



# FY2015 Second Quarter Consolidated Financial Results [Japanese GAAP]

(April 1, 2014 through September 30, 2014)

November 13, 2014

Company name	: <b>KADOKAWA DWANGO CORPORATION (KADOKAWA CORPORATION SECTION)</b>
Stock exchange on which the shares are listed	: Tokyo Stock Exchange
Code number	: 9468
URL	: <a href="http://info.kadokawadwango.co.jp/">http://info.kadokawadwango.co.jp/</a>
Representative person	: Tatsuo Sato, President
Contact person	: Masaki Matsubara, Director Tel. (03) 3549-6370
Expected reporting date of semi-annual security report	: December 17, 2014
Expected starting date of cash dividends paid	: —
Quarterly results supplementary explanatory documents	: Yes
Quarterly results explanatory meeting	: Yes

(Amounts less than one million yen are omitted)

## 1. Consolidated Financial Results of FY2015 Second Quarter (April 1, 2014 through September 30, 2014)

### (1) Consolidated operating results (%: Changes from the corresponding period of the preceding year)

	Net sales		Operating income		Ordinary income	
	(Millions of yen)	%	(Millions of yen)	%	(Millions of yen)	%
FY2015 second quarter	<b>70,471</b>	<b>(2.4)</b>	<b>(933)</b>	<b>—</b>	<b>0</b>	<b>(100.0)</b>
FY2014 second quarter	<b>72,203</b>	<b>(9.9)</b>	<b>2,816</b>	<b>(25.7)</b>	<b>3,501</b>	<b>(19.6)</b>

(Note) Comprehensive income: FY2015 second quarter (3,991) million yen (—), FY2014 second quarter 6,851 million yen (155.2%)

	Net income		Net income per share-basic	Net income per share-diluted
	(Millions of yen)	%	(Yen)	(Yen)
FY2015 second quarter	<b>(835)</b>	<b>—</b>	<b>(28.39)</b>	<b>—</b>
FY2014 second quarter	<b>3,787</b>	<b>136.5</b>	<b>143.25</b>	<b>125.96</b>

### (2) Consolidated financial position

	Total assets	Net assets	Equity ratio
	(Millions of yen)	(Millions of yen)	%
FY2015 second quarter	<b>148,222</b>	<b>106,434</b>	<b>71.0</b>
FY2014 second quarter	<b>156,105</b>	<b>110,931</b>	<b>70.7</b>

(Reference) Equity capital: FY2015 second quarter 105,311 million yen, FY2014 110,352 million yen

## 2. Cash dividends

	Cash dividend per share				
	First Quarter	Second Quarter	Third Quarter	Year-End	Total
	(Yen)	(Yen)	(Yen)	(Yen)	(Yen)
FY2014	—	<b>0.00</b>	—	<b>60.00</b>	<b>60.00</b>
FY2015	—	<b>0.00</b>			

(Note) Break down of FY2014 year-end dividend per share: ordinary dividend 35 yen, commemorative dividend 25 yen

## **Notes**

- (1) Changes in significant subsidiaries during this period (Accompanying changes in the scope of consolidation): None
- (2) Adoption of special accounting methods for preparing quarterly consolidated financial statements: None
- (3) Changes in accounting policies, accounting estimates and restatements of prior period financial statements
  - (a) Changes in accounting policies accompanying revisions of accounting standards, etc.: Yes
  - (b) Changes in accounting policies due to other than the above: None
  - (c) Changes in accounting estimates: None
  - (d) Restatements of prior period financial statements after error corrections: None
- (4) Outstanding shares (Common stock)
  - (a) Number of shares issued and outstanding at the end of each period (including treasury stock):  
FY2015 second quarter 29,565,904 shares, FY2014 29,258,393 shares
  - (b) Number of treasury stock at the end of each period:  
FY2015 second quarter — shares, FY2014 4,497 shares
  - (c) Number of weighted-average number of shares issued and outstanding for each six-month period:  
FY2015 second quarter 29,446,347 shares, FY2014 second quarter 26,442,591 shares

### **Indication of semi-annual audit procedures implementation status**

This quarterly financial result is exempt from quarterly review procedures based upon the Financial Instruments and Exchange Act. It is under the audit procedure process at the time of disclosure of this result.

### **Note regarding use of consolidated earnings forecast for FY2015 and other note**

On October 1, 2014, KADOKAWA CORPORATION and DWANGO Co., Ltd. integrated to form KADOKAWA DWANGO CORPORATION as the holding company of both businesses.

The consolidated earnings forecast of KADOKAWA DWANGO for FY2015 is not presented as it is difficult to draw up the reasonable forecast. The cash dividends forecast of the FY2015 ending in March has not been determined yet, and it will be released when its forecast become certain information.

## Quarterly Consolidated Financial Statements

### (1) Consolidated Balance Sheets

	(Millions of yen)	
	FY2014 (As of March 31, 2014)	FY2015 Second quarter (As of September 30, 2014)
<b>Assets</b>		
Current assets		
Cash and deposits	32,644	26,401
Notes and accounts receivable - trade	36,482	32,727
Securities	709	—
Inventories	14,641	14,923
Deferred tax assets	4,907	4,822
Other	1,724	2,218
Allowance for doubtful accounts	(21)	(19)
Total current assets	91,088	81,074
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	5,784	5,966
Tools, furniture and fixtures, net	1,315	1,307
Land	10,255	10,255
Construction in progress	1,377	3,553
Other, net	361	322
Total property, plant and equipment	19,095	21,404
Intangible assets		
Goodwill	392	3,667
Other	2,931	3,620
Total intangible assets	3,324	7,287
Investments and other assets		
Investment securities	33,282	29,091
Deferred tax assets	159	543
Other	9,431	9,013
Allowance for doubtful accounts	(277)	(192)
Total investments and other assets	42,596	38,455
Total non-current assets	65,016	67,148
Total assets	156,105	148,222

(Millions of yen)

	FY2014 (As of March 31, 2014)	FY2015 Second quarter (As of September 30, 2014)
<b>Liabilities</b>		
Current liabilities		
Notes and accounts payable - trade	20,229	19,005
Short-term loans payable	—	30
Current portion of bonds with subscription rights to shares	2,580	1,800
Income taxes payable	528	469
Provision for bonuses	1,567	1,761
Provision for sales returns	3,694	3,193
Other	7,380	7,032
Total current liabilities	35,980	33,292
Non-current liabilities		
Long-term loans payable	260	230
Deferred tax liabilities	5,260	3,862
Net defined benefit liability	3,009	3,235
Other	663	1,167
Total non-current liabilities	9,193	8,495
Total liabilities	45,173	41,788
Net assets		
Shareholders' equity		
Capital stock	28,825	29,210
Capital surplus	29,870	30,255
Retained earnings	40,364	37,762
Treasury shares	(12)	—
Total shareholders' equity	99,047	97,228
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	11,812	8,975
Revaluation reserve for land	(232)	(232)
Foreign currency translation adjustment	(156)	(543)
Remeasurements of defined benefit plans	(118)	(116)
Total accumulated other comprehensive income	11,304	8,082
Minority interests	579	1,123
Total net assets	110,931	106,434
Total liabilities and net assets	156,105	148,222

## **(2) Consolidated Statements of Income**

(Millions of yen)

	FY2014 Second quarter (April 2013 through September 2013)	FY2015 Second quarter (April 2014 through September 2014)
Net sales	72,203	70,471
Cost of sales	52,514	54,739
Gross profit	19,689	15,732
Reversal of provision for sales returns	3,869	3,694
Provision for sales returns	3,736	3,193
Gross profit - net	19,822	16,233
Selling, general and administrative expenses	17,006	17,167
Operating income (loss)	2,816	(933)
Non-operating income		
Interest income	16	14
Dividend income	157	132
Amortization of negative goodwill	40	—
Equity in earnings of affiliates	377	297
Insurance income	40	156
Gain on sales of goods	91	102
Foreign exchange gains	—	236
Other	30	20
Total non-operating income	754	961
Non-operating expenses		
Interest expenses	46	18
Share issuance cost	1	6
Other	21	2
Total non-operating expenses	69	27
Ordinary income	3,501	0
Extraordinary income		
Gain on sales of investment securities	—	11
Gain on sales of shares of subsidiaries and affiliates	2,826	—
Other	—	0
Total extraordinary income	2,826	12
Extraordinary losses		
Loss on retirement of non-current assets	15	10
Impairment loss	23	—
Loss on sales of investment securities	98	—
Loss on valuation of investment securities	380	44
Special retirement expenses	8	—
Management Integration related expenses	—	285
Other	—	4
Total extraordinary losses	526	344
Income (loss) before income taxes and minority interests	5,801	(331)
Income taxes	1,461	429
Income (loss) before minority interests	4,339	(761)
Minority interests in income	551	74
Net income (loss)	3,787	(835)

### **(3) Consolidated Statements of Comprehensive Income**

(Millions of yen)

	FY2014 Second quarter (April 2013 through September 2013)	FY2015 Second quarter (April 2014 through September 2014)
Income (loss) before minority interests	4,339	(761)
Other comprehensive income		
Valuation difference on available-for-sale securities	1,355	(2,837)
Foreign currency translation adjustment	1,061	(355)
Remeasurements of defined benefit plans, net of tax	—	2
Share of other comprehensive income of affiliates accounted for using equity method	94	(38)
Total other comprehensive income	2,511	(3,229)
Comprehensive income	6,851	(3,991)
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	6,195	(4,058)
Comprehensive income attributable to minority interests	656	67

#### (4) Consolidated Statements of Cash Flows

(Millions of yen)

	FY2014 Second quarter (April 2013 through September 2013)	FY2015 Second quarter (April 2014 through September 2014)
<b>Cash flows from operating activities</b>		
Income (loss) before income taxes and minority interests	5,801	Δ331
Depreciation and amortization	964	826
Impairment loss	23	—
Amortization of goodwill	84	218
Increase in provision for retirement benefits	139	—
Increase in net defined benefit liability	—	65
Interest and dividend income	Δ174	Δ147
Interest expenses	46	18
Loss (gain) on sales of shares of subsidiaries and affiliates	Δ2,826	4
Equity in earnings of affiliates	Δ377	Δ297
Loss on valuation of investment securities	380	44
Decrease in notes and accounts receivable – trade	7,871	4,548
Increase in inventories	Δ1,087	Δ288
Decrease in notes and accounts payable – trade	Δ1,760	Δ1,410
Other, net	Δ1,406	Δ2,223
<b>Subtotal</b>	<b>7,678</b>	<b>1,026</b>
Interest and dividend income received	234	176
Interest expenses paid	Δ53	Δ17
Income taxes paid	Δ151	Δ307
<b>Net cash provided by operating activities</b>	<b>7,708</b>	<b>877</b>
<b>Cash flows from investing activities</b>		
Decrease (increase) in time deposits	78	Δ392
Purchase of securities	Δ302	—
Proceeds from sales and redemption of securities	—	693
Purchase of property, plant and equipment	Δ1,738	Δ2,573
Purchase of intangible assets	Δ605	Δ1,035
Purchase of investment securities	Δ284	Δ125
Proceeds from sales of investment securities	1,978	80
Proceeds from cancellation of insurance funds	208	326
Purchase of shares of subsidiaries resulting in change in scope of consolidation	—	Δ2,528
Proceeds from sales of shares of subsidiaries resulting in change in scope of consolidation	3,027	—
Other, net	Δ17	0
<b>Net cash provided by (used in) investing activities</b>	<b>2,345</b>	<b>Δ5,553</b>
<b>Cash flows from financing activities</b>		
Decrease in short-term loans payable	—	Δ350
Proceeds from long-term loans payable	40	—
Repayments of long-term loans payable	Δ31	—
Cash dividends paid	Δ1,164	Δ1,755
Cash dividends paid to minority shareholders	Δ686	—
Other, net	Δ12	Δ21
<b>Net cash used in financing activities</b>	<b>Δ1,855</b>	<b>Δ2,127</b>
<b>Effect of exchange rate change on cash and cash equivalents</b>	<b>468</b>	<b>235</b>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>8,667</b>	<b>Δ6,566</b>
<b>Cash and cash equivalents at beginning of period</b>	<b>17,876</b>	<b>30,808</b>
<b>Cash and cash equivalents at end of period</b>	<b>26,543</b>	<b>24,242</b>

## **(5) Notes to Quarterly Consolidated Financial Statements**

### ***(Changes in Accounting Policies)***

(Adoption of revised Accounting Standards for Retirement Benefits)

The main clause of Article 35 of the "Accounting Standard for Retirement Benefits" (ASBJ Statement No.26 issued on May 17, 2012, hereafter "Retirement Benefits Accounting Standard") and the main clause of Article 67 of the "Guidance on Accounting Standard for Retirement Benefits" (ASBJ Guidance No.25 issued on May 17, 2012) were adopted from the first quarter ended June 30, 2014. As a result, the calculation methods of retirement benefit obligation and service cost were changed. The method of determining the portion of projected benefit obligation attributed to service periods was changed from the straight-line method to the benefit formula basis. The method of determining the discount rates applied in the calculation of retirement benefit obligation was changed from the method using the number of years approximate to the employees' average remaining service period to the method using the single weighted average discount rate that reflects the estimated period and amount of benefit payment in each period.

The Retirement Benefits Accounting Standard and other standards were applied in accordance with the transitional treatment set forth in Article 37 of the Retirement Benefits Accounting Standard, and the effect of the change in calculation methods of retirement benefit obligation and service cost were added to or deducted from retained earnings as of April 1, 2014.

The effect of this change on quarterly consolidated financial statements is immaterial.

### ***(Notes on Premise of Going Concern)***

Not applicable

### ***(Notes on Significant Changes in Shareholders' Equity)***

Not applicable