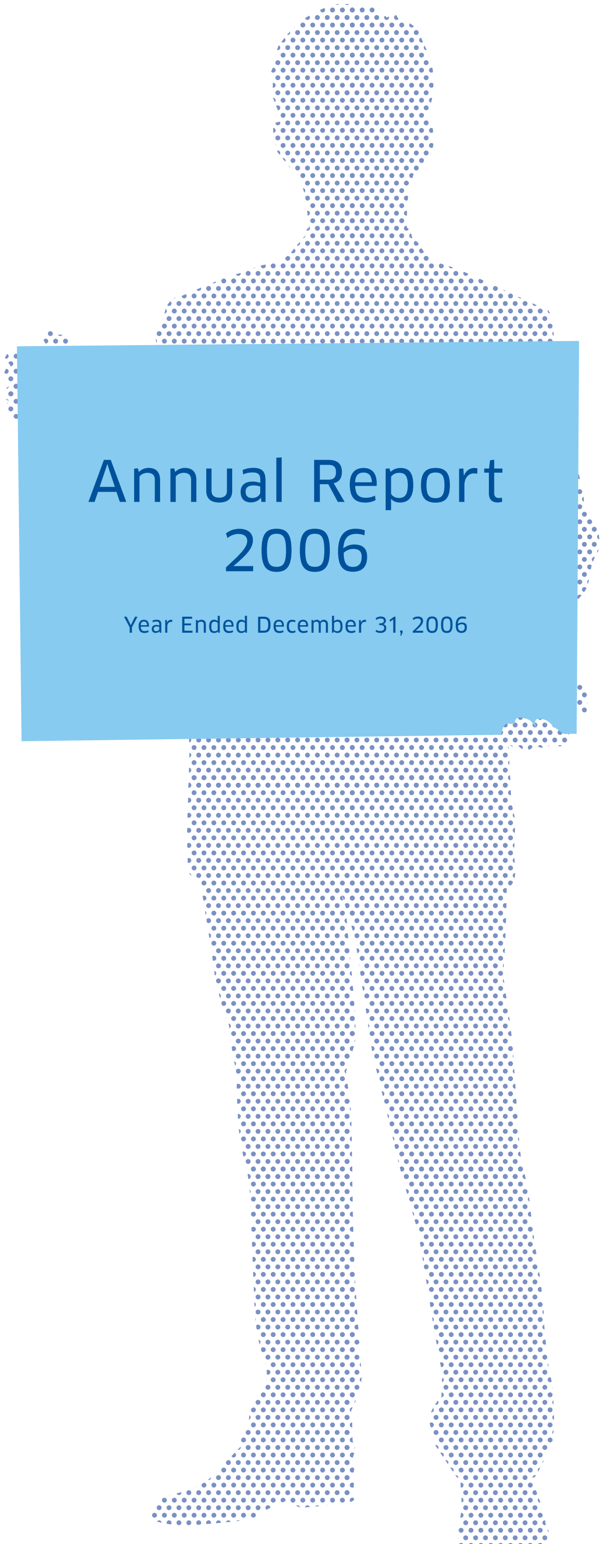

Annual Report 2006

Year Ended December 31, 2006

ADK

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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.

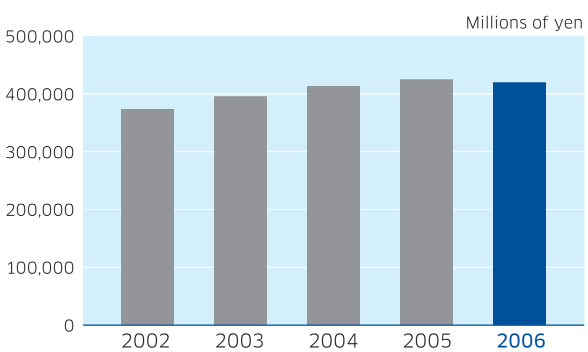
Financial Highlights

Years ended December 31, 2006 and 2005

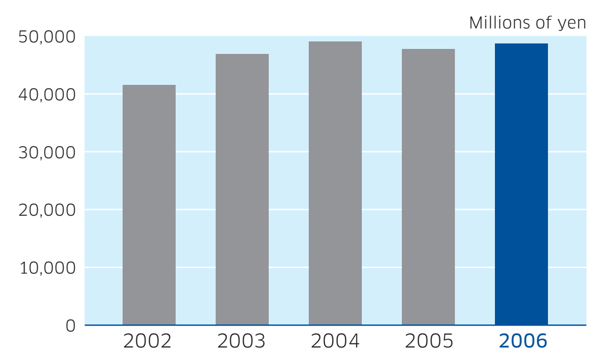
	Millions of yen, except per-share amounts		Thousands of U.S. dollars, except per-share amounts
For the year:	2006	2005	2006
Gross billings	¥ 420,059	¥ 424,705	$ 3,526,648
Gross profit	48,685	47,774	408,740
Operating income	6,392	7,488	53,665
Income before income taxes and minority interests	9,682	11,028	81,286
Income taxes	4,556	5,025	38,250
Net income	5,070	5,946	42,566
Net income per share	106.62	122.11	0.90
At year end:			
Total assets	¥ 256,754	¥ 246,867	$ 2,155,604
Total net assets	141,387	135,748	1,187,029

Note: For convenience purposes, U.S. dollar amounts are converted from Japanese yen at the rate of ¥119.11=U.S.$1.00 as of December 31, 2006.

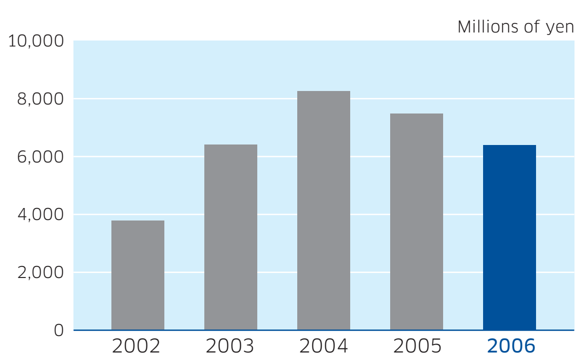
Gross Billings



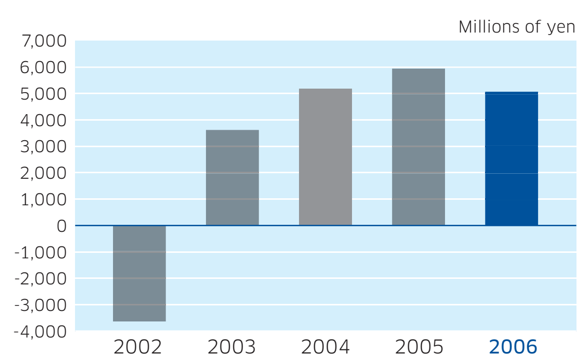
Gross Profit



Operating Income



Net Income (Loss)



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.

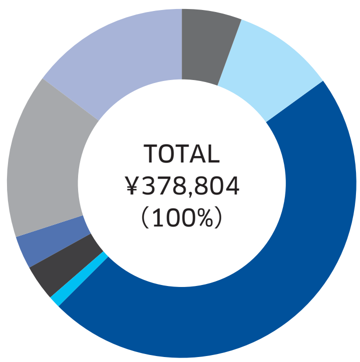
As Japan entered the high-growth years of the 1960s, Asatsu Inc. broadened its creative reach as it began the planning and production of TV animation programs for the then still-new medium of television.

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 WPP Group plc, the world's second-largest marketing organization according to *Advertising Age*'s annual Agency Report (April 30, 2007). 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 a period of new growth.

ADK's Business Sectors (Non-Consolidated Gross Billings)

Millions of yen

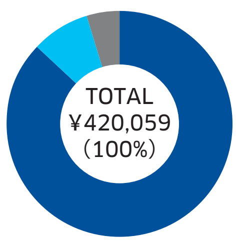
Magazine	21,717	(5.7%)
Newspaper	35,447	(9.4%)
TV	179,940	(47.5%)
Radio	4,193	(1.1%)
Digital Media	12,503	(3.3%)
OOH Media	11,989	(3.2%)
Sales Promotion	57,504	(15.2%)
Creative & Other	55,507	(14.7%)



ADK vs. Consolidated Subsidiaries

Millions of yen

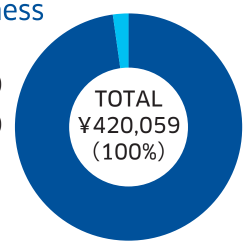
ADK	378,804	(87.2%)
Domestic subsidiaries	35,114	(8.1%)
Overseas subsidiaries	20,676	(4.7%)
(Adjustments)	-14,535	



Advertising vs. Other Business

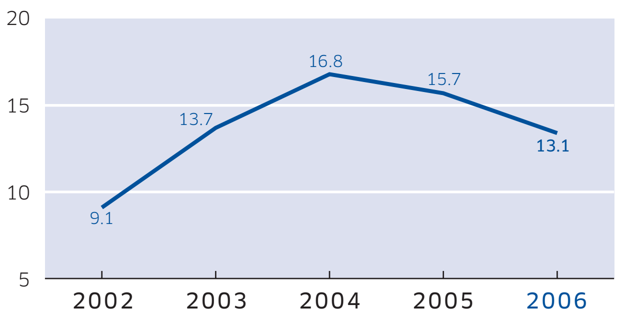
Millions of yen

Advertising	410,875	(97.8%)
Other Business	9,184	(2.2%)

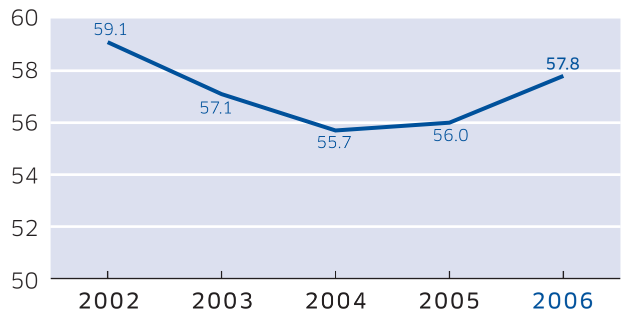


Management Indicators (Consolidated)

Operating Margin (%)



Staff Cost/Gross Profit Ratio (%)



ADK Group Companies

Advertising	**Domestic**	**Overseas**	
	・Kyowa Kikaku Ltd. ・ADK International Inc. ・ADK Arts Inc. ・ADK Boys Inc. ・TRI Communication Inc. ・Digital Advertising Consortium Inc. ・Eiken Co., Ltd.	・ADK America ・ADK Europe Holding B.V. ・ADK Europe B.V. ・Asatsu (Deutschland) GmbH ・Guangdong Guangxu (Asatsu) Advertising ・Asatsu-DK Hong Kong Ltd. ・DK Advertising (HK) Ltd. ・Shanghai Asatsu Advertising Co., Ltd.	・Asatsu Century (Shanghai) 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.
Other	**Publishing**	**Information Processing Services**	
	・Nihon Bungeisha, Ltd. ・Neo Shobo, Ltd.	・Nippon Information Industry Corp.	

Consolidated Five-Year Summary

Millions of yen except per common share amounts and financial ratios

	2006	2005	2004	2003	2002
Income Statement Data					
Gross billings	¥ 420,059	¥ 424,705	¥ 413,898	¥ 395,149	¥ 373,899
Gross profit	48,685	47,774	49,079	46,883	41,529
Selling, general and administrative expenses	42,292	40,286	40,819	40,467	37,731
Operating income	6,392	7,488	8,260	6,416	3,798
Income before income taxes and minority interests	9,682	11,028	9,440	7,447	(4,776)
Net income (loss)	5,070	5,946	5,181	3,621	(3,637)
Balance Sheet Data					
Total net assets (*)	¥ 141,387	¥ 134,751	¥ 123,894	¥ 119,572	¥ 111,521
Total assets	256,754	246,867	238,900	226,911	209,227
Total long-term liabilities	19,140	16,799	12,183	9,204	6,158
Per Common Share Data					
Net income per share	¥ 106.62	¥ 122.11	¥ 103.25	¥ 70.53	¥ (72.26)
Dividends per share	27	36	20	18	18
Book value per share	2,979.79	2,809.30	2,554.78	2,416.67	2,246.56
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	47,096,993	47,952,849	48,458,828	49,425,148	49,640,893
Financial Ratios					
AS PERCENT OF GROSS BILLINGS					
Gross profit	11.59%	11.25%	11.86%	11.86%	11.11%
SG&A expenses	10.07	9.49	9.86	10.24	10.09
Operating income	1.52	1.76	2.00	1.62	1.02
Income before income taxes and minority interests	2.31	2.60	2.28	1.88	(1.28)
Net income	1.21	1.40	1.25	0.92	(0.97)
AS PERCENT OF GROSS PROFIT					
Operating income	13.1%	15.7%	16.8%	13.7%	9.1%
Staff cost	57.8	56.0	55.7	57.2	59.1
Return on equity	3.7	4.6	4.3	3.1	–
Equity ratio	54.7	54.6	51.9	52.7	53.3
Current ratio	1.44×	1.46×	1.45×	1.49×	1.46×

* For the years until 2005, instead of net assets, shereholders' equity balances are shown. For details of the difference, please refer to the Notes attached to the Financial Statements.

Masao Inagaki
Representative Director,
Chairman

Koichiro Naganuma
Representative Director,
President and Group CEO

A Letter to Our Shareholders

Fiscal 2006 in Brief

It is our pleasure to provide an overview of ADK's performance in fiscal 2006, ended December 31, 2006. During the year under review, we celebrated our 50th anniversary. We wish to take this opportunity to thank you, our shareholders, for your support, which has helped us reach this milestone. Unfortunately, however, we were unable to fully meet the expectations of our shareholders. Even though gross profit increased as a result of the recovery of gross margins, declines were recorded in operating income and net income.

Fiscal 2006 also saw dramatic changes in the business environment, due to the enactment of the New Corporate Law and the adoption of the so-called Japanese SOX Act (Financial Instruments and Exchange Law). Companies must now reinforce their compliance and internal control systems to be in accordance with the new laws and regulations. We at ADK go through an ongoing process of self-reflection, so that we can be a company trusted and respected by all.

Shareholder Returns

We declared a year-end dividend of ¥17.0 per share, bringing the total annual dividend to ¥27.0 per share, based on ADK's business performance as well as its shareholder return policy, which calls for 25% of consolidated net income to be distributed to shareholders as regular dividends. During fiscal 2006, ADK allocated a total of ¥3,260 million to acquire 850,000 shares of treasury stock, equivalent to 1.6% of total shares outstanding. Including regular dividends, and net of the purchase and resale of shares in fewer-than-standard trading units, ADK's total shareholder distribution represented 89.9% of consolidated net income for the year. To maximize shareholder value, we resolved to renew our dividend policy, calling for 35% of consolidated net income to be distributed as regular dividends applicable for fiscal 2007 and later, with a minimum annual dividend of ¥20.0 per share, based on the current number of shares outstanding. Moreover, we plan to accelerate stock buybacks in order to improve ROE. We will purchase 2,000,000 shares during 2007, with an ROE target of 6.0% or more by 2010. At the same time, we will continue to make every effort to improve EPS and dividend per share.

Philosophy and Strategies

Since our establishment, we have embraced a corporate philosophy of Management by All. Guided by this philosophy, we are committed to making further strides over the next half-century and beyond, drawing on our free and vigorous corporate culture to continuouslly address new challenges. This, together with the latest technologies, will enable us to deliver optimal proposals to our clients. We look forward to the ongoing support and understanding of our shareholders as we pursue our future challenges.

June 2007

Masao Inagaki
Representative Director, Chairman

Koichiro Naganuma
Representative Director, President and Group CEO

Interview with the President and Group CEO

Back onto an Uptrend

Although the Japanese economy continues its steady recovery, advertising expenditures remain sluggish. To overcome this, ADK has set new, aggressive targets for fiscal 2007. President and Group CEO, Koichiro Naganuma talks about ADK's new strategies for sustained growth.

Q.1

In fiscal 2006, ADK recorded a drop in gross billings for the first time in four years. What are your thoughts on these results?

ADK was proud of its highest growth rate in the industry for a long time. During 2001 and 2002, we lost a major client and suffered a drop in billings and profits, but performance bounced back and growth continued. However, the last couple of years can best be described as a downturn. Although gross billings and net income for fiscal 2005 surpassed the previous year's levels, gross profit and operating income both fell. During 2006, gross profit edged up, but gross billings, operating income and net income decreased. This disappoints me greatly. Moreover, I feel I must apologize for not meeting our shareholders' expectations. But I do not believe that this downtrend is set to continue. From 2007, we expect to regain our upward momentum.

Q.2

How is the Japanese economic environment, and how do you plan to boost performance?

The economy is sustaining its recovery, but growth in advertising spending is still somewhat lackluster. Certainly, this environment does not inspire optimism. The increase in advertising spending during 2006 was 0.6%.* The growth rate for 2007 looks to be around 1%. Against this, the ADK group is planning for a 4% increase in gross billings. This may seem to be a challenging target, but I believe it is achievable.

* Data: Dentsu, February 2007

Factors Behind the 2006 Falloff

To achieve our target, we must start with a close analysis of the factors that caused the falloff in 2006.

There were two major reasons for the downturn in gross billings. First, Expo 2005 Aichi, Japan, which had been an important contributor to billings, ended in the fall of 2005. As part of this project, ADK had managed two highly successful pavilions for the Japanese government. In 2006, the overall performance failed to cover the gap left by this major source of billings.

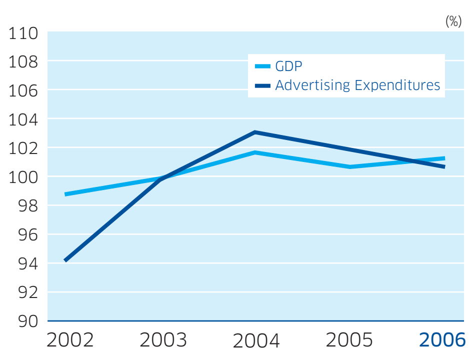
Second, our focus on profits led to smaller media buying billings. However, switching to a more efficient media plan has led to an improvement in profit.

Areas for Improvement

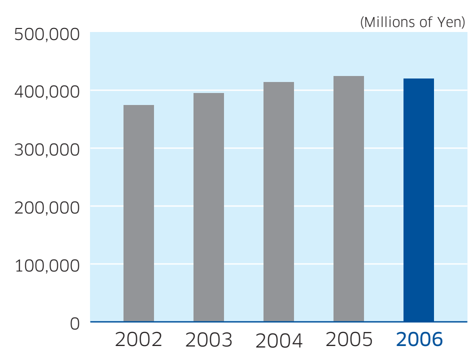
During 2006, ADK headquarters' performance was weak compared with buoyant conditions at our local branch offices. This was not only for media buying; as I noted earlier, results were not satisfactory for other transactions either. Moreover, we gained fewer new accounts than during the previous year. Of course, we acquired many new clients and brands through fiercely competitive presentations and a number of them will come to fruition during 2007, but in terms of 2006 performance, our results leave much to be desired. To bolster ADK's billings and profit, we have to pursue new accounts more aggressively and secure a greater share of business from existing clients.

Now, let me tell you my 2007 plan in more detail.

Growth of Japan's GDP and Advertising Expenditures



Non-Consolidated ADK Gross Billings



1. Reinforcing Sales Power

First, we need to strengthen our sales force. Each sales division needs to analyze its client portfolio anew. We can then carry out appropriate and efficient personnel distribution after ascertaining which employees, offering what skills, are best for each client.

The advertising business evolves on a daily basis, so advertising professionals constantly need to learn new technologies and acquire new knowledge. We also have various training programs including ADK University to further improve our employees' abilities. However, this alone is not enough. We need a spirit and mind-set geared to assimilate these technologies and knowledge and then translate them into improved client performance. The solution to being the best partner for our clients lies in the formula "technology and knowledge multiplied by spirit," and this is integrally linked to ADK's growth, billings and profit.

2. Improving the Profitability of Our Media Buying Business

"Media buying agencies," as the term is understood in Europe and the United States, do not exist in Japan. This role falls under the auspices of a full-service agency such as ADK.

We improved profits from media buying during 2006 through the presentation of efficient plans. However, there is still much more to be done. We strive to continuously upgrade our profitability through such measures as bolstering our negotiating power with media companies.

3. Strengthening Our Content Business

In 2004 and 2005, one of our animation contents, *Yu-Gi-Oh!*, became a major hit overseas, as well as in Japan. But its popularity subsequently peaked and earnings declined. Nevertheless, we have many other excellent animation contents, which have expanded considerably, but not enough to offset the drop-off from *Yu-Gi-Oh!*.

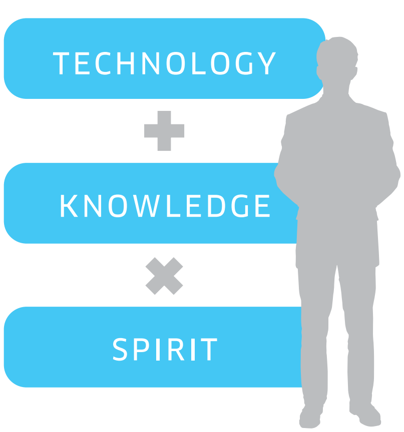
People sometimes say that hit products are one in a thousand, or that they come along only once every decade. However, ADK's experience and track record has been unbroken almost since its foundation. Over the past 43 years, we have been a leader in the creation and development of more than 200 TV animation programs. These include *Doraemon*, one of Japan's best-loved characters, and *Kochikame*, which also enjoyed acclaim overseas. Another recent example of our international success is *The Prince of Tennis*, which was aired in China.

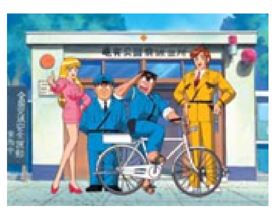
My point is that ADK is a fertile ground for the creation of hit products, and we have the know-how for broader development through the cultivation of long-loved, high-quality characters.

In the future, we aim to bolster our endeavors to propel our content business forward not only in Japan but also overseas. A 7.6% equity investment in Daiwan Digital Broadcasting in 2006 should shore up our distribution operations in South Korea.

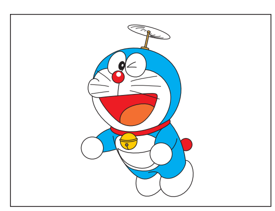
In addition, we are moving ahead with preparations for digital content delivery via mobile phones through Super Vision Inc., a non-consolidated subsidiary. I believe this will expand our content business utilizing our high-quality library.

ADK's content business is by no means limited to animation products. During 2006, we became a marketing partner for *the International Tchaikovsky Competition*, a stepping-stone for up-and-coming classical music performers worldwide. We obtained exclusive sponsorship sales rights for all corporations except Russian-based corporations, and as a start secured a leading Japanese corporation to be the general sponsor of the competition. In addition, we plan to host Japanese Kabuki performances in China during 2007, following the success of sumo wrestling events in China in 2004.





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



▲ Doraemon
©Fujiko Pro, Shogakukan, TV ASAHI, SHIN-EI ANIMATION, ADK

▲ Prince of Tennis
Original works ©1999 TAKESHI KONOMI
Animation series and products derived thereof
©2001 NAS・TV TOKYO All rights reserved

▲ Yu-Gi-Oh! Duel Monsters GX
©1996 Kazuki Takahashi ©2004 NAS・TV TOKYO

4. Cost Control

Non-consolidated operating income during 2006 was down 18% from the previous year. This arose from a 4.2% increase in operating expenses, which vastly outpaced the growth in gross profit. In the rapidly changing field of advertising, recruitment of top personnel and research and development to accumulate new technologies and expertise are vital. In addition, a remuneration system that rewards high-performing personnel is needed to bolster staff motivation. These were the main factors responsible for increased costs during 2006. However, growth in expenses must not exceed gross profit. This is a point that must be given due consideration as we proceed with cost control.

Q.3

Tell us about ADK's longer-term strategies. What do you think is the future of advertising?

First, let me point out that the advertising industry is experiencing tsunami-like changes. The spread of the internet and the growth in mobile services continue to transform the media environment. Consequently, the purchasing behavior of consumers and methods of gathering data have also shifted dramatically. Clients recognize advertising spending as an investment and this in turn has led to a greater emphasis on ROI.

A common view is that the rise of the internet spells danger for mass media. This is accurate insofar as television-viewing hours will decrease if consumers have a variety of other means to access information. However, I think that it is a mistake to interpret this through a simplistic comparison of mass media versus the internet. They are not in conflict; they can both move forward and prosper through creative integration. Synergy raises their impact, opening possibilities to create communications with greater consumer penetration.

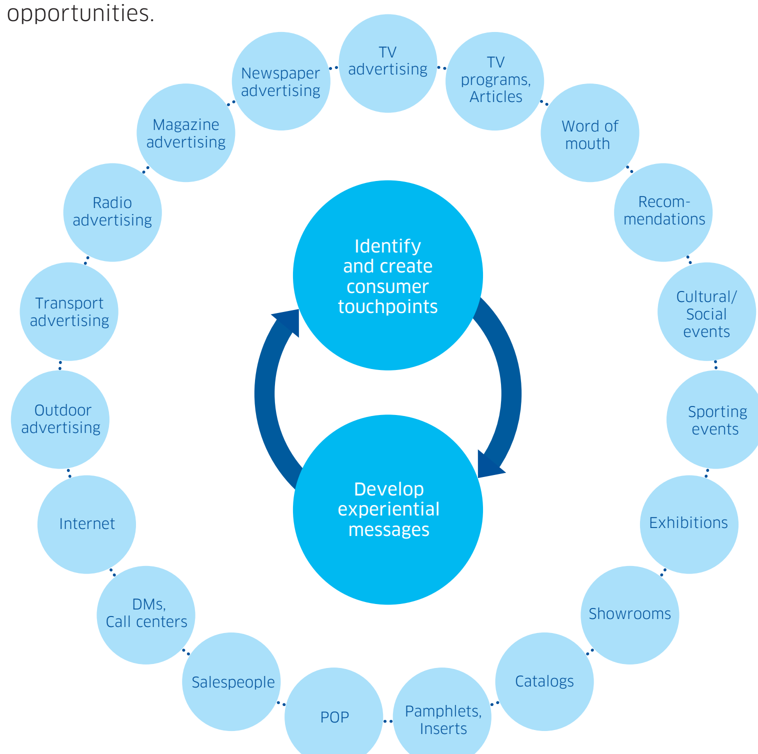
I do not think clients are losing their appetite for advertising. Rather, agencies are not responding to client needs. Put differently, agencies are still not offering communications plans that satisfy clients in terms of ROI. Clients seek new communications that respond to changes in circumstances. For ADK, these changes represent tremendous opportunities.

Q.4

So, what is your plan to seize those opportunities?

Advocating a 360-Degree Communications Approach

ADK has long promoted a 360-degree communications approach. This involves efficiently utilizing every touchpoint with consumers to answer client demands with well-conceived media-neutral and solution-neutral plans.



▲360-Degree Communications Approach

During 2006, we established the ADK Interactive Division. Our former concept was to start up a separate company with the same functions, but after much deliberation we decided to bring it in-house. This ensures smoother functioning when promoting the seamless integration of mass media and the internet and presenting our 360-degree communications solutions to clients.

We are also establishing an external support system for ADK. During 2006, we formed ASP Co., Ltd., a new company to offer e-marketing solutions, as a joint venture with Septeni Co., Ltd. Furthermore, we established CGM Marketing Inc. with Digital Garage, Inc., Dentsu and cyber communications inc. This company analyzes and applies such consumer-generated media as blogs to develop new marketing methods and strategies. Digital Advertising Consortium (DAC), an internet media rep that we formed in 1996 with Hakuhodo, Tokyu Agency and other partners, and Drill Inc., which is the result of a tie-up with Dentsu in 2004, are progressing well. By utilizing these joint ventures, we efficiently invest in growing business areas and promote 360-degree communications solutions by raising our cross-media capabilities.

Another important aspect of our 360-degree communications approach is in-store media. The storefront is the ultimate touchpoint between consumer and product. Many clients agonize over the problem of how to raise the shop-floor presence of their products. During 2006, ADK established AD&M Inc. with two powerful partners, Dai Nippon Printing Co., Ltd., and Mitsui & Co., Ltd. Through this initiative, we aim to bolster our in-store media capabilities to better meet client in-store needs.

Responding to the Growing Power of Retailers

Another major client concern is the growing power of distributors, that is, retailers. This is because they have the final call on which products are carried on store shelves. The importance of brand strength, which leads to nomination buying by consumers, is growing and is essential to avoiding price competition or discounting. ADK operates a brand cultivation program called EX-Branding® that works to raise brand strength by viewing brands as the consumers' experience.

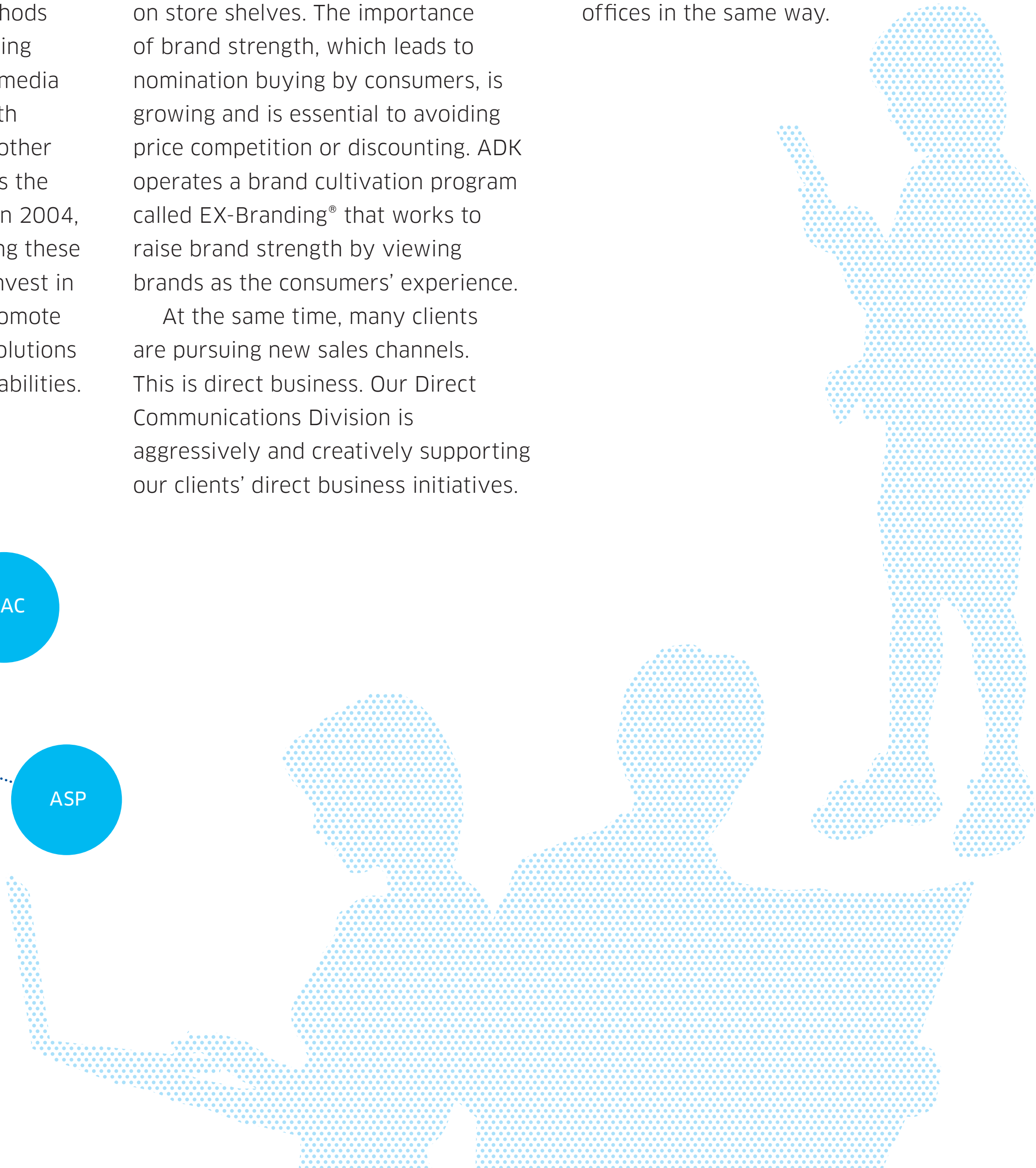
At the same time, many clients are pursuing new sales channels. This is direct business. Our Direct Communications Division is aggressively and creatively supporting our clients' direct business initiatives.

Further Strengthening Branch Offices

During fiscal 2006, our branch offices posted stellar results. In particular, billings and profits for the Osaka Branch Office grew significantly, largely as a result of a successful strategy of personnel dispatch from headquarters and collaborative work between local and headquarters staff.

Osaka has a large advertising market. It is nearly as large as the nationwide market of South Korea or Australia. That means we still have a big opportunity in Japan. Nagoya, the third largest city in Japan, also has a promising market. Next, we will focus on the Nagoya Branch Office to further reinforce operations in this region, and we will continue to strengthen our other domestic branch offices in the same way.

▲ External Support System



Investing in Overseas Markets

It is not easy for a Japanese advertising company to become a mainstream agency on its own in the mature European and U.S. markets. Accordingly, we are progressing in these markets by making full use of WPP's resources and are ready to offer competitive services through collaboration with them. Moreover, last year we created the ADK Global Specialized Agency Network. This concept involves a network formed from various specialist agencies to offer superior marketing and advertising advantages to clients.

The Chinese market has enjoyed spectacular growth in recent years. With the forthcoming Beijing 2008 Summer Olympics and the Shanghai World Expo 2010, the importance of this market continues to grow. ADK was quick off the mark in building a pipeline to the Chinese market through tie-ups with the Xinhua News Agency, the *People's Daily* newspaper and other Chinese corporations. Furthermore, we are continuing to strengthen our own network by bolstering business efficiency through the progression of foreign direct investment and the financing of affiliates in China.

In 2005, we established the Asia Regional Center to serve as a hub for Asia, which facilitates the smooth deployment of campaigns that span the markets of various regional affiliates. Our next step is India and the Middle East. ADK has a business tie-up with the JWT India Group, which belongs to the WPP Group, and is in the process of building a base for activities, including plans for a joint venture. Then we will advance into the Middle East by making joint ventures with local partners.

Although overseas sales are still embryonic for the ADK group, in 2006 gross billings from overseas accounted for 5.7% of total billings. We plan to boost this contribution in the future.

Developing and Fine-Tuning a Verification System

Clients view advertising as an investment, so they seek the maximum return on their advertising spending and they need to verify their effects. ADK has developed original verification programs using the EX-PM Simulator advertising effect prediction model, the AMP IV® effect simulator, and other modeling tools. We are improving and honing the accuracy of these programs to ensure that we can quickly respond to client needs.

Q.5

Is the fundamental approach to shareholder return unchanged?

There is no change to the fact that we place great emphasis on shareholder return. Specifically, through dividends and stock buybacks, we return profit to shareholders from both short-and long-term perspectives. In 2006, the dividend per share was ¥27, ¥9 lower than for the previous year, but combined with funds to buy back treasury stock, ADK returned 89.9% of profits to shareholders.

Furthermore, from fiscal 2007 we have decided to raise the dividend payout ratio from 25% to 35%.

Moreover, we are accelerating stock buybacks. We have already acquired 500,000 shares as of this April and will purchase another 1,500,000 shares by the end of October 2007. The aim of this accelerated buyback is to improve ROE. We aim to improve ROE to 6% or more by December 2010*, beating 4.9%, the current average ROE of major Japanese advertising and media companies**. At the same time, we will continue to make every effort to increase EPS and improve dividend per share. Assuming we achieve our target of net income and buy back 2,000,000 shares, we forecast that the dividend per share would rise to about ¥47.

* Assuming the same stock value of investment securities as that of December 2006.

** Namely ADK, Dentsu Inc., Hakuhodo DY Holdings Inc. and five Tokyo-based TV broadcasting companies.

Q.6

What are your initial feelings about 2007 so far?

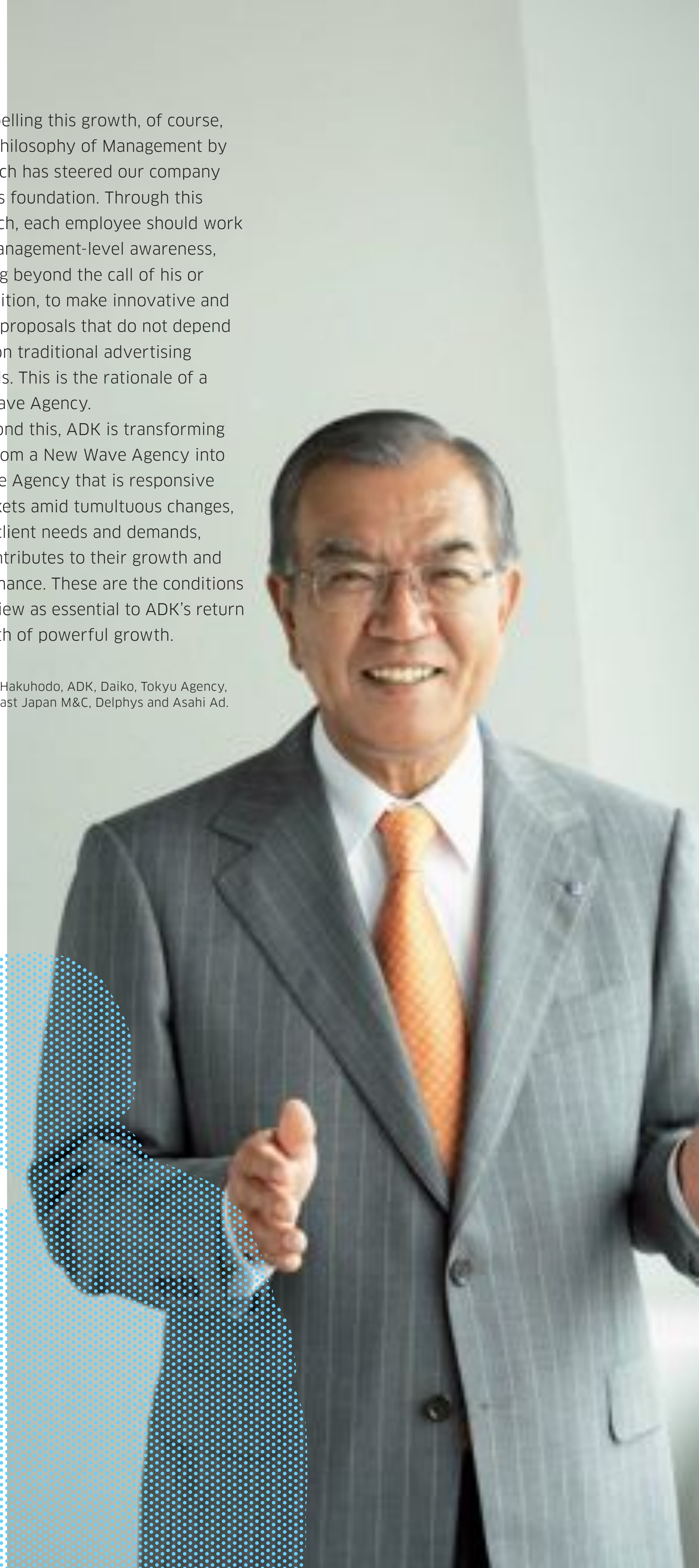
Our first-quarter results were not outstanding but were relatively good compared with our competitors. The gross billings of ADK, the parent company, increased 0.8% while the average growth of the nine largest agencies* was -1.0%. Operating income increased 1.6% even though net income fell 12.6% due to a smaller extraordinary profit. Consolidated billings grew 1.3% and gross profit increased 1.5% compared with the corresponding period last year, even though operating income and net income declined. This shows a sign of positive growth, and we will continue to make every effort to accelerate this to achieve our goals.

Again, I reiterate that the advertising industry is undergoing major changes. We are treating these changes as opportunities. In contrast to a traditional agency, for ADK change presents an environment where we can prove our strength as a New Wave Agency. In 2007, we look forward to getting back on an uptrend to realize our powerful growth potential.

Propelling this growth, of course, is the philosophy of Management by All, which has steered our company since its foundation. Through this approach, each employee should work with management-level awareness, reaching beyond the call of his or her position, to make innovative and unique proposals that do not depend solely on traditional advertising methods. This is the rationale of a New Wave Agency.

Beyond this, ADK is transforming itself from a New Wave Agency into a Future Agency that is responsive to markets amid tumultuous changes, meets client needs and demands, and contributes to their growth and performance. These are the conditions that I view as essential to ADK's return to a path of powerful growth.

* Dentsu, Hakuhodo, ADK, Daiko, Tokyu Agency, Yomiko, East Japan M&C, Delphys and Asahi Ad.



Corporate Governance & Internal Control

ADK believes that the ultimate objective of a corporation should be to maximize value for its shareholders by generating sustained growth. It is fundamental for corporations to motivate and monitor management teams to work toward this objective in order to constantly raise corporate value and ultimately enhance competitiveness.

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

ADK adopts a corporate auditor system instead of a "company-with-committees" system. We believe such a system is best to realize management decision-making efficiency and to reinforce the management supervision function.

With respect to enhancing management decision-making efficiency, 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 that our current system is more effective because it allows the Board of Directors, consisting primarily of executive 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 non-executive directors to lead the Board to avoid any material misjudgment that may arise if decision-making were limited to internal directors alone.

The "company-with-committees" system has also not been proved superior in addressing the second aim 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 non-executive 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, two of whom have representative status under Japanese law, nine serve as operating officers, and one (Sir Martin Sorrell, Group Chief Executive of WPP Group plc) as a 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 fiscal 2006, the Board met 15 times. On two occasions, the Board requested the attendance of the accounting auditors to receive direct reports of the results of accounting audits.

ADK uses Yasumori Audit Corporation as its independent auditor. There is no conflict of interest between ADK and Yasumori or ADK and the executive of Yasumori responsible for auditing ADK's accounts.

Mr. Mikio Yokokawa has served as a CPA of Yasumori Audit Corporation for 22 years. Mr. Kenichi Kubota has served for five years. Although the ADK group is in compliance with JICPA's independence rules, Yasumori plans to replace Mr. Yokokawa with another executive, effective from fiscal 2007.

ADK has four corporate auditors, three of whom are external. One of the three is a lawyer and serves on a part-time basis. As of March 28, 2007, the ADK group did not contract with him for his legal services. The group has also established a policy not to do so in the future, to honor that person's independence as an auditor. One internal auditor is a full-time auditor. The three full-time corporate auditors attend all Board of Directors meetings. The Board of Corporate Auditors met eight times in fiscal 2006.

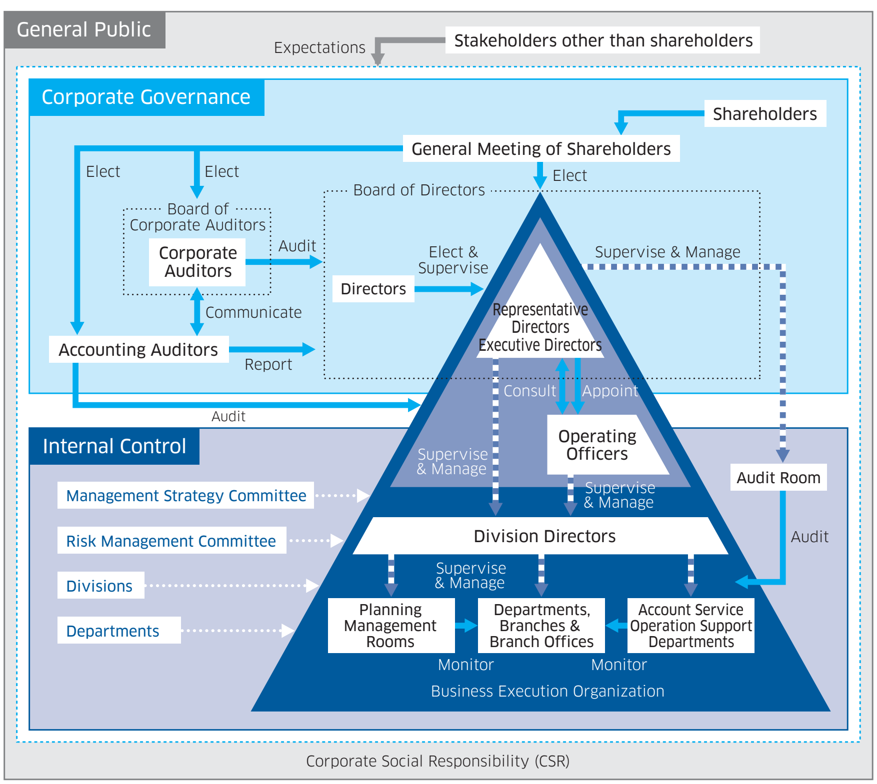
In the interest of efficiency, we have flattened the decision-making hierarchy as much as possible. Decisions are made in four stages, centering on the Board of Directors, the president, division directors and department directors. The organization responsible for business execution, based on decisions 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 helps decision-making by the president, who has the ultimate authority over day-to-day operations. Consisting of operating officers in charge of divisions, the Committee meets almost every business week (32 times in fiscal 2006) to submit information and exchange opinions on important matters to help the president's decision-making. 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 all employees, excerpts of meeting minutes are posted on the company's intranet.

ADK maintains close communication on management strategies and corporate governance with its group companies to ensure proper group-wide corporate governance.

Takeover Defense Policy

The ADK group understands that a takeover defense is a means to defend corporate value for shareholders by appropriately responding to a takeover bid or a similar attempt that would treat shareholders unequally or diminish corporate value significantly in the medium to long term. As such, the group believes that the best defense is to obtain sustained support from shareholders for 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 group to maximize shareholder value. The group will take appropriate action in response to any unsolicited takeover bid or a similar attempt. However, the group has not yet implemented or prepared for any particular defense.



Internal Control System

At its meeting on May 15, 2006, the Board of Directors decided on the company's basic policies for an internal control system and its development, with the aim of ensuring the appropriate execution of business. At a subsequent meeting on December 11, 2006, the Board approved some modifications of those basic policies. The following gives an overview of the modified policies.

Preamble

Based on our Management by All principle that has guided ADK since its establishment, we have developed an internal control system with the following aims:

(1) Raise operational effectiveness and efficiency;

(2) Maintain the reliability of financial reporting;

(3) Ensure compliance with laws and regulations relating to business activities; and

(4) Safeguard assets.

Development of the internal control system is overseen by the Risk Management Committee, which is chaired by the president. The Risk Management Committee regularly checks to see if the system effectively functions or not, using a process management system based on the PDCA (Plan, Do, Check, Act) cycle, and reports its results to the Board of Directors.

1. System to ensure directors and employees perform their duties in accordance with laws, regulations, ordinances and the Articles of Incorporation

The Board of Directors formulated the ADK Group's Code of Conduct to clarify the ethics and values to be shared by all directors and employees. The directors themselves observe this code, and the chairman and the president continuously reiterate its spirit to employees.

The Risk Management Committee appoints the Compliance Committee as a subordinate organization chaired by the director in charge of the Corporate Division; its members shall include external attorneys. The Compliance Committee implements policies to raise compliance awareness among directors and employees. The Compliance Committee also investigates major violations of laws and regulations, or the suspicion of such violations, and instructs the responsible department to take corrective actions. A confidential helpline, run by the Compliance Committee, is in place to encourage employees to report violations of laws and regulations or any suspicion. The helpline system involves external law offices and guarantees anonymity.

The Risk Management Committee also appoints the Operation Process Committee, chaired by the director in charge of the Finance and Accounting Division, as a subordinate organization. The task of the Operation Process Committee is to ensure that business execution complies with laws and regulations, especially pertaining to the system for ensuring the reliability of financial reporting. To this end, the Operation Process Committee instructs relevant departments to adopt measures for setting up appropriate business processes and related provisions, with the aim of clearly conveying to employees how business should be executed.

2. System regarding the retention and management of information related to the execution of duties of directors

The following policies have been put in place under the supervision of the director in charge of the Corporate Division with regard to the storage and management of information related to the execution of the duties of directors.

(1) Minutes of Board of Directors meetings and materials distributed to directors for deliberation over resolutions are retained for a minimum of 10 years by the office in charge of the preparation of minutes.

(2) Retention of minutes of regular meetings that directors are stipulated to attend, as well as other documents approved by directors or recording their opinions, shall comply with specified Document Management Regulations and ADK's Information Security Policy.

3. Regulations and systems relating to risk management

The Risk Management Committee defines the risk management policy and carries out comprehensive risk management for the entire ADK group. The Committee carries out risk management by utilizing a process management system and orders responsible departments to take necessary measures.

The Risk Management Committee oversees the activities of five specialist committees: the Compliance Committee, the Personal Information Protection Committee, the Information Security Committee, the Business Continuity Committee and the Operation Process Committee. These committees each carry out risk analyses, assessments and countermeasures in their respective fields. Other specialist subcommittees are established as the need arises. The Risk Management Committee directly carries out risk management in fields not covered by other committees. The Audit Office monitors the effectiveness of the risk management system and reports to the Risk Management Committee.

4. System to ensure the effective execution of directors' duties

The company maintains a small number of directors in order to ensure the mobility of active discussion at Board meetings and flexible and frequent meetings. The company also limits the tenure of each director to one year to frequently monitor the qualification of directors.

The Company has adopted an operating officer system to clarify directors' duties and authority as defined in the New Corporate Law, especially with respect to approvals and the supervision of business execution.

The Board of Directors sets companywide visions and targets for directors and employees to share, and establishes medium-term and yearly business plans to ensure these visions and targets are achieved. Progress is reported on a quarterly basis to the Board Directors. In case there are factors that hinder progress toward these goals, an executive director in charge of the relevant department takes responsibility for formulating solutions, and the president carries them out by giving directions to the relevant departments.

5. Maintenance of appropriate business practices throughout the ADK group

Under the supervision of the Risk Management Committee, the division in charge of management of subsidiaries directs each subsidiary to set up its own internal control system and establishes a group-wide internal control system by requesting observance of the ADK Group's Code of Conduct.

The division in charge of management of subsidiaries sets up the rules of management of group companies in order to efficiently manage them while honoring appropriate autonomy. It also ensures that the group companies observe all relevant rules, including, but not limited to, the rule that a group company shall seek approval of or report to the parent company in advance a decision on or execution of certain corporate action or business. The division also reports on the development of internal control of the subsidiaries to the Risk Management Committee at least once a year, and more often as necessary.

6. Support for the Board of Corporate Auditors

In the case of requests by the Board of Corporate Auditors for employees to provide support, employees are assigned to the corporate auditors as soon as possible. To reinforce independence from directors, employees required to support the Board of Corporate Auditors are not to be assigned interlocking duties within the organization under the authority of a director. Performance assessment, changes in personnel and administration of sanctions must be approved in advance by the Board of Corporate Auditors.

7. Reporting to the Board of Corporate Auditors and system to ensure the efficient execution of audits

The company has established a standard for maintaining a minimum number of auditors, which exceeds the legal requirement, as follows: four or more auditors in total, three or more external auditors and three or more full-time auditors.

In addition to Board of Directors meetings, the attendance of corporate auditors is requested at Business Strategy Meetings, Performance Report Meetings and other important regular meetings, and the minutes of those meetings must be presented to all corporate auditors. If auditors request attendance at any other meetings, neither directors nor employees have the right to refuse. Directors and employees should report immediately to the Board of Corporate Auditors any cases causing or raising concern about significant damage to the company, inappropriate action during the execution of duties by directors or reports received through the helpline system. At least twice a year, the president holds a meeting to exchange opinions with the Board of Corporate Auditors. The Audit Report of the Audit Office is submitted to both the Board of Corporate Auditors and the president. Moreover, members of the Audit Office attend meetings of the Board of Corporate Auditors to maintain proper two-way communication.

Board of Directors & Auditors

as of April 2007

Masao Inagaki
Representative Director
Chairman

Koichiro Naganuma
Representative Director
President & Group CEO

Hideaki Hirose
Executive Director
Senior Operating Officer
Account Services

Takeo Hishiyama
Executive Director
Senior Operating Officer
Corporate/Creative/Strategic Planning

Kenji Mori
Executive Director
Senior Operating Officer
Account Services

Hideyuki Nagai
Executive Director
Senior Operating Officer
Media & Content Business

Shoji Honda
Executive Director
Senior Operating Officer
Finance and Accounting

Komei Kasai
Executive Director
Operating Officer
Account Services

Kazuhiko Narimatsu
Executive Director
Operating Officer
Account Services

Kazuhiko Ohno
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

Katsumi Abe
Coporate Auditor

Hideshige Haruki
Coporate Auditor

Yoshiro Sakai
Coporate Auditor

Yuzo Shikata
Coporate Auditor

Operating Officers

Jiro Kitamura
Atsuo Ota
Osamu Okayasu
Mikiro Kokita
Yasuto Horie
Toshio Anada
Katsuhiro Ikuma
Hidekatsu Ikedo
Kaoru Detake
Shinichi Ueno
Takaharu Yokoyama
Osamu Ishikawa
Toshiyuki Inoue
Hiroaki Onohara
Hiroshi Nomiyama
Hiroshi Nakazato
Yoshiki Uemura

Corporate Social Responsibility

Using our 360-degree communications approach, ADK proposes communications plans that provide sensational and unforgettable consumer experiences and implements these plans for our clients. We regard these activities as the core element of our corporate social responsibility (CSR) commitment.

We utilize profits earned through business activities based on this policy to provide returns to shareholders, invest in research and development to support ADK's further growth, conduct employee education and support activities, and provide new employment opportunities. At the same time, we continue to reinforce business ties with affiliates and media companies to cultivate the mutual trust that we consider essential in our ongoing endeavors.

In the face of growing social awareness of corporate responsibility, ADK is keenly aware of its social responsibilities as a corporate citizen. We have established a compliance system and promote social contribution activities in accordance with the ADK Group's Code of Conduct, which we established to promote these activities.

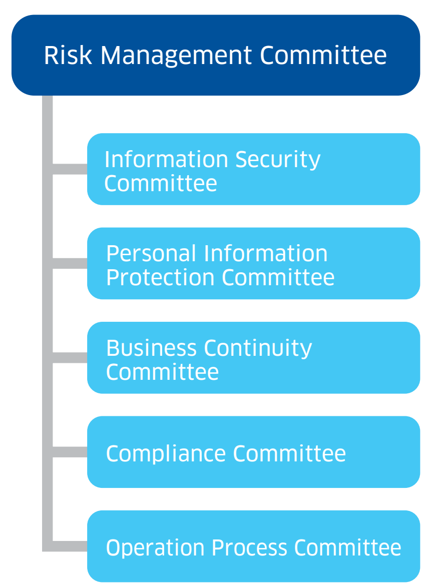
As an advertising company dealing with communications and information, we seek to deepen the awareness of our responsibilities, not only for the data we handle but also for the broader data environment. In this way, ADK will continue to be a trusted and respected corporation in an increasingly competitive society.

Compliance

ADK established the Risk Management Committee, independent from its existing corporate organization, at the end of 2003. Since 2004, we have set up five subcommittees: the Information Security Committee, the Personal Information Protection Committee, the Compliance Committee, the Business Continuity Committee and the Operation Process Committee.

Japan's Personal Information Protection Law, which pertains in various ways to the activities of advertising companies, came into effect in April 2005. At that time, we created the Information Security Committee and the Personal Information Protection Committee to prepare our company structure to handle information security issues and personal information even more appropriately. These committees also carry out company-wide training to ensure the comprehensive understanding of these endeavors. In addition, the Information Security Committee leads projects to ensure in-house data security. To this end, in December 2005 ADK's planning and development departments acquired the international BS7799 and the Japanese ISMS Conformity Assessment Scheme certification, the latter of which was superseded by ISO27001/ISMS in 2006. These certifications were extended to the Kansai Branch Office in July 2006 and to the head office sales departments in February 2007. In the future, in addition to maintaining certification status for the already endorsed departments, we will continue to expand the scope of validation, targeting company-wide information security certification by the end of 2007.

The Operation Process Committee's responsibilities will include promoting the construction of an internal control system required under the so-called Japanese SOX Act (Financial Instruments and Exchange Law), which will apply to ADK from fiscal 2009.



Social Contribution

At ADK, we realize that communications is the domain in which our social contributions most effectively utilize our experience and know-how as an advertising company. On this basis, we conduct activities targeting all our stakeholders while respecting the individual initiatives of our employees.

Pro Bono Creative and Idea Work

Advertising companies in the WPP Group, with which ADK is affiliated, actively carry out pro bono work to assist the activities of various public groups and organizations, nonprofit organizations (NPOs) and other entities. Since 2005, we have provided pro bono work that has won recognition and increasingly become an important part of our CSR activities.

▲ Station poster of *Edo Shigusa* / Japan Ad Council

During fiscal 2006, ADK continued from the previous year doing pro bono creative work for the *Edo Shigusa* (The Subtle Manners of Edo) advertising campaign. During the Edo period (1603-1867), people exercised beautiful manners in Edo, the old Tokyo town, where harmonious coexistence was intrinsic to people's lives. This campaign depicts some examples of those manners relative to scenes of today's urban life, to show that common courtesy does not need to be enforced by rules. The underlying suggestion is that people living in modern urban environments take a fresh look at how they interact and communicate with each other. The advertisements appear on television, in newspapers, on posters in Tokyo subway stations and in other media, as well as even being featured in a textbook for teachers of school ethics classes.

▲ TV commercial of *Edo Shigusa* / Japan Ad Council

In 2006, the *Edo Shigusa* television commercial campaign received the ACC Prize. (ACC: All Japan Radio & Television Commercial Confederation)

University of Tokyo Asatsu-DK China Education Fund

March 19, 2006, marked 50 years since ADK's foundation. As part of the celebration for this event as well as for our social contribution activities, we made a donation to the establishment of the University of Tokyo Asatsu-DK China Education Fund.

Through this China Scholarship Fund, the University of Tokyo will accept outstanding graduates of Chinese universities for master's degree programs, thereby encouraging long-term, friendly relations between Japan and China in the academic field. Some 75 students are to be invited to Japan under this program by 2015.

As a result of ADK's establishment of this fund, the Company was awarded the University of Tokyo Shokumon Award, which is presented to express the gratitude of the University to individuals, corporations or associations of conspicuous merit in the development of its activities as well as to honor such achievements. The award ceremony was held at the University of Tokyo on March 26, 2007.

▲ Masao Inagaki at the University of Tokyo Shokumon Award ceremony

Management's Discussion and Analysis

Performance Highlights of Fiscal 2006

- Consolidated gross billings down 1.1%
- Gross profit up 1.9% to ¥48,685 million; gross margin of 11.6%
- Operating income down 14.6%; operating margin of 13.1%, 1.9 percentage points below the target of 15%

ADK Group Overview

Asatsu-DK is the third largest advertising agency in Japan, and the ninth largest advertising agency in the world. 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 content 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, as well as information processing services. In fiscal 2006, the group's advertising business generated gross billings of ¥410,875 million, equivalent to 97.8% of consolidated total billings. Other businesses generated ¥9,184 million, or 2.2% of total billings.

The ADK Group consists of 49 subsidiaries (44 in advertising and five in non-advertising) and 24 affiliates (23 in advertising and one in non-advertising). Our global reach extends to 19 cities and is reinforced by a close alliance with WPP Group plc, the world's second largest communications group.

In fiscal 2006, all overseas sales of the ADK group were generated by the advertising business. Together, overseas sales represented 5.7% of consolidated gross billings.

Industry Environment and ADK's Response

The domestic advertising industry in fiscal 2006 saw continued rapid diversification of the media environment, driven by the ongoing proliferation of digital, broadband and mobile communications infrastructures. 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 lines by addressing all of the touchpoints linking consumers to brands.

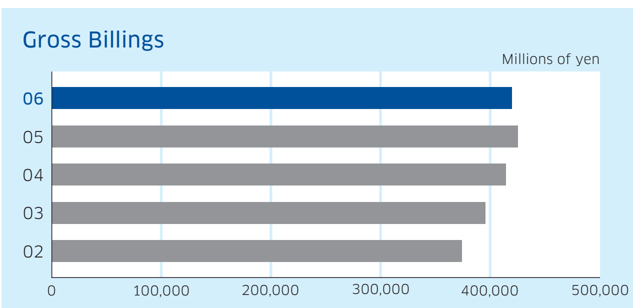
In response to these client demands, ADK continues to emphasize our 360-degree communications strategy. Specifically, we strive to improve our corporate value by helping clients strengthen the appeal of their brands and boost their revenues.

Consolidated Performance

In fiscal 2006, the ADK group strove hard to improve its gross margin, despite a decline in gross billings. However, we increased our operating expenses to secure future growth. As a consequence, the group reported lower year-on-year operating income and net income.

Gross Billings

Gross billings totaled ¥420,059 million, for a 1.1% year-on-year decline. The decrease was mainly due to sluggish sales of the media buying business and the completion of Expo 2005 Aichi, Japan, in the previous fiscal year.



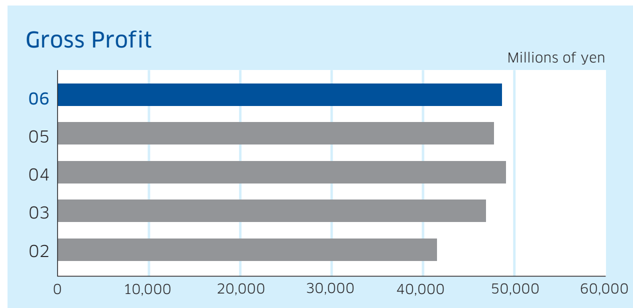
Consolidated Gross Billings and Selected Profitability Data

Millions of yen except per common share amounts and financial ratios

	2006	2005	2004
Gross billings	¥420,059	¥424,705	¥413,898
Gross margin	11.6%	11.2%	11.9%
Operating margin	13.1%	15.7%	16.8%
Income before income taxes	¥9,682	¥ 11,028	¥ 9,440
Net income	¥5,070	¥ 5,946	¥ 5,181
Net income per share	¥106.62	¥ 122.11	¥ 103.25

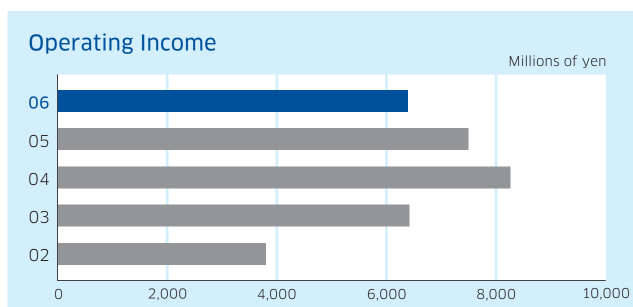
Gross Profit

The decline of sales in the media buying business, which has low gross margins, along with group-wide efforts to obtain new clients and brands, helped the group improve its gross margin. As a result, gross profit totaled ¥48,685 million, a 1.9% year-on-year increase, and the gross margin edged up 0.4 points to 11.6%.



Operating Income

Operating expenses increased at a higher rate than gross profit growth, mainly due to investments in staff and R&D activities for future growth. As a result, operating income was ¥6,392 million, for a year-on-year decrease of 14.6%. The ADK group was, therefore, also unable to meet its 15% operating margin target, which was held to 13.1%. The staff cost to gross profit ratio was 57.8%.



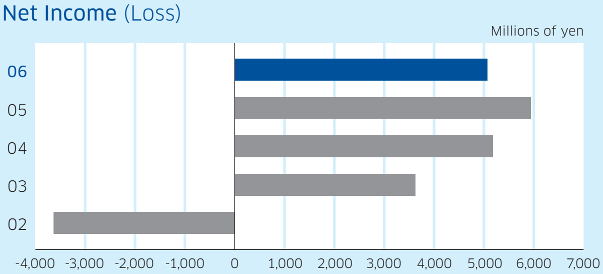
Other Income and Expenses

Other income and expenses decreased 7.1% to ¥3,290 million. Equity in earnings of affiliates–net increased to ¥240 million from ¥124 million in fiscal 2005, thanks to the improved earnings of Digital Advertising Consortium Inc., a publicly traded Internet media buying representative agency, and some overseas advertising affiliates. Our information processing affiliate, Nippon Information Industry Corp., remained a loss-making concern for the year under review.

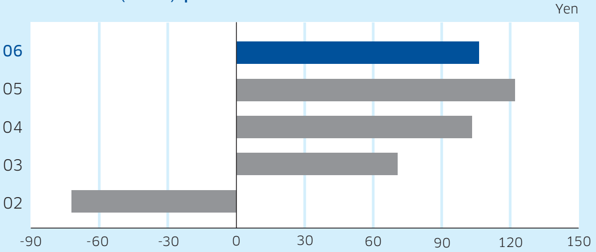
Net Income

Income before income taxes and minority interests totaled ¥9,682 million. After deductions of ¥4,556 million in income taxes (current and deferred) and ¥56 million in minority interests, net income was ¥5,070 million, a 14.7% year-on-year decrease. Net income per share declined to ¥106.62, down 12.7%.

Net Income (Loss)



Net Income (Loss) per Share



Segment Information

The ADK group's businesses are classified into two main segments: advertising, which accounted for 97.8% of gross billings in fiscal 2006, and non-advertising, which made up the remaining 2.2%. The non-advertising business includes book and magazine publishing and sales, as well as information processing services.

Advertising

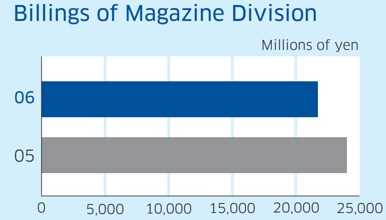
The group's advertising business generated gross billings totaling ¥410,875 million, registering a 1.1% year-on-year decline. Segment operating income decreased 17.4% to ¥6,369 million.

Since all of ADK's non-consolidated gross billings and income are generated from the advertising business, and those non-consolidated gross billings represent 92.2% of the consolidated advertising gross billings, its non-consolidated performance is reviewed below. (Note: ADK revised its divisional definition in the year under review to redefine Out-of-Home (OOH) Media sales and the overseas media buying business. The following gross billings by division are calculated under this new definition.)

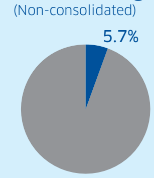
Magazine Division

Japan's national spending on magazine advertising continues to decline. In 2006, the market fell about 1.5%. ADK's Magazine Division maintained its billings to clients in the Cosmetics/Toiletries sector, but suffered from lower billings to the Apparel/Jewelry sector. Division gross billings decreased 10.6% year-on-year to ¥21,717 million.

Billings of Magazine Division

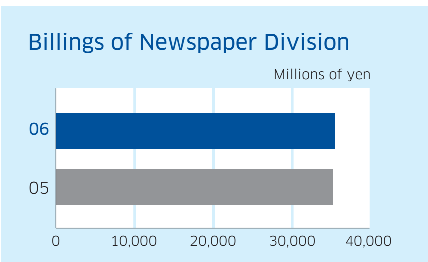


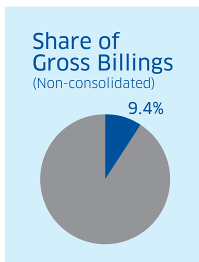
Share of Gross Billings (Non-consolidated)



Newspaper Division

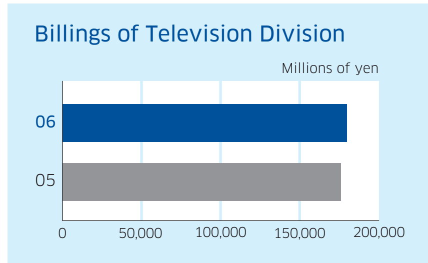
Total domestic spending on newspaper advertising showed steady growth during the first half of 2006. However, due to reduced spending by consumer finance companies, full-year expenditures declined around 4% compared with 2005. At ADK, the Newspaper Division raised gross billings by 0.2% year-on-year, with larger billings to clients in the Government/Organizations and Automobiles/Automobile-Related Products sectors. In addition, the division aggressively promoted media buying related to the Turin Olympic Games and the FIFA World Cup Soccer, while billings to the Finance/Insurance sector decreased. As a result, the division generated gross billings of ¥35,447 million.

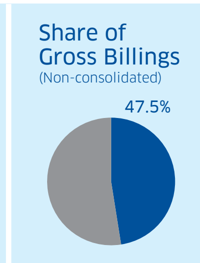




Television Division

Japan's national spending on television advertising declined about 1% in 2006 as a slight increase in program sales failed to compensate for a decrease in spot sales. For the year, ADK's Television Division generated higher gross billings from spot sales to clients in the Transportation/Leisure and Hobbies/Sporting Goods sectors. Our diversified content portfolio, with new TV animation programs, such as *EyeShield 21* and *Legend of Silver Fang-Weed*, as well as long-lasting content, such as *Doraemon*, could not fully offset the decline in overseas sales of *Yu-Gi-Oh! Duel Monsters*. In addition, the division experienced lower sponsored program sales, due to limited advertising budgets and changes in advertising spending policies by some clients. As a result, the division yielded gross billings of ¥179,940 million, for a slight 1.6% year-on-year increase.





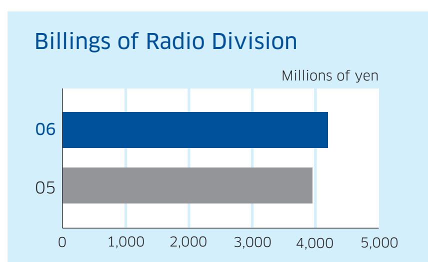
Reference: Non-Consolidated Gross Billings for Television Division by Segment

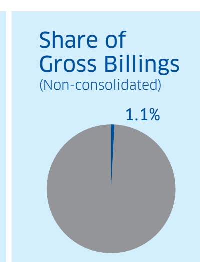
(Millions of yen)

	2006	2005	2006/2005
Time (program-sponsored ads)	¥ 66,187	¥ 67,075	98.7%
Spot	99,378	95,513	104.0%
Content-related sales	14,375	14,536	98.9%
Total TV Division billings	¥ 179,940	¥ 177,124	101.6%

Radio Division

Although spending on radio advertising has continued to decline, ADK's Radio Division increased gross billings to clients in the Automobiles/Automobile-Related Products sector, especially by promoting spot sales for professional baseball night games. However, due to a decline in billings to clients in the Beverages/Tobacco Products and Information/Communications sectors, the division generated gross billings of ¥4,193 million, for lower-than-expected growth of 6.1%.

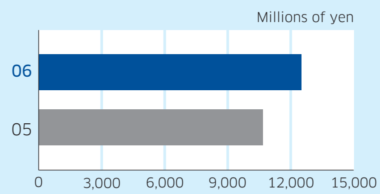




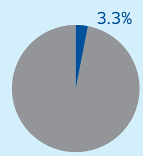
Digital Media Division

Japan's national spending on internet advertising has continued to grow rapidly, surging nearly 30% in 2006. At ADK, the Digital Media Division continued to generate higher gross billings to clients in the Foods, Finance/Insurance and Information/Communications sectors. Thanks also to efforts of cross-selling other media under the leadership of the new ADK Interactive Division, gross billings of the Digital Media Division rose 17.0% to ¥12,503 million.

Billings of Digital Media Division



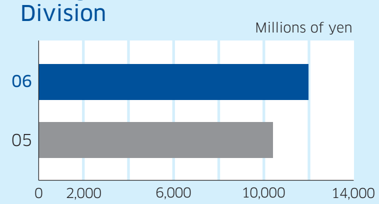
Share of Gross Billings (Non-consolidated)



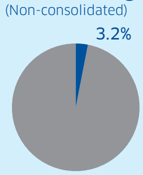
Out-of-Home Media Division

Out-of home media advertising represents another steady growth segment in the industry. This type of media is an essential part of ADK's 360-degree communications approach. The Out-of-Home Media Division, a redefined division, generated higher gross billings to clients in the Cosmetics/Toiletries and Restaurants/Other Services sectors, by handling a wide range of media, including public transport advertising and newspaper inserts. As a result, the division achieved gross billings of ¥11,989 million, a 15.2% year-on-year increase.

Billings of Out-of-Home Media Division



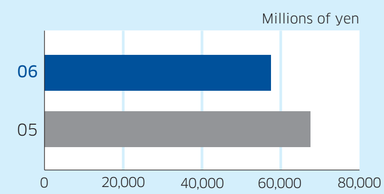
Share of Gross Billings (Non-consolidated)



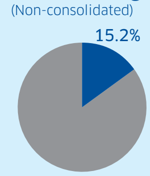
Sales Promotion Division

The importance of sales promotion continues to grow as clients demand a more direct link between advertising spending and sales. In fiscal 2006, ADK's Sales Promotion Division generated gross billings of ¥57,504 million, an 8.7% decrease, mainly due to the completion in the previous year of major events, such as Expo 2005 Aichi, Japan. However, the division responded to advertisers' demands for effective sales promotion services to help them boost their sales, as well as to build up their brands. We also actively promoted our 360-degree communications approach. In these ways, we continued to satisfy our clients in the Distribution/Retail and Information/Communications sectors.

Billings of Sales Promotion Division



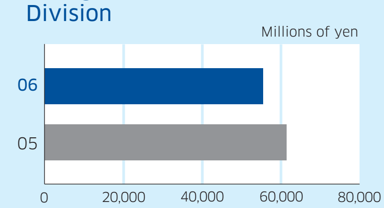
Share of Gross Billings (Non-consolidated)



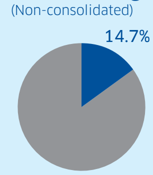
Creative and Other Division

The Creative Division continued its success in winning major international advertising awards and attracting new business from the Cosmetics/Toiletries and Beverages/Tobacco Products sectors. The Marketing Division could not generate major billings from clients in the Distribution/Retail sector as it had before. Also, after the completion of Expo 2005 Aichi, Japan, gross billings of Creative and Other miscellaneous businesses declined 7.6% to ¥55,507 million.

Billings of Creative and Other Division



Share of Gross Billings (Non-consolidated)



Gross Billings: Breakdown by Division after Reclassification

(Non-Consolidated)

Millions of yen

	2006	% of Total	2005	% of Total
Magazine	¥ 21,717	5.7%	¥ 24,298	6.2%
Newspaper	35,447	9.4	35,378	9.2
Television	179,940	47.5	177,124	46.0
Radio	4,193	1.1	3,952	1.0
Digital Media	12,503	3.3	10,682	2.8
Out-of-Home Media	11,989	3.2	10,410	2.7
Sales Promotion	57,504	15.2	62,959	16.4
Creative and Other	55,507	14.7	60,041	15.6
Total	¥378,804	100.0%	¥384,849	100.0%

Non-Consolidated Gross Billings, Market Share and Industry Ranking (1997-2006)

(Non-Consolidated)

Millions of yen

Year	Gross Billings	Year-on-Year Rate	Market Share	Industry Rank
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
2006	¥378,804	98.4%	6.32%	3

Gross Billings: Breakdown by Client Industry

(Non-Consolidated)

Millions of yen

	2006	Composition Ratio	2005	Composition Ratio	Change	Year-on-Year Rate
Energy/Raw Materials/Machinery	¥ 6,369	1.7%	¥ 4,689	1.2%	1,680	135.8%
Foods	32,095	8.5	35,418	9.2	-3,323	90.6
Beverages/Tobacco Products	25,985	6.9	24,872	6.5	1,113	104.5
Pharmaceuticals/Medical Supplies	13,925	3.7	16,168	4.2	-2,243	86.1
Cosmetics/Toiletries	36,317	9.6	34,695	9.0	1,622	104.7
Apparel/Jewelry	7,409	1.9	8,488	2.2	-1,078	87.3
Precision Instruments/Office Equipment	5,892	1.5	6,512	1.7	-620	90.5
Electric Machines/AV Equipment	8,411	2.2	6,235	1.6	2,177	134.9
Automobiles/Automobile-Related Products	24,369	6.4	22,971	6.0	1,398	106.1
Household Products	2,871	0.8	2,745	0.7	126	104.6
Hobbies/Sporting Goods	19,111	5.0	17,711	4.6	1,399	107.9
Real Estate/Housing	9,795	2.6	7,428	1.9	2,367	131.9
Publications	3,426	0.9	3,014	0.8	411	113.6
Information/Communications	41,867	11.1	43,834	11.4	-1,967	95.5
Distribution/Retail	23,847	6.3	24,341	6.3	-494	98.0
Finance/Insurance	51,868	13.7	59,822	15.6	-7,954	86.7
Transportation/Leisure	15,541	4.1	12,636	3.3	2,905	123.0
Restaurants/Other Services	13,720	3.6	13,079	3.4	640	104.9
Government/Organizations	9,973	2.6	13,618	3.5	-3,645	73.2
Educational/Health Care Services	4,192	1.1	2,713	0.7	1,479	154.5
Classified Ads/Other	21,821	5.8	23,860	6.2	-2,039	91.5
Total	¥378,804	100.0%	¥384,849	100.0%	-6,046	98.4%

Group Companies in the Advertising Business

The ADK group's advertising companies had mixed results. Kyowa Kikaku Ltd., a group company specializing in medical advertising, held various seminars and conventions for medical practitioners, but this could not offset the decrease in gross billings of media buying, and the business therefore experienced lower gross billings and operating income. A creative production company, ADK Arts Inc., raised gross billings and operating income, and one of our Thai subsidiaries reported improved profitability. Overall, the group's consolidated subsidiaries reported improved results for the year under review.

Non-Advertising

ADK has two consolidated subsidiaries in the publications industry. The smaller subsidiary, Neo Shobo Inc., completed its contract for the publication of periodicals to credit card members and thus suffered a significant decline in sales. As the industry has been experiencing sluggish growth due to growing consumer preference for the internet and mobile media, the general publication subsidiary, Nihonbungeisha, Ltd., has continued to suffer. As a result, the group's non-advertising category generated gross billings of ¥9,184 million, registering a 2.3% year-on-year decline, and operating income of ¥36 million compared with an operating loss of ¥222 million in fiscal 2005.

Millions of yen

	2006	2005
Gross billings	¥9,184	¥9,404
Operating income	36	-222

Balance Sheets and Cash Flow

Total Assets

Although the ADK group did not make any large capital expenditures during the year, it continued its efficient capital management program focus. At the end of fiscal 2006, consolidated total assets stood at ¥256,754 million, up ¥9,887 million from a year earlier.

Current assets rose ¥1,373 million to ¥138,883 million, primarily due to a ¥2,226 million increase in marketable securities. Investments and other assets increased by ¥8,675 million to ¥114,003 million, mainly due to a ¥8,298 million rise in investment securities, stemming primarily from increases in the stock prices of already-held securities.

Total Liabilities and Total Net Assets

Total liabilities at the fiscal year-end amounted to ¥115,367 million, up ¥4,248 million. Current liabilities were up ¥1,907 million, to ¥96,227 million principally due to small gross billings. Long-term liabilities rose ¥2,341 million to ¥19,140 million, mainly stemming from an increase in deferred tax liabilities, reflecting a larger unrealized gain on available-for-sale securities. Total net assets, including minority interests, increased ¥5,639 million to ¥141,387 million.

Cash Flow

At the end of fiscal 2006, cash and cash equivalents stood at ¥21,932 million, down ¥6 million from a year earlier.

Net cash provided by operating activities amounted to ¥7,507 million, up from ¥189 million in fiscal 2005. Income before income taxes and minority interests totaled ¥9,682 million, whereas depreciation totaled ¥1,205 million. The group reported a ¥2,893 million decrease in notes and accounts receivable, a ¥1,963 million decrease in notes and accounts payable, a ¥280 million increase in work in progress (billable production orders in process) and ¥1,852 million in income taxes paid. Net cash from operating activities was used for investing and financing to increase shareholder value.

Net cash used in investing activities totaled ¥3,191 million, compared with ¥5,202 million the previous year. Major components included ¥6,134 million in proceeds from sales of securities and ¥7,503 million in purchases of securities.

Net cash used in financing activities was ¥5,300 million, a large increase from ¥3,128 million in fiscal 2005, mainly due to larger returns to shareholders, such as ¥1,721 million in dividends paid and ¥3,283 million in purchases of treasury stock–net.

Capital Expenditures and Depreciation

Millions of yen

	2006		2005	
	Capital Expenditures	Depreciation	Capital Expenditures	Depreciation
Buildings	¥ 54	¥ 155	¥ 42	¥ 165
Structures	0	4	0	4
Vehicles	30	25	28	22
Equipment and fixtures	106	182	119	201
Land	0	0	0	0
Licenses	0	52	0	0
Computer software	399	783	337	780
Other	3	4	0	74
Total	¥ 592	¥1,205	¥ 526	¥1,246

Cash Flow

Millions of yen

	2006	2005
Net cash provided by operating activities	¥7,507	¥ 189
Business reinvestment*	-586	-492
Free cash flow	¥6,921	¥-302

* Business reinvestment = purchase of property and equipment + purchase of intangible assets – sales of property and equipment

Outlook for Fiscal 2007

We expect the Japanese economy to continue posting slow, but continuous, growth over the long term. Given today's increasingly demanding business conditions, the advertising market environment will remain a challenging one.

Facing this difficult environment, ADK has set the following consolidated forecasts for fiscal 2007: ¥436,700 million in gross billings, ¥7,700 million in operating income and ¥6,130 million in net income. On a non-consolidated basis, the forecasts are ¥391,000 million in gross billings, ¥6,800 million in operating income and ¥5,300 million in net income.

Forward-Looking Statements and Risk Factors

Forward-Looking Statements

This report may contain forward-looking statements based on ADK management's views and assumptions of future developments as of the date of such statement. The foregoing statements herein are inherently subject to risks, including but not limited to those shown below, as well as uncertainties that could lead to material differences between such statements and actual outcomes. Therefore, ADK does not warrant any certainty and accuracy thereto. ADK also expressly disclaims any obligation to update or revise its forward-looking statements.

Domestic Economy

During fiscal 2006, 97.8% of group billings were generated from the advertising market. The group generates 94.3% of its gross billings from the Japanese domestic market. Japanese national advertising spending is closely correlated with the nominal GDP. In the event that the domestic economy deteriorates seriously, the ADK group's performance and financial conditions could be negatively affected.

Changes in the Advertising Market

The ADK group intends to continue selling 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 advertisers' budgets (by name and/or industry), media inventory costs and advertising methods–could significantly affect 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. Under this approach, we do not see traditional and new media cannibalizing each other. Rather, they enhance each other. In addition, the group has been accelerating its efforts to enhance its functionalities to lead the digital advertising market, including the Internet, by setting up an ADK interactive division and joint ventures with some leading companies in these markets. However, if ADK fails to adapt to changes in the advertising media, its performance and financial condition could be adversely affected.

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 and rapidly growing entrants in the Internet advertising market, is accelerating 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 a significant risk that its market share could decline and profitability could deteriorate. This would have a serious impact on its performance and financial conditions.

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 position could be adversely affected.

The ADK group has a diversified portfolio of first-tier clients. The parent company's largest 10 and 20 clients' accounted for 22.5% and 33.5%, respectively, of total unconsolidated gross billings for fiscal 2006, and compared to competitors, 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. Sometimes a purchase is made through another agency. Therefore, even if a client and/or such another agency defaults, the advertising company is still liable for the media and/or materials to a media owner and/or a subcontracting production company.

Advertising companies in Japan do not always have documented contracts with media and clients so as to maximize their adaptability to sudden changes. However, ADK works to ensure 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 generated 70.2% of its gross billings by handling the four major mass media, as well as the rapidly growing internet and digital advertising sectors and OOH media during fiscal 2006, ADK continues to secure advertising time and/or space of these traditional and new media, 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, there is a significant possibility that the ADK group's performance and financial position could be adversely affected if it does not respond to these changes appropriately,

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 content 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.

In Japanese advertising markets, an advertising agency is usually required to absorb the credit and functionality risks of many small and specialty subcontractors without shifting them to the advertisers. Besides, sometimes an agency needs to help finance such subcontractors by advance payments. In an international business, a partial advance payment is commonly required. When a subcontractor cannot fulfill an order from an advertiser or maintain its business as a going concern, an agency is likely to suffer a loss.

Content Business

ADK continues to develop new content under existing and new business models. However, there is no guarantee of the continued success of the content or of derivative and/or resale income from it. 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 differences in culture and society, a variety of problems may arise. In addition, both country risk and currency risk are inherent in conducting international business. In the event that the ADK group is unable to expand its overseas operations as planned, its performance and financial condition could be significantly affected.

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 2.52% equity stake in WPP (as of December 31, 2006). 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 has 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 its influence on WPP Group operations is limited, in the event that the ADK 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 the ADK group's performance and financial conditions in the future.

In addition, although the yen-translated market value of the equity stake in WPP is ¥50,493 million as of December 31, 2006, compared with the book value of ¥22,262 million (under the lower-of-cost-or-market method), in the event of a major deterioration in the Group's stock price there is a possibility that ADK would have to account for valuation losses on this holding.

Staff

Advertising is a people business and talent is a critical asset in the advertising industry. 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 and the equity method value of Digital Advertising Consortium, Inc., or "DAC") totaled ¥102,019 million, representing 39.7% of ¥256,754 million in total assets as of December 31, 2006. Of this amount, ¥82,460 million is publicly traded equity securities, mostly for cross-shareholdings in advertising clients and other trading partners (excluding our investments in a 26.7% stake of DAC, which is accounted for by the equity method at ¥2,162 million). The balance of unrealized gains on available-for-sale securities is ¥26,676 million after deducting deferred tax liabilities on such gains. However, in the event of a major decline in the market prices of these holdings, we 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 (one of the staff costs) through a smaller Projected Benefit Obligation and less risky pension asset investment strategies.

In the event of a 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 members of the Japan Advertising Industry Welfare Pension Fund. Because the ADK group cannot technically and 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 periodic benefit costs applicable for the fund. 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.

The fund's total pension assets and liabilities as of March 31, 2006, were ¥73,345 million and ¥60,171 million, respectively, and therefore the difference was positive to the tune of ¥13,174 million. The discount rates for liabilities were mainly 5.5%. The aforementioned liabilities are calculated under the assumption that the fund had a reserve of ¥26,535 million, or ¥14,168 million larger than the case where re-calculation was conducted as stated under the welfare pension laws because the fund will recalculate the necessary cash contributions in March 2007. Therefore, pension liabilities as of March 2007 would be affected by the re-calculation.

The ADK group's cash contribution share by both employers and employees made during the year through March 2006 were 9.18% and 5.64%, respectively, making the total 14.82%. Applying simply the shares to the aforementioned total fund assets, the group's prorated shares of assets as of March 31, 2006, were ¥10,869 million in total. Out of this amount, the employers' portion and employees' portion were ¥6,733 million and ¥4,136 million, respectively. Likewise, the group's prorated shares of pension liabilities were ¥8,917 million in total. Out of this amount, the employers' portion and employees' portion were ¥5,523 million and ¥3,393 million, respectively.

Legal Risks

The ADK group'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 subcontractors 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 of new laws or regulations being introduced, or existing laws or regulations being reinterpreted, the result could also affect the ADK group's performance.

Contingent Litigation Risks

As of the date of the statements, the ADK group has not been involved or exposed to any lawsuit or dispute that could place a significantly negative influence on the group's performance and financial position. However, there is no guarantee that the group would not be involved or exposed to such a lawsuit or dispute in the future.

Financial Statements

Consolidated Balance Sheets

ASATSU-DK INC. and Consolidated Subsidiaries
Years Ended December 31, 2006 and 2005

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
ASSETS	2006	2005	2006
CURRENT ASSETS:			
Cash and time deposits	¥ 22,145	¥ 21,334	$ 185,921
Marketable securities (Note 3)	5,213	2,987	43,766
Notes and accounts receivable:			
Trade	100,907	103,078	847,175
Allowance for doubtful receivables	(759)	(683)	(6,372)
Inventories	7,979	7,575	66,988
Deferred tax assets (Note 7)	575	629	4,827
Other current assets	2,823	2,590	23,701
Total current assets	138,883	137,510	1,166,006
PROPERTY AND EQUIPMENT:			
Land	1,310	1,310	10,998
Buildings and leasehold improvements	4,020	3,985	33,750
Other	1,940	1,876	16,288
Total	7,270	7,171	61,036
Accumulated depreciation	(3,402)	(3,142)	(28,562)
Net property and equipment	3,868	4,029	32,474
INVESTMENTS AND OTHER ASSETS:			
Investment securities (Note 3)	95,023	86,725	797,775
Investments in unconsolidated subsidiaries and affiliated companies	7,209	6,722	60,524
Deferred tax assets (Note 7)	459	464	3,854
Other assets	11,312	11,417	94,971
Total investments and other assets	114,003	105,328	957,124
TOTAL	¥256,754	¥246,867	$2,155,604

See notes to consolidated financial statements.

LIABILITIES AND NET ASSETS	Millions of Yen 2006	2005	Thousands of U.S. Dollars (Note 1) 2006
CURRENT LIABILITIES:			
Short-term debt (Note 4)	¥ 344	¥ 573	$ 2,888
Current portion of long-term debt (Note 4)	549	49	4,609
Notes and accounts payable—trade	84,448	85,615	708,992
Income taxes payable (Note 7)	2,771	1,003	23,264
Accrued bonuses to employees	289	453	2,426
Allowance for sales returns	770	750	6,465
Deferred tax liabilities (Note 7)	8	56	67
Other current liabilities	7,048	5,821	59,172
Total current liabilities	96,227	94,320	807,883
LONG-TERM LIABILITIES:			
Long-term debt (Note 4)	108	658	907
Accrued retirement benefits (Note 5)	1,694	2,801	14,222
Allowance for retirement benefits to directors and corporate auditors	681	635	5,717
Provision for loss on guarantees	246		2,065
Deferred tax liabilities (Note 7)	16,263	12,477	136,538
Other long term liabilities	148	228	1,243
Total long-term liabilities	19,140	16,799	160,692
CONTINGENT LIABILITIES (Note 10)			
NET ASSETS (Note 6):			
Shareholders' equity			
Common stock			
Authorized: 206,000,000 shares in 2006 and 2005; Issued: 51,655,400 shares in 2006 and 2005	37,581	37,581	315,515
Capital surplus	40,607	40,607	340,920
Retained earnings	47,671	44,191	400,227
Treasury stock—at cost	(12,973)	(9,690)	(108,916)
Total shareholders' equity—net	112,886	112,689	947,746
Valuation and translation adjustments			
Unrealized gain on available-for-sale securities	26,676	21,784	223,961
Deferred gain on derivatives under hedge accounting	1	–	8
Foreign currency translation adjustments	775	278	6,507
Total valuation and translation adjustments	27,452	22,062	230,476
Minority interests	1,049	997	8,807
Total net assets	141,387	135,748	1,187,029
TOTAL	¥256,754	¥246,867	$2,155,604

See notes to consolidated financial statements.

Consolidated Statements of Income

ASATSU-DK INC. and Consolidated Subsidiaries
Years Ended December 31, 2006 and 2005

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2006	2005	2006
GROSS BILLINGS (Note 12)	¥420,059	¥424,705	$3,526,648
COST OF SALES (Note 12)	371,374	376,931	3,117,908
Gross profit	48,685	47,774	408,740
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES (Notes 8 and 12)	42,293	40,286	355,075
Operating income	6,392	7,488	53,665
OTHER INCOME (EXPENSES):			
Interest and dividend income—net	1,764	1,517	14,810
Gain on sales of securities	1,844	1,224	15,481
Loss on sales of securities	(31)	(50)	(260)
Loss on valuation of securities	(384)	(196)	(3,224)
Amortization of negative goodwill	7	165	59
Equity in earnings of affiliated companies—net	240	124	2,015
Retirement benefits paid to directors and corporate auditors	(117)	(72)	(982)
Additional retirement benefits paid to employees	(65)	(64)	(546)
Provision for loss on guarantees	(246)	–	(2,066)
Expenses for 50th anniversary	(134)	–	(1,125)
Other—net	412	892	3,459
Other income—net	3,290	3,540	27,621
INCOME BEFORE INCOME TAXES AND MINORITY INTERESTS	9,682	11,028	81,286
INCOME TAXES:			
Current	4,045	2,957	33,960
Deferred	511	2,068	4,290
MINORITY INTERESTS IN NET INCOME	56	57	470
NET INCOME	¥ 5,070	¥ 5,946	$ 42,566

	Yen		U.S. Dollars (Note 1)
	2006	2005	2006
PER SHARE OF COMMON STOCK:			
Net income	¥ 106.62	¥ 122.11	$ 0.90
Net assets	2,979.79	2,809.30	25.02
Cash dividend applicable to the year	27.00	36.00	0.23

See notes to consolidated financial statements.

Consolidated Statements of Changes in Net Assets (1)

ASATSU-DK INC. and Consolidated Subsidiaries
Year Ended December 31, 2006

Year Ended December 31, 2006

Millions of Yen

	Shareholders' equity				
	Common stock	Capital surplus	Retained earnings	Treasury stock-at cost	Total shareholders' equity
Balance as of December 31, 2005	¥37,581	¥40,607	¥44,191	¥ (9,690)	¥112,689
Change during the consolidated fiscal year					
Dividend payments			(1,721)		(1,721)
Net income			5,070		5,070
Bonuses to directors and corporate auditors			(38)		(38)
Increase due to new consolidated subsidiaries			163		163
Acquisitions of treasury stock				(3,283)	(3,283)
Disposal of treasury stock		0		0	0
Increase due to change in accounting standards of foreign subsidiaries			6		6
(Net) changes of items other than shareholders' equity					
Total change during the consolidated fiscal year	–	0	3,480	(3,283)	197
Balance as of December 31, 2006	¥37,581	¥40,607	¥47,671	¥(12,973)	¥112,886

Millions of Yen

	Valuation and translation adjustments					
	Unrealized gain on available-for-sale securities	Deferred gain on derivatives under hedge accounting	Foreign currency translation adjustments	Total valuation and translation adjustments	Minority interests	Total net assets
Balance as of December 31, 2005	¥21,784	–	¥278	¥22,062	¥ 997	¥135,748
Change during the consolidated fiscal year						
Dividend payments						(1,721)
Net income						5,070
Bonuses to directors and corporate auditors						38
Increase due to new consolidated subsidiaries						163
Acquisitions of treasury stock						(3,283)
Disposal of treasury stock						0
Increase due to change in accounting standards of foreign subsidiaries						6
(Net) changes of items other than shareholders' equity	4,892	1	497	5,390	52	5,442
Total change during the consolidated fiscal year	4,892	1	497	5,390	52	5,639
Balance as of December 31, 2006	¥26,676	¥1	¥775	¥27,452	¥1,049	¥141,387

Consolidated Statements of Changes in Net Assets (2)

ASATSU-DK INC. and Consolidated Subsidiaries
Year Ended December 31, 2005

Millions of Yen

Year Ended December 31, 2005

	Shareholders' equity				
	Common stock	Capital surplus	Retained earnings	Treasury stock-at cost	Total shareholders' equity
Balance as of December 31, 2004	¥37,581	¥40,607	¥39,336	¥ (7,810)	¥109,714
Change during the consolidated fiscal year					
Dividend payments			(1,017)		(1,017)
Net income			5,946		5,946
Bonuses to directors and corporate auditors			(94)		(94)
Increase due to new consolidated subsidiaries			20		20
Acquisitions of treasury stock				(1,880)	(1,880)
Disposal of treasury stock		0		0	0
(Net) changes of items other than shareholders' equity					
Total change during the consolidated fiscal year	–	0	4,855	(1,880)	2,975
Balance as of December 31, 2005	¥37,581	¥40,607	¥44,191	¥(9,690)	¥112,689

Millions of Yen

	Valuation and translation adjustments				Minority interests	Total net assets
	Unrealized gain on available-for-sale securities	Deferred gain on derivatives under hedge accounting	Foreign currency translation adjustments	Total valuation and translation adjustments		
Balance as of December 31, 2004	¥14,078	–	¥102	¥14,180	¥1,209	¥125,103
Change during the consolidated fiscal year						
Dividend payments						(1,017)
Net income						5,946
Bonuses to directors and corporate auditors						(94)
Increase due to new consolidated subsidiaries						20
Acquisitions of treasury stock						(1,880)
Disposal of treasury stock						0
(Net) changes of items other than shareholders' equity	7,706	–	176	7,882	(212)	7,670
Total change during the consolidated fiscal year	7,706	–	176	7,882	(212)	10,645
Balance as of December 31, 2005	¥21,784	–	¥278	¥22,062	¥ 997	¥135,748

Consolidated Statements of Changes in Net Assets (3)

ASATSU-DK INC. and Consolidated Subsidiaries
Year Ended December 31, 2006

Thousands of U.S. Dollars (Note 1)

Year Ended December 31, 2006

	Shareholders' equity				
	Common stock	Capital surplus	Retained earnings	Treasury stock-at cost	Total shareholders' equity
Balance as of December 31, 2005	$315,515	$340,920	$371,010	$ (81,353)	$946,092
Change during the consolidated fiscal year					
Dividend payments			(14,449)		(14,449)
Net income			42,566		42,566
Bonuses to directors and corporate auditors			(319)		(319)
Increase due to new consolidated subsidiaries			1,369		1,369
Acquisitions of treasury stock				(27,563)	(27,563)
Disposal of treasury stock		0		0	0
Increase due to change in accounting standards of foreign subsidiaries			50		50
(Net) changes of items other than shareholders' equity					
Total change during the consolidated fiscal year	–	0	29,217	(27,563)	1,654
Balance as of December 31, 2006	$315,515	$340,920	$400,227	$(108,916)	$947,746

Thousands of U.S. Dollars (Note 1)

	Valuation and translation adjustments					
	Unrealized gain on available-for-sale securities	Deferred gain on derivatives under hedge accounting	Foreign currency translation adjustments	Total valuation and translation adjustments	Minority interests	Total net assets
Balance as of December 31, 2005	$182,890	–	$2,334	$185,224	$8,370	$1,139,686
Change during the consolidated fiscal year						
Dividend payments						(14,449)
Net income						42,566
Bonuses to directors and corporate auditors						(319)
Increase due to new consolidated subsidiaries						1,369
Acquisitions of treasury stock						(27,563)
Disposal of treasury stock						0
Increase due to change in accounting standards of foreign subsidiaries						50
(Net) changes of items other than shareholders' equity	41,071	8	4,173	45,252	437	45,689
Total change during the consolidated fiscal year	41,071	8	4,173	45,252	437	47,343
Balance as of December 31, 2006	$223,961	$8	$6,507	$230,476	$8,807	$1,187,029

Consolidated Statements of Cash Flows

ASATSU-DK INC. and Consolidated Subsidiaries
Years Ended December 31, 2006 and 2005

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2006	2005	2006
OPERATING ACTIVITIES:			
Income before income taxes and minority interests	¥ 9,682	¥11,028	$ 81,286
Adjustments for:			
Income taxes—paid	(1,852)	(4,372)	(15,549)
Depreciation and amortization	1,205	1,246	10,117
Equity in earnings of affiliated companies	(240)	(124)	(2,015)
Gain on sales of securities	(1,844)	(1,224)	(15,481)
Loss on sales of securities	31	50	260
Loss on valuation of securities	384	196	3,224
Changes in assets and liabilities:			
Decrease in notes and accounts receivable	2,893	3,070	24,289
Increase in work in progress	(280)	(447)	(2,351)
Decrease in notes and accounts payable	(1,963)	(5,125)	(16,481)
Others—net	(509)	(4,109)	(4,273)
Total adjustments	(2,175)	(10,839)	(18,260)
Net cash provided by operating activities	7,507	189	63,026
INVESTING ACTIVITIES:			
Increase in time deposits—net	(1,377)	(500)	(11,561)
Proceeds from sales of securities	6,134	6,218	51,499
Purchases of securities	(7,503)	(9,713)	(62,992)
Proceeds from sales of property and equipment	5	34	42
Purchases of property and equipment	(190)	(189)	(1,595)
Purchases of intangible assets	(401)	(337)	(3,367)
Other investing activities	141	(715)	1,184
Net cash used in investing activities	(3,191)	(5,202)	(26,790)
FINANCING ACTIVITIES:			
(Decrease) increase in short-term debt—net	(230)	157	(1,931)
Repayment of long-term debt	(49)	(388)	(411)
Purchases of treasury stock—net	(3,283)	(1,880)	(27,563)
Dividends paid	(1,721)	(1,017)	(14,449)
Other financing activities	(17)	0	(143)
Net cash used in financing activities	(5,300)	(3,128)	(44,497)
FOREIGN CURRENCY TRANSLATION ADJUSTMENTS ON CASH AND CASH EQUIVALENTS	561	281	4,710
NET DECREASE IN CASH AND CASH EQUIVALENTS	(423)	(7,860)	(3,551)
CASH AND CASH EQUIVALENTS, BEGINNING OF THE YEAR	21,938	29,778	184,183
CASH AND CASH EQUIVALENTS OF NEWLY CONSOLIDATED SUBSIDIARIES, BEGINNING OF THE YEAR	417	20	3,500
CASH AND CASH EQUIVALENTS, END OF THE YEAR	¥21,932	¥21,938	$184,132

See notes to consolidated financial statements.

Notes to Consolidated Financial Statements

ASATSU-DK INC. and Consolidated Subsidiaries
Years Ended December 31, 2006 and 2005

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 which is 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 ¥119.11 to U.S.$1.00 the approximate rate of exchange on December 31, 2006. 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 2005 financial statements to conform to the presentation for 2006.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Consolidation—The consolidated financial statements include the accounts of the Company and its significant 20 (18 in 2005) 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.

19 subsidiaries use a fiscal year ended December 31, so does the Company. One subsidiary uses a fiscal year ended 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 2005) insignificant unconsolidated subsidiary, and 4 (4 in 2005) affiliated companie (of which 20% to 50% interest is owned by the Company) are accounted for by the equity method. Investments in the remaining 28 (28 in 2005) unconsolidated subsidiaries and 20 (20 in 2005) affiliated companies are stated at cost. If these companies are fully consolidated, or 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.

Goodwill is 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 for the short-term, all of which mature or become due within three months of the date of acquisition.

The balances of cash and cash equivalents as of December 31, 2006 and 2005 are reconciled to the balance sheets as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2006	2005	2006
Balance sheet:			
Cash and time deposits	¥22,145	¥21,334	$185,921
Securities	5,213	2,987	43,766
Total	27,358	24,321	229,687
Less:			
Time deposits over three months	3,041	1,998	25,531
Securities not applicable to cash equivalents (securities other than money management funds, etc.)	2,385	385	20,024
Cash and cash equivalents	¥21,932	¥21,938	$184,132

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, designing and producing 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 reflected to earnings of the period of such gain or loss, 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, being reported in a separate component of net assets.

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 a 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. Provision for Loss on Guarantees—The Group sets aside a reserve of losses on guarantees for liabilities owed by non-consolidated subsidiaries, affiliated companies or business associates. The amount of such provision reflects estimated potential losses based on such factors as the financial condition of the parties whose liabilities are guaranteed.

g. 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 service 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.

The Company and some of its domestic subsidiaries are members of the Japan Advertising Industry Pension Fund. Because the 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 periodic benefit costs applicable for the fund but not pension assets and liabilities.

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

i. 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.

j. Software and R&D Costs—Research-and-development costs are charged to income as incurred. Capitalized software for internal use amounting to ¥1,410 million ($11,838 thousand) in 2006 and ¥1,791 million in 2005, respectively, included in "Other assets" of investments and other assets, was amortized by the straight-line method based on their estimated useful lives (five years).

k. Income Taxes—The provision for income taxes is computed based on the pretax income or loss reported 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. The Group measures deferred taxes by applying enacted tax laws to the temporary differences, which will be in effect when the differences are expected to reverse.

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

m. 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 in the cases where they are not hedged by foreign exchange derivatives or a hedging transaction does not qualify for specific hedge accounting.

n. 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.

o. 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 such 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.

p. 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 47,557,502 shares for the fiscal year ended December 31, 2006 and 48,391,630 shares for the fiscal year ended December 31, 2005.

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

q. Accounting Standard for Presentation of Net Assets in the Balance Sheet—Effective from the year ended December 31, 2006, the Company has applied "Accounting standards for presentation of net assets in the balance sheet (Accounting Standards Board of Japan Statement No. 5)," and "Implementation guidance for Accounting standards for presentation of net assets in the balance sheet (Accounting Standards of Japan Guidance No.8)," both issued by the Accounting Standards Board of Japan on December 9, 2005.

"Net assets" in the balance sheets is presented according to the revision of "Regulations concerning the Terminology, Form and Presentation Methods of Consolidated Financial Statements" dated April 25, 2006.

3. MARKETABLE AND INVESTMENT SECURITIES

The carrying amount and aggregate fair value of the securities classified as available-for-sale as of December 31, 2006 and 2005 were as follows:

Millions of Yen

2006	Cost	Unrealized gains	Unrealized losses	Fair value
Available-for-sale:				
Equity securities	¥38,295	¥45,503	¥1,338	¥82,460
Debt securities	13,221	230	507	12,944
Other	654	7	0	661
Total	¥52,170	¥45,740	¥1,845	¥96,065

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

2006	Cost	Unrealized gains	Unrealized losses	Fair value
				Thousands of U.S. Dollars
Available-for-sale:				
Equity securities	$321,509	$382,025	$11,233	$692,301
Debt securities	110,998	1,931	4,257	108,672
Other	5,491	59	–	5,550
Total	$437,998	$384,015	$15,490	$806,523

Available-for-sale securities whose fair values are not readily determinable as of December 31, 2006 and 2005 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
Carrying amount	2006	2005	2006
Available-for-sale:			
Non-listed equity securities	¥1,535	¥1,379	$12,887
Money management funds	2,068	2,078	17,362
Free financial funds	71	71	596
Other	497	762	4,173
Total	¥4,171	¥4,290	$35,018

Total sales of available-for-sale securities sold in the years ended December 31, 2006 and 2005 amounted to ¥6,400 million ($53,732 thousand) and ¥6,329 million, respectively, and the related gains amounted to ¥1,844 million ($15,481 thousand) and ¥1,220 million, and the related losses amounted to ¥15 million ($126 thousand) and ¥50 million, respectively.

The redemption schedule for available-for sale securities with maturities as of December 31, 2006 and 2005 is as follows (Note: If a security with a derivative instrument is to be redeemed earlier than the contracted maximum maturity date under a certain condition, regardless of such condition, the maximum maturity date is reflected to the schedule.):

2006	Due within one year	1 to 5 years	5 to 10 years	Over 10 years
				Millions of Yen
Debt securities	¥2,317	¥ 7,472	¥812	¥2,341
Other	16	–	–	–
Total	¥2,333	¥ 7,472	¥812	¥2,341

2005	Due within one year	1 to 5 years	5 to 10 years	Over 10 years
				Millions of Yen
Debt securities	¥382	¥8,068	¥997	¥2,789
Other	410	25	–	–
Total	¥792	¥8,093	¥997	¥2,789

2006	Due within one year	1 to 5 years	5 to 10 years	Over 10 years
				Thousands of U.S. Dollars
Debt securities	$19,453	$62,732	$6,817	$19,654
Other	134	–	–	–
Total	$19,587	$62,732	$6,817	$19,654

4. SHORT-TERM AND LONG-TERM DEBT

The weighted average annual interest rates applicable to short-term debt were 1.81% and 1.38% as of December 31, 2006 and 2005, respectively.

Long-term debt as of December 31, 2006 and 2005 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2006	2005	2006
0.58% bonds due on October 10, 2007	¥ 500	¥500	$4,198
Secured loans due through 2009 with weighted average interest rates of 2.39% in 2006 and 2.48% in 2005	157	207	1,318
Amount due within one year	(549)	(49)	(4,609)
Total	¥ 108	¥658	$ 907

Repayment schedule of long-term debt as of December 31, 2006, was as follows:

Year Ending December 31	Millions of Yen	Thousands of U.S. Dollars
2007	¥549	$4,609
2008	48	403
2009	60	504
Total	¥657	$5,516

The carrying amounts of assets pledged as collateral for short-term debt of ¥240 million ($2,015 thousand), current portion of long-term debt of ¥49 million ($411 thousand) and long-term debt of ¥108 million ($907 thousand) as of December 31, 2006, were as follows:

	Millions of Yen	Thousands of U.S. Dollars
Time deposits	¥123	$1,033
Land, property and equipment—net of accumulated depreciation	511	4,290
Investment securities	211	1,771
Total	¥845	$7,094

5. RETIREMENT BENEFITS AND PENSION PLANS

The Company and certain of its consolidated subsidiaries provide two types of post-employment benefit plans, namely defined contribution pension plans and defined benefit pension plans. The latter consists 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 service and certain other factors.

The liability for employees' retirement benefits and pension plans as of December 31, 2006 and 2005 comprised the following:

	Millions of Yen		Thousands of U.S. Dollars
	2006	2005	2006
Projected benefit obligations	¥10,609	¥10,794	$89,069
Fair value of plan assets	(8,267)	(6,802)	(69,407)
Unrecognized actuarial differences	(648)	(1,191)	(5,440)
Net liability for retirement benefits	¥ 1,694	¥ 2,801	$14,222

The components of net periodic benefit costs for the years ended December 31, 2006 and 2005, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2006	2005	2006
Service cost	¥ 715	¥ 642	$ 6,003
Interest cost	198	190	1,662
Expected return on plan assets	(101)	(59)	(848)
Amortization of actuarial differences	135	149	1,133
Contributions paid during the period, etc.*	909	898	7,632
Net periodic benefits costs	¥ 1,856	¥ 1,820	$15,582

The discount rate used by the Group was 2.0% as of the years ended December 31, 2006 and 2005. The rate of expected return on plan assets used by the Group was 1.5% for the years ended December 31, 2006 and 2005. 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.

*Remarks: For plans provided by the Japan Advertising Industry Pension Fund, the Group cannot technically or reasonably allocate pension assets and liabilities to the Group's account. Therefore, the Group recognizes its annual cash contribution to this fund as its periodic benefits costs, but not pension assets and liabilities as stated above.

The above-stated contributions paid during the period, etc., include the Group's cash contribution for the period to the Japan Advertising Industry Pension Fund.

The information of total pension assets and liabilities of the Japan Advertising Industry Pension Fund, the Group's share of the contribution to the fund, and the products of pension assets or liabilities and the Group's share of the contribution to the fund are as follows (Note: As stated above, the Group cannot technically or reasonably allocate pension assets and liabilities to the Group's account. The product calculation is simply for information purposes only.) :

a. Total pension assets and liabilities of the fund (as of March 31, 2006)

	Millions of Yen	Thousands of U.S. Dollars
Pension liabilities	¥(60,171)	$(505,171)
Pension assets	73,345	615,775
Net assets	¥ 13,174	$ 110,604

The rate of expected return on plan assets used by the fund was 5.5%.

b. The Group's share of the contribution to the fund (from April 1, 2005 to March 31, 2006)

Share of the Group as employers	9.18%
Share of employees	5.64%
Total	14.82%

c. Products of pension assets or liabilities and the Group's share of the contribution to the fund (as of March 31, 2006)

Millions of Yen

	Share of the Group as employer	Share of employees
Pension liabilities	¥(5,524)	¥(3,393)
Pension assets	6,733	4,136
Net assets	¥ 1,209	¥ 743

Thousands of U.S. Dollars

	Share of the Group as employer	Share of employees
Pension liabilities	$(46,377)	$(28,486)
Pension assets	56,527	34,724
Net assets	$ 10,150	$ 6,238

d. Supplemental information

The fund's net pension asset amount of ¥13,174 million stated in "a" consisted of prior service liabilities of ¥7,966 million ($66,879 thousand) and an earnings surplus of ¥21,140 million ($177,483 thousand), under the fund's accounting treatment, where a recalculation of contribution in accordance with the revised Employees' Welfare Pension Insurance Law was not exercised. This treatment was adopted because the fund would recalculate contribution amounts upon the end of its fiscal year-end at March 31, 2007 anyway. If a recalculation had been applied as of March 31, 2006, the earning surplus would have been smaller by ¥14,168 million ($118,949 thousand).

Prior service liabilities are amortized over 20 years by the straight-line method at the fund accounting, and the Group expensed an additional contribution of ¥112 million ($940 thousand) during the period from April 1, 2005 to March 31, 2006 for this amortization.

6. NET ASSETS

Net assets consist of shareholders' equity, valuation and translation adjustments, and minority interests. Until fiscal 2005, a different definition was used for the shareholders' equity account. In the balance sheet presentation, for the convenience of readers, Net assets accounts are shown for both fiscal 2005 and 2006 after some reclassifications to the 2005 balances. The differences between shareholders' equity used in the past annual reports and net assets used in this annual report are as follows:

1) Minority interests are included in net assets.
2) Deferred gain or loss on derivatives under hedge accounting is classified to valuation and translation adjustments.

The type and number of shares issued and treasury stock as of December 31, 2006 were as follows:

	Type pf shares issued	Type of treasury stock
	Common stock	Common stock
Number of shares as of December 31, 2005	51,655,400	3,702,551
Number of shares increased during the accounting period ended December 31, 2006	–	855,861
Number of shares decreased during the accounting period ended December 31, 2006	–	(5)
Number of shares as of December 31, 2006	51,655,400	4,558,407

Notes: 1. The increase in the number of treasury stock was due to the purchase of 850,000 shares with the approval of Board of Directors meeting and purchase of 5,861 shares of less-than-one-unit shares.
2. The decrease in the number of treasury stock was due to sales of less-than-one-unit shares.

Information related to dividends was as follows:

(1) Dividends paid during the accounting period ended December 31, 2006

a. Dividend on common stock approved by the ordinary general meeting of shareholders held on March 30, 2006

Total amount of dividend	¥1,246 million
Dividend per share	¥26
Record date	December 31, 2005
Payable date	March 31, 2006

b. Dividend on common stock approved by the Board of Directors meeting held on August 16, 2006

Total amount of dividend	¥474 million
Dividend per share	¥10
Record date	June 30, 2006
Payable date	September 13, 2006

(2) Dividend attributable to the accounting period ended December 31, 2006, but to be paid after the said accounting period
a. Dividend on common stock approved by the Board of Directors meeting held on February 14, 2007

Total amount of dividend	¥800 million
Fund of dividend	Retained earnings
Dividend per share	¥17
Record date	December 31, 2006
Payable date	March 13, 2007

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% for 2006 and 2005, respectively, after reflection of the enterprise tax, in the way that 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, 2006 and 2005 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2006	2005	2006
Deferred tax assets:			
Allowance for doubtful receivables	¥ 462	¥ 597	$ 3,879
Accrued bonuses	47	115	395
Accrued retirement benefits	608	967	5,104
Investment securities	452	487	3,795
Tax loss carry forwards	199	279	1,671
Deferred tax assets in overseas consolidated subsidiaries*	39	36	327
Other	978	999	8,211
	2,785	3,480	23,382
Valuation allowance*	(116)	(177)	(974)
Deferred tax assets	2,669	3,303	22,408
Deferred tax liabilities:			
Marketable securities	17,883	14,661	150,139
Deferred tax liabilities in overseas consolidated subsidiaries*	3	5	25
Other	20	76	168
Deferred tax liabilities	17,906	14,742	150,332
Net deferred tax liabilities	¥15,237	¥11,439	$127,924

*Remarks: 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, 2006 and 2005, in overseas consolidated subsidiaries were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2006	2005	2006
Deferred tax assets:			
Tax loss carry forwards	¥88	¥55	$739
Other	30	43	252
Less valuation allowance*	(79)	(62)	(664)
Deferred tax assets	39	36	327
Deferred tax liabilities—Other	3	5	25
Deferred tax liabilities	3	5	25
Net deferred tax assets	¥36	¥31	$302

*Remarks: Valuation allowances shown above are certain reversals of tax loss carry forwards under the Group's tax planning.

Reconciliation between the normal effective statutory tax rate for the years ended December 31, 2006 and 2005 and the actual effective tax rates reflected in the accompanying consolidated statements of income were as follows:

	2006	2005
Normal effective statutory tax rate	40.69%	40.69%
Certain expenses permanently not deductible for tax purposes	6.16	4.54
Certain income permanently not taxable for tax purposes	(1.04)	(0.78)
Per capita levy	0.15	0.26
Other—net	1.10	0.86
Actual effective tax rate	47.06%	45.57%

8. RESEARCH-AND-DEVELOPMENT COSTS

Research-and-development costs charged to income for the years ended December 31, 2006 and 2005 were ¥841 million ($7,061 thousand) and ¥872 million, respectively.

9. LEASES

The Group leases certain computer equipment, office space, vehicles and other assets.

Pro forma information of leased property such as acquisition cost, accumulated depreciation, obligations under finance leases, depreciation expense and 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, 2006 and 2005, were as follows:

Millions of Yen

Year Ended December 31, 2006	Furniture and equipment	Machinery and vehicles	Software	Total
Acquisition cost	¥2,067	¥28	¥386	¥3,021
Accumulated depreciation	1,527	14	111	1,652
Net leased property	¥1,080	¥14	¥275	¥1,369

Obligations under finance leases:

Millions of Yen

Due within one year	¥ 575
Due after one year	824
Total	¥ 1,399

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, 2006	Furniture and equipment	Machinery and vehicles	Software	Total
Acquisition cost	$21,887	$236	$3,241	$25,364
Accumulated depreciation	12,820	118	932	13,870
Net leased property	$ 9,067	$118	$2,309	$11,494

Obligations under finance leases:

	Thousands of U.S. Dollars
Due within one year	$ 4,827
Due after one year	6,918
Total	$11,745

Lease payments, depreciation expense and interest expense under finance leases:

	Millions of Yen		Thousands of U.S. Dollars
	2006	2005	2006
Total lease payments	¥717	¥825	$6,020
Depreciation expense	688	789	5,776
Interest expense	28	32	235

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
	2006	2005	2006
Due within one year	¥ 9	¥16	$ 76
Due after one year	9	10	76
Total	¥18	¥26	$152

10. CONTINGENT LIABILITIES

As of December 31, 2006, the Group had the following contingent liabilities:

Guarantee obligations:

	Millions of Yen	Thousands of U.S. Dollars
Trade notes discounted	¥ –	$ –
Aggregated amount of guarantees for debts owed by subsidiaries and affiliates and payables by a client, Mindshare Japan	800	6,716
Total	¥800	$6,716

Other contingent liability:

A client filed a lawsuit against one of the Company's consolidated subsidiaries and four other companies and five individuals seeking demands in excess of $12.5 million in connection with the subsidiary's advertising business in September 2005. 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 as of December 31, 2006 and 2005 are summarized as follows:

Millions of Yen

Year Ended December 31, 2006	Notional amounts	Due after one year	Fair value	Unrealized gain (loss)
Currency:				
OTC market				
Foreign exchange forward contracts				
- buying (US$)	¥ 67	¥ –	¥69	¥2
Swaps	1,417	1,417	2	2
Total				¥4
Interest rate:				
OTC market				
Swaps	¥1,000	¥ –	¥ (3)	¥3

Millions of Yen

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

Thousands of U.S. Dollars

Year Ended December 31, 2006	Notional amounts	Due after one year	Fair value	Unrealized gain (loss)
Currency:				
OTC market				
Foreign exchange forward contracts				
- buying (US$)	$ 562	$ –	$579	$17
Swaps	11,897	11,897	17	17
Total				34
Interest rate:				
OTC market				
Swaps	$8,396	$ –	$(25)	$(25)

Derivative transactions accounted for by hedge accounting were excluded.

12. SEGMENT INFORMATION

Information about business segments, geographic segments and billings to foreign customers of the Group for the years ended December 31, 2006 and 2005, was as follows:

(1) Business Segment Information

Business segment information for the year ended December 31, 2006 and 2005 were as follows:

a. Billings and Operating Income

Millions of Yen

2006	Advertising	Non-advertising	Total	Eliminations or Corporate	Consolidated
Billings to customers	¥410,875	¥9,184	¥420,059	¥ –	¥420,059
Inter-segment billings	99	311	410	(410)	–
Total billings	410,974	9,495	420,469	(410)	420,059
Operating expenses	404,605	9,459	414,064	(397)	413,667
Operating income	¥ 6,369	¥ 36	¥ 6,405	¥ (13)	¥ 6,392

Millions of Yen

2005	Advertising	Non-advertising	Total	Eliminations or Corporate	Consolidated
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

b. Assets, Depreciation and Capital Expenditures

Millions of Yen

2006	Advertising	Non-advertising	Total	Eliminations or corporate	Consolidated
Assets	¥246,710	¥10,056	¥256,766	¥(12)	¥256,754
Depreciation	1,165	40	1,205	–	1,205
Capital expenditures	588	4	592	–	592

Millions of Yen

2005	Advertising	Non-advertising	Total	Eliminations or corporate	Consolidated
Assets	¥236,943	¥10,046	¥246,989	¥(122)	¥246,867
Depreciation	1,204	42	1,246	–	1,246
Capital expenditures	505	21	526	–	526

a. Billings and Operating Income

Thousands of U.S. Dollars

2006	Advertising	Non-advertising	Total	Eliminations or corporate	Consolidated
Billings to customers	$3,449,543	$77,105	$3,526,648	$ –	$3,526,648
Inter-segment billings	831	2,611	3,442	(3,442)	–
Total billings	3,450,374	79,716	3,530,090	(3,442)	3,526,648
Operating expenses	3,396,902	79,414	3,476,316	(3,333)	3,472,983
Operating income	$ 53,472	$ 302	$ 53,774	$ (109)	$ 53,665

b. Assets, Depreciation and Capital Expenditures

Thousands of U.S. Dollars

2006	Advertising	Non-advertising	Total	Eliminations or corporate	Consolidated
Assets	$2,071,279	$84,426	$2,155,705	$(101)	$2,155,604
Depreciation	9,781	336	10,117	–	10,117
Capital expenditures	4,936	34	4,970	–	4,970

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, billboard, and digital media. Additional services, such as marketing and branding consultation, design and production of sales promotion programs, and event marketing, are included.

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

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, 2006 and 2005 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, 2006 and 2005 were 5.7% and 5.9%, respectively, or less than 10% of the total consolidated billings in the two periods, such information is not presented.

INDEPENDENT AUDITORS' REPORT

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, 2006 and 2005, and the related consolidated statements of income, changes in net assets 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, 2006 and 2005, 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

Yasumori Audit Corporation
Certified Public Accountants
March 30, 2007

Securities Holdings

Asatsu-DK INC. Consolidated Investments as of December 31, 2006

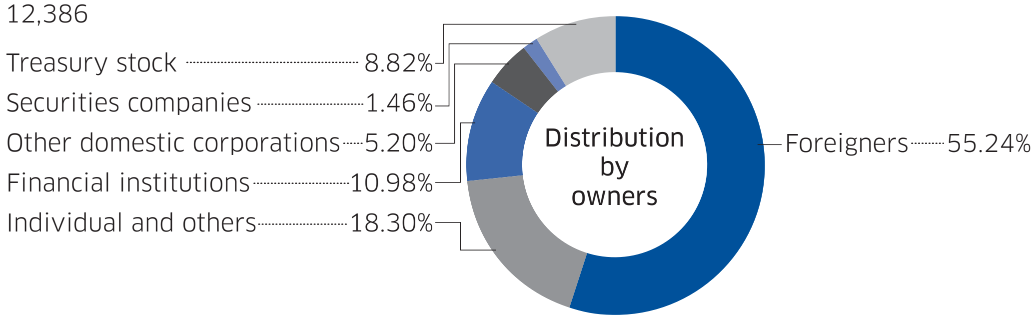
		Millions of Yen 2006	
Current	Money Management Funds	¥ 2,069	
	Free Financial Funds	72	
	Discount Nochu Bank Debentures	–	Face Value
	Bonds	2,317	7 funds
	Mutual Funds in Equities and Bonds and Others	755	8 funds
	Total	¥ 5,213	
Non-Current	WPP Group plc.	¥50,493	2.50% or 31,295,646 stocks
	Digital Advertising Consortium Inc.	2,162	Equity Method
	Other Publicly Traded Equities	31,967	149 issues
	Publicly Traded Equities total	84,622	
	Non-Publicly Traded Equities in Affiliates	4,312	19 issues
	Non-Publicly Traded Equities in Subsidiaries	522	24 issues
	Other Non-Publicly Traded Equities	1,535	78 issues
	Non-Publicly Traded Equities total	6,369	
	Bonds	10,631	38 issues
	Mutual Funds in Equities and Bonds and Others	397	8 issues
	Total Non-current investments in securities	¥102,019	
	Investments in affiliated companies (Non-Securities)	214	6 funds
	Investments in Funds (Non-Securities)	11	3 funds
	Total Non-current investments	¥102,244	

Top Five Equities by Balance Including WPP	Millions of Yen 2006	
WPP Group plc.	¥50,493	31,295,646 shares
Mitsubishi UFJ Financial Group, Inc.	4,405	2,753 shares
Tokyo Broadcasting System, Incorporated	2,708	982,900 shares
Omnicom Group Inc.	2,054	200,040 shares
ASAHI BREWERIES, Ltd.	1,897	891 shares

Investor Information

(As of December 2006)

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	2,975 (consolidated basis) 1,978 (non-consolidated basis)
Common stock	Authorized: 206,000,000 shares Issued: 51,655,400 shares
Number of shareholders	12,386



Percentage of total shares issued

Major shareholders

WPP International Holding B.V.	21.93%
Mellon Bank Treaty Clients Omnibus	5.31%
Northern Trust Co. (AVFC) Sub A/C American Clients	5.17%
Masao Inagaki	3.48%
UBS AG London-IPB Client Account	2.86%
State Street Bank and Trust Company	2.53%
CBNY-Third Avenue International Val. Fund	2.12%
The Master Trust Bank of Japan, Ltd. (trust account)	1.90%
CBNY-UMB Funds	1.78%
The Bank of New York Non-Treaty JASDEC Account	1.76%

Percentage of total shares issued

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

ADK Group Network

DOMESTIC

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… ■ Consolidated subsidiaries
… ❑ Affiliates accounted for by the equity method

ASATSU-DK INC.
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Printed in Japan