated in the vast space with the latest technology. KADOKAWA's total office costs will be reduced by terminating some office leasing contracts in Tokyo.

iii. New businesses

KADOKAWA offers IP-related services to worldwide fans of Japanese pop culture by collaborating with Kadokawa Rock Museum (provisional name). An event venue for animations, video games, and 2.5D musical shows, an exhibition hall for holding events on pop culture, and a hotel whose rooms are filled with IPs are examples of the services being offered. The IP pilgrimage that is currently in the spotlight due to the smash hit film *Your Name* and tourism to visit animation-related sites are thought to have become more popular as new tourist attractions. Looking at this market environment, KADOKAWA positions the site as an important location for inbound business for the company to commence and convey the charm of Japanese pop culture all over the world.

4. Schedule

|                                    |                           |
|------------------------------------|---------------------------|
| Date of board resolution           | December 22, 2016         |
| Date of start of construction      | February 2018 (scheduled) |
| Date of completion of construction | April 2020 (scheduled)    |
| Date of start of operation         | April 2020 (scheduled)    |

5. Future Outlook

The start of the operation of the Project is in April 2020, and it has no impact on the Group's consolidated performance for the current fiscal year.

Once the details of the Project are decided, the Company will announce them immediately.

6. Image of the site



(Reference)

Consolidated forecast for the fiscal year ending March 31, 2017 (revised on November 10, 2016), and result for the fiscal year ended March 31, 2016.

Unit: million yen

|                                                  | Revenue | Operating income | Ordinary income | Profit attributable to owners of parent |
|--------------------------------------------------|---------|------------------|-----------------|-----------------------------------------|
| Forecast<br>Fiscal year ending<br>March 31, 2017 | 202,000 | 6,000            | 5,800           | 4,000                                   |
| Result<br>Fiscal year ended<br>March 31, 2016    | 200,945 | 9,124            | 10,189          | 6,845                                   |