

# Annual Report 2005

Year ended December 31, 2005

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## Forward Looking Statements

Forward looking statements made in this annual report concerning performance or business strategies have been determined according to assumptions and beliefs based on information available at the time of publication and may contain elements of risk and uncertainty.

# Financial Highlights

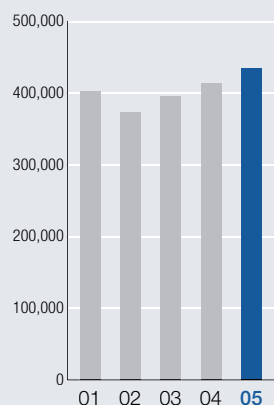
Years ended December 31, 2005 and 2004

|   | Millions of yen,<br>except per-share amounts |           | Thousands of U.S. dollars,<br>except per-share amounts |
|---|--|-----------|--|
|   | 2005   | 2004      | 2005   |
| <b>For the year:</b>                              |  |           |  |
| Gross billings                                    | ¥ 424,705                                    | ¥ 413,898 | \$ 3,597,061   |
| Gross profit                                      | 47,774                                       | 49,079    | 404,624  |
| Operating income                                  | 7,488  | 8,260     | 63,420   |
| Income before income taxes and minority interests | 11,028                                       | 9,440     | 93,402   |
| Income taxes                                      | 5,025  | 4,206     | 42,559   |
| Net income  | 5,946  | 5,181     | 50,360   |
| Net income per share                              | 122.11                                       | 103.25    | 1.03   |
| <b>At year end:</b>                               |  |           |  |
| Total assets                                      | ¥ 246,867                                    | ¥ 238,900 | \$ 2,090,853   |
| Shareholders' equity                              | 134,751                                      | 123,894   | 1,141,281  |

Note: For convenience purposes, U.S. dollar amounts are converted from Japanese yen at the rate of ¥118.17=U.S.\$1.00 as of December 31, 2005.

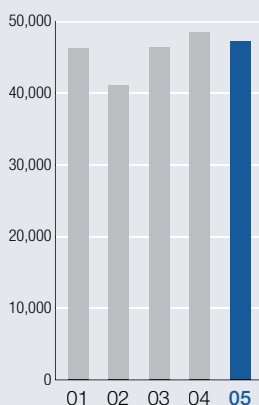
## Gross Billings

Millions of yen



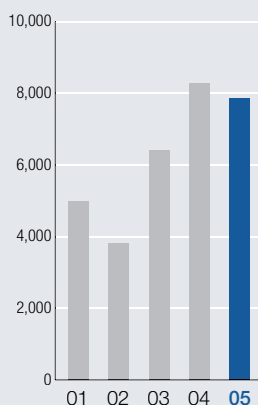
## Gross Profit

Millions of yen



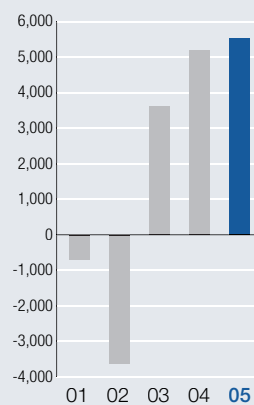
## Operating Income

Millions of yen



## Net Income (Loss)

Millions of yen



# Business at a Glance

## ADK Profile

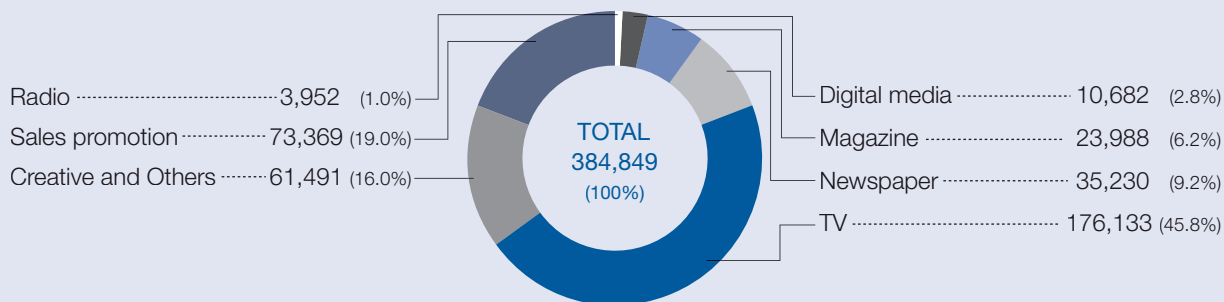
Asatsu-DK Inc., commonly known by its initials ADK, was founded in March 1956 by current Chairman Masao Inagaki as a small, ambitious firm focusing on magazine advertising. Asatsu Inc., as it was known at the time, quickly built up a client base, primarily in the financial sector, giving it a strong foundation for growth.

As Japan entered the high-growth years of the 1960s, Asatsu Inc. broadened its creative reach as it began the production of anime for the then still-new medium of television.

In 1987, ADK was listed on the second section of the Tokyo Stock Exchange (TSE), becoming the first advertising agency in Japan to make a public stock offering. In 1998, it made another major move as it signed a reciprocal share agreement and strategic alliance with the WPP Group plc, the world's second-largest communications group according to *Advertising Age's* annual Agency Report (May 1, 2006). The following year, the company merged with Dai-Ichi Kikaku Co., Ltd., another Top 10 Japanese agency, changed its name to Asatsu-DK (ADK) and entered into a period of new growth.

## ADK's Business Sectors (Non-Consolidated)

Millions of yen

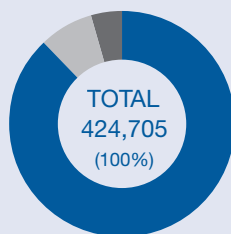


## ADK Group Gross Billings

Millions of yen

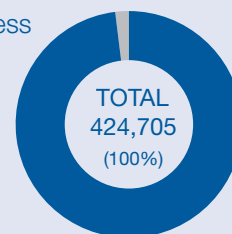
### ADK vs Consolidated Subsidiaries

|                       |          |         |
|-----------------------|----------|---------|
| ADK                   | 384,849  | (87.9%) |
| Domestic subsidiaries | 33,601   | (7.7%)  |
| Overseas subsidiaries | 19,288   | (4.4%)  |
| (Adjustments)         | (13,033) |         |



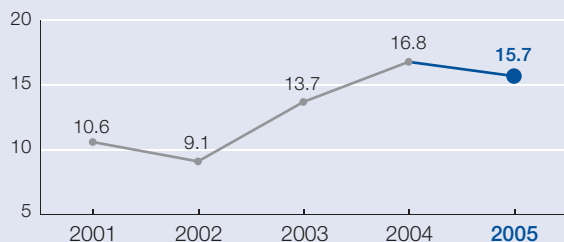
### Advertising vs Other Business

|                |         |         |
|----------------|---------|---------|
| Advertising    | 415,301 | (97.8%) |
| Other business | 9,404   | (2.2%)  |

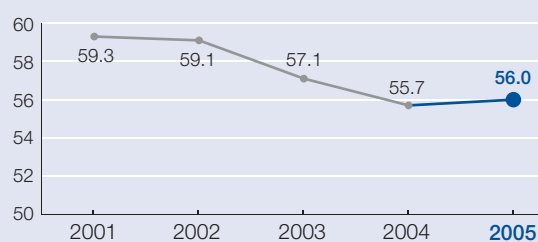


## Management Indicators (Consolidated)

### Operating Margin (%)



### Staff Costs/Gross Profit Ratio (%)





## ADK Group Companies

### Advertising

#### Domestic

- Kyowa Kikaku Ltd.
- ADK International Inc.
- ADK Arts Inc.
- TRI Communication Inc.
- Digital Advertising Consortium Inc.
- Eiken Co., Ltd.

#### Overseas

- ADK America Inc.
- ADK Europe Holdings B.V.
- ADK Europe B.V.
- Asatsu (Deutschland) GmbH
- Guangdong Guangxu (Asatsu) Advertising Co., Ltd.
- Asatsu-DK Hong Kong Ltd.
- DK Advertising (HK) Ltd.
- Shanghai Asatsu Advertising Co., Ltd.
- United-Asatsu International Ltd.
- DIK-Ocean Advertising Co., Ltd.
- Asatsu-DK Singapore Pte. Ltd.
- ADK Thai Holding Ltd.
- Dai-ichi Kikaku (Thailand) Co. Ltd.
- ASDIK Ltd.

### Others

#### Publishing

- Nihonbungeisha Co., Ltd.
- Neo Shobo Inc.

#### Information Processing Service

- Nippon Information Industry Corp.

## Consolidated Five-Year Summary

Millions of yen except per common share amounts and financial ratios

|   | 2005       | 2004       | 2003       | 2002       | 2001       |
|---|------------|------------|------------|------------|------------|
| <b>Income Statement Data</b>                      |            |            |            |            |            |
| Gross billings                                    | ¥ 424,705  | ¥ 413,898  | ¥ 395,149  | ¥ 373,899  | ¥ 402,647  |
| Gross profit                                      | 47,774     | 49,079     | 46,883     | 41,529     | 46,830     |
| Selling, general and administrative expenses      | 40,286     | 40,819     | 40,467     | 37,731     | 41,860     |
| Operating income                                  | 7,488      | 8,260      | 6,416      | 3,798      | 4,970      |
| Income before income taxes and minority interests | 11,028     | 9,440      | 7,447      | (4,776)    | 422        |
| Net income (loss)                                 | 5,946      | 5,181      | 3,621      | (3,637)    | (708)      |
| <b>Balance Sheet Data</b>                         |            |            |            |            |            |
| Shareholders' equity                              | ¥ 134,751  | ¥ 123,894  | ¥ 119,572  | ¥ 111,521  | ¥ 127,646  |
| Total assets                                      | 246,867    | 238,900    | 226,911    | 209,227    | 234,987    |
| Total long-term liabilities                       | 16,799     | 12,183     | 9,204      | 6,158      | 13,600     |
| <b>Per Common Share Data</b>                      |            |            |            |            |            |
| Net income per share                              | ¥ 122.11   | ¥ 103.25   | ¥ 70.53    | ¥ (72.26)  | ¥ (13.76)  |
| Dividends per share                               | 36         | 20         | 18         | 18         | 18         |
| Book value per share                              | 2,809.30   | 2,554.78   | 2,416.67   | 2,246.56   | 2,520.02   |
| No. of common shares issued                       | 51,655,400 | 51,655,400 | 51,655,400 | 51,655,400 | 51,655,400 |
| No. of common shares outstanding                  | 47,952,849 | 48,458,828 | 49,425,148 | 49,640,893 | 50,652,769 |
| <b>Financial Ratios</b>                           |            |            |            |            |            |
| <i>As percent of gross billings</i>               |            |            |            |            |            |
| Gross profit                                      | 11.25%     | 11.86%     | 11.86%     | 11.11%     | 11.63%     |
| SG & A expenses                                   | 9.49       | 9.86       | 10.24      | 10.09      | 10.40      |
| Operating income                                  | 1.76       | 2.00       | 1.62       | 1.02       | 1.23       |
| Income before income taxes and minority interests | 2.60       | 2.28       | 1.88       | (1.28)     | 0.10       |
| Net income  | 1.40       | 1.25       | 0.92       | (0.97)     | (0.18)     |
| <i>As percent of gross profit</i>                 |            |            |            |            |            |
| Operating income                                  | 15.7%      | 16.8%      | 13.7%      | 9.1%       | 10.6%      |
| Staff costs                                       | 56.0       | 55.7       | 57.2       | 59.1       | 59.3       |
| Return on equity                                  | 4.6        | 4.3        | 3.1        | -          | -          |
| Equity ratio                                      | 54.6       | 51.9       | 52.7       | 53.3       | 54.3       |
| Current ratio                                     | 1.46 X     | 1.45 X     | 1.49 X     | 1.46 X     | 1.52 X     |

# A Letter to Our Shareholders

ADK celebrated its 50th anniversary on March 19, 2006. We would like to take this opportunity to thank you, our shareholders, for your unwavering support, which has helped us reach this historic milestone.

## Fiscal 2005 in Brief

Buoyed by continued economic recovery, the Japanese advertising market expanded for the second consecutive year, with expenditures up 1.8%. This increase was generally in line with nominal GDP growth.

Once again, the ADK group outperformed the market, generating a 2.6% increase in consolidated gross billings, to ¥424,705 million. Billings in the advertising segment grew 2.9%, compensating for a 7.3% decline in the non-advertising segment. All advertising divisions reported increased billings, except the Television Division.

Gross profit declined due to the pressure caused by advertisers' procurement policies focused on cost efficiency, intense competition in the industry and the decline of sales for *Yu-Gi-Oh!*, our previously highly-profitable animation product. Despite achieving a reduction in selling, general and administrative expenses, operating income also fell. Thanks to a major jump in non-operating profits, net income grew 14.8% to ¥5,946 million.

## Shareholder Return

Reflecting our policy to focus on shareholder return, we declared year-end cash dividends of ¥26.00 per share, consisting of a ¥21.00 regular dividend and a ¥5.00 commemorative dividend in honor of our 50th anniversary. Added to the ¥10.00 interim dividend already paid, this brought annual cash dividends for the year to ¥36.00 per share, up from ¥20.00 in fiscal 2004. The dividend payout ratio for the year was 25.1% based on regular dividends, rising to 29.1% with the inclusion of the commemorative dividend. To further enhance shareholder value, we also bought back 500,000 shares of treasury stock, valued at ¥1,860 million. The result is that 60.7% of our net income was returned to shareholders.

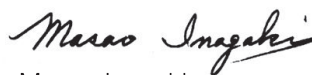
## Philosophy and Strategies

Since our establishment, we have embraced a corporate philosophy of Management by All. This means that each employee should work with a management-level perspective, be proactive in seizing new business opportunities and focus constantly on enhancing the corporate value of the ADK group. This philosophy, we believe, is the underlying force behind our sustained growth. Why? Because it encourages employees to share consistent objectives, raise their skills and, by adopting flexible concepts not found in other companies, take resolute actions geared to success.

In addition to Management by All, we will seek to raise the quality of our operations by behaving in a sincere manner and pursuing sound management policies designed to earn the trust of all stakeholders. Key endeavors here include upgrading our legal and ethical compliance frameworks, reinforcing our internal control system and expanding our corporate social responsibility (CSR) initiatives. Through these activities, we will deliver benefits to stakeholders in both tangible and intangible ways.

Building on our achievements of the past five decades, we remain committed to making further significant progress, not only in the near future but also over the next 50 years. We look forward to the ongoing support of shareholders as we tackle the challenges ahead.

June 2006



Masao Inagaki  
Representative Director, Chairman



Koichiro Naganuma  
Representative Director, President and Group CEO



Masao Inagaki  
Representative Director  
Chairman

Koichiro Naganuma  
Representative Director  
President and Group CEO



# Seeking to Become a “Future Agency”

An Interview with President and Group CEO Koichiro Naganuma

Guided by our Management by All philosophy, we continued developing 360-degree communications programs targeting all consumer touchpoints. In addition, we enhanced shareholder value through significant dividend increases and ongoing buybacks. We also won prestigious international awards for creativity.

**Q1.** In 2005, advertising spending increased 1.8%, which was slower than 2004 and competition between advertising agencies became more intense. For ADK, how was fiscal 2005?

It is true that competition became more intense and advertisers became more demanding and were keener about the ROI on their communication programs.

Still, we strongly promote our 360-degree communications approach to respond to client demands. That means we use every touchpoint between the consumer and the product or brand and offer the best communications plan for our clients.

With this approach, we won new clients and executed big events. Our work for the Japan pavilions at the World Exposition in Aichi, Japan is a particularly noteworthy example.

**Q2.** In fiscal 2005, ADK achieved a 2.5% increase in gross billings, but also posted a 4.4% decline in gross profit. What was the cause of the fall in profitability?

I think we over-stretched ourselves in 2004, as that was a record year in terms of billings and profit.

In 2004, *Yu-Gi-Oh!*, one of our animation products, became a smash hit and yielded handsome profit because of high gross margins. Since then, its sales have declined and that is one reason for the fall in gross profit. Right now, we are developing a new series, *Yu-Gi-Oh! GX*, while working on some other new titles as well.

The second reason lies with the media buying business. The media market became tight in early 2005 as the Japanese economy started taking off, and we didn't have enough room to maneuver to produce expected profits.

Then the third is that I expected a lot of growth in the Kansai market, which is the second largest advertising market, not only in Japan but also in Asia, except for China. We dispatched a lot of key people from the head office, but they did not produce the outcome expected.



I think my expectation for a change in one year was too aggressive, too ambitious. However, this year already, the first quarter of 2006 has seen tremendous growth. So our 2005 investment will be rewarded in 2006.

There's one more reason. We fumbled the ball. We lost some clients, particularly some relatively small clients.... We have a number of small but very important clients who may not regularly increase their advertising budgets, but have a long and warm relationship with us. But many of our younger account executives tend to pay more attention to our big clients with big budgets, as that's more prestigious. But, actually, small clients with small budgets also form the foundation of ADK. So, if we lose such a client, but gain a new big client, our growth cannot be incremental. We have to be more careful and be a good partner with all our clients.

From this experience, I have promoted a new idea of providing customized services according to each client's needs. In this way, we can better allocate our human resources and assign account executives attuned to each of our client's needs and expectations.

### Q3. What are the positive aspects of ADK's performance in the year under review?

We cultivated quite a large number of new clients last year as well as new brand assignments from our existing clients. We acquired a big campaign for a new soda drink and a new shampoo and rinse product, each from the dominant company in its category. In Japan, toiletries are the number one category as far as ad-spend goes. We also acquired new clients from the construction and real estate categories. These two sectors are booming right now.

As I mentioned before, we won the competition to create the Japan pavilions at the World Exposition in Aichi. That certainly boosted our reputation in this area. I expect that it will lead to new business at Expo 2008 Zaragoza (Spain) and Expo 2010 Shanghai (China).

And I'm happy to report that at Cannes Lions 2005 (the 52nd International Advertising Festival) our creative team won the Media Lion for the best creative work utilizing the characteristics of news papers in the Best Use of Newspapers category with Toshiba's robot vacuum cleaner.

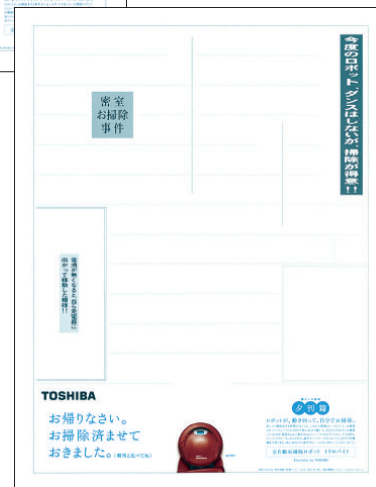


#### ◀ Morning edition

This ad shows Toshiba's robot vacuum cleaner already at work and saying to its master who is leaving, "Have a nice day! I'll clean the house by this evening."

#### Evening edition ▶

The vacuum cleaner is back in its receptacle and all the news has been swept clean, leaving only graphic images and empty spaces where the news used to be.



### Q4. Please describe your growth strategies for fiscal 2006 and beyond.

First of all, we have to realize three things. One is that we are facing a changing environment in the Japanese advertising industry.

#### A Changing Advertising Industry Environment

Many people talk about the diversification of the media or the proliferation of the media. Our understanding should go beyond that. This proliferation or diversification brings changes in consumer purchases and decision-making processes. That is, access to the internet and mobile media now form an integral part of their decision-making process. So I think we need to enhance our online agency functions to match this changing consumer environment.

At the risk of simplification, in the future I see two communication models co-existing in Japan, or these two communication models crossing over each other. One is communications based on mass media, the old style, and the other is what I call the mass personal communication model.

Mobile phones in Japan exceed 90 million units. That's mass media but personal media. Over 50% of households own a personal computer. It is also mass, but still personal. So we have a mass communication model based on mass communications, and a mass personal communications model co-existing in today's saturated market.

In terms of creative content, we should realize that talking to consumers is behind the times. Entertaining and engaging consumers are more important.

The seamless integration of mass media and mass personal media under the framework of 360 degree-communications is one thing. Changing consumers' tastes and needs is another. And to appeal to these changing consumers we need a total online agency to make the best use of the internet and mobile media.

Right now, we have DAC (Digital Advertising Consortium), an internet media rep, with Hakuhodo and ADK the main partners. We also established a new company, Present Cast, with five key broadcasters and three other advertising agencies, Dentsu, Hakuhodo and Tokyu Agency. This company will establish a site on the internet and broadcast TV programs for free with the acceptance of commercials. Along with these projects, I strongly feel the need to enhance our online agency function to provide one-stop solutions to our clients.

### The Growing Power of Retailers

Japan is a mature market. This indicates two things. For distributors, that is, retailers, their power has been increasing every day because they decide which products are to be carried on their shelves. This means makers and manufacturers can no longer decide, so they are losing power.

Under these circumstances, two things need to happen. One is that clients need to develop strong brands and generate consumer pull. And the other is that retailers have to carry the products specified by consumers. So, for advertising agencies, branding skill is becoming more important than ever.

The second thing is that clients or manufacturers are looking for new distribution channels, like direct response or direct sales. We have to prepare for client needs, that's why I'd like to establish a division that specializes in direct sales.

Also, in order to improve our branding skills, or technology, I would like to expand and empower ADK University. That's because our business is a people business, and people are our biggest asset.



ADK University

ADK University is an in-company training program aiming to nurture "communications directors" who can provide the best solutions to clients using our 360-degree communications approach.

### And at last, the clients' needs are met...

Every time I meet with clients, their question, at the end of the day, is "How much should I spend on my communications?" or "What kind of return should I expect?" or "Could you provide the communications program which maximizes my return?" It's very simple. When the client says "communication program", it does not mean only mass advertising, it means 360-degree communications hitting every relevant consumer touchpoint.

Therefore, we should develop a kind of equation or accountability system inside the company to evaluate the effectiveness and the efficiency of these communications programs.

I'm promoting two ideas here. One is that, in the past, we used the phrase, media planner. Their mission is the optimization of the mass media mix. But nowadays, I think the media planner has to go to the starting point, maybe mass media or maybe publicity only, or outdoor only, or the internet. And, at the same time, this requires us to be media neutral. So we now call them communication channel planners.



Also, the creative people have to expand their territory. In the past, they'd say, I'll think about a print ad or TV commercial film, or radio. But, nowadays, they have to be involved in communications at every consumer touchpoint. They now need to become communications directors evolving from their traditional creative director's role.

Clients want creative solutions for the least cost, of the highest quality and in the shortest amount of time. Manufacturers compete every day with this kind of spirit in this way. And agencies should do the same thing.

## Q5. What is the strategy for overseas markets?

For overseas markets, we should focus on China and the Asian markets.

To be honest with you, it is extremely difficult for Japanese agencies to be active in the U.S. or European markets. That's why we are making alliances with WPP in these markets; certainly, we make the best use of their resources by doing so.

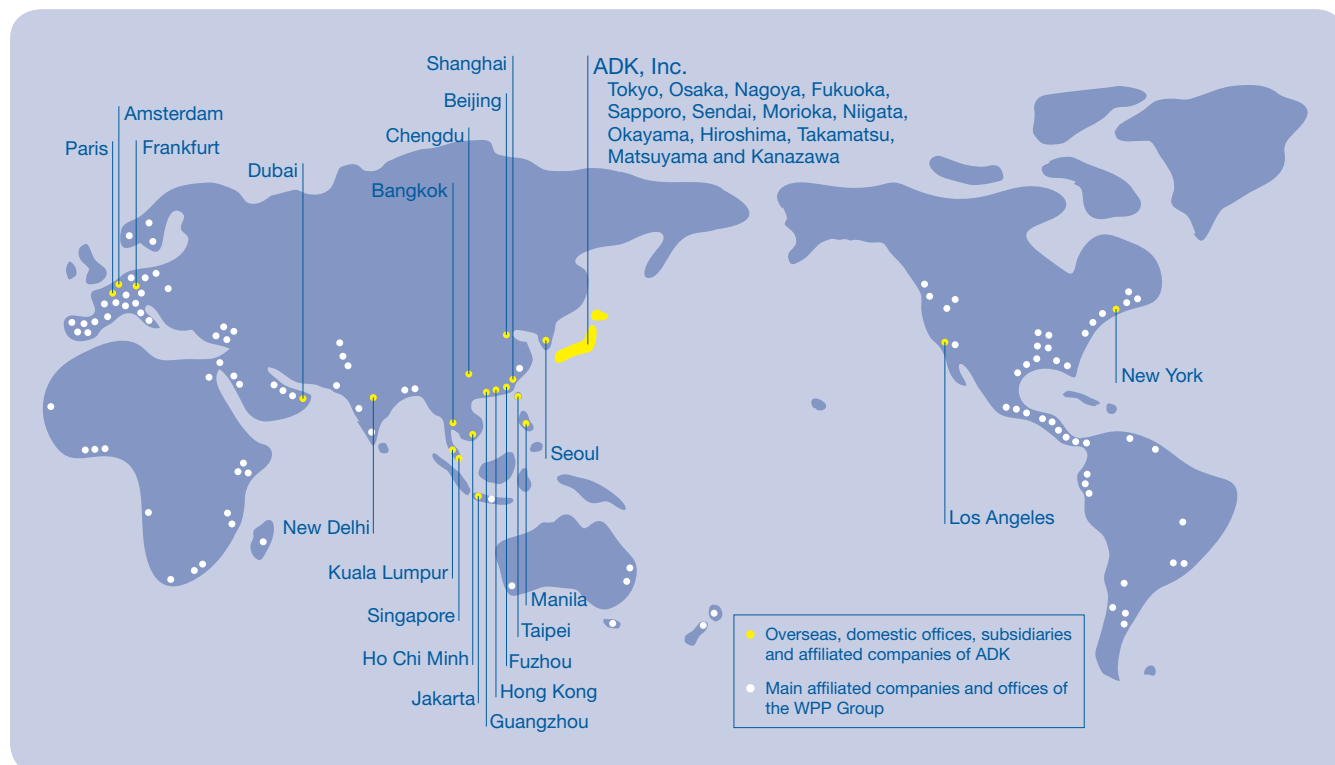
However, in Asia and China, we have more ways to exercise our power. And, particularly, Japanese clients are requesting the involvement of Japanese agencies in these regions.

In addition to the utilization of the WPP network, I think we should further develop our own network in these regions.

At the beginning of 2006, we created the Asia Regional Center in Singapore to network the group companies in Asia and, in the future, to cover Russia and the Middle East.

In China, we've already created similar offices in Beijing and Shanghai to network group companies in China in 2004. And in 2005, we established a new subsidiary in Fuzhou, giving us nine companies across China.

As for the utilization of WPP's network, we created the "ADK Global Specialized Agency Network" with WPP Group agencies, for example, an agency that specializes in kids' marketing, and another that focuses on word-of-mouth communications. We can learn a lot from these agencies and also provide unique insights to our clients.



**Q6.** In addition to growth strategies, you talk about reinforcing your company's fundamental capabilities. Can you please elaborate?

### Enhance Our Creative Power

Our creative capabilities received recognition at Cannes when we won the Media Lion award. While the category is Media, it includes effective use of the media and creative excellence in execution. Then, in 2006, at the Asia Pacific Advertising Festival at Pataya, Thailand, we won the Interactive Award Silver Prize. In addition, three of our copywriters received the New Face Award at the Tokyo Copywriters Club Awards, 2005, and two creative directors were among the 10 medalists of the Japan Advertising Agencies Association 2005 Creators of the Year awards.

These awards are proof of our creative power and we continue to nurture creative stars. From this April, I invited a very senior creative executive who has won many creative awards both in Japan and overseas. He certainly stimulates our creative people to draw out the very best from them.

### Bolster Our Media Buying Business

We also enhanced our media buying and negotiating power over the past year. As I mentioned earlier, profit from the media buying business is decreasing due to market price risks and extremely intense competition. Still, we are active in this sector in order to expand our presence through increased media placements, thereby boosting our negotiating power.

We learned the media buying practices in other countries and the various negotiating skills such as "share-deal" and "last-minute-buy", which should be seriously considered here in Japan.

### Content Business

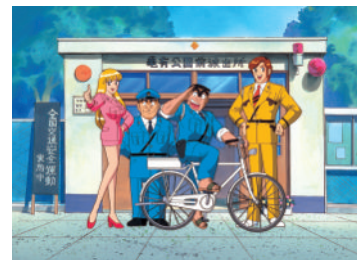
We continue to put a major emphasis on our content business, especially our animation properties.

Right now, we have 15 programs for terrestrial broadcasting, and some of them are bringing us big possibilities of business expansion. For example, *Eyeshield 21*, a story about American football, is now very popular among young boys in Japan. I think this title has the possibility to also be marketed in the United States and Europe. When we consider animation, we should not limit ourselves to the domestic market, but should consider overseas markets as well.

For example, one of our TV anime programs, *Kochikame*, the comical story about a Japanese policeman, has now become popular in Spain, India and Taiwan.



▲ *Eyeshield 21*  
©KOME STUDIO-VILLAGE STUDIO /  
SHUEISHA-TV TOKYO-NAS



▲ *Kochikame*  
Original works ©1976 Osamu Akimoto  
Animation series and products derived thereof ©1996 ADK

**Q7.** What are your plans with respect to shareholder return targets?

Looking at our performance in 2005, billings went up 3%, and net income went up 15%. However, operating income fell 9%. Operating income is the most important indicator for overall performance, but it showed negative growth.

So I said (to our employees), "sorry, but I cannot pay (you) an incentive bonus this year". Since they didn't get an incentive bonus, the board members didn't get one either. But our shareholders got their dividends. In fact, we increased our annual dividends from 20 yen to 36 yen per share, including a commemorative five yen dividend.

Also, I conducted a continuous buy-back to increase the earnings per share. We will continue it this year as well. That's my commitment, my promise to the market.

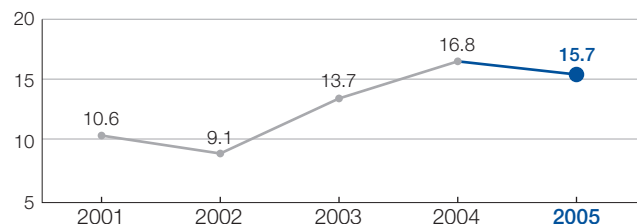
*The Nikkei Financial Daily* commented that, "ADK is given high evaluation from investors for its attention to shareholders, announcing clear targets and explaining how it will share profits." (*The Nikkei Financial Daily*, March 7, 2006) ADK is the kind of company that keeps its promise once we announce our commitment.

Our first mid-term goal was to realize a staff cost (staff cost/gross profit) of 55% and an operating margin of 15%. And the second mid-term goal was to increase earnings per share. I promised it would go up to 100 to 130 yen by 2007, but I think I can achieve it at the end of this year.

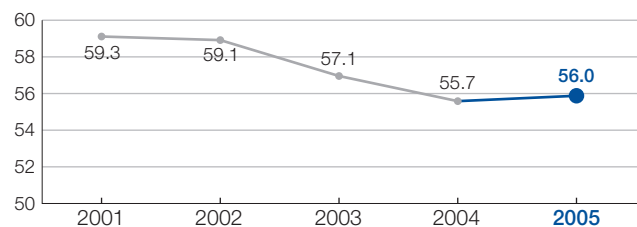


After 2006, our third mid term goal will be the improvement of ROE. It is the most challenging one, but we have to try it.

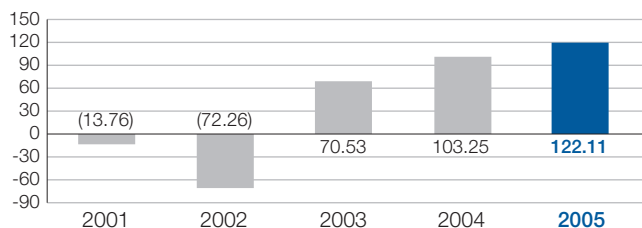
#### Operating Margin (%)



#### Staff Cost / Gross Profit Ratio (%)



#### Net Income per Share (Yen)



#### Q8. How do you see ADK's evolution three and five years from now?

Right now, ADK is positioned as the "New Wave" agency that does things in a different way from conventional agencies. But from now on, I want to use the phrase that, we are the "Future Agency," which meets the new consumer and the need for innovative communications programs.

At the beginning of our conversation, I mentioned that Japanese agencies are facing fast-changing trends. And then I talked about the mass media-oriented business model plus the mass personal communication model, and their seamless integration. ADK is advising our clients on new ways of doing business as we transform ourselves from the New Wave Agency into the Future Agency by reflecting and accommodating changing trends as we look at the future of the communications business.



# Corporate Social Responsibility

Using its 360-degree communications approach, ADK seeks ways to provide consumers with sensational and unforgettable experiences. We regard this as the core element of our corporate social responsibility (CSR) commitment. In addition to providing returns to shareholders, profits earned from our business activities are used to finance ADK's growth and development. This policy has enabled us to offer places for new employees and provide continuing education and support for existing ones. At the same time, we will continue to reinforce ties with affiliated companies and media firms, which we regard significant from a business perspective.

Meanwhile, companies are facing more and more pressure to identify their full spectrum of stakeholders and pursue compliance, social contribution and other initiatives as appropriate within the context of their corporate activities. Public disclosure of such CSR activities, based on the concept of "harmonious coexistence," is also important.

With this in mind, ADK established the CSR Promotion Group within the Office of the President in 2005. The task of this new entity is to foster a deeper understanding among employees of the Company's responsibilities with respect to communicating and handling information. Our intention is to serve as a sincere, sound corporate citizen, one that is trusted and respected in the increasingly competitive society of the future.

## Information Security

ADK established the Risk Management Committee at the end of 2003. Since then, we have set up four subcommittees: Information Security Committee, Personal Information Protection Committee, Compliance Committee and Business Continuity Committee.

Japan's Personal Information Protection Law, which pertains in various ways to the activities of advertising companies, came into effect in April 2005. To prepare for this, we set up the Information Security Committee and Personal Information Protection Committee. These two committees are charged with the tasks of devising rules and protocols aimed at making ADK better prepared to address information security issues and handle personal information. They also organize in-house training to ensure that the rules and protocols are comprehensively understood. Thanks to the efforts of the Information Security Committee, ADK acquired the international BS 7799-2:2002 certification and the Japanese ISMS Conformity Assessment Scheme (Version 2.0) certification for information security management in December 2005.

These certifications focus on the Company's planning and development operations. In addition to maintaining certifications already obtained, we plan to obtain accreditation covering other operations, with the objective of achieving company-wide certification within three years.

Note: Due to the switch from BS7799 to the ISO2700 standard in 2006, ADK plans to upgrade its processes to comply with this new standard.

## Social Contribution

The term "social contribution" may mean different things to different people, and companies adopt various approaches to CSR in ways that reflect their specific attributes. As a member of the advertising industry, ADK regards "communications" as the domain in which it can most effectively utilize its know-how and human resources to make real social contributions. Focusing on communications, therefore, we are initiating a number of CSR activities.

## Pro Bono Creative and Idea Work

Advertising companies in the WPP Group, with which ADK is affiliated, actively assist public welfare groups, non-profit organizations (NPOs) and other entities through pro bono work. ADK has also done some pro bono work in the past, and now seeks to clarify the positioning of such work within the context of its social contribution commitment, and to describe specific CSR initiatives.

In fiscal 2005, ADK did pro bono creative work for the *Edo Shigusa* (The Subtle Manners of Edo) advertising campaign conducted by the Japan Ad Council to promote courteous behavior among people. The campaign shows scenes of Tokyo during the Edo Period, when harmonious coexistence was intrinsic to people's lives, to show that common courtesy does not need to be enforced by rules. Each scene depicts a typical situation in which people show courtesy to each other in a natural and subtle manner. The underlying suggestion is that people living in modern Tokyo take a fresh look at how they interact and communicate with others. The advertisements are featured not only in newspapers and other media but also in a textbook for teachers of ethics classes.

In 2006, Down Syndrome International (DSI), a federation of organizations and individuals committed to ensuring the quality of life and human rights for all people with Down syndrome, officially declared March 21, as World Down Syndrome Day. In cooperation with the Japan Down Syndrome Network, an NPO, ADK produced a series of posters on a pro bono basis. The posters, designed to engender a deeper understanding of Down syndrome based on the message that "it is just another trait," were displayed in stations of Tokyo Metro, Tokyu Railway and other railway networks. They featured individuals with Down Syndrome who excel in specific fields.

## The University of Tokyo Asatsu-DK China Education Fund Established

ADK celebrated its 50th anniversary on March 19, 2006. In commemoration of this event and in line with our CSR commitment, we made a donation to the University of Tokyo, culminating in the establishment of the University of Tokyo Asatsu-DK China Education Fund on August 30, 2005.

Through scholarships provided by the fund, "the University of Tokyo will accept outstanding graduates of Chinese universities for master's degree programs, thereby fostering ties between scholars and the institution and encouraging long-term, friendly relations between Japan and China in the academic field." The Program is scheduled to commence in 2006. The fund plans to invite around 75 students to Japan over the next 10 years.

In 1979, Masao Inagaki, then president of ADK, headed an advertising industry delegation that visited China with the aim of deepening relations between Japan and China in the advertising field. Mr. Inagaki was quick to identify the potential of the Chinese market, and ADK has since established nine subsidiaries there. ADK's involvement in this new initiative reflects its recognition of the fund as an excellent opportunity to promote friendly relations between China and Japan.



▲ Station posters of The Japan Down Syndrome Network

◀ Station posters of the Edo Shigusa /Japan Ad Council

# Corporate Governance & Internal Control System

## Corporate Governance

ADK believes that the ultimate objective of a publicly listed company should be to maximize value for shareholders by generating sustained growth. Based on this objective, it is fundamental for listed companies to motivate and monitor the management team to work towards this aim and thereby constantly raise corporate value and enhance competitiveness.

Effective corporate governance plays an essential role in this context. Listed companies seek broad access to capital markets for fund-raising purposes and the authority of directors to perform their management tasks is ultimately granted by their shareholders. To ensure effective corporate governance, therefore, a company must secure an environment that enables shareholders to exercise their rights fairly and equally with fellow shareholders. Under this policy, ADK's corporate governance system is summarized below.

ADK adopts a corporate auditor system instead of a committee system. We believe this system is best suited to the two aspects of corporate governance: realize management decision-making efficiency and reinforce management supervisory functions.

With respect to the former, we decided against a "company-with-committees" system, where committees retain certain decision-making authority in a Board of Directors centered on external directors. Instead, we believe our current system is more effective because it allows the Board of Directors, consisting primarily of internal directors, to make decisions quickly in a flexible manner while exchanging large amounts of information across company domains in a secure environment. At the same time, our policy is to maintain a small number of external directors to help the board avoid any material misjudgment that could arise if decision-making was limited to internal directors alone.

The "company-with-committees" system has also not been proved superior in addressing the second aspect of corporate governance, which is to reinforce the management supervision function. For this reason, we intend to retain our corporate auditor system and maintain proper management supervision by strengthening the roles of external directors and corporate auditors.

We have limited the tenure of directors to one year. This enables us to better clarify the responsibilities of directors and gives us greater opportunity to gauge the trust of shareholders. At present, we have 12 directors, 11 of them are responsible for the daily operation of the company. Two of them have representative status as defined under Japanese Corporate Law. Sir Martin Sorrell, Group CEO of WPP Group plc, acts as an external non-executive director. ADK maintains close communication with Sir Martin via the WPP Group's Japan-based liaison officer.

The Board of Directors meets once a month, in principle, and more often as necessary. In the year under review, the Board met 14 times. On two occasions, the Board requested the attendance of accounting auditors to receive direct reports of the results of accounting audits.

ADK has four corporate auditors, three of whom are external. One of the three is a lawyer. Full-time corporate auditors attend all Board of Directors meetings. The two part-time auditors also attend practically all such meetings. The Board of Corporate Auditors met six times in the year under review (fiscal 2005).

In the interest of efficiency, we have flattened the decision-making hierarchy as much as possible. Decisions are made in four stages, centering on the Board of Directors, the president, division directors and department directors. The organization responsible for business execution, based on broad decisions made by the Board of Directors, is chaired by the president and subordinated by divisions and departments, the latter being the smallest organizational unit in the company. Multiple related divisions are grouped into larger functional groups, each headed by an operating officer who provides guidance.

The Management Strategy Committee meets to support decision-making by the president, who holds the ultimate authority. Consisting of operating officers in charge of divisions, the Committee meets almost every business week (38 times in fiscal 2005) to exchange information and opinions on important matters. Full-time corporate auditors also attend such meetings to monitor the relevance of items discussed. To ensure common recognition and transparency of important issues among the employees, excerpts of meeting minutes are posted on the company's intranet.



## Takeover Defense Policy

The ADK group understands that takeover defense is a means to defend corporate value for shareholders by appropriately responding to a takeover bid or similar attempt which would treat shareholders unequally or diminish corporate value significantly in the medium to long term. As such, we believe that the best defense is to obtain sustained support from shareholders to management strategies and dividend distribution policies by maximizing corporate value. We firmly believe that under proper governance and compliance, enhancement of competitiveness, responsiveness to market changes, and solid growth will lead the ADK group to maximize shareholder value. We will take appropriate action in response to any unsolicited takeover bid or a similar attempt. However, at the present moment, the group has not yet implemented or prepared any particular defense strategy.

## Internal Control System

In addition to being audited by and receiving guidance from its auditing firm, corporate auditors and the Internal Audit Room, ADK is constantly working to strengthen its business surveillance capabilities. This initiative is spearheaded by the Finance Department and the Administration and Controller Department. Operations support departments, such as the Account Service Operations Support Departments and Planning Management Rooms of each business group work together to provide the most effective audits and guidance. Establishing rules and clarifying the segregation of duties and clarification of the lines of authority are a fundamental part of our operations, and we are striving to ensure that these tasks are performed properly.

Despite the progress made so far, we believe it is necessary to systematically and comprehensively rebuild our internal control system in light of the New Corporate Law (effective May 1, 2006). Moreover, traditional methods of internal control will be inadequate to satisfy future requirements. We also need to undertake proper risk assessment and set up a management system based on the PDCA (Plan, Do, Check, Act) cycle. We are now preparing to establish such a system, which we regard as an urgent priority.

## Risk Management System

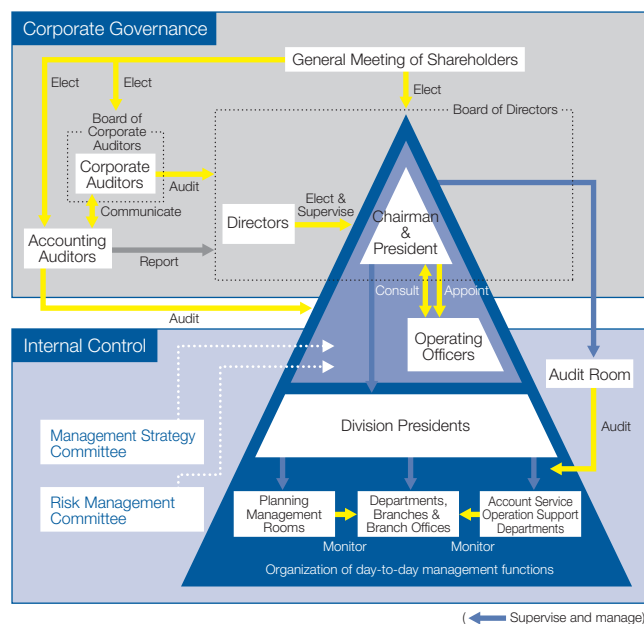
With the enactment of the New Corporate Law, we must ensure that our risk management system complements our internal control system as a “framework for devising rules and other protocols aimed at minimizing the risk of loss.” Under our current system, the Risk Management Committee, chaired by the president, oversees the activities of four subcommittees: Compliance Committee, Personal Information Protection Committee, Information Security Committee, and Business Continuity Committee.

The Compliance Committee sets up and operates systems to prevent legal violations. In June 2005, it established a system to facilitate the voluntary reporting of inappropriate actions.

The Personal Information Protection Committee creates frameworks to prevent abuse of the huge amounts of consumer information we obtain in order to conduct marketing activities and advertising campaigns.

The responsibility of the Information Security Committee is to build systems to assure the safe handling of various types of business-related information, including information on individuals.

The Business Continuity Committee's task is to ensure the continuity of ADK's business in the event of major power outages, natural disasters or the like. It is involved in a variety of initiatives, including updating the disaster response manual produced in the wake of the Great Hanshin Earthquake of January 1995.



# Board of Directors & Auditors

As of April 2006

Masao Inagaki  
Representative Director  
Chairman

Koichiro Naganuma  
Representative Director  
President and Group CEO

Hideaki Hirose  
Executive Director  
Senior Operating Officer  
Account Services

Takeo Hishiyama  
Executive Director  
Senior Operating Officer  
Corporate Management Services

Kenji Mori  
Executive Director  
Senior Operating Officer  
Account Services

Hideyuki Nagai  
Executive Director  
Senior Operating Officer  
Media & Content Business

Kazuhiko Ohno  
Executive Director  
Operating Officer  
Account Services

Masanobu Kanari  
Executive Director  
Operating Officer  
Finance & Accounting

Komei Kasai  
Executive Director  
Operating Officer  
R&D, Strategic Planning

Kazuhiko Narimatsu  
Executive Director  
Operating Officer  
Account Services

Yoji Shimizu  
Executive Director  
Operating Officer  
Account Services

Sir Martin Sorrell  
Non-Executive Director  
Group Chief Executive  
WPP Group plc

Yoshiro Sakai  
Corporate Auditor

Shoji Honda  
Corporate Auditor

Katsumi Abe  
Corporate Auditor

Hideshige Haruki  
Corporate Auditor

## Operating Officers

Tsuyoshi Nakane

Jiro Kitamura

Atsuo Ota

Shinya Miyata

Osamu Okayasu

Mikiro Kokita

Yasuto Horie

Toshio Anada

Katsuhiro Ikuma

Hidekatsu Ikedo

Kaoru Detake

Shinichi Ueno



Financial Section



# Management's Discussion and Analysis

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## Performance Highlights of Fiscal 2005

- Gross billings rose 2.6% compared with just 1.8% market growth.
  - The operating margin exceeded our 15% medium-term target for the second consecutive year.
- 

### ADK Group Overview

Asatsu-DK is the third largest advertising agency in Japan. We provide companies in Japan and overseas with a full spectrum of services, encompassing creative planning and production for newspaper, magazine, radio, television, and digital media advertising, as well as sales promotion and other advertising services. We launched our TV animation business in the 1960s and have been a pioneer in this category ever since. Other members of the ADK group provide book and magazine publishing and sales services, as well as information processing services.

The ADK group consists of 47 subsidiaries (42 in advertising and five in non-advertising) and 24 affiliates (23 in advertising and one in non-advertising). Our global reach extends to 21 cities and is reinforced by a close alliance with WPP Group plc, the world's second largest communications group.

In fiscal 2005, overseas markets accounted for around 5.9% of total gross billings. Over the long term, we plan to generate around 10% of total gross billings from overseas business by renewing our focus on rapidly growing markets, including China and Southeast Asia, while working with the WPP Group in other regions.

### Operating Environment

The domestic advertising industry in fiscal 2005 saw continued rapid diversification of the media environment driven by the ongoing proliferation of digital, broadband and mobile communications infrastructure. Despite the rapid growth of the internet, the size of new media advertising markets in absolute terms remained limited relative to that of traditional markets. Growth in total advertising expenditures in 2005, therefore, generally reflected nominal GDP, increasing just 1.8% year-on-year.

Nevertheless, this increasingly diversified media environment is expected to rapidly expand the communications business market while increasing its complexity as it accelerates the change of consumer purchasing processes along with ongoing socioeconomic changes sparked by such factors as product oversupply, diversifying employment styles, a falling birthrate, and an aging population.

Against this background, clients have become increasingly demanding of their advertising service providers. In addition to securing media space, they want proposals on how to utilize old and new media more efficiently and effectively. They want campaigns that contribute directly to their bottom line by addressing all of the touchpoints linking consumers to brands. Such demands have forced the industry to become more sophisticated and innovative as advertising companies become "branding partners" with their clients.

At the same time, competition has intensified, highlighting the characteristics that distinguish the major players. Such competition is not limited to Japan, but is also intensifying in China, Southeast Asia and other fast-growing markets, underscoring the importance of establishing international networks.

### ADK's Response

To prevail amidst such challenges, we continue to emphasize our 360-degree communications strategy, guided by our Management by All philosophy. Specifically, we strive to improve our corporate value by helping clients strengthen the appeal of their brands and boost their revenues. We also demonstrate our sales promotion capabilities in various arenas, from customized in-store promotions to major international events, such as the World Exposition in Aichi, Japan.

As a result, the group grew faster than the industry as a whole, generating a 2.6% increase in gross billings versus 1.8% growth in domestic advertising expenditures. In fiscal 2006, we plan to again outperform the industry, targeting a 3.6% increase in gross billings versus an expected 2.1% rise in national ad spending.



## → Segment Information

The ADK group businesses are classified into two main segments: advertising, which accounted for 97.8% of gross billings in fiscal 2005, and non-advertising, which made up the remaining 2.2%. Non-advertising businesses include book and magazine publishing and sales services, as well as information processing services.

### Advertising

ADK's non-consolidated gross billings, 100% of which are generated from the advertising business, represented 90.6% of consolidated gross billings in fiscal 2005. For this reason, the performance of the advertising segment is reviewed on a non-consolidated basis.

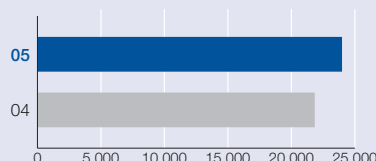
Non-consolidated gross billings totaled ¥384,849 million in fiscal 2005, up 2.9% from the previous fiscal year. ADK reported increased year-on-year billings from clients in the Government/Organization, Educational/Health care services, Real estate/Housing facilities, Transportation/Leisure, Restaurants/Other Services and other sectors. By contrast, billings from the Electric machines/AV equipment, Precision instruments/Office equipment and Beverages/Tobacco products sectors declined.

ADK's advertising business is handled by the following seven divisions.

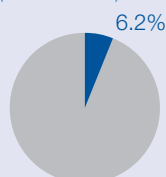
### Magazine Division

During the year, ADK attracted new business from clients promoting international high-end fashion brands. In addition, billings to clients in the Cosmetics/Toiletries sector recovered after a weak performance in fiscal 2004, and billings to advertisers in the Pharmaceuticals/Medical supplies sector also increased. As a result, billings of the Magazine Division grew 9.8% to ¥23,988 million.

Billings of Magazine Division  
(Millions of yen)



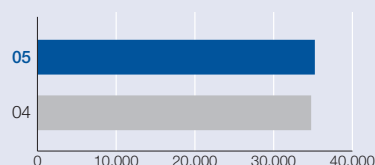
Share of Gross Billings  
(Non-consolidated)



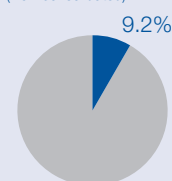
### Newspaper Division

Despite an increase in billings to clients in the Transportation/Leisure sector, business from the Finance/Insurance sector, which accounts for a major share of division billings, showed limited growth. Accordingly, billings of the Newspaper Division edged up just 1.4% to ¥35,230 million.

Billings of Newspaper Division  
(Millions of yen)



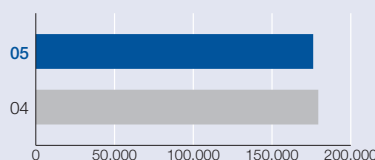
Share of Gross Billings  
(Non-consolidated)



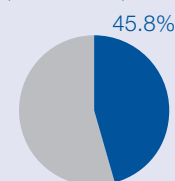
### Television Division

Billings to program-sponsored advertising remained firm, but billings to the Finance/Insurance sector for spot advertising fell below the previous year's level. A decline in sales related to the highly popular *Yu-Gi-Oh!*, which peaked in overseas markets, particularly in North America in the previous fiscal year, affected animation content-related sales. However, this impact was partly offset by the better performance of other content characters. Overall billings in the Television Division, therefore, slipped 2.1% to ¥176,133 million.

Billings of Television Division  
(Millions of yen)



Share of Gross Billings  
(Non-consolidated)

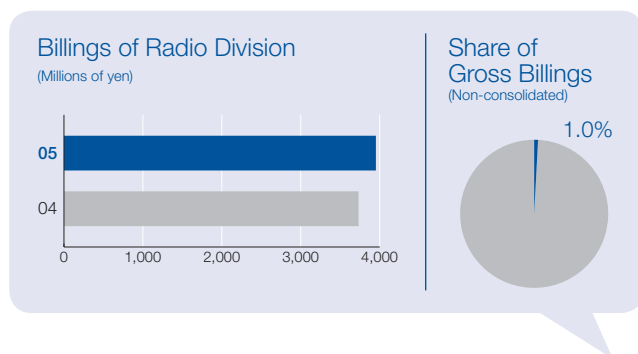


#### Reference: Non-consolidated Gross Billings for Television Division by Segment

|                             | 2005     | 2004     | 2005/2004 |
|-----------------------------|----------|----------|-----------|
| Time (program-sponsored ad) | ¥ 66,872 | ¥ 66,640 | 100.3%    |
| Spot                        | 94,726   | 98,380   | 96.3%     |
| Content-related sales       | 14,536   | 14,959   | 97.2%     |
| Total TV Division billings  | ¥176,133 | ¥179,979 | 97.9%     |

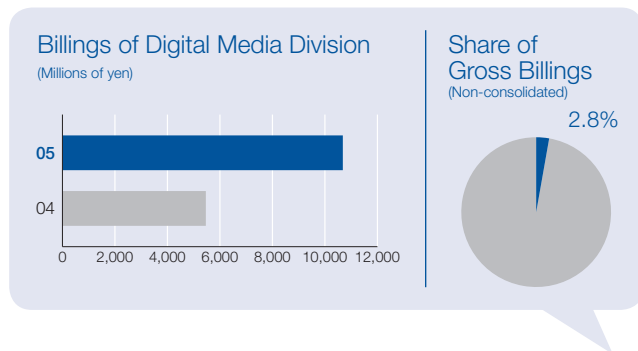
## Radio Division

Fiscal 2005 saw a decline in billings to the Transport equipment sector, but this was outweighed by brisk demand from the Foods and Beverages/Tobacco products sector. Billings in the Radio Division, therefore, climbed 5.9% to ¥3,952 million.



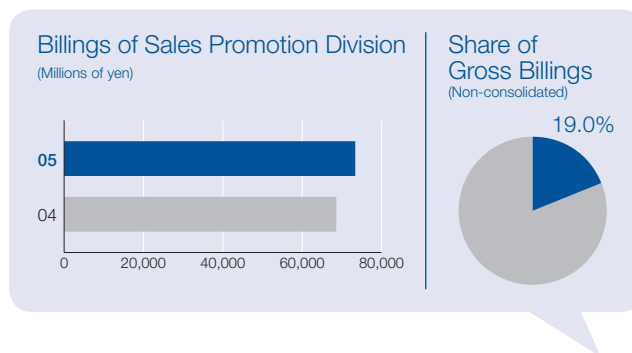
## Digital Media Division

Due to the ongoing success of advertising proposals integrating the internet with other media, billings to clients in the Finance/Insurance sector continued to show strong growth. We also again generated significant year-on-year growth in orders for website construction services. As a result, billings in the Digital Media Division jumped 96.4% to ¥10,682 million.



## Sales Promotion Division

During the year, we incorporated “Experiential-Point Management” techniques into our traditional promotions as a means to better control the touchpoints linking consumers and brands, and we offered multifaceted communications planning services, which boosted demand from the Distribution/Retail sector. Billings also benefited from our participation in the world Exposition in Aichi, Japan. Consequently, billings in the Sales Promotion Division rose 7.0%, to ¥73,369 million.

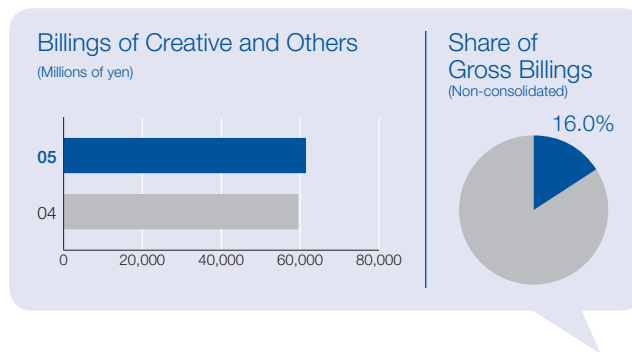


## Creative and Others

In the creative category, ADK received a number of prestigious awards, including at the Cannes Lions 2005.

The performance of the marketing category weakened in the second half of the year, due to declining billings stemming from a shift in demand to low-priced internet market surveys.

Nevertheless, overseas media billings to the Information/Communications sector showed strong growth. Accordingly, billings in this division increased 3.3%, to ¥61,491 million.



## Gross Billings: Breakdown by Division

(Non-Consolidated)

|                     | 2005            |            | 2004            |            |
|---------------------|-----------------|------------|-----------------|------------|
|                     | Millions of yen | % of Total | Millions of yen | % of Total |
| Magazine            | ¥ 23,988        | 6.2%       | ¥ 21,839        | 5.8%       |
| Newspaper           | 35,230          | 9.2        | 34,760          | 9.3        |
| Television          | 176,133         | 45.8       | 179,979         | 48.1       |
| Radio               | 3,952           | 1.0        | 3,732           | 1.0        |
| Digital Media       | 10,682          | 2.8        | 5,437           | 1.5        |
| Sales Promotion     | 73,369          | 19.0       | 68,598          | 18.4       |
| Creative and Others | 61,491          | 16.0       | 59,549          | 15.9       |
| Total               | ¥384,849        | 100.0%     | ¥373,897        | 100.0%     |

## Non-Consolidated Gross Billings, Market Share and Industry Ranking (1996-2005)

(Non-Consolidated)

| Year | Gross Billings | Year-on-year Rate | Market Share | Industry Rank |
|------|----------------|-------------------|--------------|---------------|
| 1996 | ¥ 179,814      | 112.4%            | 3.12%        | 4             |
| 1997 | 200,274        | 111.4             | 3.34         | 3             |
| 1998 | 200,540        | 100.3             | 3.47         | 3             |
| 1999 | 320,085        | 104.6             | 5.62         | 3             |
| 2000 | 340,888        | 106.5             | 5.57         | 3             |
| 2001 | 358,830        | 105.3             | 5.92         | 3             |
| 2002 | 334,915        | 93.3              | 5.87         | 3             |
| 2003 | 357,597        | 106.8             | 6.29         | 3             |
| 2004 | 373,897        | 104.6             | 6.38         | 3             |
| 2005 | ¥384,849       | 102.9%            | 6.30%        | 3             |

## Gross Billings: Breakdown by Client Industry

(Non-Consolidated)

|  | 2005            |                   | 2004            |                   | Change | Year-on-year Rate |
|--|-----------------|-------------------|-----------------|-------------------|--------|-------------------|
|  | Millions of yen | Composition Ratio | Millions of yen | Composition Ratio |        |                   |
| Energy/Raw materials/Machinery         | ¥ 4,689         | 1.2%              | ¥ 5,481         | 1.5%              | -792   | 85.5%             |
| Foods                                  | 35,418          | 9.2               | 36,172          | 9.7               | -754   | 97.9              |
| Beverages/Tobacco products             | 24,872          | 6.5               | 26,779          | 7.2               | -1,906 | 92.9              |
| Pharmaceuticals/Medical supplies       | 16,168          | 4.2               | 15,210          | 4.1               | 958    | 106.3             |
| Cosmetics/Toiletry goods               | 34,695          | 9.0               | 32,993          | 8.8               | 1,702  | 105.2             |
| Apparel/Jewelry                        | 8,488           | 2.2               | 9,207           | 2.5               | -720   | 92.2              |
| Precision instruments/Office equipment | 6,512           | 1.7               | 8,518           | 2.3               | -2,006 | 76.5              |
| Electric machines/AV equipment         | 6,235           | 1.6               | 8,521           | 2.3               | -2,286 | 73.2              |
| Transport equipment                    | 22,971          | 6.0               | 23,053          | 6.2               | -82    | 99.6              |
| Household products                     | 2,745           | 0.7               | 2,761           | 0.7               | -17    | 99.4              |
| Hobbies/Sporting goods                 | 17,711          | 4.6               | 18,702          | 5.0               | -991   | 94.7              |
| Real estate/Housing facilities         | 7,428           | 1.9               | 6,241           | 1.7               | 1,187  | 119.0             |
| Publications                           | 3,014           | 0.8               | 3,415           | 0.9               | -401   | 88.3              |
| Information/Communications             | 43,834          | 11.4              | 41,477          | 11.1              | 2,357  | 105.7             |
| Distribution/Retail                    | 24,341          | 6.3               | 22,521          | 6.0               | 1,819  | 108.1             |
| Finance/Insurance                      | 59,822          | 15.5              | 57,429          | 15.4              | 2,393  | 104.2             |
| Transportation/Leisure                 | 12,636          | 3.3               | 10,292          | 2.8               | 2,343  | 122.8             |
| Restaurants/Other services             | 13,080          | 3.4               | 11,185          | 3.0               | 1,895  | 116.9             |
| Government/Organization                | 13,618          | 3.5               | 8,407           | 2.2               | 5,211  | 162.0             |
| Educational/Health care services       | 2,713           | 0.7               | 2,117           | 0.6               | 597    | 128.2             |
| Classified ads/Others                  | 23,860          | 6.2               | 23,415          | 6.3               | 445    | 101.9             |
| Total                                  | ¥384,849        | 100.0%            | ¥373,897        | 100.0%            | 10,952 | 102.9%            |

## Non-Advertising

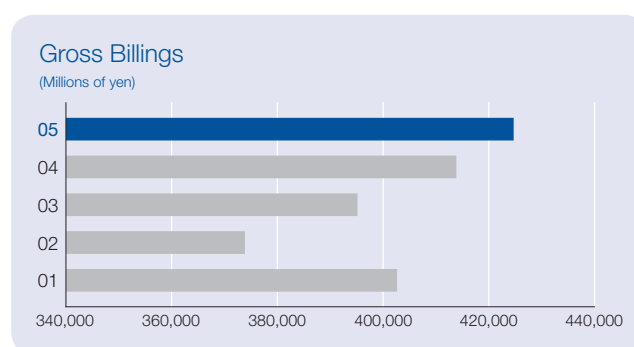
ADK has two consolidated subsidiaries in the publications industry. In fiscal 2005, the market of books and magazines continued to shrink due to the expansion of digital media. The subsidiaries also faced a higher-than-expected return of magazines and books. As a result, billings from the non-advertising segment fell 7.3%, to ¥9,404 million.

|                         | Millions of yen |         |
|-------------------------|-----------------|---------|
|                         | 2005            | 2004    |
| Gross billings          | ¥9,404          | ¥10,140 |
| Operating income        | -222            | 21      |
| Operating income margin | -2.4%           | 0.2%    |

## →Consolidated Performance

### Gross Billings

In fiscal 2005, consolidated gross billings totaled ¥424,705 million, up 2.6% from fiscal 2004. Consolidated billings in the advertising segment grew 2.9% to ¥415,301 million, compensating for a 7.3% decline in the non-advertising segment to ¥9,404 million.



### Consolidated Gross Billings and Selected Profitability Data

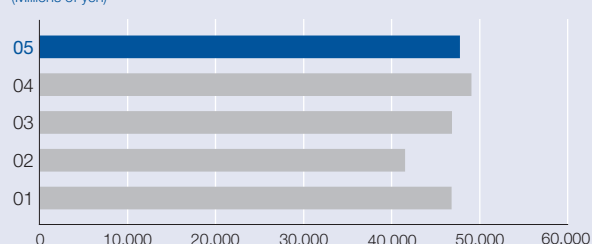
|                            | Millions of yen except per common share amounts and financial ratios |          |          |
|----------------------------|--|----------|----------|
|                            | 2005   | 2004     | 2003     |
| Gross billing              | ¥424,705   | ¥413,898 | ¥395,149 |
| Gross margin               | 11.2%  | 11.9%    | 11.9%    |
| Operating margin           | 15.7%  | 16.8%    | 13.7%    |
| Income before income taxes | ¥ 11,028   | ¥ 9,440  | ¥ 7,447  |
| Net income                 | ¥ 5,946  | ¥ 5,181  | ¥ 3,621  |
| Net income per share       | ¥ 122.11   | ¥ 103.25 | ¥ 70.53  |

## Gross Profit

Gross profit slipped 2.7% to ¥47,774 million, resulting in a gross margin of 11.2%, down from 11.9% in fiscal 2004. The decline in gross profit stemmed from a 3.3% increase in cost of sales as ADK fought hard to counter sluggish sales related to *Yu-Gi-Oh!*, as well as weak profitability in the media buying business.

### Gross Profit

(Millions of yen)

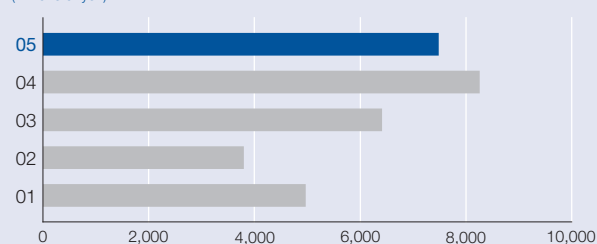


## Operating Income

To maintain profitability despite the ever-rising cost of sales, ADK strove to keep selling, general and administrative (SG&A) expenses under control and the operating margin higher than our original target. While gross profit declined by 2.7% as explained above, SG&A expenses declined 1.3% to ¥40,286 million. As a result, operating income fell 9.3% to ¥7,488 million. Nevertheless, the operating margin (ratio of operating income to gross profit) was kept at 15.7%, exceeding our medium term target of 15% for the second consecutive year. The staff cost/gross profit ratio was 56.0%, close to our medium-term target of 55%.

### Operating Income

(Millions of yen)



## Other Income and Expenses

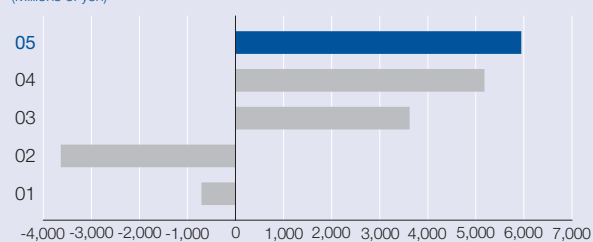
Other income, net of expenses, thanks to an increase in interest and dividend income of ¥1,517 million, jumped three-fold to ¥3,540 million from ¥1,180 million in fiscal 2004, when we reported a large impairment loss of fixed assets of ¥579 million and a valuation loss of securities of ¥446 million.

## Net Income

Income before income taxes and minority interests increased 16.8% to ¥11,028 million. The total of current and deferred income taxes was ¥5,025 million. A significant decline in current income taxes to ¥2,957 million (from ¥4,077 million in fiscal 2004) was because the Company recognized larger deferred income tax mainly due to a larger transfer of cash to build pension assets, sales of mutual funds with unrealized losses and a decrease in accrued bonuses to employees. As a result, net income totaled ¥5,946 million, up 14.8% from the previous fiscal year.

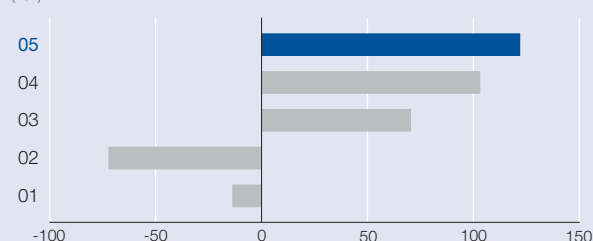
### Net Income (Loss)

(Millions of yen)



### Net Income (Loss) per Share

(Yen)



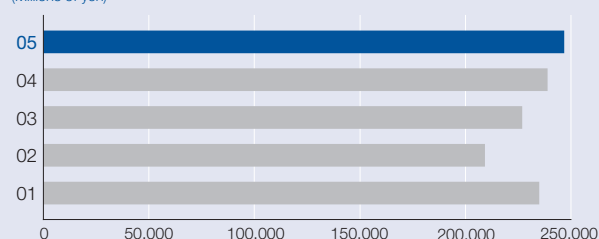
## → Financial Position

### Total Assets

As of December 31, 2005, the ADK group had total assets of ¥246,867 million, up ¥7,967 million from a year earlier. Current assets fell ¥10,281 million to ¥137,510 million, primarily due to a ¥7,390 million decline in marketable securities stemming from increased net sales of such securities. Investments and other assets, by contrast, rose ¥18,509 million to ¥105,328 million, owing mainly to an ¥18,666 million rise in investment securities, due to increased market prices of investment securities and increased net purchases of such securities.

#### Total Assets

(Millions of yen)



### Select Consolidated Balance Sheet Data

Millions of yen except per common share amounts and financial ratios

|                      | 2005      | 2004      | 2003      |
|----------------------|-----------|-----------|-----------|
| Total assets         | ¥ 246,867 | ¥ 238,900 | ¥ 226,911 |
| Current ratio        | 1.46X     | 1.45X     | 1.49X     |
| Equity ratio         | 54.6%     | 51.9%     | 52.7%     |
| Book value per share | ¥2,809.30 | ¥2,554.78 | ¥2,416.67 |

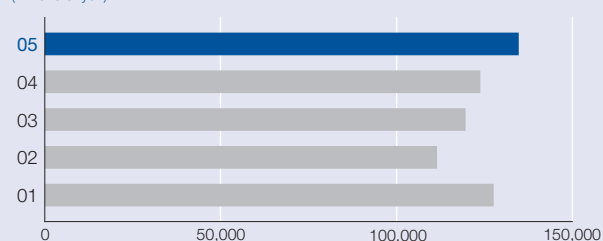
### Total Liabilities and Shareholders' Equity

Total liabilities at the fiscal year-end amounted to ¥111,119 million, down ¥2,678 million. Current liabilities were down ¥7,294 million, to ¥94,320 million, principally due to a ¥4,709 million fall in notes and accounts payable. Long-term liabilities rose ¥4,616 million to ¥16,799 million, mainly due to a ¥6,543 million jump in deferred tax liabilities stemming from an increase in unrealized gains on available-for-sale securities.

Total shareholders' equity increased ¥10,857 million to ¥134,751 million. This was primarily the result of a ¥4,855 million rise in retained earnings and a ¥7,706 million jump in unrealized gains on available-for-sale securities.

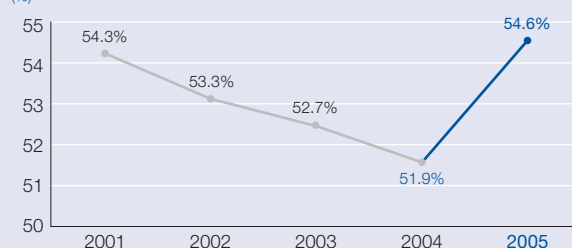
#### Shareholders' Equity

(Millions of yen)



#### Equity Ratio

(%)



## Cash Flow

As of December 31, 2005, cash and cash equivalents totaled ¥21,938 million, down ¥7,840 million from a year earlier.

Net cash provided by operating activities amounted to ¥189 million, down significantly from ¥7,301 million the previous fiscal year. Although depreciation and amortization remained largely unchanged, at ¥1,246 million, a number of factors affected operating cash flow. These included the unmatched timing of a decrease in notes and accounts payable-trade and notes and accounts receivable-trade (the former amounted to ¥5,125 million, while the latter was ¥3,070 million), a ¥1,925 million decrease in accrued retirement benefits by the accelerated buildup of pension assets for the newly implemented cash balance defined benefit plan, as well as ¥4,372 million in income taxes paid.

Net cash used in investing activities totaled ¥5,202 million, compared with ¥3,764 million in fiscal 2004. Major components included ¥6,218 million in proceeds from sales of securities and ¥9,713 million in purchases of securities.

Net cash used in financing activities was ¥3,128 million, compared with ¥3,956 million in the previous fiscal year. Major components of financing cash flows included net purchases of treasury stock totaling ¥1,880 million, reflecting the group's policy to keep improving shareholder returns, as well as dividends paid totaling ¥1,017 million.

## Capital Expenditures and Depreciation

|                             | Millions of yen      |              |                      |              |
|-----------------------------|----------------------|--------------|----------------------|--------------|
|                             | 2005                 |              | 2004                 |              |
|                             | Capital Expenditures | Depreciation | Capital Expenditures | Depreciation |
| Buildings                   | ¥ 42                 | ¥ 165        | ¥ 58                 | ¥ 205        |
| Structures                  | 0                    | 4            | 0                    | 4            |
| Vehicles                    | 28                   | 22           | 19                   | 23           |
| Equipment and fixtures      | 119                  | 201          | 86                   | 217          |
| Land                        | 0                    | 0            | 0                    | 0            |
| Licenses                    | 0                    | 0            | 0                    | 48           |
| Computer software           | 337                  | 780          | 451                  | 760          |
| Telephone rights and others | 0                    | 74           | 0                    | 76           |
| Total                       | ¥526                 | ¥1,246       | ¥616                 | ¥1,333       |

## Cash Flow

|                                  | Millions of yen |        |
|----------------------------------|-----------------|--------|
|                                  | 2005            | 2004   |
| Cash flow provided by operations | ¥ 189           | ¥7,301 |
| Business reinvestment            | -492            | -286   |
| Free cash flow                   | ¥-302           | ¥7,014 |

Note: Business reinvestment = Purchases of property and equipment + Purchases of intangible assets - Sales of property and equipment.

## Outlook

In fiscal 2006, the ADK group is targeting consolidated gross billings of ¥440,000 million, up 3.6% from fiscal 2005. Our forecasts also include gross profit of ¥51,700 million (up 8.2%), operating income of ¥8,500 million (up 13.5%) and net income of ¥6,400 million (up 7.6%). In addition, we project an operating margin of 16.4% (up 0.7 point), and a staff cost/gross profit ratio of 56.1% (up 0.1 point).

## →Risk Factors

### Domestic Economy

Approximately 92% of group billings are generated from the domestic advertising market, which is closely influenced by the nominal GDP. In the event that the domestic economy deteriorates seriously, the ADK group's performance and financial conditions could be negatively impacted.

### Changes in the Advertising Market

The ADK group intends to continue to sell traditional mass media advertising space and time to its well-diversified clientele as well as carry out sales promotions and a wide range of peripheral services under its 360-degree communications approach. However, failure to respond appropriately to any market changes – including, but not limited to changes in advertiser's budgets, media inventory costs and advertising methods – could significantly impact performance and financial conditions.

### Response to the Development of New Media

The ADK group continues to focus on both traditional and new media through its 360-degree communications approach. In addition, the group has been developing an online agency function to lead the digital advertising market, including the internet. However, if ADK fails to adapt to changes in the advertising market, its performance and financial condition could be adversely impacted.

### Competitive Risk

Competition among Japan's major advertising companies is intensifying. In addition, the entry of foreign mega agency groups into the Japanese market, and many new entrants in the internet advertising market, accelerates competition. In the event that ADK is unable to respond appropriately to client needs and changes in the advertising industry, and loses its competitiveness as a result, there is significant risk that its market share could decline and profitability could deteriorate. This would have a serious impact on its performance and financial condition.

### Relationship with Advertisers

In Japan, traditionally advertisers do not strictly require an exclusive relationship with their agencies, which may have business with competitors. However, there is no assurance that this practice will continue in the future. In the event that ADK fails to adapt to such changes in the advertising market, its performance and financial condition could be adversely impacted.

The ADK group has a diversified portfolio of first-tier clients. The parent company's largest 10 and 20 clients

respectively share roughly 23% and 33% of total unconsolidated gross billing, and sector concentration risk is limited. Although we strive to maintain and develop good relationships with our clients, there is no assurance that we will be able to continue to do so.

An advertising agency buys media time or space and materials on behalf of its clients on its own account. Therefore, even if a client defaults, the advertising company is still liable for the media and or materials.

While it has been a tradition for advertising companies in Japan not to have contracts with media and clients so as to maximize their flexibility in order to adapt to sudden changes, ADK works to ensure that it has written contracts with more media and more clients. When this is the rule, not the exception, the company believes accountability by both parties will minimize disputes. Until that time, however, there remains the possibility of disputes with media and clients.

### Relationships with Media

ADK strives to secure advertising time and/or space with the four major mass media as well as with the rapidly growing internet and digital advertising sectors. However, in the event of a decrease in advertising volume and/or changes in business terms and conditions and advertising methods, and/or the emergence of new advertising formats, and the ADK group does not respond to these changes appropriately, there is a significant possibility that performance and financial conditions could be adversely affected.

### Media Inventories

Occasionally, ADK purchases media inventories, particularly animation programs, at fixed prices based on orders from client advertisers. Although we strive to improve the quality of contents, and increase the demand of such programs by keeping a close relationship with the media, in the case of weak sales, excess inventories could have an adverse effect on our performance and financial conditions.

### Relationship with Subcontractors

While ADK carries out the planning for advertising and sales promotion campaigns, the execution of these activities is mostly outsourced to qualified subcontractors. In the case of a change in trading relationships with these subcontracted companies, and in the event that ADK is unable to respond appropriately, this could have a negative impact on group performance and financial conditions.

### Contents Business

ADK continues to strive to develop new contents under existing and new business models. However, there is no guarantee of the continued success of these contents or of derivative and or resale income from them. Accordingly, in the case that the



group is not able to generate income as expected, the group could experience a significant impact on its performance and financial conditions.

### Overseas Operations

In overseas markets, because of the difference in culture and society, a variety of problems may arise. In addition, both country and currency risks are inherent in conducting international business. In the event that the ADK group is unable to expand its overseas operations as planned, the group's performance and financial condition could be significantly impacted.

### Relationship with WPP Group plc

ADK has maintained strategic operating and equity ties with WPP Group plc, of the United Kingdom since August 1998, holding a 2.50% equity stake in WPP. At the same time, both companies have non-executive directors on each other's boards. By way of operating alliances with WPP Group operating companies, including JWT, ADK made a number of creative and promotional tie-ups and will continue to develop operations worldwide.

Because ADK does not own a majority of WPP's voting rights, and our influence on WPP Group operations is limited, in the event that the Group is unable to realize the benefits from this relationship or if the relationship should negatively change in any way, there may be an impact on ADK group's performance and financial conditions in the future.

In addition, although the value of the equity stake in WPP Group plc is currently at a higher level than at the time of acquisition, in the event of a major deterioration in its stock price there is a possibility that ADK would have to account for valuation losses on this holding.

### Staff

In the event that ADK is unable to secure and train its talented staff adequately, there could be a negative impact on performance and financial conditions.

### Marketable Securities and Investment Securities

The ADK group's holdings of marketable and investment securities (including the aforementioned stake in WPP Group plc) totaled ¥93,161 million, representing 37.7% of our ¥246.8 billion in total assets at the end of fiscal 2005. Of this amount, ¥72,484 million is publicly traded equity securities mostly for cross-shareholdings in advertising clients and other trading partners. The balance of unrealized gains on available-for-sale securities is ¥14,078 million after netting deferred tax liabilities on such gains. However, in the event of a major decline in the market prices of these holdings, ADK would be forced to account for valuation losses.

### Retirement Benefits and Pension Plans

At the end of 2004, ADK reformed its employee retirement benefits and pension plans, and adopted a defined contribution pension plan and a cash balance plan to reduce the volatility of net periodic benefit costs and staff costs through a smaller projected benefit obligation and less risky pension asset investment strategies. Better controlled personnel costs will help management meet its performance target of 55%.

In the event of a fall in the discount rate due to further market interest-rate declines, deterioration in pension asset management performance, and a significant change in actuarial assumptions, the ADK group could face a negative impact on its performance and financial condition.

ADK and some of its domestic subsidiaries are the members of Japan Advertising Industry Pension Fund. Because the ADK group cannot technically or reasonably define how much pension assets and liabilities the group is accountable for, the group recognizes its annual cash contribution to the fund as its periodical benefit costs applicable for the fund.

The group's pro rata share of the pension assets as of March 31, 2005 based on the cash contribution by the both employers and employees made during the year through March 2005 was ¥8,765 million. Out of the amount, the employers portion and employees portion were ¥ 5,502 million and ¥3,263 million respectively. In the case that the fund requires the group to make a larger contribution due to changes in the discount rate, pension plan asset performance, number of member companies and beneficiaries, and so on, the group would need to recognize larger net periodic benefit costs.

### Legal Risks

ADK's advertising clients are affected by a number of mandatory and voluntary regulations, depending on the type or types of businesses in which they are engaged. If these laws and regulations are tightened or new ones are enacted, our clients' advertising activities could shrink or become curtailed. Such changes may have a negative impact on our performance and financial conditions.

### Regulatory Changes

In Japan, there are a number of laws that bind advertising companies, including ADK. These include laws to prevent delays in payment to sub-contractors and protect personal information as well as regulations applicable to advertising companies. If there is a strengthening of existing laws or regulations affecting the advertising activities of advertisers or the format or content of advertisements, the financial results of the ADK group and other advertising companies could be adversely affected. In the case there is the introduction of new laws or regulations, or the reinterpretation of existing laws or regulations, the result could also impact ADK's performance.

# Consolidated Balance Sheets

Asatsu-DK Inc. and Consolidated Subsidiaries  
Years Ended December 31, 2005 and 2004

|  | Millions of Yen |                 | Thousands of<br>U.S. Dollars (Note 1) |
|--|-----------------|-----------------|---------------------------------------|
| ASSETS   | 2005            | 2004            | 2005                                  |
| <b>CURRENT ASSETS:</b>   |                 |                 |                                       |
| Cash and time deposits   | ¥ 21,334        | ¥ 22,749        | \$ 180,689                            |
| Marketable securities (Note 3)   | 2,987           | 10,377          | 25,299                                |
| Notes and accounts receivable:   |                 |                 |                                       |
| Trade  | 103,078         | 105,237         | 873,025                               |
| Allowance for doubtful receivables                                     | (683)           | (709)           | (5,785)                               |
| Inventories  | 7,575           | 6,939           | 64,157                                |
| Deferred tax assets (Note 7)   | 629             | 1,550           | 5,327                                 |
| Other current assets   | 2,590           | 1,648           | 21,936                                |
| Total current assets   | 137,510         | 147,791         | 1,164,648                             |
| <b>PROPERTY AND EQUIPMENT:</b>   |                 |                 |                                       |
| Land   | 1,310           | 1,323           | 11,095                                |
| Buildings and leasehold improvements                                   | 3,985           | 3,988           | 33,751                                |
| Other  | 1,876           | 2,012           | 15,889                                |
| Total  | 7,171           | 7,323           | 60,735                                |
| Accumulated depreciation   | (3,142)         | (3,033)         | (26,611)                              |
| Net property and equipment   | 4,029           | 4,290           | 34,124                                |
| <b>INVESTMENTS AND OTHER ASSETS:</b>                                   |                 |                 |                                       |
| Investment securities (Note 3)   | 86,725          | 68,059          | 734,522                               |
| Investments in unconsolidated<br>subsidiaries and affiliated companies | 6,722           | 6,590           | 56,932                                |
| Deferred tax assets (Note 7)   | 464             | 535             | 3,930                                 |
| Other assets   | 11,417          | 11,635          | 96,697                                |
| Total investments and other assets                                     | 105,328         | 86,819          | 892,081                               |
| <b>TOTAL</b>   | <b>¥246,867</b> | <b>¥238,900</b> | <b>\$2,090,853</b>                    |

See notes to consolidated financial statements.

|   | Millions of Yen |                 | Thousands of<br>U.S. Dollars (Note 1) |
|---|-----------------|-----------------|---------------------------------------|
| LIABILITIES AND SHAREHOLDERS' EQUITY                                  | 2005            | 2004            | 2005                                  |
| <b>CURRENT LIABILITIES:</b>   |                 |                 |                                       |
| Short-term debt (Note 4)  | ¥ 573           | ¥ 405           | \$ 4,853                              |
| Current portion of long-term debt (Note 4)                            | 49              | 368             | 415                                   |
| Notes and accounts payable—trade                                      | 85,615          | 90,324          | 725,121                               |
| Income taxes payable (Note 7)   | 1,003           | 2,507           | 8,495                                 |
| Accrued bonuses to employees  | 453             | 1,818           | 3,837                                 |
| Allowance for sales returns   | 750             | 893             | 6,352                                 |
| Deferred tax liabilities (Note 7)                                     | 56              | 79              | 474                                   |
| Other current liabilities   | 5,821           | 5,220           | 49,301                                |
| Total current liabilities   | 94,320          | 101,614         | 798,848                               |
| <b>LONG-TERM LIABILITIES:</b>   |                 |                 |                                       |
| Long-term debt (Note 4)   | 658             | 728             | 5,573                                 |
| Accrued retirement benefits (Note 5)                                  | 2,801           | 4,724           | 23,723                                |
| Allowance for retirement benefits to directors and corporate auditors | 635             | 617             | 5,378                                 |
| Deferred tax liabilities (Note 7)                                     | 12,477          | 5,934           | 105,675                               |
| Other long term liabilities   | 228             | 180             | 1,931                                 |
| Total long-term liabilities   | 16,799          | 12,183          | 142,280                               |
| <b>MINORITY INTERESTS</b>   | 997             | 1,209           | 8,444                                 |
| <b>CONTINGENT LIABILITIES</b> (Note 10)                               |                 |                 |                                       |
| <b>SHAREHOLDERS' EQUITY</b> (Notes 6 and 12):                         |                 |                 |                                       |
| Common stock  |                 |                 |                                       |
| Authorized; 206,000,000 shares in 2005 and 2004;                      |                 |                 |                                       |
| Issued 51,655,400 shares in 2005 and 2004                             | 37,581          | 37,581          | 318,294                               |
| Capital surplus   | 40,607          | 40,607          | 343,923                               |
| Retained earnings   | 44,191          | 39,336          | 374,278                               |
| Unrealized gain on available-for-sale securities                      | 21,784          | 14,078          | 184,501                               |
| Foreign currency translation adjustments                              | 278             | 102             | 2,355                                 |
| Total   | 144,441         | 131,704         | 1,223,351                             |
| Treasury stock—at cost  | (9,690)         | (7,810)         | (82,070)                              |
| Shareholders' equity—net  | 134,751         | 123,894         | 1,141,281                             |
| <b>TOTAL</b>  | <b>¥246,867</b> | <b>¥238,900</b> | <b>\$2,090,853</b>                    |

See notes to consolidated financial statements.

# Consolidated Statements of Income

Asatsu-DK Inc. and Consolidated Subsidiaries  
Years Ended December 31, 2005 and 2004

|  | Millions of Yen |          | Thousands of<br>U.S. Dollars (Note 1) |
|--|-----------------|----------|---------------------------------------|
|  | 2005            | 2004     | 2005                                  |
| <b>GROSS BILLINGS</b> (Note 13)                              | ¥424,705        | ¥413,898 | \$3,597,061                           |
| <b>COST OF SALES</b> (Note 13)                               | 376,931         | 364,819  | 3,192,437                             |
| Gross profit   | 47,774          | 49,079   | 404,624                               |
| <b>SELLING, GENERAL AND ADMINISTRATIVE</b>                   |                 |          |                                       |
| <b>EXPENSES</b> (Notes 8 and 13)                             | 40,286          | 40,819   | 341,204                               |
| Operating income   | 7,488           | 8,260    | 63,420                                |
| <b>OTHER INCOME (EXPENSES):</b>                              |                 |          |                                       |
| Interest and dividend income—net                             | 1,517           | 1,222    | 12,848                                |
| Gain on sales of securities                                  | 1,224           | 683      | 10,367                                |
| Loss on sales of securities                                  | (50)            | (6)      | (423)                                 |
| Loss on valuation of securities                              | (196)           | (446)    | (1,660)                               |
| Consolidation adjustment account charge                      | 165             | 33       | 1,397                                 |
| Equity in earnings of affiliated companies—net               | 124             | 350      | 1,050                                 |
| Retirement benefits paid to directors and corporate auditors | (72)            | (195)    | (610)                                 |
| Additional retirement benefits paid to employees             | (64)            | (129)    | (542)                                 |
| Gain on reformation of retirement benefits and pension plans | —               | 225      | —                                     |
| Impairment loss of fixed assets                              | —               | (579)    | —                                     |
| Loss on sales of fixed assets                                | (20)            | (182)    | (169)                                 |
| Prior years' foreign salary adjustment                       | —               | (356)    | —                                     |
| Other—net  | 912             | 560      | 7,724                                 |
| Other income—net   | 3,540           | 1,180    | 29,982                                |
| <b>INCOME BEFORE INCOME TAXES AND MINORITY INTERESTS</b>     | 11,028          | 9,440    | 93,402                                |
| <b>INCOME TAXES:</b>   |                 |          |                                       |
| Current  | 2,957           | 4,077    | 25,044                                |
| Deferred   | 2,068           | 129      | 17,515                                |
| <b>MINORITY INTERESTS IN NET INCOME</b>                      | 57              | 53       | 483                                   |
| <b>NET INCOME</b>  | ¥ 5,946         | ¥ 5,181  | \$ 50,360                             |

See notes to consolidated financial statements.

# Consolidated Statements of Shareholders' Equity

Asatsu-DK Inc. and Consolidated Subsidiaries  
Years Ended December 31, 2005 and 2004

|  | Millions of Yen |          | Thousands of<br>U.S. Dollars (Note 1) |
|--|-----------------|----------|---------------------------------------|
|  | 2005            | 2004     | 2005                                  |
| <b>CAPITAL SURPLUS, BEGINNING OF THE YEAR</b>              | ¥ 40,607        | ¥ 40,607 | \$343,923                             |
| Increase in capital surplus                                |                 |          |                                       |
| Sales of treasury stocks                                   | 0               | 0        | 0                                     |
| <b>CAPITAL SURPLUS, END OF THE YEAR</b>                    | ¥ 40,607        | ¥ 40,607 | \$343,923                             |
| <b>RETAINED EARNINGS, BEGINNING OF THE YEAR</b>            | ¥ 39,336        | ¥ 35,167 | \$333,158                             |
| Increase in retained earnings                              |                 |          |                                       |
| Net income   | 5,946           | 5,181    | 50,360                                |
| Increase due to inclusion of a subsidiary in consolidation | 20              | —        | 170                                   |
| Decrease in retained earnings                              |                 |          |                                       |
| Cash dividends   | 1,017           | 889      | 8,614                                 |
| Bonus to directors and corporate auditors                  | 94              | 123      | 796                                   |
| <b>RETAINED EARNINGS, END OF THE YEAR</b>                  | ¥ 44,191        | ¥ 39,336 | \$374,278                             |

|                                       | Yen      |          | U.S. Dollars<br>(Note 1) |
|---------------------------------------|----------|----------|--------------------------|
|                                       | 2005     | 2004     | 2005                     |
| <b>PER SHARE OF COMMON STOCK:</b>     |          |          |                          |
| Net income                            | ¥ 122.11 | ¥ 103.25 | \$ 1.03                  |
| Net asset                             | 2,809.30 | 2,554.78 | 23.79                    |
| Cash dividends applicable to the year | 36.00    | 20.00    | 0.30                     |

See notes to consolidated financial statements.

# Consolidated Statements of Cash Flows

Asatsu-DK Inc. and Consolidated Subsidiaries  
Years Ended December 31, 2005 and 2004

|  | Millions of Yen |         | Thousands of<br>U.S. Dollars (Note 1) |
|--|-----------------|---------|---------------------------------------|
|  | 2005            | 2004    | 2005                                  |
| <b>OPERATING ACTIVITIES:</b>   |                 |         |                                       |
| Income before income taxes and minority interests  | ¥11,028         | ¥ 9,440 | \$ 93,402                             |
| Adjustments for:   |                 |         |                                       |
| Income taxes—paid  | (4,372)         | (3,926) | (37,029)                              |
| Depreciation and amortization  | 1,246           | 1,333   | 10,553                                |
| Equity in earnings of affiliated companies   | (124)           | (350)   | (1,050)                               |
| Gain on sales of securities  | (1,224)         | (683)   | (10,350)                              |
| Loss on sales of securities  | 50              | 6       | 423                                   |
| Loss on valuation of securities  | 196             | 446     | 1,660                                 |
| Changes in assets and liabilities:   |                 |         |                                       |
| Decrease (increase) in notes and accounts receivable   | 3,070           | (3,192) | 26,002                                |
| Increase in work in progress   | (447)           | (529)   | (3,786)                               |
| (Decrease) increase in notes and accounts payable  | (5,125)         | 3,554   | (43,406)                              |
| Other—net  | (4,109)         | 1,202   | (34,818)                              |
| Total adjustments  | (10,839)        | (2,139) | (91,801)                              |
| Net cash provided by operating activities  | 189             | 7,301   | 1,601                                 |
| <b>INVESTING ACTIVITIES:</b>   |                 |         |                                       |
| Increase in time deposits—net  | (500)           | (21)    | (4,235)                               |
| Proceeds from sales of securities  | 6,218           | 5,611   | 52,664                                |
| Purchases of securities  | (9,713)         | (9,816) | (82,265)                              |
| Proceeds from sales of property and equipment  | 34              | 329     | 288                                   |
| Purchases of property and equipment  | (189)           | (164)   | (1,601)                               |
| Purchases of intangible assets   | (337)           | (451)   | (2,854)                               |
| Other investing activities   | (715)           | 748     | (6,056)                               |
| Net cash used in investing activities  | (5,202)         | (3,764) | (44,059)                              |
| <b>FINANCING ACTIVITIES:</b>   |                 |         |                                       |
| Increase in short-term debt—net  | 157             | 75      | 1,330                                 |
| Proceeds from long-term debt   | —               | 50      | —                                     |
| Repayment of long-term debt  | (388)           | (74)    | (3,286)                               |
| Redemption of bonds  | —               | (200)   | —                                     |
| Purchases of treasury stock—net  | (1,880)         | (2,889) | (15,923)                              |
| Dividends paid   | (1,017)         | (889)   | (8,614)                               |
| Other financing activities   | 0               | (29)    | 0                                     |
| Net cash used in financing activities  | (3,128)         | (3,956) | (26,493)                              |
| <b>FOREIGN CURRENCY TRANSLATION ADJUSTMENTS ON<br/>CASH AND CASH EQUIVALENTS</b>               | 281             | 72      | 2,380                                 |
| <b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>   | (7,860)         | (347)   | (66,571)                              |
| <b>CASH AND CASH EQUIVALENTS, BEGINNING OF THE YEAR</b>  | 29,778          | 30,125  | 252,206                               |
| <b>CASH AND CASH EQUIVALENTS OF NEWLY CONSOLIDATED<br/>SUBSIDIARIES, BEGINNING OF THE YEAR</b> | 20              | —       | 170                                   |
| <b>CASH AND CASH EQUIVALENTS, END OF THE YEAR</b>  | ¥21,938         | ¥29,778 | \$185,805                             |

See notes to consolidated financial statements.

# Notes to Consolidated Financial Statements

Asatsu-DK Inc. and Consolidated Subsidiaries  
Years Ended December 31, 2005 and 2004

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## 1. BASIS OF PRESENTING CONSOLIDATED FINANCIAL STATEMENTS

The accompanying consolidated financial statements have been prepared from the accounts maintained by Asatsu-DK Inc. (the "Company") and its consolidated subsidiaries in accordance with the provisions set forth in the Japanese Securities and Exchange Law and its related accounting regulations, and in conformity with accounting principles and practices generally accepted in Japan, which are different in certain respects as to application and disclosure requirements from International Financial Reporting Standards.

In preparing these consolidated financial statements, certain reclassifications and rearrangements have been made to the consolidated financial statements issued domestically in order to present them in a form more familiar to readers outside Japan.

The consolidated financial statements are stated in Japanese yen, the currency of the country in which the Company is incorporated and mainly operates. The translation of Japanese yen amounts into U.S. dollar amounts is included solely for the convenience of readers outside Japan and has been made at the rate of ¥118.07 to U.S.\$1.00, the approximate rate of exchange on December 31, 2005. Such translation should not be construed as a representation that the Japanese yen amounts could be converted into U.S. dollars at that or any other rate.

Certain reclassifications have been made in the 2004 financial statements to conform to the presentation for 2005.

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## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**a. Consolidation**—The consolidated financial statements include the accounts of the Company and its significant 18 (17 in 2004) majority-owned subsidiaries (together, the "Group").

Under the control or influence concept, those companies in which the Company, directly or indirectly, is able to exercise control over operations are fully consolidated, and those companies over which the Group has the ability to exercise significant influence are accounted for by the equity method.

17 subsidiaries use a fiscal year ended at December 31, so does the Company. One subsidiary uses a fiscal year ended at September 30. The consolidated financial statements include the financial statements of this subsidiary for its respective fiscal years after making appropriate adjustments for significant transactions during the periods from its respective year-end dates to the date of the consolidated financial statements.

Investments in 1 (1 in 2004) insignificant unconsolidated subsidiary and 4 (4 in 2004) affiliated companies (companies owned 20% to 50%) are accounted for by the equity method. Investments in the remaining unconsolidated subsidiaries and affiliated companies are stated at cost. If the equity method of accounting had been applied to the investments in these companies, the effect on the accompanying consolidated financial statements would not be material.

Any consolidation adjustment accounts are charged or credited to income, in the year incurred.

All significant inter-company balances and transactions have been eliminated in consolidation. All material unrealized profits included in assets resulting from transactions within the Group are eliminated.

**b. Cash and Cash Equivalents**—Cash and cash equivalents consist of cash, demand deposits with banks and those which are short-term investments that are readily convertible into cash and that are not exposed to significant risk of changes in value.

Cash equivalents include time deposits, certificates of deposit and money management funds investing in bonds that represent short-term investments, all of which mature or become due within three months of the date of acquisition.

**c. Inventories**—Inventories consist principally of billable production orders in process, which are stated at cost determined by the specific identification method. Billable production orders in process are primarily costs incurred on behalf of clients when providing advertising services such as marketing and branding consultation, design and production of sales promotion programs, and event marketing to clients.

**d. Marketable and Investment Securities**—All applicable securities are classified and accounted for, depending on management's intent, as follows:

i) trading securities, which are held for the purpose of earning capital gains in the near term, are reported at fair value, and the related unrealized gains and losses are included in earnings, ii) held-to-maturity debt securities, which are expected to be held to maturity with the positive intent and ability to hold to maturity are reported at amortized cost and iii) available-for-sale securities, which are not classified as either of the aforementioned securities, are reported at fair value, with unrealized gains and losses, net of applicable taxes, reported in a separate component of shareholders' equity.



If the market values of held-to-maturity debt securities, equity securities issued by unconsolidated subsidiaries and affiliated companies, and available-for-sale securities, decline significantly, such securities are stated at fair market value, and the difference between the fair market value and the carrying amount is recognized as loss in the period of the decline. If the fair market value of equity securities issued by unconsolidated subsidiaries and affiliated companies not accounted for by the equity method is not readily available, such securities should be written down to net asset value with a corresponding charge in the statement of income in the event net asset value declines significantly. In these cases, such fair market value or the net asset value will be the carrying amount of the securities at the beginning of the next year.

**e. Property and Equipment**—Property and equipment are carried at cost. Depreciation for the property and equipment other than the buildings acquired after April 1, 1998, is computed on the declining balance method at rates based on the estimated useful lives of the assets. Depreciation of buildings acquired after April 1, 1998, is computed on the straight line method over their estimated useful lives. The estimated useful lives of major assets are as follows:

Buildings and leasehold improvements: 10 – 50 years

**f. Retirement Benefits and Pension Plans**—The Group accounted for the liability for retirement benefits based on the projected benefit obligations and plan assets at the balance sheet date.

The Company's directors and corporate auditors are entitled, in most circumstances, to lump-sum severance payments based on current rates of pay, length of services and certain other factors. The Company accrues 100% of obligations based on its rule required under the assumption that all directors and corporate auditors retired at the balance sheet date.

**g. Sales Recognition**—Income derived from media advertising is recognized upon the publication or broadcast. Product sales are recognized when the products are received by clients. One domestic consolidated subsidiary provides allowances, based upon Japanese tax code, for returned publication merchandise and losses derived from unsold publication merchandise.

**h. Leases**—Leases are accounted for as operating leases in the Company and domestic consolidated subsidiaries. Under Japanese accounting standards for leases, finance leases that deem to transfer ownership of the leased property to the lessee are to be capitalized, while other finance leases are permitted to be accounted for as operating lease transactions

if certain "as if capitalized" information is disclosed in the notes to the lessee's consolidated financial statements. In major overseas consolidated subsidiaries, leases are accounted for as finance leases, and leased property to the lessee is capitalized.

**i. Software and R&D Costs**—Research and development costs are charged to income as incurred. Capitalized software for internal use amounting ¥1,791 million (\$15,169 thousand) in 2005 and ¥2,231 million in 2004, respectively, included in "Other assets" of investments and other assets, was depreciated by the straight line method based on the estimated useful lives (five years).

**j. Income Taxes**—The provision for income taxes is computed based on the pretax income or loss included in the consolidated statements of income. Deferred income taxes are recorded based on the asset and liability method to reflect the impact of temporary differences between assets and liabilities recognized for financial reporting purposes and such amounts recognized for tax purposes. These deferred taxes are measured by applying enacted tax laws to the temporary differences, which will be in effect when the differences are expected to reverse.

**k. Appropriations of Retained Earnings**—Appropriations of retained earnings at each year end are reflected in the consolidated financial statements for the following year.

**l. Foreign Currency Transactions**—Short-term and long-term monetary receivables and payables denominated in foreign currencies are translated into Japanese yen at the exchange rates at the balance sheet dates. The foreign exchange gains and losses from translation are recognized in the consolidated statements of income to the extent that they are not hedged by foreign exchange derivatives.

**m. Foreign Currency Financial Statements**—Both balance sheet accounts and revenue and expense items of the consolidated overseas subsidiaries and affiliated companies are translated into Japanese yen at the current exchange rates as of the balance sheet dates except for shareholders' equity, which is translated at historical exchange rates.

Differences arising from such translation are shown as "Foreign currency translation adjustments" in a separate component of shareholders' equity.

**n. Derivatives and Hedging Activities**—The Group uses derivative financial instruments to manage its exposures to fluctuations in foreign exchange. Foreign exchange forward contracts are utilized by the Group to reduce foreign currency exchange risks. The Group does not enter into derivatives for trading or speculative purposes.



Derivatives are recognized as either assets or liabilities at fair value and gains or losses on derivative transactions are recognized in the consolidated statements of income unless derivatives qualify for specific hedge accounting.

Short-term receivables and payables denominated in foreign currencies for which foreign exchange forward contracts are used to hedge the foreign currency fluctuations are translated at the contracted rate if the forward contracts qualify for specific hedge accounting.

**o. Per Share Information**—The computation of net income per common share is based on the weighted average number of shares outstanding during each year. The average number

of common shares used in the computation was 48,391,630 shares for the fiscal year ended December 31, 2005 and 49,285,820 shares for the fiscal year ended December 31, 2004, respectively.

Cash dividends per common share presented in the accompanying consolidated statements of income are dividends applicable to the respective years including dividends to be paid after the end of the year.

The calculation of dilution is not applicable because of the non-existence of dilutive factors such as convertible bonds or bonds with warrants.

### 3. MARKETABLE AND INVESTMENT SECURITIES

The carrying amount and aggregate fair value of the securities classified as available-for-sale at December 31, 2005 and 2004, were as follows:

|                     | Millions of Yen |                  |                   |            |
|---------------------|-----------------|------------------|-------------------|------------|
| 2005                | Cost            | Unrealized gains | Unrealized losses | Fair value |
| Available-for-sale: |                 |                  |                   |            |
| Equity securities   | ¥ 36,187        | ¥ 37,077         | ¥ 781             | ¥ 72,483   |
| Debt securities     | 12,640          | 201              | 608               | 12,233     |
| Other               | 584             | 122              | —                 | 706        |
| Total               | ¥ 49,411        | ¥ 37,400         | ¥ 1,389           | ¥ 85,422   |

|                     | Millions of Yen |                  |                   |            |
|---------------------|-----------------|------------------|-------------------|------------|
| 2004                | Cost            | Unrealized gains | Unrealized losses | Fair value |
| Available-for-sale: |                 |                  |                   |            |
| Equity securities   | ¥ 34,771        | ¥ 23,078         | ¥ 436             | ¥ 57,413   |
| Debt securities     | 8,011           | 72               | 341               | 7,742      |
| Other               | 1,602           | 411              | 61                | 1,952      |
| Total               | ¥ 44,384        | ¥ 23,561         | ¥ 838             | ¥ 67,107   |

|                     | Thousands of U.S. Dollars |                  |                   |            |
|---------------------|---------------------------|------------------|-------------------|------------|
| 2005                | Cost                      | Unrealized gains | Unrealized losses | Fair value |
| Available-for-sale: |                           |                  |                   |            |
| Equity securities   | \$306,488                 | \$314,026        | \$ 6,615          | \$613,899  |
| Debt securities     | 107,055                   | 1,702            | 5,149             | 103,608    |
| Other               | 4,946                     | 1,033            | —                 | 5,979      |
| Total               | \$ 418,489                | \$316,761        | \$11,764          | \$723,486  |

Available-for-sale securities whose fair values are not readily determinable as of December 31, 2005 and 2004, were as follows:

| Carrying amount              | Millions of Yen |         | Thousands of U.S. Dollars |
|------------------------------|-----------------|---------|---------------------------|
|                              | 2005            | 2004    | 2005                      |
| Available-for-sale:          |                 |         |                           |
| Non-listed equity securities | ¥1,379          | ¥ 1,623 | \$11,680                  |
| Money management funds       | 2,078           | 2,046   | 17,600                    |
| Free financial funds         | 71              | 7,558   | 601                       |
| Other                        | 762             | 102     | 6,454                     |
| Total                        | ¥4,290          | ¥11,329 | \$36,335                  |

Total sales of available-for-sale securities sold in the year ended December 31, 2005 and 2004 amounted to ¥6,329 million (\$53,604 thousand) and ¥5,464 million and the related

gains amounted to ¥1,220 million (\$10,333 thousand) and ¥683 million, and the related losses amounted to ¥50 million (\$423 thousand) and ¥8 million, respectively.

#### 4. SHORT-TERM AND LONG-TERM DEBT

The weighted average annual interest rates applicable to short-term debt were 1.38% and 1.82% at December 31, 2005 and 2004, respectively.

Long-term debt at December 31, 2005 and 2004 consisted of the following:

|  | Millions of Yen |       | Thousands of U.S. Dollars |
|--|-----------------|-------|---------------------------|
|  | 2005            | 2004  | 2005                      |
| 0.58% bonds due on October 10, 2007  | ¥500            | ¥500  | \$4,235                   |
| Secured loans due through 2010 with weighted average interest rates of 2.48% in 2005 and 2.52% in 2004 | 207             | 596   | 1,753                     |
| Amount due within one year   | (49)            | (368) | (415)                     |
| Total  | ¥658            | ¥728  | \$5,573                   |

Annual maturities of long term-debt at December 31, 2005, were as follows:

| Year Ending December 31 | Millions of Yen | Thousands of U.S. Dollars |
|-------------------------|-----------------|---------------------------|
| 2006                    | ¥ 49            | \$ 415                    |
| 2007                    | 549             | 4,650                     |
| 2008                    | 48              | 406                       |
| 2009                    | 61              | 517                       |
| Total                   | ¥707            | \$5,988                   |

The carrying amounts of assets pledged as collateral for short-term debt of ¥540 million (\$4,574 thousand), current portion of long-term debt of ¥49 million (\$415 thousand) and collateralized long-term debt of ¥158 million (\$1,338 thousand) at December 31, 2005, were as follows:

|  | Millions of Yen | Thousands of U.S. Dollars |
|--|-----------------|---------------------------|
| Time deposit   | ¥ 251           | \$2,126                   |
| Land, Property and equipment—net of accumulated depreciation | 526             | 4,455                     |
| Investment securities  | 274             | 2,320                     |
| Total  | ¥1,051          | \$8,901                   |

## 5. RETIREMENT BENEFITS AND PENSION PLANS

The Company and its certain consolidated subsidiaries provide two types of post-employment benefit plans, namely defined-contribution pension plans and defined-benefit pension plans. The defined-benefit pension plans consist of cash balance plans, funded non-contributory pension plans including tax qualified pension plans and plans provided by the Japan Advertising Industry Pension Fund, as well as unfunded lump-sum payment plans under which all eligible employees are entitled to benefits based on the level of salary,

length of services and certain other factors.

For plans provided by the Japan Advertising Industry Pension Fund, the Group cannot technically or reasonably define what pension assets and liabilities the Group is accountable for. Therefore, the Group recognizes its annual cash contribution to this fund as its periodical benefit costs, but no pension assets and liabilities. Therefore, the liability for employees' retirement benefits and pension plans shown below does not include those provided by this Fund.

The liability for employees' retirement benefits and pension plans at December 31, 2005 and 2004, comprise the following:

|                                       | Millions of Yen |         | Thousands of U.S. Dollars |
|---------------------------------------|-----------------|---------|---------------------------|
|                                       | 2005            | 2004    | 2005                      |
| Projected benefit obligation          | ¥10,794         | ¥10,181 | \$91,420                  |
| Fair value of plan assets             | (6,802)         | (3,950) | (57,610)                  |
| Unrecognized actuarial differences    | (1,191)         | (1,507) | (10,087)                  |
| Net liability for retirement benefits | ¥ 2,801         | ¥ 4,724 | \$23,723                  |

The components of net periodic benefit costs for the years ended December 31, 2005 and 2004, were as follows:

|   | Millions of Yen |        | Thousands of U.S. Dollars |
|---|-----------------|--------|---------------------------|
|   | 2005            | 2004   | 2005                      |
| Service cost                              | ¥ 642           | ¥ 971  | \$ 5,438                  |
| Interest cost                             | 190             | 250    | 1,609                     |
| Expected return on plan assets            | (59)            | (78)   | (500)                     |
| Amortization of actuarial differences     | 149             | 227    | 1,262                     |
| Contributions paid during the period etc. | 898             | 508    | 7,606                     |
| Net periodic benefits costs               | ¥1,820          | ¥1,878 | \$15,415                  |

The discount rate used by the Group was 2.0% as of the years ended December 31, 2005 and 2004. The rate of expected return on plan assets used by the Group was 1.5% for the years ended December 31, 2005 and 2004. The estimated amount of retirement benefits to be paid at the future

retirement date is allocated equally to each service year over the estimated number of total service years. Unrecognized actuarial net gains and losses are amortized over 13 years on a straight-line basis commencing from the succeeding period. Prior service costs are charged to income when incurred.

## 6. SHAREHOLDERS' EQUITY

Under the Commercial Code of Japan, the entire amount of the issue price of shares is required to be accounted for as common stock, although a company may, by resolution of its Board of Directors, account for an amount not exceeding one-half of the issue price of the new shares as additional paid-in capital.

The Japanese Commercial Code provides that an amount equal to at least 10% of cash dividends and other cash distribution shall be appropriated and set aside as a legal reserve until the sum of the legal reserve and additional

paid-in capital equals to 25% of the common stock. The legal reserve and additional paid-in capital may be used to eliminate or reduce a deficit by resolution of the shareholders' meeting or may be capitalized by resolution of the Board of Directors. On condition that the total amount of the legal reserve and additional paid-in capital equals to or exceeds 25% of the common stock, they are available for distributions and other certain purposes by resolution of the shareholders' meeting. Legal reserve is included in retained earnings in the accompanying consolidated financial statements.

## 7. INCOME TAXES

The Company and its domestic consolidated subsidiaries are subject to corporate, inhabitant and enterprise taxes based on income. Normal effective statutory tax rates for these taxes in the aggregate result in approximately 40.69% and 42.05% for 2005 and 2004, respectively, after reflection of enterprise tax,

in the way such tax should be deductible for tax purposes only when paid. Overseas subsidiaries are subject to income taxes of the countries in which they operate.

The deferred tax assets and liabilities as a result of the tax effects of significant temporary differences as of December 31, 2005 and 2004, were as follows:

|  | Millions of Yen |        | Thousands of U.S. Dollars |
|--|-----------------|--------|---------------------------|
|  | 2005            | 2004   | 2005                      |
| Deferred tax assets:   |                 |        |                           |
| Investment securities  | ¥ 487           | ¥ 971  | \$ 4,125                  |
| Allowance for doubtful receivables   | 597             | 789    | 5,056                     |
| Accrued bonuses  | 115             | 751    | 974                       |
| Accrued retirement benefits  | 967             | 1,652  | 8,190                     |
| Tax loss carry forwards  | 279             | 587    | 2,363                     |
| Deferred tax assets in overseas consolidated subsidiaries (see following remark*)      | 36              | 20     | 305                       |
| Other  | 999             | 1,177  | 8,461                     |
|  | 3,480           | 5,947  | 29,474                    |
| Valuation allowance  | (177)           | (500)  | (1,499)                   |
| Deferred tax assets  | 3,303           | 5,447  | 27,975                    |
| Deferred tax liabilities:  |                 |        |                           |
| Marketable securities  | 14,661          | 9,214  | 124,172                   |
| Deferred tax liabilities in overseas consolidated subsidiaries (see following remark*) | 5               | 8      | 42                        |
| Other  | 76              | 152    | 644                       |
| Deferred tax liabilities   | 14,742          | 9,374  | 124,858                   |
| Net deferred tax liabilities   | ¥11,439         | ¥3,927 | \$ 96,883                 |

\* Remark The deferred tax assets and liabilities as a result of the tax effects of significant temporary differences and losses carried forward as of December 31, 2005 and 2004, in overseas consolidated subsidiaries, were as follows:

|                                | Millions of Yen |      | Thousands of U.S. Dollars |
|--------------------------------|-----------------|------|---------------------------|
|                                | 2005            | 2004 | 2005                      |
| Deferred tax assets:           |                 |      |                           |
| Tax loss carry forwards        | ¥55             | ¥13  | \$466                     |
| Other                          | 43              | 46   | 364                       |
| Less valuation allowance       | (62)            | (39) | (525)                     |
| Deferred tax assets            | 36              | 20   | 305                       |
| Deferred tax liabilities—Other | 5               | 8    | 42                        |
| Deferred tax liabilities       | 5               | 8    | 42                        |
| Net deferred tax assets        | ¥31             | ¥12  | \$263                     |

Reconciliation between the normal effective statutory tax rate for the years ended December 31, 2005 and 2004, and the actual effective tax rates reflected in the accompanying consolidated statements of income were as follows:

|  | 2005   | 2004   |
|--|--------|--------|
| Normal effective statutory tax rate                          | 40.69% | 42.05% |
| Certain expenses permanently not deductible for tax purposes | 4.54   | 5.31   |
| Certain income permanently not taxable for tax purposes      | (0.78) | (0.99) |
| Per capita levy  | 0.26   | 0.30   |
| Other—net  | 0.86   | (2.12) |
| Actual effective tax rate                                    | 45.57% | 44.55% |

## 8. RESEARCH AND DEVELOPMENT COSTS

Research and development costs charged to income for the year ended December 31, 2005 and 2004, were ¥872 million (\$7,385 thousand) and ¥1,093 million, respectively.

## 9. LEASES

The Group leases certain computer equipment, office space, vehicles and other assets. Total lease payments under finance lease agreements that do not cause transfer of ownership of the leased property to the lessee for the years ended December 31, 2005 and 2004, were ¥825 million (\$6,987 thousand) and ¥827 million, respectively.

Pro forma information of leased property such as acquisition cost, accumulated depreciation, obligations under finance leases, depreciation expense, interest expense of finance leases that do not cause transfer of ownership of the leased property to the lessee on an "as if capitalized" basis for the years ended December 31, 2005 and 2004, were as follows:

Millions of Yen

| Year Ended December 31, 2005 | Furniture and Equipment | Machinery and Vehicles | Software | Total  |
|------------------------------|-------------------------|------------------------|----------|--------|
| Acquisition cost             | ¥3,079                  | ¥25                    | ¥406     | ¥3,510 |
| Accumulated depreciation     | 1,833                   | 9                      | 190      | 2,032  |
| Net leased property          | ¥1,246                  | ¥16                    | ¥216     | ¥1,478 |

Obligations under finance leases:

Millions of Yen

|                     |         |
|---------------------|---------|
| Due within one year | ¥ 617   |
| Due after one year  | 888     |
| Total               | ¥ 1,505 |

Thousands of U.S. Dollars

| Year Ended December 31, 2005 | Furniture and Equipment | Machinery and Vehicles | Software | Total    |
|------------------------------|-------------------------|------------------------|----------|----------|
| Acquisition cost             | \$26,078                | \$212                  | \$3,438  | \$29,728 |
| Accumulated depreciation     | 15,525                  | 76                     | 1,609    | 17,210   |
| Net leased property          | \$10,553                | \$136                  | \$1,829  | \$12,518 |

Obligations under finance leases:

Thousands of U.S. Dollars

|                     |          |
|---------------------|----------|
| Due within one year | \$ 5,226 |
| Due after one year  | 7,521    |
| Total               | \$12,747 |

Millions of Yen

| Year Ended December 31, 2004 | Furniture and Equipment | Machinery and Vehicles | Software | Total   |
|------------------------------|-------------------------|------------------------|----------|---------|
| Acquisition cost             | ¥3,252                  | ¥ 37                   | ¥ 266    | ¥ 3,555 |
| Accumulated depreciation     | 1,866                   | 17                     | 193      | 2,076   |
| Net leased property          | ¥1,386                  | ¥ 20                   | ¥ 73     | ¥ 1,479 |

Obligations under finance leases:

Millions of Yen

|                     |         |
|---------------------|---------|
| Due within one year | ¥ 655   |
| Due after one year  | 853     |
| Total               | ¥ 1,508 |

Depreciation expense and interest expense under finance leases:

Millions of Yen

Thousands of U.S. Dollars

|                      | 2005 | 2004  | 2005     |
|----------------------|------|-------|----------|
| Depreciation expense | ¥789 | ¥ 789 | \$ 6,682 |
| Interest expense     | 32   | 36    | 271      |

Depreciation expense and interest expense, which are not reflected in the accompanying consolidated statements of income and retained earnings, are computed by the straight line method and the interest method, respectively.



Obligations under operating leases:

|                     | Millions of Yen |      | Thousands of U.S. Dollars |
|---------------------|-----------------|------|---------------------------|
|                     | 2005            | 2004 | 2005                      |
| Due within one year | ¥16             | ¥10  | \$135                     |
| Due after one year  | 10              | 11   | 85                        |
| Total               | ¥26             | ¥21  | \$ 22                     |

## 10. CONTINGENT LIABILITIES

As of December 31, 2005, the Group had the following contingent liabilities:

|  | Millions of Yen | Thousands of U.S. Dollars |
|--|-----------------|---------------------------|
| Trade notes discounted                                 | ¥ 27            | \$ 228                    |
| Aggregated amount of guarantees of debt for affiliates | 2,027           | 17,168                    |
| Total  | ¥2,054          | \$17,396                  |

A client has filed a lawsuit against one of the Company's consolidated subsidiaries and four other companies and five individuals seeking damages in excess of \$12.5 million in connection with the subsidiary's advertising business. The

subsidiary and its legal counsel filed a motion to dismiss the complaint in November 2005. The court heard oral arguments on the motion in January 2006 and has not yet issued a ruling.

## 11. DERIVATIVES

The Group enters into foreign exchange forward contracts to hedge foreign exchange risk associated with certain assets and liabilities denominated in foreign currencies. The Group does not hold or issue derivatives for trading or speculative purposes.

Because the counterparties to these derivatives are limited to major sound financial institutions, the Group does not anticipate any losses arising from credit risk.

Derivative transactions entered into by the Group have been made in accordance with internal rules and policies which regulate the authorization and exposure limit amount.

The notional amounts, fair values and unrealized gain and loss on derivatives at December 31, 2005 and 2004, were summarized as follows:

|                                    | Millions of Yen  |                    |            |                        |
|------------------------------------|------------------|--------------------|------------|------------------------|
| Year Ended December 31, 2005       | Notional amounts | Due after one year | Fair value | Unrealized gain (loss) |
| Currency:                          |                  |                    |            |                        |
| Foreign exchange forward contracts |                  |                    |            |                        |
| - buying (US\$)                    | ¥ 135            | ¥ 67               | ¥134       | ¥ (0)                  |
| - selling (US\$)                   | 309              | —                  | 353        | (44)                   |
| Swaps (unlisted)                   | 1,417            | 1,417              | (0)        | (0)                    |
| Total                              |                  |                    |            | ¥(44)                  |
| Interest rate:                     |                  |                    |            |                        |
| Swaps (unlisted)                   | ¥1,000           | ¥1,000             | ¥ (12)     | ¥(12)                  |

Thousands of U.S. Dollars

| Year Ended December 31, 2005       | Notional amounts | Due after one year | Fair value | Unrealized gain (loss) |
|------------------------------------|------------------|--------------------|------------|------------------------|
| Currency:                          |                  |                    |            |                        |
| Foreign exchange forward contracts |                  |                    |            |                        |
| - buying (US\$)                    | \$ 1,143         | \$ 567             | \$1,135    | \$ (0)                 |
| - selling (US\$)                   | 2,617            | —                  | 2,990      | (373)                  |
| Swaps (unlisted)                   | 12,001           | 12,001             | (0)        | (0)                    |
| Total                              |                  |                    |            | (373)                  |
| Interest rate:                     |                  |                    |            |                        |
| Swaps (unlisted)                   | \$ 8,470         | \$ 8,470           | \$ (102)   | \$(102)                |

Millions of Yen

| Year Ended December 31, 2004       | Notional amounts | Due after one year | Fair value | Unrealized gain (loss) |
|------------------------------------|------------------|--------------------|------------|------------------------|
| Currency:                          |                  |                    |            |                        |
| Foreign exchange forward contracts |                  |                    |            |                        |
| - buying (US\$)                    | ¥ 203            | ¥ 135              | ¥177       | ¥(24)                  |
| - selling (US\$)                   | 309              | 309                | 302        | 6                      |
| Swaps (unlisted)                   | 1,417            | 1,417              | (26)       | (26)                   |
| Total                              |                  |                    |            | ¥(44)                  |
| Interest rate:                     |                  |                    |            |                        |
| Swaps (unlisted)                   | ¥1,000           | ¥1,000             | ¥ (20)     | ¥(20)                  |

Derivative transactions which were accounted for by hedge accounting were excluded.

## 12. SUBSEQUENT EVENT

The following appropriations of retained earnings for the year ended December 31, 2005, were approved at the Company's shareholders' meeting held on March 30, 2006:

|  | Millions of Yen | Thousands of U.S. Dollars |
|--|-----------------|---------------------------|
| Year-end cash dividends, ¥26 per share | ¥1,246          | \$10,553                  |
| Bonuses to directors                   | —               | —                         |
| Transfer to general reserve            | 3,500           | 29,643                    |
| Total                                  | ¥4,746          | \$40,196                  |

### 13. SEGMENT INFORMATION

Information about business segments, geographic segments and billings to foreign customers of the Group for the years ended December 31, 2005 and 2004, was as follows:

#### (1) Business Segment Information

Business segment information for the year ended December 31, 2005 and 2004, were as follows:

##### a. Billings and Operating Income

|                        | Millions of Yen |                 |          |                           |              |
|------------------------|-----------------|-----------------|----------|---------------------------|--------------|
|                        | Advertising     | Non-advertising | Total    | Eliminations or Corporate | Consolidated |
| <b>2005</b>            |                 |                 |          |                           |              |
| Billings to customers  | ¥415,301        | ¥9,404          | ¥424,705 | —                         | ¥424,705     |
| Inter-segment billings | 397             | 115             | 512      | ¥(512)                    | —            |
| Total billings         | 415,698         | 9,519           | 425,217  | (512)                     | 424,705      |
| Operating expenses     | 407,989         | 9,742           | 417,731  | (514)                     | 417,217      |
| Operating income       | ¥ 7,709         | ¥ (223)         | ¥ 7,486  | ¥ 2                       | ¥ 7,488      |

|                        | Millions of Yen |                 |          |                           |              |
|------------------------|-----------------|-----------------|----------|---------------------------|--------------|
|                        | Advertising     | Non-advertising | Total    | Eliminations or Corporate | Consolidated |
| <b>2004</b>            |                 |                 |          |                           |              |
| Billings to customers  | ¥403,758        | ¥10,140         | ¥413,898 | —                         | ¥413,898     |
| Inter-segment billings | 439             | 89              | 528      | ¥(528)                    | —            |
| Total billings         | 404,197         | 10,229          | 414,426  | (528)                     | 413,898      |
| Operating expenses     | 395,956         | 10,208          | 406,164  | (526)                     | 405,638      |
| Operating income       | ¥ 8,241         | ¥ 21            | ¥ 8,262  | ¥ (2)                     | ¥ 8,260      |

##### b. Assets, Depreciation and Capital Expenditures

|                      | Millions of Yen |                 |          |                           |              |
|----------------------|-----------------|-----------------|----------|---------------------------|--------------|
|                      | Advertising     | Non-advertising | Total    | Eliminations or Corporate | Consolidated |
| <b>2005</b>          |                 |                 |          |                           |              |
| Assets               | ¥236,943        | ¥10,046         | ¥246,989 | ¥(122)                    | ¥246,867     |
| Depreciation         | 1,204           | 42              | 1,246    | —                         | 1,246        |
| Capital expenditures | 505             | 21              | 526      | —                         | 526          |

|                      | Millions of Yen |                 |          |                           |              |
|----------------------|-----------------|-----------------|----------|---------------------------|--------------|
|                      | Advertising     | Non-advertising | Total    | Eliminations or Corporate | Consolidated |
| <b>2004</b>          |                 |                 |          |                           |              |
| Assets               | ¥228,577        | ¥10,471         | ¥239,048 | ¥(148)                    | ¥238,900     |
| Depreciation         | 1,293           | 40              | 1,333    | —                         | 1,333        |
| Capital expenditures | 574             | 42              | 616      | —                         | 616          |

a. Billings and Operating Income

Thousands of U.S. Dollars

| 2005                   | Advertising | Non-advertising | Total       | Eliminations<br>or Corporate | Consolidated |
|------------------------|-------------|-----------------|-------------|------------------------------|--------------|
| Billings to customers  | \$3,517,413 | \$79,648        | \$3,597,061 | —                            | \$3,597,061  |
| Inter-segment billings | 3,362       | 974             | 4,336       | \$(4,336)                    | —            |
| Total billings         | 3,520,775   | 80,622          | 3,601,397   | (4,336)                      | 3,597,061    |
| Operating expenses     | 3,455,484   | 82,510          | 3,537,994   | (4,353)                      | 3,533,641    |
| Operating income       | \$ 65,291   | \$ (1,888)      | \$ 63,403   | \$ 17                        | \$ 63,420    |

b. Assets, Depreciation and Capital Expenditures

Thousands of U.S. Dollars

| 2005                 | Advertising | Non-advertising | Total       | Eliminations<br>or Corporate | Consolidated |
|----------------------|-------------|-----------------|-------------|------------------------------|--------------|
| Assets               | \$2,006,801 | \$85,085        | \$2,091,886 | \$(1,033)                    | \$2,090,853  |
| Depreciation         | 10,197      | 356             | 10,553      | —                            | 10,553       |
| Capital expenditures | 4,277       | 178             | 4,455       | —                            | 4,455        |

Notes: 1. The Group is engaged primarily in the advertising industry. The two business segments, namely, advertising services and non-advertising, consist primarily of the following services:

Advertising services: Planning, creating, producing and placing advertising in various media such as television, radio, newspapers, magazines, public transportation, billboards, and digital media. Additional services include marketing and branding consultation, design and production of sales promotion programs, and event marketing.

Non-advertising: Publishing and selling of magazines and books and information processing service.

Notes: 2. Consolidated operating expenses are equal to the total of cost of sales and selling, general and administrative expenses shown in the accompanying consolidated statements of income and retained earnings.

(2) Geographic Segment Information

Because the billings and total assets of the foreign operations of the Group for the years ended December 31, 2005 and 2004, were less than 10% of those of the total consolidated operation, such segment information is not presented.

(3) Billings to Foreign Customers

Since the billings to foreign customers of the Group for the years ended December 31, 2005 and 2004, were less than 10% of the total consolidated billings, such information is not presented.

# Independent Auditor's Report

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The Board of Directors

Asatsu-DK Inc.:

We have audited the accompanying consolidated balance sheets of Asatsu-DK Inc. and consolidated subsidiaries as of December 31, 2005 and 2004, and the related consolidated statements of income, shareholders' equity and cash flows for the years then ended, all 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 consolidated financial position of Asatsu-DK Inc. and consolidated subsidiaries as of December 31, 2005 and 2004, and the consolidated results of their operations and cash flows for the years then ended, in conformity with accounting principles generally accepted in Japan.

Our audit also comprehended the translation of Japanese yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made in conformity with the basis stated in Note 1. Such U.S. dollar amounts are presented solely for the convenience of readers outside Japan.



Yasumori Audit Corporation

Certified Public Accountants

March 30, 2006

# Securities Holdings

Asatsu-DK Inc. and Consolidated Investments as of December 31, 2005

|             |  | Millions of Yen |                            |
|-------------|--|-----------------|----------------------------|
|             |  | 2005            |                            |
| Current     | Money management funds                               | ¥ 2,078         |                            |
|             | Free financial funds                                 | 71              |                            |
|             | Discount Nochu Bank debentures                       | 127             | Face Value                 |
|             | Bonds  | 255             | 2 funds                    |
|             | Mutual funds in equities and bonds                   | 456             | 3 funds                    |
|             | Total  | ¥ 2,987         |                            |
| Non current | WPP Group plc.                                       | ¥40,106         | 2.50% or 31,295,646 stocks |
|             | Digital Advertising Consortium, Inc.                 | 1,981           | Equity Method              |
|             | Other publicly traded equities                       | 32,378          | 165 issues                 |
|             | Total publicly traded equities                       | ¥74,465         |                            |
|             | Non publicly traded equities in affiliated companies | ¥ 4,051         | 16 issues                  |
|             | Non publicly traded equities in subsidiary sompanies | 404             | 25 issues                  |
|             | Other non publicly traded equities                   | 1,380           | 77 issues                  |
|             | Total non publicly traded equities                   | ¥ 5,835         |                            |
|             | Bonds  | ¥11,856         | 41 issues                  |
|             | Mutual funds in equities and bonds                   | 1,005           | 7 issues                   |
|             | Total non current investments in securities          | ¥93,161         |                            |
|             | Investments in affiliated companies (Non-Securities) | 286             | 7 funds                    |
|             | Investments in funds (Non-Securities)                | 115             | 7 funds                    |
|             | Total non current investments                        | ¥93,562         |                            |

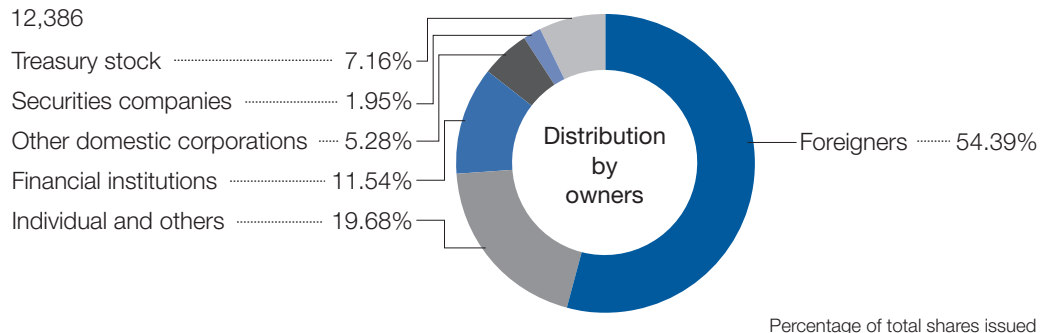
|  |                                      | Millions of Yen |                   |
|--|--------------------------------------|-----------------|-------------------|
|  |                                      | 2005            |                   |
| Top five equities by balance including WPP |                                      |                 |                   |
|  | WPP Group plc.                       | ¥40,106         | 31,295,646 shares |
|  | Mitsubishi UFJ Financial Group, Inc. | 4,404           | 2,753 shares      |
|  | Millea Holdings, Inc.                | 3,025           | 1,491 shares      |
|  | Orient Corporation                   | 2,022           | 4,103 shares      |
|  | Omnicom Group Inc.                   | 2,010           | 200,040 shares    |



# Investor Information

(As of December 2005)

|                        |  |
|------------------------|--|
| Parent company name    | Asatsu-DK Inc.   |
| Established            | March 19, 1956   |
| Head office            | 13-1, Tsukiji 1-chome, Chuo-ku, Tokyo 104-8172, Japan        |
| Number of employees    | 2,851 (consolidated basis)<br>1,943 (non-consolidated basis) |
| Common stock           | Authorized: 206,000,000 shares<br>Issued: 51,655,400 shares  |
| Number of shareholders | 12,386   |



|                    |  |
|--------------------|--|
| Major shareholders | WPP International Holding B.V. .... 20.00%   |
|                    | Northern Trust Co. (AVFC) Sub A/C American Clients ..... 5.70%   |
|                    | Mellon Bank Treaty Clients Omnibus ..... 5.18%   |
|                    | Masao Inagaki ..... 3.17%  |
|                    | State Street Bank and Trust Company ..... 2.40%  |
|                    | CBNY-Third Avenue Int'l Val. Fd. .... 1.93%  |
|                    | Nomura Securities Co., Ltd. .... 1.64%   |
|                    | The Northern Trust Company (AVFC) Sub A/C Non-treaty ..... 1.63%   |
|                    | CBNY-UMB Funds ..... 1.55%   |
|                    | The Master Trust Bank of Japan, Ltd.,<br>Retirement Benefit Trust Account (Mitsubishi Corporation Account) ..... 1.48% |

Percentage of total shares issued

|                         |  |
|-------------------------|--|
| Stock listing           | Tokyo Stock Exchange, First Section  |
| Securities code         | 9747   |
| Transfer agent          | Tokyo Securities Transfer Agent Co., Ltd.<br>1-4-2 Marunouchi, Chiyoda-ku,<br>Tokyo 105-0005, Japan  |
| Annual meeting          | The annual meeting of shareholders is normally<br>held in March in Tokyo, Japan.   |
| For further information | Asatsu-DK Inc. Office of the President<br>TEL: +81-3-3547-2003<br>URL: <a href="http://www.adk.jp/english/index.html">http://www.adk.jp/english/index.html</a> |

# ADK Group Network

## DOMESTIC

### AGENCY GROUP

#### **ADK International Inc.** ... ■

1-1, Tsukiji 4-chome,  
Chuo-ku, Tokyo 104-0045  
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FAX: 81(0)3-3546-9208

#### **Kyowa Kikaku Ltd.** ... ■

20-15, Shimbashi 2-chome,  
Minato-ku,  
Tokyo 105-0004  
TEL: 81(0)3-3571-3111  
FAX: 81(0)3-3571-3314

#### **TRI Communication Inc.** ... ■

9-9, Tsukiji 3-chome, Chuo-ku,  
Tokyo 104-0045  
TEL: 81(0)3-3547-5151  
FAX: 81(0)3-3547-5152

#### **Digital Advertising Consortium Inc.** ... □

20-3, Ebisu 4-chome, Shibuya-ku,  
Tokyo 150-6033  
TEL: 81(0)3-5449-6200  
FAX: 81(0)3-5449-6201

#### **Drill Inc.**

19-5, Udagawa-cho, Shibuya-ku,  
Tokyo 150-0042  
TEL: 81(0)3-5428-8771  
FAX: 81(0)3-5428-8772

### CREATIVE GROUP

#### **ADK Arts Inc.** ... ■

13-1, Tsukiji 1-chome, Chuo-ku,  
Tokyo 104-0045  
TEL: 81(0)3-3545-5400  
FAX: 81(0)3-3545-5075

### CONTENT GROUP

#### **Nihon Ad Systems Inc.**

13-1, Tsukiji 1-chome, Chuo-ku,  
Tokyo 104-0045  
TEL: 81(0)3-3547-2183  
FAX: 81(0)3-3547-2098

#### **Right Song Music Publishing Co., Ltd.**

13-1, Tsukiji 1-chome, Chuo-ku,  
Tokyo 104-0045  
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FAX: 81(0)3-3547-2098

#### **Eiken Co., Ltd.** ... ■

56-7, Minamisenjyu 6-chome, Arakawa-ku,  
Tokyo 116-0003  
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FAX: 81(0)3-3807-6205

#### **Super Vision, Inc.**

13-1, Tsukiji 1-chome, Chuo-ku,  
Tokyo 104-0045  
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FAX: 81(0)3-3547-2098

### PUBLISHING GROUP

#### **Nihonbungeisha Co., Ltd.** ... ■

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Tokyo 105-8407  
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FAX: 81(0)3-3294-7780

#### **Neo Shobo Inc.** ... ■

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Tokyo 105-0004  
TEL: 81(0)3-3573-1277  
FAX: 81(0)3-3574-8165

### OTHERS

#### **Nippon Information Industry Corp.** ... □

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## OVERSEAS

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#### Frankfurt

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#### ASIA

#### Beijing

##### **Beijing Huawen-Asatsu International Advertising Co., Ltd.**

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##### **DS Public Relations Consulting Co., Ltd.**

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##### **Beijing Dai-Ichi Kikaku Advertising Co., Ltd.**

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##### **Shanghai Dai-Ichi Kikaku Fortune Advertising Co., Ltd.**

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**Scoop AD World Pte. Ltd.**

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... Consolidated subsidiaries

... Affiliates accounted for by the equity  
method

Asatsu-DK INC.

<http://www.adk.jp/english/index.html>