ADK Annual Report 2008

Year ended December 31, 2008

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 solid 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 to include planning and production of animation programs for the then still-new medium of television. In 1987, it 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. The company listed on the First Section of the TSE in 1990.

In 1998, it made another major move, signing a reciprocal share agreement and strategic alliance with WPP plc, the world's largest marketing and communications services organization.*

The following year, the company merged with Dai-Ichi Kikaku Co., Ltd., another Top 10 Japanese agency, changed its name to ASATSU-DK INC. (ADK), and entered a period of renewed growth.

Now it is Japan's third largest total communications agency and the 10th largest communications service group in the world.*

(* *Advertising Age,* April 27, 2009)

Contents

Business at a Glance

Consolidated Five-Year Summary

	Millions of Yen					Thousands of U.S. Dollars
	2008	2007	2006	2005	2004	2008
Income Statement Data						
Gross billings	¥399,452	¥435,011	¥420,059	¥424,705	¥413,898	$4,388,135
Gross profit	49,143	51,754	48,685	47,774	49,079	539,855
Selling, general and administrative expenses	45,444	44,619	42,292	40,286	40,819	499,220
Operating income	3,699	7,134	6,392	7,488	8,260	40,635
Income before income taxes and minority interests	3,775	10,122	9,682	11,028	9,440	41,470
Net income	2,125	5,350	5,070	5,946	5,181	23,344
EBITDA*	¥ 4,502	¥ 8,274	¥ 7,590	¥ 8,568	¥ 9,560	$ 49,465

*EBITDA=Operating income + Depreciation/Amortization

Balance Sheet Data	Millions of Yen					Thousands of U.S. Dollars
Total assets	¥191,782	¥246,097	¥256,754	¥246,867	¥238,900	$2,106,799
Total net assets*	101,617	131,846	141,387	134,751	123,894	1,116,302
Total long-term liabilities	2,611	14,354	19,140	16,799	12,183	28,683

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

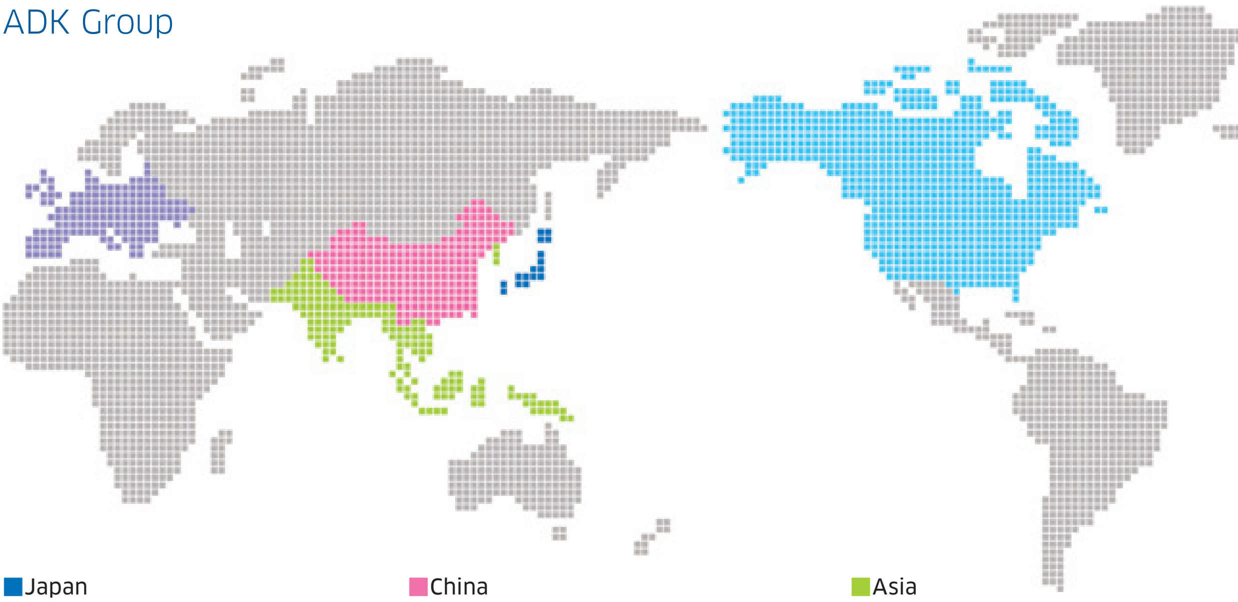
Per Common Share Data (Yen and U.S. Dollars)						
Net income per share (EPS)*	¥ 48.14	¥ 116.40	¥ 106.62	¥ 122.11	¥ 103.25	$ 0.53
Dividend per share	20	42	27	36	20	0.22
Book value per share	2,334.48	2,898.49	2,979.79	2,809.30	2,554.78	25.65
No. of common shares issued	45,155,400	45,155,400	51,655,400	51,655,400	51,655,400	
No. of common shares outstanding	43,088,073	45,091,103	47,096,993	47,952,849	48,458,828	

*The number of common shares is calculated excluding treasury stocks.

Financial Ratios					
AS PERCENT OF GROSS BILLINGS					
Gross profit	12.30%	11.90%	11.59%	11.25%	11.86%
SG&A expenses	11.38	10.26	10.07	9.49	9.86
Operating income	0.93	1.64	1.52	1.76	2.00
Income before income taxes and minority interests	0.94	2.33	2.31	2.60	2.28
Net income	0.53	1.23	1.21	1.40	1.25
AS PERCENT OF GROSS PROFIT					
Operating income	7.5%	13.8%	13.1%	15.7%	16.8%
Staff cost	62.4	57.8	57.8	56.0	55.7
Return on equity	1.8	3.9	3.7	4.6	4.3
Return on assets	1.7	2.8	2.5	3.1	3.5
Equity ratio	52.4	53.1	54.7	54.6	51.9
Current ratio	1.50×	1.48×	1.44×	1.46×	1.45×

Note: For convenience purposes, U.S. dollar amounts are converted from Japanese yen at the rate of ¥91.03=US$1, the approximate rate of exchange as of December 31, 2008.

ADK Group



Japan
- Kyowa Kikaku Ltd.
- ADK International Inc.
- ADK Dialog Inc.
- ADK Arts Inc.
- Boys Inc.
- Digital Advertising Consortium Inc.*
- ◦ Eiken Co., Ltd.
- ◦ Nihon Bungeisha Co., Ltd.
- ◦ Neo Shobo Inc.
- ◦ Nippon Information Industry Corp.*

• Advertising
◦ Other business
*Affiliates accounted for by equity method

China
- Guangdong Guangxu (ASATSU) Advertising Co., Ltd.*
- ASATSU-DK HONGKONG Ltd.
- DK ADVERTISING (HK) Ltd.
- ASATSU Century (Shanghai) Advertising Co., Ltd.
- Shanghai Asatsu Advertising Co., Ltd.

Taiwan
- UNITED-ASATSU INTERNATIONAL Ltd.
- DIK-OCEAN Advertising Co., Ltd.

Asia
- ASATSU-DK SINGAPORE Pte. Ltd.
- ADK Thai Holding Ltd.
- DAI-ICHI KIKAKU (THAILAND) Co., Ltd.
- ASDIK Ltd.
- ASATSU (Thailand) Co., Ltd.

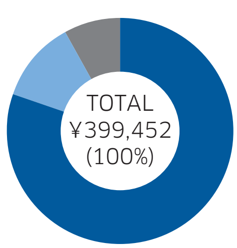
Europe
- Asatsu Europe Holding BV
- Asatsu Europe BV
- Asatsu (Deutschland) GmbH

North America
- ADK America Inc.

Millions of Yen

ADK vs. Consolidated Subsidiaries

(Gross Billings)

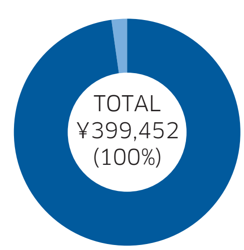


ADK	¥358,595	(85.8%)
Domestic subsidiaries	¥35,555	(8.5%)
Overseas subsidiaries	¥23,921	(5.7%)
(Adjustments)	¥(18,619)	

Millions of Yen

Advertising vs. Other Business

(Gross Billings)



Advertising	¥391,229	(97.9%)
Other Business	¥8,222	(2.1%)

Masao Inagaki
Representative Director, Chairman

Koichiro Naganuma
Representative Director, President & Group CEO

To Our Valued Shareholders

It is our pleasure to report on the ADK Group's performance in fiscal 2008, ended December 31, 2008.

Since our founding in 1956 as an advertising agency called ASATSU INC., we have steadily expanded our operations based on an unwavering commitment to the "Management by All" philosophy. This means every employee in the ADK Group is expected to embrace a management-level perspective and approach client needs proactively.

In 1987, we were first listed on the Second Section of the Tokyo Stock Exchange (TSE). We moved to the TSE's First Section in 1990, becoming the first advertising company to do so. In the same year, we merged with Dai-Ichi Kikaku and changed our name to ASATSU-DK INC. Today, we are the third largest total communications agency in Japan. Our quest is to become a genuine "Future Agency" able to respond flexibly to the changing needs of advertisers and contribute to the business performance of our clients.

In 2008, financial crises in the United States and Europe sparked a deepening worldwide recession. Similarly, the Japanese advertising industry, ADK's main business area, faced extremely difficult challenges caused by a sharp contraction in demand.

In this environment, the ADK Group adopted various measures in an earnest attempt to prevent a decline in performance. Unfortunately, however, we were unable to achieve the results of the previous year.

Although we expect business conditions to remain tough for the foreseeable future, we also see these challenges as an opportunity to solidify our foundation. There are many things we should do in such times in order to make great strides when the economy turns around. These include honing our competitive edge in our core businesses while refining our vision over the long term. We should also rethink how we can contribute to society as a corporation while maintaining a strong financial position.

Guided by our lifelong "Management by All" philosophy, we will band together to overcome these difficult times and resume our growth trajectory to achieve these goals.

We ask for the ongoing support and understanding of our shareholders as we tackle the challenges ahead.

June 2009

Masao Inagaki
Representative Director, Chairman

Masao Inagaki

Koichiro Naganuma
Representative Director, President & Group CEO

K. Naganuma

Message from Koichiro Naganuma,
President and Group CEO

Clearly,

business conditions
are severe.

However,

this is the perfect time to do what we need to do.

Fiscal 2008 in Review

In the year under review, turmoil in the U.S. financial markets spread quickly throughout the world, causing economies to contract. Japan was no exception. From the autumn of 2008, corporate earnings started to decline amid rising anxiety about the economic outlook. The situation was exacerbated by the yen's sharp appreciation, which further affected exports and earnings. Meanwhile, the credit market deteriorated and asset values plummeted, sparking economic contraction. According to statistics released by the Japanese government, real GDP declined 0.6% year on year, whereas nominal GDP was down 1.6% (March 12, 2009, Cabinet Office of the Japanese government).

Declining corporate earnings had a negative impact on advertising expenditures. In 2008, such expenditures were down around 5%.

Unfortunately, ADK was unable to avoid a revenue decrease. Consolidated gross billings for the year were down 8.2%. Thanks to concerted efforts to reduce the cost of sales, the decline in gross profit was limited to 5.0%, but operating income fell 48.1% and net income dropped 60.3%.

The parent company accounts for 89.8% of total Group gross billings. On a non-consolidated basis, gross billings declined 7.5%, a greater year-on-year decline than our competitors (see Gross Billings of 8 Leading Advertising Agencies at right). Major factors here were a fall in billings in the media buying business and a relatively low number of new customers compared with the previous year. We also failed to expand our Internet and sales promotion businesses, which we have identified as growth areas. On a positive note, the gross margin improved 0.3 percentage point as the decline in gross profit was limited to 5.0%. This reflected our efforts to enhance the profitability of our media buying business. In the face of the revenue decline, however, we were unable to take full control of selling, general and administrative expenses, especially personnel costs. This significantly affected operating income, which fell 60.1%.

Fiscal 2009 Outlook

Since the start of fiscal 2009, economic conditions in Japan have worsened. Private institutional economists predict that real GDP in the fiscal year ending March 2010 will contract by around 5%. The government Cabinet Office reported its forecast of a 3.3% decline at the extraordinary cabinet meeting on April 27. With the strong yen, meanwhile, overall corporate performance continues to falter, and Japanese newspapers are filled with stories about job cuts by major corporations. In such an environment, we can hardly expect clients to increase their advertising expenditures.

Since its establishment, ADK's goal has been to achieve consistent growth. In the current fiscal year, however, we forecast moderate negative growth amid predictions that economic conditions in 2009 will remain stagnant. Specifically, we forecast a 2.2% year-on-year decline in gross profit and a 16.2% fall in operating income on a consolidated basis. Given the weakness of the domestic economy, these are quite aggressive forecasts, which may be difficult to achieve. However, corporations will not completely discard their advertising and other communications programs, even in the most difficult circumstances. Indeed, the importance of communicating with consumers will only increase as business conditions deteriorate.

Gross Billings of 8 Leading Advertising Agencies
(Non-Consolidated)

	2008 January–December (Millions of Yen)	2008/2007
Dentsu	¥1,499,152	-5.6%
Hakuhodo	705,750	-1.6%
ADK	358,595	-7.5%
Daiko	138,621	+0.5%
Tokyu Agency	116,387	-4.6%
East Japan M&C	104,159	-5.1%
Yomiko	89,488	-8.7%
Asahi Koukokusha	51,577	-11.0%
Total of 8 Agencies	¥3,063,730	-4.8%

Corporations demand communication plans based on accurate analyses of consumer insights, so they can translate such plans directly into revenues. In short, they need total communications agencies that will contribute to their financial results. This, in turn, will be a good opportunity for agencies like ADK.

Imagine you are the corporate communications manager. Naturally, you want to achieve the greatest impact with your limited advertising budget. Proposals from just one or two agencies will not put your mind at ease. You need to compare the ideas of a few more agencies, so you can select the agency that will help you deliver the optimal outcome. The most important criteria in the selection process are not the sizes or long histories of the bidding agencies. You need to reassess the services your agencies have provided so far, and choose the agency most likely to boost your bottom line, rather than blindly retaining an existing agency simply because you have a relationship from the past.

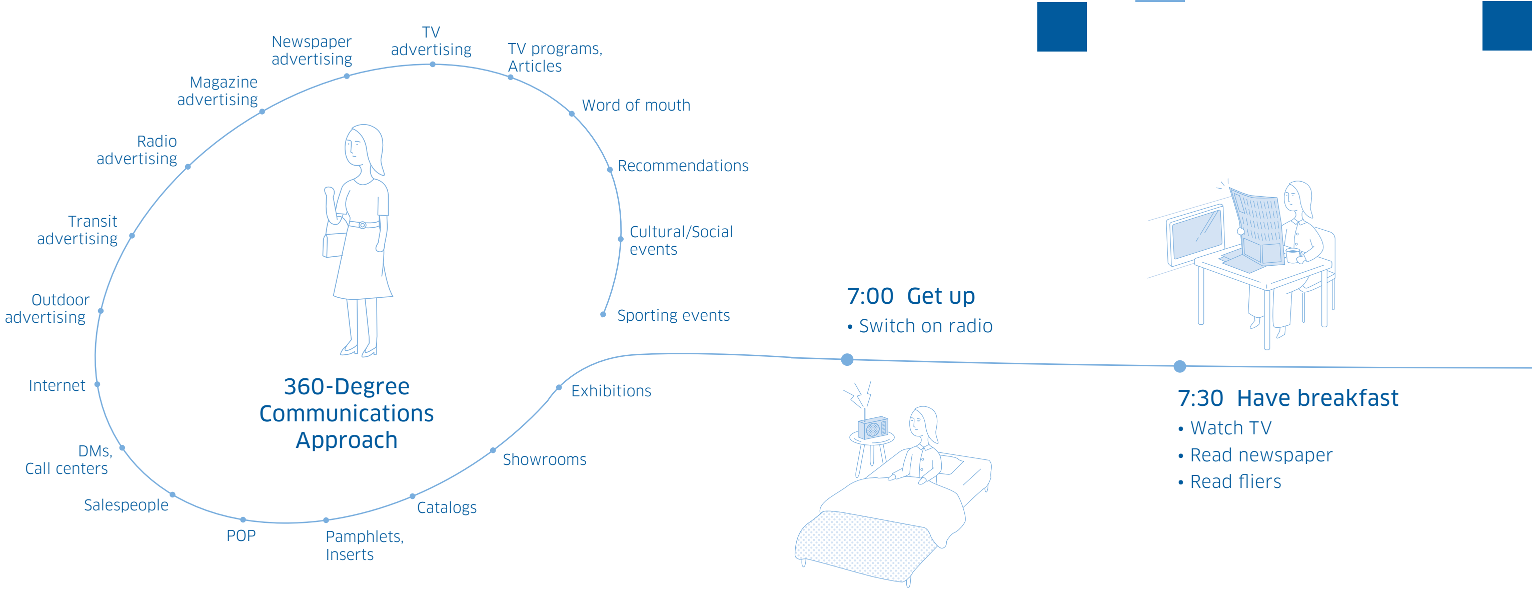
Situations like this could provide increased opportunities for ADK, which has a relatively young history, to challenge conventional wisdom and create bold new communications ideas. At present, we are the third largest agency in Japan, but our market share is only about 6%. So we have ample latitude to grow by penetrating the remaining 94%. Even if we cannot anticipate growth in the overall market, we believe we can certainly increase our share of that market.

On the flip side of the coin, competition will intensify as market demands remain limited. How can we turn these challenges to our advantage? To be frank, I think there are no magical solutions. ADK simply should reemphasize what it has achieved so well in the past: to promote a 360-degree communications approach based on a media-neutral and solution-neutral policy that represents the best interests of clients. Does that sound too simple? If so, let me explain in more detail. Then you will understand where we are heading and how we are preparing for the journey.

3 Cs + 1 C:
The Key to Effective 360-Degree Communications

The rapid progress of the Internet and mobile communications technologies, together with the diversification of media, are reshaping the ways consumers make purchases and interact with various media. To prevail in today's challenging advertising environment, agencies must be fully in tune with three major market changes, which I call the "3 Cs." These are the "changing patterns of consumer purchasing behavior," the "changing nature of consumer media consumption" and the "changing communications

A Day in the Life of a Working Woman



programs demanded by clients."

To successfully address these changes, we must embrace one more "C." Specifically, we must transform ourselves by "changing our agency business strategies," which means changing our approach from mass media–centric to 360-degree communications programs.

For a long time, agencies have provided media plans that focused on the four traditional mass media. But those old-style strategies no longer work. I have been saying that ADK must be a "Future Agency." That means becoming an agency that can instantly address changing business conditions and client needs. This means providing 360-degree communications programs to our clients.

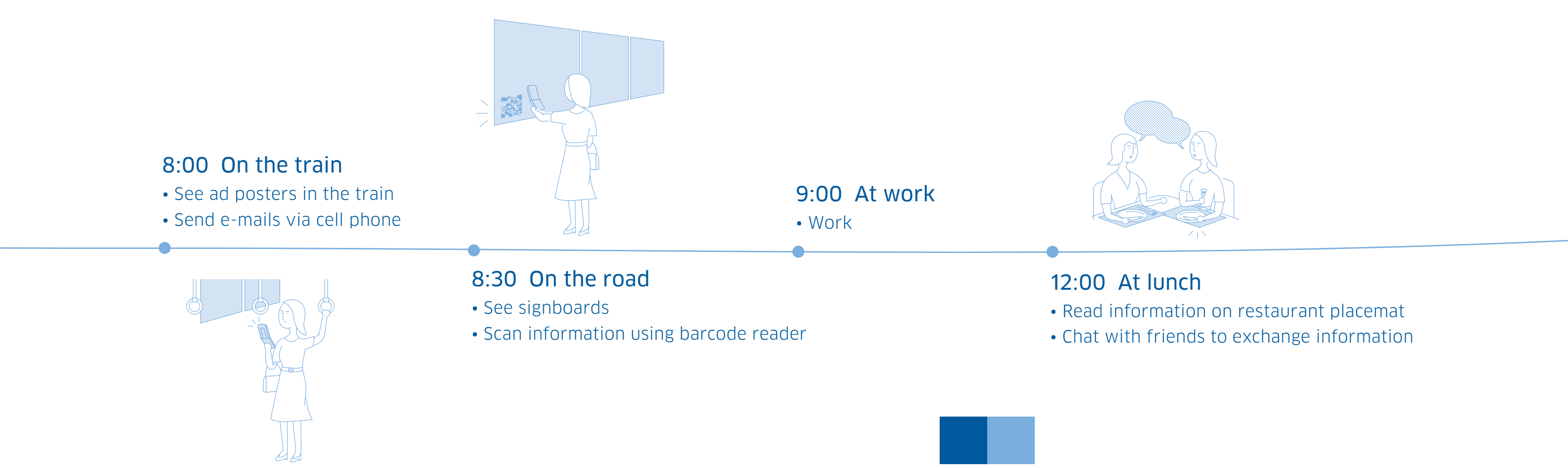
When I observe the latest lifestyles of today's young people, I am truly amazed by their high level of literacy in information technologies. Despite being swamped by a flood of information, they skillfully select and exploit only the information they deem beneficial. Consumers themselves are also a great source of information, sometimes providing the sparks that later explode into "hit" products. If we end up producing "cross-media" programs that simply combine traditional mass media with Internet advertising, it will be difficult to properly attract the attention of young consumers.

First, we must deeply analyze their information usage and purchasing patterns and consider all of their potential touchpoints. These include not only traditional mass media but also the Internet, out-of-home (OOH) media, in-store media, movies, sports events—and even the restaurants they visit. Then we select the most effective touchpoints and integrate them with creative ideas. The key is to create unique and extraordinary ideas that integrate those touchpoints most efficiently. This is the true essence of 360-degree communications.

Advertising Is a People Business

To formulate 360-degree communications programs that accurately address the needs of clients, we need to gather unparalleled knowledge about consumer mind-sets and various media. At the same time, we need to remain fully abreast of constantly advancing Internet technologies. These tasks require huge amounts of intelligence and knowledge, as well as application expertise. Advertising is a people business. Therefore, our competitive edge lies in our human resources.

We nurture our employees on a continual basis through our highly diversified, in-house educational program, called ADK University. In addition to training courses for new graduates and mid-career recruits, ADK University provides seminars on new advertising technologies and hosts courses featuring guest lecturers. Students also learn how to utilize ADK's unique media planning system and receive practical training on Internet media sales techniques.



The key tasks for nurturing talent are to transform our media planners into communications channel planners and our creative directors into communications directors.

The term *media planner* may be out of date now. It sounds like a planner who can only combine traditional media. That kind of planner must evolve into a communications channel planner who can integrate traditional and any other new media, such as the Internet, with innovative ideas. The communications channel planner is also responsible for each advertising budget's return on investment (ROI). Our client contact person, such as the manager of corporate communications, gathers advertising budgets from the brand managers in his or her company. Each brand manager regards advertising spending as an investment, and naturally expects maximum return on that investment. So our clients are akin to fund managers, and we have to support them from that perspective.

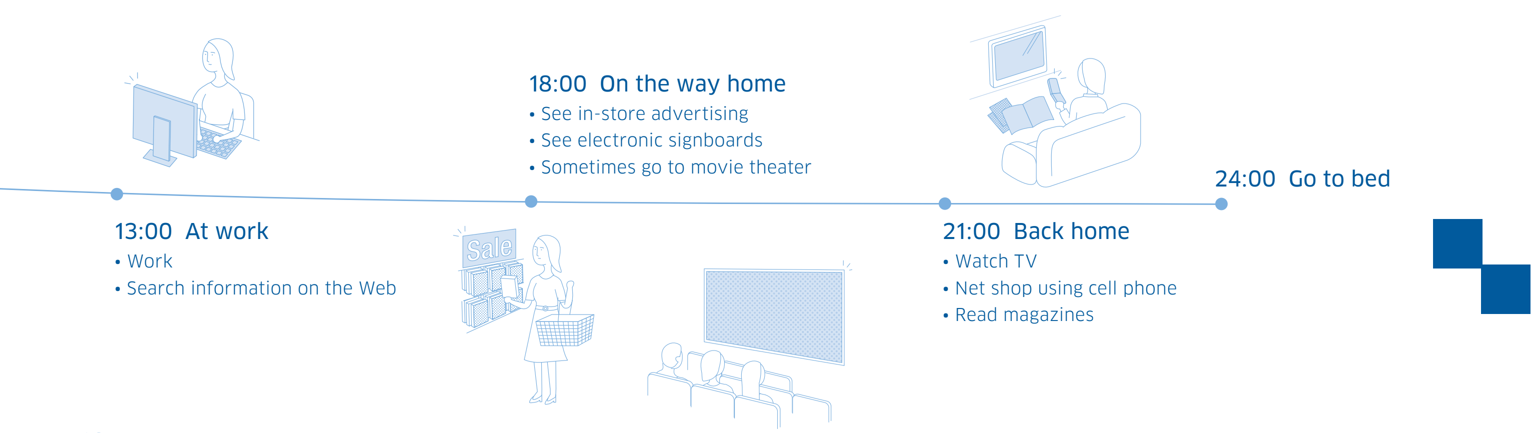
Fostering ad creators is also crucial. Long gone are the days when creative directors simply produced good ideas for television commercials. Now, we need communications directors whose roles extend beyond the scope of traditional ad creators. Our clients demand more advanced and more comprehensive creative ideas that incorporate the Internet and other new media. For these reasons, ADK fosters young communications creators through specialized personnel development programs. We also scout the industry for exceptional talent. In these ways, we are working constantly to reinforce group-wide creativity.

Later in this report, Yoshiki Uemura, director in charge of the Creative Division, will provide an overview of the activities of ADK's creators.

Develop Technologies
to Support Our People

All of ADK's men and women are passionate workers and keen learners. But companies cannot maintain such enthusiasm through simple verbal messages. Rather, we must encourage our human resources by helping them arm themselves with the weapons needed to win in the market battlefield.

In addition to its Media Planning Support System (MPSS), ADK has developed a unique communications program proposal system to support the activities of its account service people. We are also developing and fine-tuning a system for verifying the effectiveness of our ad campaigns. At the end of the day, our clients want maximum advertising efficiency more than anything else. Advertising is a form of investment, so it is natural that they want maximum return on their advertising outlays. At ADK, we formulate and implement optimal ad proposals designed to maximize ROI. We also have an ROI model to quantify the effectiveness of our proposals. As an advertising agency, we feel it is our duty to provide such services. Therefore, we are actively investing human resources into these areas and pursuing the ongoing development of our technologies and systems.



Increase Business Potential by Utilizing the Attributes of ADK Group Companies

The ADK Group has a number of advertising companies with highly specialized skills. Deepening the ties between these group companies, therefore, should serve as a driver of business innovation and expansion. In particular, cooperation between ADK and ADK Interactive, which was established in 2008 to specialize in Internet advertising, should become a major driving force for revenue growth. In the Internet field, where new technologies continue to emerge, earning the satisfaction of clients requires young people with specialized knowledge and innovative approaches. Equally important are people who can devise well-rounded communications programs incorporating all forms of media—not just the Internet. By working hand in hand, ADK and ADK Interactive can offer fresh proposals that are closely attuned to the needs of clients.

In fiscal 2008, we formed a capital and business alliance with Cosmo Communications, which has many clients in the apparel industry and specializes in magazine tie-up advertising for fashion brands. Since its foundation, ADK has been strong in magazine advertising. But by deepening our ties with Cosmo Communications, in which ADK has a 30% stake, we plan to further expand our presence in this field.

Kyowa Kikaku, another ADK Group member, specializes in advertising of pharmaceuticals and medicine. Recently, ADK has acquired new clients by making joint presentations with Kyowa Kikaku. The pharmaceuticals market is regarded as a potential growth area despite current difficult conditions. With the inclusion of health foods and nutritional supplements, this market is set for further expansion. By further strengthening our ties, we are confident of attracting new clients and new brands.

Further Reinforce Our Content Business

One of ADK's greatest strengths is its content business, highlighted by television animation programs. From 1963, soon after our foundation, to the present day, we have created a multitude of hits. These include *Doraemon,* which is extremely popular in Japan and throughout Asia, and *Yu-Gi-Oh!,* a major hit in North America and Europe.

Animation characters are hardworking and reliable. They do not grow old with passing years, and they do not cause scandals. By using these characters in advertising, we can entice people with children to visit the stores of our clients. We have had many successes using popular characters in ad campaigns for automotive retailers and convenience stores. We can also use highly prominent, longtime favorite characters in promotions for banks and other sectors where trust needs to be emphasized. We believe that content characters will continue to be a major driver of business expansion in the future.

But there are some worries. At present, Japan's birthrate is declining, along with its population. The number of animation programs on network television channels has been decreasing. By contrast, let us look at Asia, where there are many children who adore Japanese animation. It is obvious that people all over the world understand the high quality of Japanese animation. The animation market is global in nature and encompasses all regions, including North America, Latin America, Asia and Europe. Going forward, ADK will place more emphasis on exporting Japanese animation programs overseas. Using our characters overseas can also be a lucrative secondary income source. For example, we recently used *Doraemon* in a campaign for a Japanese home electronics manufacturer in Thailand. This made the brand more familiar and appealing to local consumers.

Back to Japan. Although the number of children is declining, many Japanese grown-ups still love animation. Moreover, although they are spending less and less time watching television, they are switching to computers and mobile phones instead. For this reason, ADK is promoting the delivery of video content to mobile devices. Mobile Internet sites where people can view animation programs and comics on demand are attracting more and more registered members. Meanwhile, sales of animation DVDs to adults are strong. Such trends underline the potential of the domestic animation market to expand even further. Therefore, we must swiftly develop new characters while carefully nurturing existing favorites.

Focus on Growth in Overseas Markets

Even in the context of a worldwide recession, several overseas markets have relatively good prospects for growth. Notable among them are China, India and the Middle East. In 2008, ADK opened a representative office in Dubai, United Arab Emirates. I believe ADK is the first Japanese ad agency to have a full-time representative in the region. By doing so, we can provide more flexible support for our local advertising business and earn the confidence of Japanese companies. In February 2009, meanwhile, we established ADK Fortune in India as a joint venture with JWT, a leading WPP brand. Russia also has major potential for advertising agencies despite its current economic challenges, whereas South Korea is also a crucial market in the Asian region. Therefore, we established ADK Korea in 2009 and are preparing to open representative offices in Russia.

When advancing our business overseas, we either use our alliance with WPP to work jointly with a WPP Group company, or we seek a local independent partner, depending on the size and nature of our business needs. For large accounts, we tend to take advantage of the WPP alliance. Our policy is to select the best option according to specific regional circumstances.

Soon after the normalization of relations between Japan and China in 1972, ADK started to develop its business with China. As the economy of China developed in the 1990s, we built our own network in that nation while working in cooperation with Chinese companies. In the greater China region (including Hong Kong and Taiwan), we have 13 affiliates in seven cities. Going forward, we will use our core subsidiary in Shanghai to spearhead further development of our business network in China. In January 2009, for example, we established a local operation in Shanghai jointly with a Chinese company, with the aim to advance our spatial development business targeting major exhibitions, such as the Shanghai Expo.

Maintain a Balanced Approach to Human and Financial Resources

So far, I have explained our strategies for confronting the difficult market environment. I trust you recognize the significance of human resources at advertising agencies and understand that the key to growth lies in fostering and properly utilizing these resources.

Another crucial consideration is managerial balance. In times of economic stagnation, expenses will easily erode operating income if growth in gross profit is weak. It goes without saying that cost flexibility becomes more important in such times. In the advertising business, however, personnel expenses constitute the major proportion of a company’s outlays. While realizing the importance of human resources and their motivation, we still have to control the head count. Survival is the overriding priority, and we must conserve our energy to tackle the next growth period.

Unchanging Commitments: Stable Financial Position and Strong Shareholder Return Emphasis

ADK has long pursued sound financial management policies and built a solid funding financial base. Due to plummeting stock markets around the world, the value of our marketable securities and other asset holdings has deteriorated somewhat. However, we still have an adequate asset base that includes ¥14,881 million in cash and time deposits and ¥34,926 million in investment securities. Meanwhile, interest-bearing debt has declined to ¥1,043 million. As a result, we have maintained a high equity ratio, which was 52.4% at the fiscal year-end. The Company has a stable financial base that will enable it to focus on its core businesses with peace of mind. Moreover, we are well positioned to make investments that we deem necessary.

ADK is the third largest advertising agency in Japan, after Dentsu and Hakuhodo. Although many companies are trying to catch up, they pose no threat to ADK in terms of scale, technological prowess and financial stability. At this stage, therefore, we can prepare for the next phase of growth without feeling pressure from our smaller competitors.

Our shareholder-oriented approach to profit appropriation has remained unchanged. Through dividend payments and share buybacks, we will continue to provide value to shareholders over the medium and long term. We will maintain our consolidated dividend payout target of 35% while keeping annual dividends stable, at a minimum of ¥20.00 per share. For the year under review, we calculated that we would reach our 35% payout ratio target by paying a dividend of ¥17.00 per share. In light of our minimum dividend policy, however, we declared a ¥20.00 dividend per share which will bring the payout ratio to 41.0%. During the year, we also bought back 2 million of our own shares, outlaying a total of ¥5,876 million. Total shareholder return* was, therefore, the equivalent of 317.9% of net income for the year under review.

Going forward, we will focus on raising earnings per share (EPS) and strive to further improve capital efficiency through ongoing share buybacks, while also working to raise the return on equity (ROE).

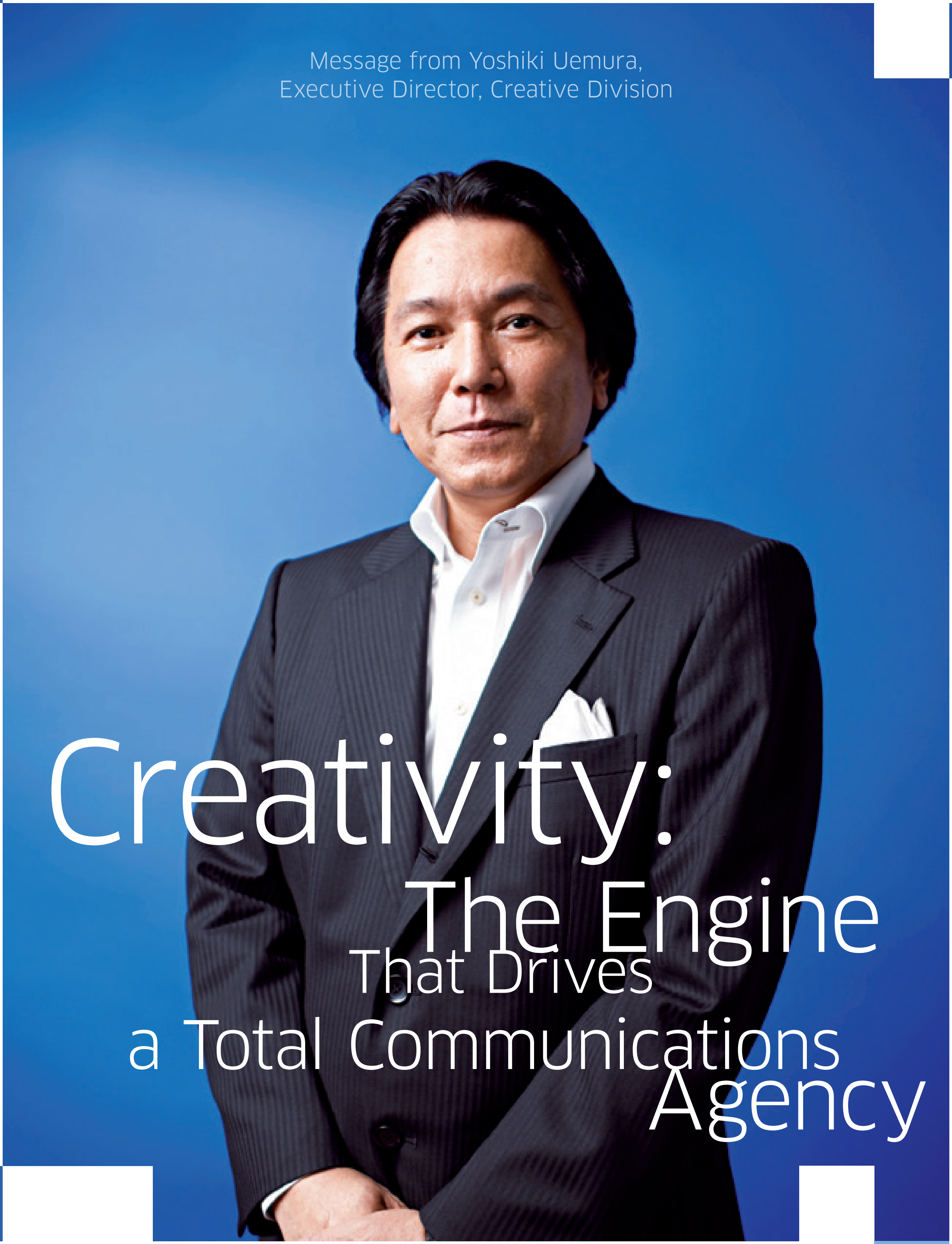
*Total shareholder return includes payment of cash dividends, purchase of own shares and purchase of odd-lot stocks.

In Conclusion

It is difficult to envisage how soon the Japanese and world economies will recover. I am hopeful that positive signs will begin to appear soon, and we have to prepare ourselves for the big jump when the economy comes back. No matter how difficult the circumstances become, ADK will forge ahead without making excuses.

Since our foundation, we have adhered to the principle of “Management by All.” Under this principle, every employee in the ADK Group is expected to have a top management-level perspective and approach client needs proactively. Guided by this lifelong philosophy, we will band together to overcome these difficult times and put ourselves back into a growth trajectory. I believe adversity provides an opportunity for ADK to grow.

Message from Yoshiki Uemura,
Executive Director, Creative Division



Creativity: The Engine That Drives a Total Communications Agency

Creative Ideas,
Vital Ingredients of a Successful Media Strategy

It has been some time since they began to say "consumers are generators of communication, rather than recipients." This does not simply mean that their consumption patterns are changing, or that they are striving for higher levels of information literacy. Instead, it implies that consumers have considerable filtering skills when bombarded with advertising and various forms of information. In other words, consumers make instant decisions about advertising/information. Does this affect me? Should I press the link? Or is it just peripheral "noise" of no value to me? If they judge it to be worthless noise, they will look no further. Even the most efficient media strategy is meaningless if the consumer does not actively link to the information.

Here, the key factor is ideas—creative ideas that win the hearts of consumers and prompt them to identify with a particular brand. These are the vital ingredients of a successful media strategy that maximizes the impact of a communications plan. A communications plan that engages the consumer is far more effective than the sheer volume of advertising. This is because consumers are willing to participate in the communications plan by dispatching information. Our mission now is to join consumers as "partners in crime" in our plan to increase brand value.

To this end, we must create appealing branded content—creative entertainment based on the brand value—that motivates consumers to become proactively engaged. This is the ongoing task for we ad creators, who must remain always at the forefront of changing communications trends and equip ourselves with the skills and perspectives to address those trends. Indeed, creativity is the engine that drives ADK's business.

Creating "Human Talent"

ADK Creative Laboratory

We are working urgently to nurture people who can design and coordinate all-encompassing communications programs that reach far beyond traditional mass media advertising. Here, we are shifting our emphasis from Creative Directors to Communications Directors. The ADK Creative Laboratory is spearheading this important effort.

Formed two years ago, the ADK Creative Laboratory provides upskilling programs aimed at nurturing next-generation creators. It empowers them to acquire the skills to effectively address changes in the communications environment. At present, around 200 creators are participating in the program. Organized into four groups according to age and career background, they gather once a month to research and study various issues. The topics are diverse, ranging from learning about ADK's original EX-Branding method to technical studies related to the Web. The program also includes interactive sessions with artists who have excelled in various fields and covers everything from marketing to practical application. The objective of the program is to steadily increase the skill levels of all employees and provide them with the broad perspectives required of successful Communications Directors.

Active Support of Advertising Awards

I think it is important for all personnel in our Creative Division to ask themselves: As a communications professional and creator, do I have the ability to create something with real commercial value?

To respond to this question, it is good to know how one's own work is impartially evaluated by people on the outside. One method we use to raise the value of our creative personnel is to actively enter their work in advertising competitions, both in Japan and overseas.

In the past few years, ADK has enjoyed a dramatic increase in advertising-related awards at home and abroad. In 2008 alone, we received 121 prizes in total. This underscores the value of our creative ideas, which reflect the needs of the times and encourage consumers to access the brands that we represent. We are proud of the high acclaim that our work receives.

In 2007, ADK won a Gold Lion at the Cannes International Advertising Festival, as well as a Grand Prix (TVCF category) prize at the All Japan Radio and Television Commercial Federation (ACC), which bestows Japan's most prestigious advertising awards. Both these prizes recognize ADK's ability to deliver media-neutral solutions unhindered by dependence on traditional advertising techniques. In March 2009, ADK took the top prize in the Film Lotus category at the Asia Pacific Advertising Festival (Adfest), which covers all of Asia and Oceania. At Adfest, we ranked second among Japanese advertising agencies with respect to the number of awards (bronze or higher) received.

The number of prizes awarded to ADK individuals is also increasing. For example, female copywriter Akiko Mitsui was selected as a medalist in the 2008 "Creator of the Year" awards, and ad creator Katsuo Yonezawa received the Best New Face Award from the Tokyo Copy Writers Club (TCC). I firmly believe that these and other young, talented people will become the engine for ADK's future growth.

Creating "Individuality and Specialization"

The most important attributes for ad creators are "individuality" and "specialization." Our Creative Division currently has five projects emphasizing individuality, specialist skills and areas of specific interest. These projects were not established as part of ADK's corporate infrastructure. Rather, they evolved organically from the free will of our people. At the front lines of advertising, they can preempt insights into the changing needs of consumers and clients and quickly address those needs, as well as create a forum to demonstrate their own capabilities. Like musicians in a jazz session, they act with large freedom to devise innovative, creative works independently of existing ideologies.

As President Naganuma often says, "Advertising is a people business." Human talent is our greatest asset, and our creative competitiveness derives directly from each and every one of our ad creators. Going forward, our Creative Division will seek to build a flexible framework empowering our creators to freely demonstrate their individuality and aspire to the next stage in their development.

Overview of ADK's Creative Projects

Showcase

SHOWCASE:

The mission of this project is to maximize the impact of advertising communications by deploying various methodologies independently of traditional advertising techniques. As its name implies, the aim of the project is to create numerous works that "showcase" the next generation of advertising.

EX-Project

EX.

This project is split into several categories, each of which requires specialist knowledge and skills for effective advertising expression. The categories include finance, real estate, education and pharmaceuticals. The project promotes teamwork between the Creative Division and the Communication Planning Division aimed at delivering the best possible solutions for clients.

Buzzoooka

Buzzoooka

In today's Internet society, word of mouth has a huge impact. This project develops and promotes "buzz" communication by creating "news hooks" using the Web and other innovative tools. One of the techniques used at brand launches, for example, is to stir up stories about the brand among target consumers, encouraging them to engage with the brand.

Yes-Menz

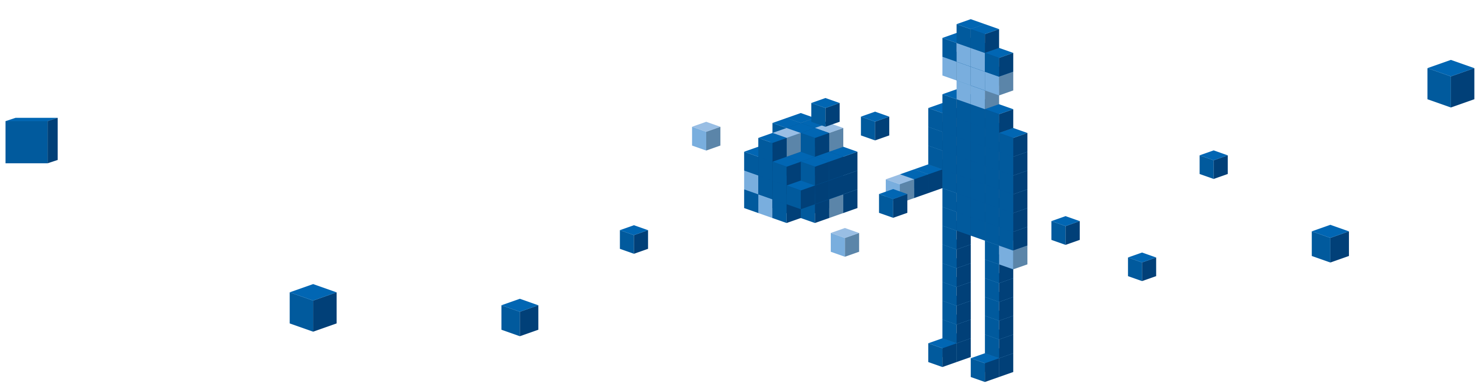
Yes Menz

This is a flexible project in which young ad creators aged 35 and below gather as necessary to formulate proposals that reflect their individual attributes. In 2009, Katsuo Yonezawa, a member of the project, received the Best New Face Award from the Tokyo Copy Writers Club (TCC).

f-side

f-side

The mission of this project, which consists of women ad creators, is to develop proposals from the female perspective. For more about f-side, please read the next two pages.



f-side Project
Activities

The majority of products on the market are made for women. Indeed, women are regarded as the driving force behind consumption, both today and in times past. In many households, it is the woman who makes the final decisions on selecting high-priced items for purchase, such as automobiles and large-scale home electrical equipment. It is not an exaggeration to say that the success of a brand is largely decided by how well it incorporates the value perceptions of women. This applies to many types of products, from fashion items, home electronics equipment and food to automobiles.

f-side is made up of six members, centering on female ad creators. It develops numerous communications ideas that embody the sensitivities of women.

In addition to promoting products for women and developing related brand communication programs, f-side is receiving increasing inquiries from clients interested in product development and other joint initiatives.

In 2008, copywriter Akiko Mitsui, a member of the project, was selected as a medalist in the Creator of the Year awards.*

*Creator of the Year: This is an award bestowed by the Japan Advertising Agencies Association (JAAA) on ad creators who have excelled in their work. Each year, up to 10 creators are selected as medalists, one of whom receives the Creator of the Year award. In 2008, there were six medalists.

f-side members (left to right): Akiko Mitsui, Naoko Takahashi, Yoko Takenouchi, Nozomi Koyano, Naoko Nakajima, Noriko Natsume

Uplifting Messages for Women: Campaign for ONWARD 23-ku

In the spring of 2008, f-side created a new campaign for one of Japan's major fashion brands, ONWARD 23-ku. Named after the 23 wards of Tokyo, this brand provides real clothes for real Tokyo women.

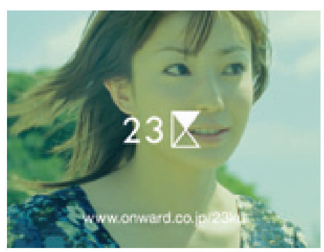
"We wanted to help women live positively through our campaign," said Noriko Natsume, a member of the project team. The project produced a total of 23 TV commercials to complement the brand name. Copywriter Akiko Mitsui wrote more than a thousand copy pieces and finally chose 23 that represent the feelings of women, including the following:

Why do I keep saying I'm fine?
Even though I'm not fine at all.

This copy effectively captures the feelings of women who always do their best while pretending they are tough. The ad moved many women, some of whom said they almost wanted to cry.

Things might not have come my way even if I had waited.
So, I started walking.

This reflective but positive thought encourages women to always move forward, never stopping to waste time waiting for things to appear in front of them. The campaign included related Web site pages and some clothes on the site that were quickly sold out. Natsume said, "We believe this campaign contributed significantly to our client's business. We also received many thanks from women, saying they were encouraged by the campaign."



Corporate Social Responsibility (CSR)

ADK's basic policy is to take an active role in realizing a sustainable society. Based on this policy, we have pursued a range of corporate social responsibility (CSR) activities, with a renewed focus on

1. Reinforcing our compliance system
2. Demonstrating our commitment to environmental protection
3. Other social contribution activities that we have pursued over the years

The task of reinforcing our compliance system is handled by the Compliance Committee, a subcommittee of the Risk Management Committee. Our environmental protection and other social contribution initiatives are promoted by the CSR Committee, established in January 2008 under the direct control of the president.

Compliance

ADK regards compliance as the most important factor in establishing an effective internal control system, which is now mandated under law.

Between April and November 2008, the Compliance Committee conducted training workshops on more than 50 occasions to ensure employees' awareness of the "ADK Compliance Guidelines," which conform to the "ADK Group Code of Conduct" and were issued in March 2008. Through the workshops, the Committee also raised awareness of ADK's in-house reporting system, called the "ADK Group Helpline," which has led to an increase in the number of employees taking action to report improper behavior.

Environmental Protection

ADK decided to pursue certification under ISO14001, an international standard for environmental management systems, to more effectively address environmental issues. We hope to obtain certification across the Company within a few years. We announced our "ADK Environmental Policy" and chose three divisions to take the lead in earning ISO14001 certification. They are the Promotion Division, the Communication Planning Division and the Research and Development Division. After a yearlong effort, those divisions together successfully obtained certification at the end of 2008. Other divisions will follow in 2009.

Social Contribution

The ADK Group Code of Conduct declares that the ADK Group shall strive hard to benefit society in the communications domain. To this end, the Group shall provide ideas and creative services free of charge where appropriate, working in close cooperation with public entities and organizations, nongovernmental organizations (NGOs) and nonprofit organizations (NPOs), and outside entities with specialist expertise. Guided by this declaration, in 2008 ADK deployed its distinctive capabilities as an advertising company to promote the following activities.

CM Planning Course in Ritsumeikan University

In 2008, ADK began offering a television commercial (CM) planning course at Ritsumeikan University based on a scholarly exchange agreement. Under the agreement, ADK creative staff members in charge of producing CMs provide lectures on the latest creative techniques and the current status of the advertising business. The course received favorable reviews from the students and was extensively reported in major newspapers. ADK will continue this effort in 2009 and beyond.


CM planning lecture at Ritsumeikan University

Pro Bono Creative Work

The Japan Advertising Council* has been hosting annual competitions to select creative ideas for its public advertising campaigns. Each year, the competition attracts hundreds of ideas from advertising agencies across the nation. ADK provides the campaigns with unique creative works every year. In 2008, we won the following three campaigns:

1) Campaign to support the Japan Foundation for AIDS Prevention
2) Campaign to support the Japan Stroke Association
3) Campaign to support the 3Rs** Promotion Group Network

The CM for the campaign to support the 3Rs Promotion Group Network conveyed a message that reflects ADK's commitment to obtaining companywide ISO14001 certification for its environmental management systems.

AIDS Prevention Campaign poster featuring a popular rock musician. This campaign promotes awareness among young people about getting tested for AIDS.

Copy: *I hope someday we will stop hearing the word "trash."*

Discarded empty cans and PET bottles are just trash. But if you classify and dispose of them properly, they will be reborn as resources. This CM was created in the hope that classification-based disposal will become a common habit. Among the Japan Advertising Council's CMs, this was the one most frequently broadcast thanks to its familiar tone.

*The Japan Advertising Council was established for the purpose of contributing to social welfare through the communicative and persuasive art of advertising. It promotes public advertising campaigns nationwide using ads aimed at encouraging people to act in the public interest.

**"The 3Rs" comes from "reducing, reusing and recycling," which means reducing trash by reusing and recycling used products.

Corporate Governance and Internal Control

Corporate Governance Policy

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. Therefore, effective corporate governance plays an essential role in this context.

Among the various stakeholders including employees, the board of directors of a corporation must try to obtain the best balance among complex interest relationships. However, because a publicly listed company seeks broad access to capital markets for fund-raising, and because the authority of the board of directors is awarded by the shareholders, who ultimately provide the capital, shareholder value and shareholder rights must be prioritized.

ADK executes its various corporate governance strategies based on these ideas. We preserve group-wide corporate governance, while maintaining close links between ADK and the other companies of the ADK Group.

Corporate Governance System

ADK has adopted the corporate auditor system because it is most suitable for two aspects of corporate governance: (1) enhancing management decision-making efficiency and (2) reinforcing the management supervisory function.

With regard to enhancing the efficiency of management decision making, we have decided against the committee system, in which the Board of Directors, centered on outside directors, retains certain decision-making authority. We believe the current corporate auditor system is more efficient because the Board of Directors, centered on internal directors, shares responsibilities of all areas of the Company's activities and implements speedy and agile decision making on the spot, while exchanging significant information.

With regard to reinforcing the management supervisory function, because the committee system has not been proven superior, ADK will ensure proper management supervision via its corporate auditor system.

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 14 directors, two of whom have representative status under Japanese law, with 11 serving as operating officers (as of March 27, 2009).

The Board of Directors meets once a month, in principle, and more often as necessary. In fiscal 2008, the Board met 18 times. On two occasions, the Board requested the attendance of accounting auditors to receive direct reports of the results of the accounting audits.

Internal audits are conducted by the Group Audit Office, which reports directly to the president and had a staff of seven as of March 30, 2009.

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 30, 2009, 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. The 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 10 times in fiscal 2008. There are no full-time employees assigned to the corporate auditors.

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.

With respect to the business execution and management supervisory frameworks, ADK has appointed operating officers from among its executive directors and employees. Operating officers are charged with business execution related to broader decisions made by the Board of Directors.

The business execution organization is separated into functional groups, divisions, departments and small groups, all reporting to the president.

The Management Strategy Committee helps decision making by the president, who has the ultimate authority of day-to-day operations. Consisting of operating officers in charge of divisions, the Committee meets almost three times a month (29 times in fiscal 2008) to submit information and exchange opinions on important matters. Full-time corporate auditors also attend such meetings to monitor the relevance of items discussed. To ensure common recognition and transparency of important issues among the employees, excerpts of meeting minutes are posted on the Company's intranet.

Risk Management

In May 2006, the Board of Directors passed a resolution concerning the "Basic Policies for Establishing an Internal Control System," and decided to set up a group-wide internal control system headed by the Risk Management Committee, which is chaired by the president. The risk management system includes the "Regulations and Systems Relating to Risk Management" and is consistent with internal control systems as defined under the New Corporate Law in Japan.

The Risk Management Committee heads five subordinate organizations, each of which undertakes its own specific risk management. They are the Compliance Committee, the Personal Information Protection Committee, the Information Security Committee, the Business Continuity Committee and the Business Process Committee.

The Compliance Committee is responsible for creating systems to prevent illegal acts and for operating ADK's internal reporting system. The job of the Personal Information Protection Committee is to establish systems aimed at preventing accidents from happening when handling the large volumes of personal consumer information collected in the course of undertaking marketing and campaign activities. The Information Security Committee handles operation of the ADK Group's entire information security management system, to ensure proper management of personal and other business information. Its tasks include the acquisition of the ISO27001 certification. The Business Continuity Committee sets up various procedures aimed at ensuring the continuation of business during times of emergency, such as major earthquakes or power stoppages. The duty of the Business Process Committee is to meet internal control reporting system requirements under the Financial Instruments and Exchange Law of Japan.

Internal Control

ADK is building a group-wide internal control system, spearheaded by the Risk Management Committee. One of its subordinate organizations, the Business Process Committee, specializes in setting up an internal control reporting system as stipulated under the Financial Instruments and Exchange Law of Japan.

This internal control reporting system becomes effective during fiscal 2009. In the year under review, we undertook trial evaluations of the operational effectiveness of internal control frameworks established and worked to modify and correct problems uncovered through those evaluations. We will continue striving to improve our internal control system.

Basic Philosophy and Status of the Implementation of Internal Control

as of April 13, 2009

The following is an English translation of a section of the Corporate Governance Report for informational purposes only. This section is about the basic philosophy and the status of implementation of internal control. The original Corporate Governance Report was written in Japanese and filed with the Tokyo Stock Exchange. In the event that any discrepancy exists between the translation and the Japanese original, the latter shall prevail.

General Rules

Based on the “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 investigates if the system effectively functions, using a process management method based on the PDCA (Plan, Do, Check, Act) cycle, and reports its results to the Board of Directors.

The elements of resolution stipulated in the Company Law and the enforcement regulations of the Company Law are described in the following rules.

Specific Rules

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 compliance; its members shall include external attorneys. The Compliance Committee implements policies to raise compliance awareness among directors and employees, investigates major violations of laws and regulations or suspicion of violations, and instructs the responsible departments to take corrective actions. The Compliance Committee also operates the “Helpline System,” which involves external law offices and guarantees anonymity to encourage employees to report violations of laws and regulations in order to prevent and correct such violations.

The Risk Management Committee also appoints the Business Process Committee, chaired by the director in charge of the maintenance and control of the system for ensuring the reliability of financial reporting, as a subordinate organization. The task of the Business 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 Business 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 information management system with regard to the retention and management of information related to the execution of the duties of directors.

(1) The minutes of the Board of Directors meetings and the materials distributed to directors for deliberation of resolutions shall be retained for a minimum of 10 years in the division in charge of the secretariat.

(2) The minutes of regular meetings that directors must attend, as well as other business documents approved by directors or in which their opinions are written, shall be managed in compliance with the “Document Management Regulations” and the “Information Security Policy.”

3. Regulations and Systems Relating to Risk Management

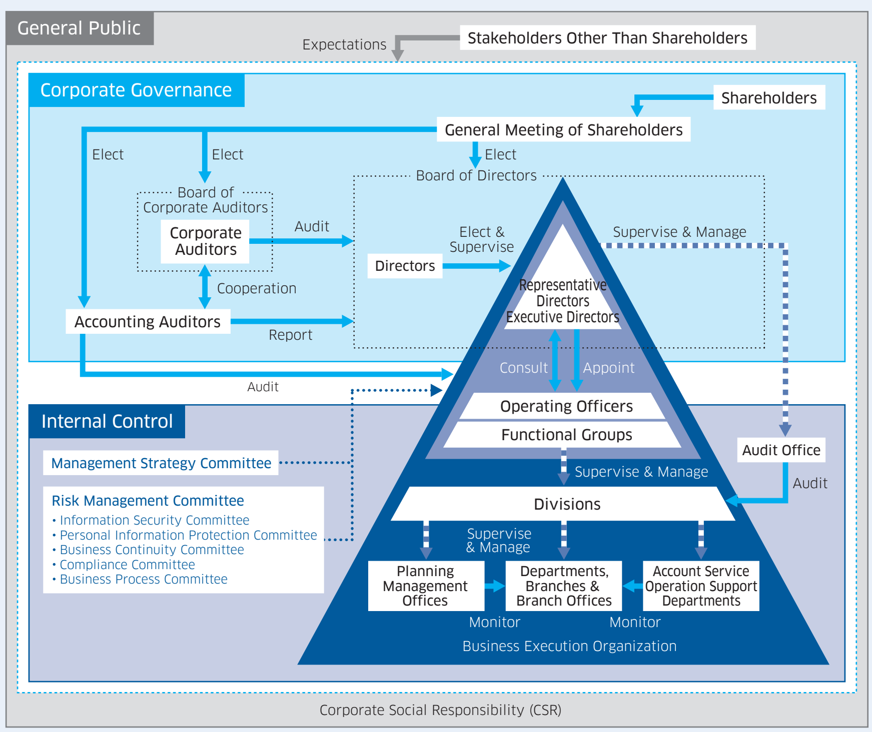
The Risk Management Committee defines the “Risk Management Policy” and implements comprehensive risk management for the entire ADK Group, consisting of ADK and its subsidiaries. The Risk Management Committee implements risk management by using a process management method and instructs responsible departments to take necessary measures.

Under the control of the Risk Management Committee, in addition to the aforementioned the Compliance Committee and the Business Process Committee, the Personal Information Protection Committee, the Information Security Committee and the Business Continuity Committee have been established as specialist committees to implement risk management in their respective fields. Other specialist committees shall be established as needed. The Risk Management Committee directly implements risk management in the fields not covered by the specialist 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 an appropriate number of directors in order to ensure the flexible holding of and active discussions at the Board of Directors meetings.



Corporate Governance, Internal Control and Risk Management Framework

The Company also limits the tenure of each director to one year in order to frequently check the qualification of directors.

The Company has set up an operating officer system to clarify the different duties of operating officers and the members of the Board of Directors. As the Japanese Corporate Law stipulates, the Board has the authority to resolve and supervise the execution of businesses strategies, whereas the operating officers execute such resolved business strategies and report the development and results.

The Board of Directors sets companywide goals for directors and employees to share and establishes medium-term and annual business plans to achieve these goals. Progress is reported on a quarterly basis to the Board of Directors. In case there are factors that hinder progress toward these goals, the 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. System to Maintain 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 maintain its own internal control system and establishes a group-wide internal control system by requesting that subsidiaries comply with the "ADK Group's Code of Conduct" and implement specific measures.

The division in charge of management of subsidiaries makes arrangements with major subsidiaries about approval and reporting, makes it mandatory to gain approval from or report to ADK before making decisions regarding certain matters and manages them while respecting each subsidiary's independence.

The division in charge of management of subsidiaries also reports on the status of internal control of the subsidiaries to the Risk Management Committee regularly, at least once a year, and more often as necessary.

6. System for Employees When Requested to Support the Corporate Auditors and Their Independence from Directors

In the event that the corporate auditors request the assistance of employees, the Company assigns the appropriate persons as assistants to the corporate auditors as soon as possible. To reinforce independence from the directors, the employees to assist the corporate auditors shall not be assigned to interlocking duties in the organization under the authority of directors. Performance review, personnel transfer and decisions on reward and punishment must be approved in advance by the Board of Corporate Auditors.

7. Reporting to the Corporate Auditors and System to Ensure the Efficient Execution of Audits

The Company has a policy to maintain four or more corporate auditors in total, three or more outside corporate auditors and three or more full-time corporate auditors—exceeding the legal requirement.

In addition to the 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 corporate auditors request attendance at any other meetings, directors and employees shall not refuse the request. Directors and employees shall report immediately to the corporate auditors on cases that may cause serious damage to the Company; inappropriate actions in the execution of duties by directors; material facts that breach laws, regulations and the Articles of Incorporation; reports received through the Helpline System; or results of inspection by the regulator or external audit. At least twice a year, the president holds a meeting to exchange opinions with the corporate auditors. The Group Audit Office supports the audit of the corporate auditors. The audit reports of the Group Audit Office are submitted to the Board of Corporate Auditors, as well as the president. The members of the Group Audit Office attend meetings of the Board of Corporate Auditors to cooperate with the corporate auditors.

Basic Concept and System to Exclude Antisocial Groups

1. Basic Concept, the Code of Conduct and Improvement of Internal Rules

As a corporation has a larger economic scale compared to individuals, an adverse impact may be significant if it is used by antisocial groups. Thus, it is an obligation of the corporation not to take any action that could be beneficial to antisocial groups. The "ADK Group's Code of Conduct" stipulated by the Board of Directors clearly documents the concept and declares that "The Group shall maintain no contact with anti-social groups, and will staunchly decline any requests from them" in the provision of the Article entitled "To adopt to social norms and ensure social justice."

Our Compliance Committee establishes the "ADK Compliance Guidelines," which concretely expresses the spirit of the "ADK Group's Code of Conduct." In the guideline, there is a description explaining the necessity of the "Exclusion of relationship with the anti-social groups" and how to do it. The "ADK Compliance Guideline" is distributed as a handbook to all employees.

Furthermore, we created the "Manual of Handling Unfair Requests from Antisocial Groups," which describes concrete procedures, steps, and internal and external collaboration in case antisocial groups approach us. For the purpose of thorough dissemination of the information among employees, the manual is uploaded onto our intranet allowing all employees to access and read it anytime.

2. Improvement of Internal System

(1) Section in-charge of supervising and assignment of a manager in charge of preventing an unfair request

We assign the Corporate Governance Office, an administrative office for the Compliance Committee, as a supervisory section to handle issues related to antisocial forces. The Office strives to participate in training sessions held by the National Center for the Elimination of Boryokudan (crime syndicate) for managers in charge of preventing unfair requests.

(2) Collection and management of information on antisocial forces

We file the information obtained from the specific violation prevention conference we belong to and distribute it among the sections concerned. If there is a doubt that individuals or groups with whom a certain section contacts in its daily business would have an antisocial nature, we make an inquiry through the supervisory section to the appropriate police office, the Office of Specific Violation Prevention Association under the Metropolitan Police or an inquiry agency.

(3) Collaboration with external professional organizations

In case we have contact with individuals or groups that could belong to antisocial forces, we consult with the appropriate police office and our legal adviser and adhere closely to their instruction.

(4) Implementation of training sessions

The "ADK Group's Code of Conduct," the "ADK Compliance Guideline" and the "Manual of Handling Unfair Requests from Antisocial Groups" are uploaded onto the intranet, allowing all employees to read them anytime. We also hold in-person training sessions at the time of new employee training and new manager training where the administrative office of the Compliance Committee serves as the lecturer and the "ADK Compliance Guideline" is used as a textbook, as well as at the meetings in each organization.

Takeover Defense

At ADK, we believe that management authority, including important financial and business strategies, let alone that for shareholders' return and takeover defense, should be ultimately awarded to and approved by the shareholders.

In addition to the improvement of capital efficiency and the implementation of various measures to return profits to shareholders, the Company has made company-wide efforts to maximize corporate value and the common interests of shareholders based on our "Management by All" principle. In the advertising industry, which is often described as a "People Business," the Company believes that management with such a company-wide sense of unity and a sense of common destiny among directors and employees is the best defense against an inadequate takeover, and the Company has not implemented any specific takeover defense measures at present.

On the other hand, in the event of a large-scale purchase of the Company's shares or a takeover proposal, the Board of Directors, which assumes management responsibility for the shareholders, will assess the impact of such purchase on the corporate value and the common interests of the shareholders, while respecting the opinions of outside specialists. In addition to expressing its views, the Board of Directors will negotiate with such purchaser and do its best to provide necessary information and ensure sufficient time for shareholders to properly judge whether to accept such purchase.

Moreover, in the event that such purchaser does not provide necessary information or it is deemed that such proposal may damage the corporate value and the common interests of the shareholders, the Board of Directors will take reasonable and effective countermeasures.

The Company will carefully discuss whether to implement specific takeover defense measures in advance, in consideration of the future economic environment, the capital markets, and trends in laws and regulations.

Board of Directors and Auditors

Masao Inagaki
Representative Director
Chairman

Koichiro Naganuma
Representative Director
President & Group CEO

Hideaki Hirose
Executive Director
Senior Operating Officer
Domestic Network

Takeo Hishiyama
Executive Director
Senior Operating Officer
Communication Planning &
Group Business

Kenji Mori
Executive Director
Senior Operating Officer
Account Services

Hideyuki Nagai
Executive Director
Senior Operating Officer
Media & Content Business

Yoji Shimizu
Executive Director
Senior Operating Officer
Account Services

Kazuhiko Narimatsu
Executive Director
Operating Officer
Account Services

Jiro Kitamura
Executive Director
Operating Officer
Promotion

Osamu Okayasu
Executive Director
Operating Officer
Account Services

Toshiyuki Inoue
Executive Director
Operating Officer
Media & Content Business

Shinichi Ueno
Executive Director
Operating Officer
Corporate

Yoshiki Uemura
Executive Director
Operating Officer
Creative

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

Yoshiro Sakai
Corporate Auditor

Yuzo Shikata
Corporate Auditor

Makoto Ichikawa
Corporate Auditor

Hideshige Haruki
Corporate Auditor

Operating Officers

Yasuto Horie
Katsuhiro Ikuma
Hidekatsu Ikedo
Ryuji Yokoyama
Osamu Ishikawa
Hiroaki Onohara
Hiroshi Nomiyama
Hiroshi Nakazato
Huang Hui
Chikara Yoshioka
Makoto Nakamura
Takeshi Kato
Akio Yoshi
Takashi Fukuzaki
Toshiyuki Kurayoshi
Ritsuo Fukazawa

Management's Discussion and Analysis

Performance Highlights of Fiscal 2008

- Consolidated Gross Billings Down 8.2% to ¥399.4 billion
- Gross Margin Improved to 12.3%
- Gross Profit Down 5.0% to ¥49.1 billion
- Operating Income Down 48.1% to ¥3.6 billion
- Net Income Down 60.3% to ¥2.1 billion
- EPS Down to ¥48.14

ADK Group Overview

As of the end of 2008, the ADK Group consisted of 48 subsidiaries (44 in advertising and four in non-advertising) and 22 affiliates (21 in advertising and one in non-advertising). The Group includes 23 consolidated subsidiaries and three equity-method affiliates. For more details on group companies, please see page 3.

Our global reach extends to 21 cities and is reinforced by a close alliance with WPP plc, which leads the world's largest communications group.

In fiscal 2008, the Group's advertising business generated gross billings of ¥391,229 million, equivalent to 97.9% of consolidated total billings. Other businesses generated ¥8,222 million, or 2.1% of total billings. The ADK Group's non-advertising business consists of book and magazine publishing and sales, as well as information processing services.

All overseas sales of the ADK Group were generated by the advertising business. Together, overseas sales represented 6.2% of consolidated gross billings.

The number of employees at the end of fiscal 2008 totaled 3,264, up 49 from a year earlier. The number of employees engaged in the advertising business segment was 3,185, up 62.

Consolidated Performance

Gross Billings

In fiscal 2008, under the global financial crisis, the ADK Group generated gross billings of ¥399,452 million, down 8.2% from fiscal 2007. ADK (the parent company) accounted for 89.8% of consolidated gross billings. In the year under review, ADK generated non-consolidated gross billings of ¥358,595 million, down 7.5% year on year. The reasons for the decline were mainly negative growth in gross billings of the media buying business and fewer new customers. For more details, please refer to the "Segment Information" section.

Consolidated Gross Billings and Selected Profitability Data

Millions of Yen except per common share amounts and financial ratios

	2008	2007	2006
Gross billings	¥399,452	¥435,011	¥420,059
Gross margin	12.3%	11.9%	11.6%
Operating margin	7.5%	13.8%	13.1%
Income before income taxes	¥ 3,775	¥ 10,122	¥ 9,682
Net income	¥ 2,125	¥ 5,350	¥ 5,070
Net income per share (Yen)	¥ 48.14	¥ 116.40	¥ 106.62

Gross Profit

The gross margin improved 0.4 percentage point to 12.3% mainly because of enhanced profitability in the media buying business of ADK. However, because of the decline in gross billings, gross profit decreased 5.0% year on year to ¥49,143 million.

Operating income

Because of limited flexibility in operating expenses, operating income declined 48.1% to ¥3,699 million. The operating margin was 7.5%, disappointingly lower than management's target of 15%.

Other Income and Expenses

Other income decreased 97.5% to ¥76 million mainly due to a smaller gain on sale of securities, the provision for retirement benefits to directors and corporate auditors at subsidiaries, and a larger exchange loss than a year earlier. The gain on sales of investment securities was ¥1,427 million, and the loss on sales of securities was ¥27 million. The loss on valuation of securities losses totaled ¥1,965 million. The ADK Group posted equity in profits of affiliates—net of ¥648 million because Digital Advertising Consortium Inc., a publicly traded Internet media buying rep, reported higher gross profit than the previous year and turned to profitability. In addition, another equity-method affiliate in information processing services reported larger net income, thanks mainly to a gain on sale of investment securities. The Group reported a ¥1,111 million foreign exchange loss. The exchange loss was larger than in fiscal 2007 mainly because at the intra-group transactions adjustment, the translation was made at the end-of-year rate, decreasing the consolidated cost of goods sold by ¥741 million and increasing the exchange loss by the same amount.

Net Income

Income before income taxes and minority interests totaled ¥3,775 million. After deductions of ¥1,641 million in income taxes and ¥8 million in minority interest, net income was ¥2,125 million, down 60.3% year on year. Net income per share totaled ¥48.14, down 58.6%.

Balance Sheet and Cash Flow

Assets and Liabilities

Although the ADK Group's capital expenditures during fiscal 2008 increased to ¥2,065 million, up ¥1,457 million from fiscal 2007, for investment in IT and the purchase of OOH media overseas, the Group accelerated its share buyback program and continued its efficient capital management program focus. Because of the global financial crisis, stock prices declined sharply and the yen appreciated significantly, causing the values of the Group's investment securities to plunge. At the end of fiscal 2008, the Group had total assets of ¥191,782 million, down ¥54,314 million from a year earlier. The decline was mainly due to a decrease in accounts payable—trade and a decline in investment securities. Consolidated interest-bearing debt at the fiscal year-end was ¥1,044 million. Total shareholders' equity, including the net valuation gain on hedging derivatives but excluding minority interests, stood at ¥100,588 million, with a 52.4% ratio of shareholders' equity to total assets.

Cash Flow

At the end of fiscal 2008, cash and cash equivalents totaled ¥12,807 million, a decrease of ¥5,187 million from the previous fiscal year-end.

Net cash used in operating activities amounted to ¥3,181 million compared with net cash provided by operating activities of ¥183 million in the previous fiscal year. Major items included ¥3,774 million in income before income taxes and minority interests and ¥803 million in depreciation, as well as a ¥5,421 million decrease in notes and accounts receivable and an ¥8,385 million decrease in notes and accounts payable. In addition, there was a ¥6 million decrease in inventories. Taxes paid totaled ¥4,065 million, a relatively high figure reflecting the Group's large taxable income in fiscal 2007.

Net cash provided by investing totaled ¥7,085 million compared with ¥4,488 million in fiscal 2007. Major components included proceeds from sales of securities of ¥13,334 million and purchases of securities of ¥5,561 million. Although the absolute amount of purchases of property and equipment and purchases of intangible assets were not very large, they were relatively larger during fiscal 2008 at ¥745 million and ¥1,319 million, respectively, mainly due to investments in OOH media overseas and IT at the parent.

Net cash used in financing activities was ¥7,853 million compared with ¥8,968 million in fiscal 2007. Major components were ¥1,883 million in dividends paid and ¥5,885 million in purchases of treasury stock–net, reflecting the Company's strong commitment to shareholder return.

Capital Expenditures and Depreciation

Millions of Yen

	2008		2007	
	Capital expenditures	Depreciation	Capital expenditures	Depreciation
Buildings	¥ 88	¥148	¥138	¥ 158
Building improvements	0	3	0	3
Vehicles	23	32	40	40
Furniture, fixtures and equipment	633	189	122	161
Land	0	0	0	0
Licenses	31	6	0	52
Computer software	1,287	414	304	744
Other	0	8	0	10
Total	¥2,065	¥803	¥607	¥1,170

Free Cash Flow

Millions of Yen

	2008	2007
Net cash provided by operating activities	¥ -3,181	¥ 183
Business reinvestment*	-2,031	-581
Free cash flow	¥ -5,212	¥-398

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

Dividend Distribution Policy and Share Buyback

Maximizing shareholder value is a top priority at ADK. Under our dividend distribution policy, 35% of consolidated net income is to be distributed through common dividends, with a minimum annual dividend of ¥20.00 per share. ADK makes semiannual dividend distributions instead of quarterly distributions in order to save on operational costs. Under this policy, the Company declared a year-end dividend of ¥10.00 per share, bringing the total annual dividend to ¥20.00 per share, as shown below:

FY2008 Dividends

	Interim	Year-end	Total
Dividend per share	¥10	¥10	¥20

In addition to cash dividends, ADK has been acquiring its own stock since 2001. Our plan here is to improve EPS by reducing the number of shares outstanding and curtailing the growth of equity. In the event that the targeted number of shares cannot be bought back, the Board will consider increasing cash dividends to bolster shareholder return. In fiscal 2008, ADK bought back 2,003,030 shares and purchased odd-lot shares valued at ¥5,885 million. Accordingly, total shareholder return—the sum of shares bought back and total cash dividend payments—was the equivalent of 317.9% of net income.

Segment Information

Advertising Business Segment

The Group's advertising business generated gross billings of ¥391,229 million, registering an 8.2% year-on-year decline. Segment operating income decreased 47.5% to ¥3,748 million.

1. ADK's Non-Consolidated Performance Information

Because all of ADK's non-consolidated gross billings and income are generated from the advertising business, and those non-consolidated gross billings represent 91.7% of consolidated advertising gross billings, the non-consolidated performance is reviewed below.

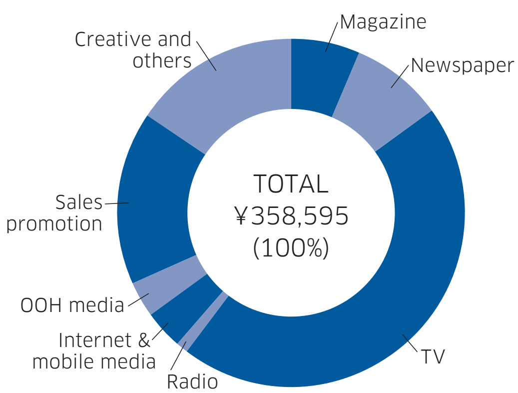
Non-Consolidated Performance Summary

Millions of Yen

	2008	2007	Change
Gross billings	¥358,595	¥387,860	-7.5%
Gross profit	38,640	40,678	-5.0
Operating income	2,463	6,172	-60.1
Net income	¥ 1,721	¥ 5,330	-67.7%

Non-Consolidated Performance by Division

Millions of Yen

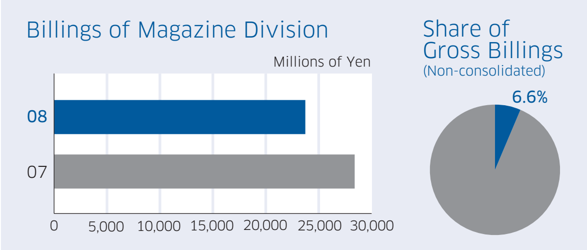


	Gross billings	Composition	Change
Media			
Magazine	¥ 23,737	6.6%	-16.4%
Newspaper	30,376	8.5	-11.1
TV	162,453	45.3	-8.7
Radio	3,710	1.0	-16.7
Internet & mobile media	13,467	3.8	-0.3
OOH media	12,097	3.4	4.4
Subtotal	¥245,843	68.6%	-9.0%
Non-media			
Sales promotion	¥ 57,434	16.0%	-0.9%
Creative and others	55,318	15.4	-7.5
Subtotal	112,752	31.4	-4.3
Total	¥358,595	100.0%	-7.5%

Notes:
1. The data in the table above show the gross billings by each division instead of by medium. Because each division offers cross-media solutions, the data may not represent gross billings by medium.
2. The gross billings by division are rounded down. Therefore, their sums do not equal the total or the subtotals.

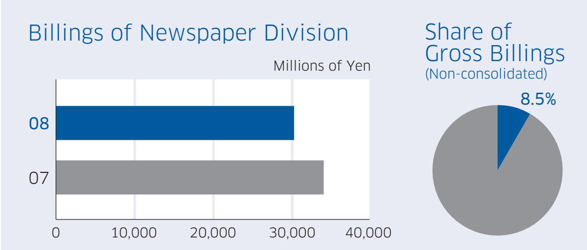
Magazine Division

In 2008, total magazine advertising expenditures fell sharply, down more than 10% year on year, whereas the number of suspended publications was the second highest in history, after 2007. Under these conditions, ADK's Magazine Division suffered a 16.4% year-on-year decline in gross billings to ¥23,737 million. This was due to lower billings to clients in the Cosmetics/Toiletries sector and the negative impact of competition from digital media.



Newspaper Division

The domestic newspaper advertising market remained depressed in 2008, with advertising expenditures down more than 10% year on year. ADK's Newspaper Division reported an 11.1% decline in gross billings to ¥30,376 million, stemming mainly from lower billings to clients in the Finance/Insurance and Automobile/Automobile-related products sectors.

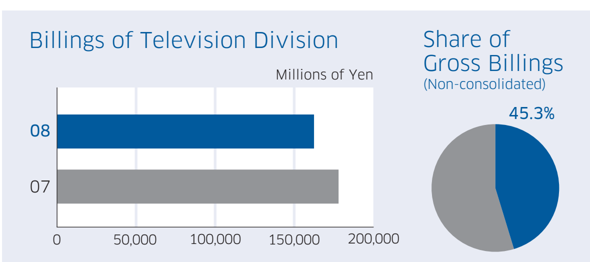


Television Division

In addition to time (program-sponsored) and spot ads, the Television Division derives revenue from the content business, highlighted by animation programs. In the year under review, the division generated a slight decline in gross billings from program-sponsored ad sales, mainly due to lower billings to clients in the Finance/Insurance and Restaurants/Other services sectors. This was despite higher billings to clients in the Information/Communications, Foods and Automobile/Automobile-related products sectors. Spot ad sales decreased significantly due to lower billings to clients in the Cosmetics/Toiletries, Restaurants/Others, Automobile/Automobile-related products and Electric machines/AV equipment sectors.

With respect to content-related sales, ADK began selling animation content via PC sites and mobile phones, stepped up sales of new and old programs overseas, and promoted sales of DVDs. Due to the yen's appreciation, however, overseas sales of animation programs declined.

As a result, the Television Division yielded gross billings of ¥162,453 million, an 8.7% year-on-year decline.



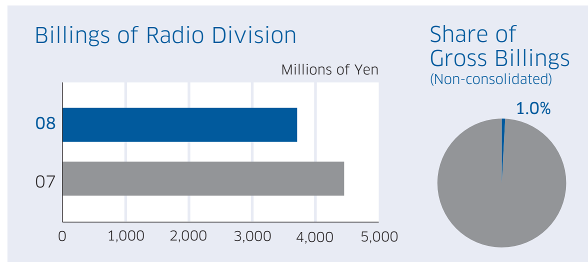
Television Division: Non-Consolidated Gross Billings by Category

Millions of Yen

	2008	2007	Change
Time (program-sponsored ads)	¥ 62,401	¥ 63,106	-1.1%
Spot	88,552	100,821	-12.2
Content-related sales	11,499	14,037	-18.1
Total	¥162,453	¥177,965	-8.7%

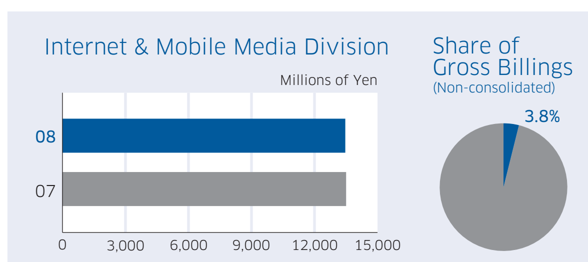
Radio Division

The radio advertising market continued to shrink in 2008. The Radio Division reported ¥3,710 million in gross billings, for a year-on-year decline of 16.7%. This decrease was mainly due to lower billings to clients in the Automobile/Automobile-related products sector, which is the largest source of revenue for the division.



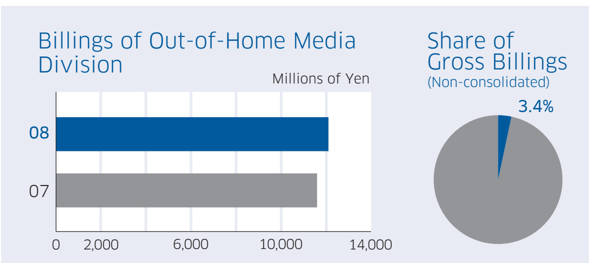
Internet & Mobile Media Division

The Internet & Mobile Media Division continued generating higher gross billings to clients in the Education/Healthcare services/Religion sector by offering cross-communications programs and closer relationships with media owners, as well as enhanced services via ADK Interactive, Inc., a newly established digital media sales subsidiary. Because a large contract with a major customer ended during the year, however, gross billings for the division edged down 0.3% to ¥13,467 million.



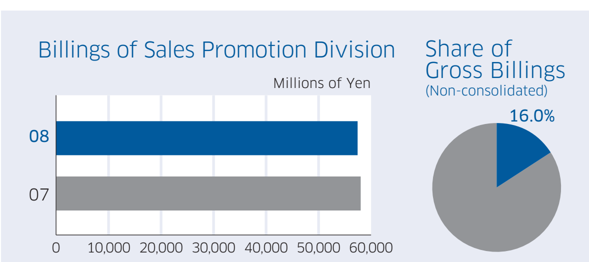
Out-of-Home Media Division

In fiscal 2008, the Out-of-Home Media Division generated increased gross billings by offering a range of integrated services. These included sales promotion campaigns and cross-media solutions, as well as developing billboards and in-store media, mainly to clients in the Electric machines/AV equipment and Automobile/Automobile-related products sectors. As a result, the division generated a 4.4% increase in gross billings to ¥12,097 million.



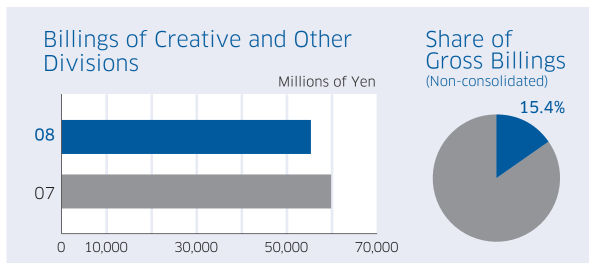
Sales Promotion Division

The Sales Promotion Division generated gross billings of ¥57,434 million, down 0.9%. The slight decline stemmed mainly from lower billings to clients in the Distribution/Retail, Information/Communications and Automobile/Automobile-related products sectors. This contrasted with higher billings to customers in the Beverages/Tobacco products and Classified ads/Other sectors, reflecting ADK's more integrated solutions and faster, less costly and more sophisticated ideas.



Creative and Other Divisions

The Creative Division continued helping and educating younger creators to enhance their ability to design integrated communications programs with deep insights into every medium. In addition, the division focused on several growing markets, such as real estate, and attracted new business as a result. The Marketing Division also generated higher gross billings. However, the combined gross billings of the two divisions and other miscellaneous advertising businesses decreased 7.5% to ¥55,318 million, due to shrinking advertising budgets among various clients.



Non-Consolidated Gross Billings, Market Share and Industry Ranking (1999–2008)

Millions of Yen

Year	Gross billings	Change	Market share*	Industry rank
1999	¥320,085	4.6%	5.62%	3
2000	340,888	6.5	5.57	3
2001	358,830	5.3	5.92	3
2002	334,915	-6.7	5.87	3
2003	357,597	6.8	6.29	3
2004	373,897	4.6	6.38	3
2005	384,849	2.9	5.64	3
2006	378,804	-1.6	5.46	3
2007	387,860	2.4	5.53	3
2008	¥358,595	-7.5%	5.36%	3

*Market share: According to "*Advertising Expenditures in Japan*" reported by Dentsu Inc. The scope of this report was expanded from 2006 to reflect the effect of the rapid expansion of the Internet and promotional advertising.

Gross Billings: Breakdown by Client Industry

(Non-consolidated)

Millions of Yen

	2008	Composition ratio	2007	Composition ratio	Change	
Energy/Raw Materials/Machinery	¥ 3,901	1.1%	¥ 4,985	1.3%	¥ -1,084	-21.7%
Foods	29,575	8.2	32,631	8.4	-3,022	-9.3
Beverages/Tobacco Products	22,804	6.4	25,140	6.5	-2,336	-9.3
Pharmaceuticals/Medical Supplies	12,800	3.6	15,239	3.9	-2,439	-16.0
Cosmetics/Toiletries	34,652	9.7	38,391	9.9	-3,739	-9.7
Apparel/Jewelry	12,619	3.5	13,303	3.4	-684	-5.1
Precision Instruments/Office Equipment	4,493	1.3	6,230	1.6	-1,736	-27.9
Electric Machines/AV Equipment	5,923	1.7	9,149	2.4	-3,270	-35.6
Automobiles/Automobile-Related Products	22,698	6.3	24,882	6.4	-2,183	-8.8
Household Products	3,494	1.0	1,898	0.5	1,596	84.1
Hobbies/Sporting Goods	22,466	6.3	20,308	5.2	2,034	10.0
Real Estate/Housing	12,837	3.6	13,775	3.6	-1,359	-9.6
Publications	3,929	1.1	3,554	0.9	375	10.6
Information/Communications	44,031	12.3	44,594	11.5	-520	-1.2
Distribution/Retail	25,847	7.2	25,762	6.6	86	0.3
Finance/Insurance	34,371	9.6	40,692	10.5	-6,321	-15.5
Transportation/Leisure	15,573	4.3	13,285	3.4	2,285	17.2
Restaurants/Other Services	9,028	2.5	16,750	4.3	-7,726	-46.1
Government/Organizations	9,662	2.7	9,387	2.4	696	7.8
Educational/Health Care Services/Religion	5,065	1.4	3,976	1.0	1,089	27.4
Classified Ads/Other	22,828	6.4	23,930	6.2	-1,006	-4.2
Total	¥358,595	100.0%	¥387,860	100.0%	¥ -29,264	-7.5%

2. Group Companies in the Advertising Business

The ADK Group's advertising agency companies had mixed results. Domestic subsidiaries as a whole reported lower gross billings than the previous year and incurred operating losses under stagnant market conditions. Overseas subsidiaries as a whole reported lower gross billings, due to the yen's appreciation, but higher operating income. This was attributable to the growth of subsidiaries in the United States and Southeast Asia, as well as reduced expenses by European and Taiwanese subsidiaries, which implemented restructuring campaigns.

Other Business Segment

ADK has two consolidated subsidiaries in the publications industry. The smaller subsidiary, specializing in the publication of periodicals to select membership clubs, continued struggling to obtain new contracts to absorb its fixed costs. The publications industry has been experiencing sluggish growth under the influence of growing consumer preference for the Internet and mobile media. Accordingly, the other subsidiary, which handles general publications, posted a decline in sales and reported an operating loss. This was despite its efforts to cut redundancies and discontinue less-profitable titles, as well as its campaign to squeeze printing costs. As a result, the Group's non-advertising businesses generated gross billings of ¥8,222 million, a 4.5% year-on-year decline, and posted an operating loss of ¥44 million compared with a ¥4 million operating loss in fiscal 2007.

Overseas Sales

In fiscal 2008, the ADK Group obtained 6.2% of its gross billings from outside Japan. All overseas sales are generated from the advertising business.

Outlook for Fiscal 2009

Fiscal 2009 First-Quarter Results

During the first three months of 2009, the ADK Group reported gross billings of ¥91,267 million (a 12.1% year-on-year decline), gross profit of ¥11,208 million (an 11.5% year-on-year decline) and operating income of ¥21 million (a 98.8% year-on-year decline). Equity in loss of affiliated companies—net was ¥10 million, whereas it was a ¥74 million loss in the first three months in 2008. This was mainly because net income at Digital Advertising Consortium Inc. was smaller, and another affiliate of information processing services reported a net loss due to seasonality. Income before income tax and minority interests decreased 91.4% to ¥130 million, and net income totaled ¥99 million, an 88.3% year-on-year decline.

Fiscal 2009 Forecast

It is anticipated that the recession in Japan will continue although we may see some short-term recoveries, and investments in communications by corporations will continue to be limited for some time. Considering this difficult economic environment and the results reported herein for the first three months of fiscal 2009, we are working on a possible revision of the forecast, but under increased uncertainty, the Group has not yet changed its forecast.

Fiscal 2009 Forecast (announced on February 13, 2009)

Millions of Yen

	2009	2008	Change
Gross billings	¥393,200	¥399,452	-1.6%
Operating income	3,100	3,699	-16.2
Net income	¥ 2,500	¥ 2,125	17.6%

Forward-Looking Statements and Risk Factors

This report may contain forward-looking statements based on ADK management's view and assumptions of future developments as of the date of such statements. The foregoing statements herein are inherently subject to risks, including, but not limited to, those shown below (under Tokyo Stock Exchange guidance) and 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 FY2008, the Group generated 93.8% of its gross billings from the Japanese domestic markets. Japanese national advertising spending has been strongly 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 to sell traditional mass media advertising space and time to its well-diversified clientele as well as carry out sales promotions and a wide range of peripheral services under its 360-degree communications approach. However, failure to respond appropriately to any market changes—including, but not limited to, changes in 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

Among the advertising media, digital media are developing rapidly through broadband and mobile products, supported by more developed technologies like video, enhanced search engines, information and view sharing services, weblogs, etc. These changes could cause consumers to spend more time on digital media and behave differently when purchasing goods. The ADK Group believes traditional and non-traditional media complement each other and that it is essential for an advertising agency to offer 360-degree cross-communications programs. However, if ADK fails to adapt to changes in the advertising media, its performance and financial conditions could be adversely affected.

Risks Arising from Industry Customs

With Advertising Clients:

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 conditions could be adversely affected.

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

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 other agency defaults, the advertising company is still liable for the media and/or materials toward a media owner and or a subcontracting production company.

With Media Owners:

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.

With Subcontractors:

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 the financing of such subcontractors with 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.

Competitive Risk

Competition among Japan's major advertising companies is intensifying. The several top tier agencies dominate with a nearly 50% market share. The ADK Group, the third largest group with a 5%–6% market share, competes in this market. Under the recessional economy, our advertising clients select effective ad campaigns and may tend to buy communications solutions from a small number of preferred agencies to better measure communications efficiencies and enjoy better prices. In addition, the entry of foreign mega-agency groups into the Japanese market, many new and rapidly growing entrants in the Internet advertising market and the dominance of Google in search engine marketing has accelerated the competition. In the event that ADK is unable to respond appropriately to client needs and changes in the advertising industry, and loses its competitiveness as a result, there is significant risk that its market share could decline and profitability could deteriorate. This would have a serious impact on its performance and financial condition.

Relationships with Advertisers

The ADK Group has a diversified portfolio of first-tier clients. The parent company's largest 10 and 20 clients accounted for 21.8% and 33.0% of total unconsolidated gross billings for fiscal 2008, respectively, 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.

Relationships with Media

ADK generates 68.6% of its unconsolidated gross billings by handling the four major mass media as well as the rapidly growing Internet and digital advertising sectors and OOH media. ADK strived to secure advertising time and/or space of these traditional and new media during fiscal 2008. However, in the event of a decrease in advertising volume and/or changes in business terms and conditions and advertising methods, and/or the emergence of new advertising formats, and should the ADK Group not respond to these changes appropriately, there is a significant possibility that its performance and financial conditions could be adversely affected.

Relationships with Subcontractors

Although 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.

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.

Also, most staff costs are fixed costs and accounted for 67.5% of total SG&A expenses in fiscal 2008. Therefore, staff costs have a large influence on the cost structure of the ADK Group.

Overseas Operations

In overseas markets, because of the 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, the Group's performance and financial condition could be significantly affected.

Content Business

ADK continues to develop new content under existing and new business models. However, there is no guarantee of the continued success of this 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.

Relationship with WPP plc

ADK has maintained strategic operating and equity ties with WPP plc since August 1998, holding a 2.49% equity stake in WPP (as of December 31, 2008). WPP holds 24.04% of the voting rights in ADK. At the same time, both companies have non-executive directors on each other's boards. By way of operating alliances with WPP Group operating companies, including JWT, ADK made a number of creative and promotional tie-ups and will continue to develop operations worldwide.

Because ADK does not own a majority of WPP's voting rights, and our influence on WPP Group operations is limited, in the event that the ADK Group is unable to realize the benefits from this relationship or if the relationship should negatively change in any way, there could 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 was ¥16,605 million as of the end of December 2008, when the WPP stock price was £4.025 per share, compared to the book value of ¥22,262 million (under the lower-of-cost-or-market method as of the end of 1998, when the stock price was £3.6517), in the event of a major deterioration in the Group's stock price on a sterling basis, there is a possibility that ADK would have to account for valuation losses on this holding.

Marketable Securities and Investment Securities

The ADK Group's holdings of marketable and investment securities (including the aforementioned stake in WPP plc and the equity method value of Digital Advertising Consortium, Inc. "DAC") totaled ¥41,925 million, representing 21.9% of our ¥191,782 million in total assets as of December 31, 2008. Of this amount, ¥29,833 million is publicly traded equity securities mostly for cross-shareholdings in advertising clients and other trading partners (excluding our 27.0% stake in DAC, the unconsolidated result of which is accounted for by the equity method at ¥2,024 million). Under the global financial crisis, the ADK Group incurs the balance of an unrealized loss on available-for-sale securities of ¥2,394 million after deducting deferred tax assets on such loss. In the event of a major decline in the market prices in each 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, an element of staff costs, through a smaller Projected Benefit Obligation and less risky pension asset investment strategy.

In the event of 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 periodical 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, 2008, were ¥70,570 million and ¥86,836 million, respectively, and therefore the difference was negative ¥16,266 million. The discount rates for the liabilities were mainly 5.5%.

The ADK Group's cash contribution share by both employers and employees made during the year through March 2008 were 9.01% and 5.54%, respectively, making the total 14.55%. Applying simply the shares to the aforementioned total fund assets, the Group's pro-rated share of assets as of March 31, 2008, was ¥10,265 million in total. Out of that amount, the employers' portion and the employees' portion were ¥6,358 million and ¥3,907 million, respectively. Likewise, the Group's pro-rated share of pension liabilities was ¥12,632 million in total. Out of that amount, the employers' portion and the employees' portion were ¥7,824 million and ¥4,807 million, respectively.

Contingent Litigation Risks

As of the date of the statements, the ADK Group had not been involved in or exposed to a lawsuit or dispute that could place significant negative influence on the group's performance and financial conditions. However, there is no guarantee that the Group will never be involved in or exposed to such a lawsuit or dispute.

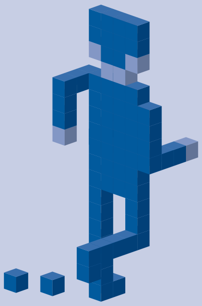
Legal Risks

The ADK Group's advertising clients are affected by a number of mandatory and voluntary regulations, depending on the types of businesses in which they engage. If these laws and regulations are tightened or new ones are enacted, our clients' advertising activities could shrink or become curtailed. Such changes could 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 to protect personal information, as well as regulations applicable to advertising companies. If there is a strengthening of existing laws or regulations affecting the 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 that there is the introduction of new laws or regulations, or the reinterpretation of existing laws or regulations, the result could also affect the ADK Group's performance.

Financial Section



Consolidated Balance Sheets

ASATSU-DK INC. and Consolidated Subsidiaries
Years Ended December 31, 2008 and 2007

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
ASSETS	2008	2007	2008
CURRENT ASSETS:			
Cash and time deposits	¥ 14,881	¥ 22,863	$ 163,473
Marketable securities (Note 3)	3,419	3,676	37,559
Notes and accounts receivable:			
–trade	101,823	108,045	1,118,565
Allowance for doubtful receivables	(723)	(624)	(7,942)
Inventories	8,624	9,037	94,738
Deferred tax assets (Note 7)	477	711	5,240
Other current assets	2,971	3,838	32,638
Total current assets	131,472	147,546	1,444,271
PROPERTY AND EQUIPMENT:			
Land	1,284	1,293	14,105
Buildings and leasehold improvements	4,028	4,142	44,249
Other	2,540	2,107	27,902
Total	7,852	7,542	86,256
Accumulated depreciation	(3,775)	(3,676)	(41,469)
Net property and equipment	4,077	3,866	44,787
INVESTMENTS AND OTHER ASSETS:			
Investment securities (Note 3)	34,926	77,246	383,675
Investments in unconsolidated subsidiaries and affiliated companies	7,314	6,812	80,347
Deferred tax assets (Note 7)	3,574	449	39,262
Other assets	10,419	10,178	114,457
Total investments and other assets	56,233	94,685	617,741
TOTAL	¥191,782	¥246,097	$2,106,799

See notes to consolidated financial statements.

LIABILITIES AND NET ASSETS	Millions of Yen 2008	Millions of Yen 2007	Thousands of U.S. Dollars (Note 1) 2008
CURRENT LIABILITIES:			
Short-term debt (Note 4)	¥ 551	¥ 1,084	$ 6,053
Current portion of long-term debt (Note 4)	151	48	1,659
Notes and accounts payable—trade	78,241	87,417	859,508
Income taxes payable (Note 7)	52	2,345	571
Accrued bonuses to employees	291	679	3,196
Allowance for sales returns	599	537	6,580
Deferred tax liabilities (Note 7)	6	–	66
Other current liabilities	7,663	7,787	84,181
Total current liabilities	87,554	99,897	961,814
LONG-TERM LIABILITIES:			
Long-term debt (Note 4)	341	60	3,746
Accrued retirement benefits (Note 5)	850	1,246	9,338
Allowance for retirement benefits to directors and corporate auditors*	1,145	694	12,578
Provision for loss on guarantees	37	–	406
Deferred tax liabilities (Note 7)	13	12,132	143
Other long-term liabilities	225	222	2,472
Total long-term liabilities	2,611	14,354	28,683
CONTINGENT LIABILITIES (Note 10)			
NET ASSETS (Note 6):			
Shareholders' equity			
Common stock			
Authorized: 206,000,000 shares in 2008 and 2007;			
Issued: 45,155,400 shares in 2008 and 2007, respectively	37,581	37,581	412,842
Capital surplus	20,024	20,024	219,971
Retained earnings	52,158	51,901	572,976
Treasury stock—at cost	(6,088)	(203)	(66,879)
Total shareholders' equity—net	103,675	109,303	1,138,910
Valuation and translation adjustments			
Unrealized gain (loss) on available-for-sale securities	(2,394)	20,304	(26,299)
Deffered gain (loss) on delivatives under hedge accounting	(22)	1	(241)
Foreign currency translation adjustments	(671)	1,087	(7,371)
Total valuation and translation adjustments	(3,087)	21,392	(33,911)
Minority interests	1,029	1,151	11,303
Total net assets	101,617	131,846	1,116,302
TOTAL	¥191,782	¥246,097	$2,106,799

*No allowance for retirement benefits to corporate auditors was standing as of December 31, 2008, due to the abolition of the retirement bonus system to them.

See notes to consolidated financial statements.

Consolidated Statements of Income

ASATSU-DK INC. and Consolidated Subsidiaries
Years Ended December 31, 2008 and 2007

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2008	2007	2008
GROSS BILLINGS (Note 12)	¥399,452	¥435,011	$4,388,135
COST OF SALES (Note 12)	350,309	383,257	3,848,280
Gross profit	49,143	51,754	539,855
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES (Notes 8 and 12)	45,444	44,620	499,220
Operating income	3,699	7,134	40,635
OTHER INCOME (EXPENSES):			
Interest and dividend income–net	1,732	1,902	19,026
Gain on sales of securities	1,427	2,761	15,676
Loss on sales of securities	(27)	(0)	(296)
Loss on valuation of securities	(1,965)	(1,644)	(21,586)
Amortization of negative goodwill	–	31	–
Equity in earnings (losses) of affiliated companies–net	648	(258)	7,118
Additional retirement benefits paid to employees	(321)	(47)	(3,526)
Provision for retirement benefits paid to directors and corporate auditors	(459)	–	(5,042)
Provision for loss on guarantees	(37)	–	(406)
Exchange loss	(1,111)	(72)	(12,205)
Other–net	189	315	2,076
Other income–net	76	2,988	835
INCOME BEFORE INCOME TAXES AND MINORITY INTERESTS	3,775	10,122	41,470
INCOME TAXES (Note 7):			
Current	1,488	4,514	16,346
Deferred	154	180	1,692
MINORITY INTERESTS IN NET INCOME	8	78	88
NET INCOME	¥ 2,125	¥ 5,350	$ 23,344

See notes to consolidated financial statements.

Consolidated Statements of Changes in Net Assets (1)

ASATSU-DK INC. and Consolidated Subsidiaries
Year Ended December 31, 2008

Millions of Yen

Year Ended December 31, 2008

	Shareholders' equity				
	Common stock	Capital surplus	Retained earnings	Treasury stock–at cost	Total shareholders' equity
Balance as of December 31, 2007	¥37,581	¥20,024	¥51,901	¥ (203)	¥109,303
Change during the consolidated fiscal year					
Dividend payments			(1,883)		(1,883)
Net income			2,125		2,125
Increase due to newly consolidated subsidiaries			19		19
Acquisitions of treasury stock				(5,888)	(5,888)
Disposals and cancellation of treasury stock				3	3
Increase due to change in accounting standards of foreign subsidiaries			1		1
Other decrease of retained earnings (Note)			(5)		(5)
(Net) changes of items other than shareholders' equity					
Total change during the consolidated fiscal year	–	–	257	(5,885)	(5,628)
Balance as of December 31, 2008	¥37,581	¥20,024	¥52,158	¥(6,088)	¥103,675

	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, 2007	¥20,304	¥ 1	¥1,087	¥21,392	¥1,151	¥131,846
Change during the consolidated fiscal year						
Dividend payments						(1,883)
Net income						2,125
Increase due to newly consolidated subsidiaries						19
Acquisitions of treasury stock						(5,888)
Disposals and cancellation of treasury stock						3
Increase due to change in accounting standards of foreign subsidiaries						1
Other decrease of retained earnings (Note)						(5)
(Net) changes of items other than shareholders' equity	(22,698)	(23)	(1,758)	(24,479)	(122)	(24,601)
Total change during the consolidated fiscal year	(22,698)	(23)	(1,758)	(24,479)	(122)	(30,229)
Balance as of December 31, 2008	¥ (2,394)	¥(22)	¥ (671)	¥ (3,087)	¥1,029	¥101,617

(Note) Other decrease of retained earnings is appropriation of retained earnings at a Chinese subsidiary to provide reserves for employees incentive and welfare funds under a Chinese accounting standard.

Consolidated Statements of Changes in Net Assets (2)

ASATSU-DK INC. and Consolidated Subsidiaries
Year Ended December 31, 2007

Millions of Yen

Year Ended December 31, 2007

	Shareholders' equity				
	Common stock	Capital surplus	Retained earnings	Treasury stock–at cost	Total shareholders' equity
Balance as of December 31, 2006	¥37,581	¥ 40,607	¥47,671	¥(12,973)	¥112,886
Change during the consolidated fiscal year					
Dividend payments			(1,258)		(1,258)
Net income			5,350		5,350
Increase due to newly consolidated subsidiaries			138		138
Acquisitions of treasury stock				(7,813)	(7,813)
Disposals and cancellation of treasury stock		(20,583)		20,583	0
(Net) changes of items other than shareholders' equity					
Total change during the consolidated fiscal year	–	(20,583)	4,230	12,770	(3,583)
Balance as of December 31, 2007	¥37,581	¥ 20,024	¥51,901	¥ (203)	¥109,303

	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, 2006	¥26,676	¥1	¥ 775	¥27,452	¥1,049	¥141,387
Change during the consolidated fiscal year						
Dividend payments						(1,258)
Net income						5,350
Increase due to newly consolidated subsidiaries						138
Acquisitions of treasury stock						(7,813)
Disposals and cancellation of treasury stock						0
(Net) changes of items other than shareholders' equity	(6,372)	0	312	(6,060)	102	(5,958)
Total change during the consolidated fiscal year	(6,372)	0	312	(6,060)	102	(9,541)
Balance as of December 31, 2007	¥20,304	¥1	¥1,087	¥21,392	¥1,151	¥131,846

Consolidated Statements of Changes in Net Assets (3)

ASATSU-DK INC. and Consolidated Subsidiaries
Year Ended December 31, 2008

Thousands of U.S. Dollars (Note 1)

Year Ended December 31, 2008

	Shareholders' equity				
	Common stock	Capital surplus	Retained earnings	Treasury stock—at cost	Total shareholders' equity
Balance as of December 31, 2007	$412,842	$219,971	$570,153	$ (2,230)	$1,200,736
Change during the consolidated fiscal year					
Dividend payments			(20,685)		(20,685)
Net income			23,344		23,344
Increase due to newly consolidated subsidiaries			208		208
Acquisitions of treasury stock				(64,681)	(64,681)
Disposals and cancellation of treasury stock				32	32
Increase due to change in accounting standards of foreign subsidiaries			10		10
Other decrease of retained earnings (Note)			(54)		(54)
(Net) changes of items other than shareholders' equity					
Total change during the consolidated fiscal year	–	–	2,823	(64,649)	(61,826)
Balance as of December 31, 2008	$412,842	$219,971	$572,976	$ (66,879)	$1,138,910

	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, 2007	$223,047	$ 11	$11,941	$234,999	$12,643	$1,448,378
Change during the consolidated fiscal year						
Dividend payments						(20,685)
Net income						23,344
Increase due to newly consolidated subsidiaries						208
Acquisitions of treasury stock						(64,681)
Disposals and cancellation of treasury stock						32
Increase due to change in accounting standards of foreign subsidiaries						10
Other decrease of retained earnings (Note)						(54)
(Net) changes of items other than shareholders' equity	(249,346)	(252)	(19,312)	(268,910)	(1,340)	(270,250)
Total change during the consolidated fiscal year	(249,346)	(252)	(19,312)	(268,910)	(1,340)	(332,076)
Balance as of December 31, 2008	$ (26,299)	$(241)	$ (7,371)	$ (33,911)	$11,303	$1,116,302

(Note) Other decrease of retained earnings is appropriation of retained earnings at a Chinese subsidiary to provide reserves for employees incentive and welfare funds under a Chinese accounting standard.

	Yen		U.S. Dollars (Note 1)
	2008	2007	2008
PER SHARE OF COMMON STOCK:			
Net income			
Basic	¥ 48.14	¥ 116.40	$ 0.53
Diluted	48.12	–	0.53
Net assets	2,334.48	2,898.49	25.65
Cash dividend applicable to the year	20.00	42.00	0.22

See notes to consolidated financial statements.

Consolidated Statements of Cash Flows

ASATSU-DK INC. and Consolidated Subsidiaries
Years Ended December 31, 2008 and 2007

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2008	2007	2008
OPERATING ACTIVITIES:			
Income before income taxes and minority interests	¥ 3,774	¥10,122	$ 41,458
Adjustments for:			
Income taxes—paid	(4,065)	(4,664)	(44,655)
Depreciation and amortization	803	1,170	8,821
Equity in losses (earnings) of affiliated companies	(648)	258	(7,118)
Gain on sales of securities	(1,427)	(2,761)	(15,676)
Loss on sales of securities	27	0	296
Loss on valuation of securities	1,965	1,644	21,586
Changes in assets and liabilities:			
(Increase) Decrease in notes and accounts receivable	5,421	(6,156)	59,551
Increase in inventories	(6)	(926)	(65)
Increase (Decrease) in notes and accounts payable	(8,385)	1,435	(92,112)
Others—net	(640)	61	(7,030)
Total adjustments	(6,955)	(9,939)	(76,402)
Net cash provided by operating activities	(3,181)	183	(34,944)
INVESTING ACTIVITIES:			
Increase in time deposits—net	1,415	(893)	15,544
Proceeds from sales of securities	13,344	6,933	146,589
Purchases of securities	(5,561)	(1,476)	(61,090)
Proceeds from sales of property and equipment	33	25	362
Purchases of property and equipment	(745)	(302)	(8,184)
Purchases of intangible assets	(1,319)	(304)	(14,489)
Other investing activities	(82)	505	(901)
Net cash used in investing activities	7,085	4,488	77,831
FINANCING ACTIVITIES:			
Increase (Decrease) in short-term debt—net	(444)	686	(4,877)
Increase of long-term debt	455	–	4,998
Repayment of long-term debt	(70)	(49)	(769)
Redemption of bonds	–	(500)	–
Purchases of treasury stock—net	(5,885)	(7,812)	(64,649)
Dividends paid	(1,883)	(1,258)	(20,685)
Other financing activities	(26)	(35)	(286)
Net cash used in financing activities	(7,853)	(8,968)	(86,268)
FOREIGN CURRENCY TRANSLATION ADJUSTMENTS ON CASH AND CASH EQUIVALENTS	(1,289)	252	(14,160)
NET DECREASE IN CASH AND CASH EQUIVALENTS	¥ (5,238)	¥ (4,045)	$ (57,541)
CASH AND CASH EQUIVALENTS, BEGINNING OF THE YEAR	17,994	21,932	197,671
CASH AND CASH EQUIVALENTS OF NEWLY CONSOLIDATED SUBSIDIARIES, BEGINNING OF THE YEAR	51	107	560
CASH AND CASH EQUIVALENTS, END OF THE YEAR	¥12,807	¥17,994	$140,690

See notes to consolidated financial statements.

Notes to Consolidated Financial Statements

ASATSU-DK INC. and Consolidated Subsidiaries
Years Ended December 31, 2008 and 2007

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 Financial Instrument 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 ¥91.03 to U.S.$1.00, the approximate rate of exchange on December 31, 2008. 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 2007 financial statements to conform to the presentation for 2008.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Consolidation—The consolidated financial statements include the accounts of the Company and its significant twenty-three (23) (twenty-three (23) in 2007) 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.

Twenty-two (22) subsidiaries use a fiscal year ended at December 31, so does the Company. One subsidiary uses a fiscal year ended at September 30. The consolidated financial statements include the financial statements of this subsidiary for its respective fiscal years after making appropriate adjustments for significant transactions during the periods from its respective year-end dates to the date of the consolidated financial statements.

Investments in three (3) affiliated companies, 20% to 50% of which interests are owned by the Company, are accounted for by the equity method. (Investments in the three (3) affiliated companies were accounted for by the equity method in 2007.) Investments in the remaining twenty-five (25) (twenty-seven (27) in 2007) unconsolidated subsidiaries and eighteen (18) (nineteen (19) in 2007) 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 intra-group transactions 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 short terms, 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, 2008 and 2007 are reconciled to the balance sheets as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2008	2007	2008
Balance sheet:			
Cash and time deposits	¥14,881	¥22,863	$163,473
Securities	3,419	3,676	37,559
Total	18,300	26,539	201,032
Less:			
Time deposits over three months	3,960	5,326	43,502
Securities not applicable to cash equivalents (Securities other than Money Management Funds, etc.)	1,533	3,219	16,840
Cash and cash equivalents	¥12,807	¥17,994	$140,690

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 of sales promotion programs, and event marketing to clients.

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

i) trading securities, which are held for the purpose of earning capital gains in the near term, are reported at fair value, and the related unrealized gains and losses are 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 cost after amortization or accumulation of any difference between cost and face value and iii) available-for-sale securities, which are not classified as either of the aforementioned securities, are reported at fair value, and which unrealized gains and losses, net of applicable taxes, are reported to Unrealized gain (loss) on available-for-sale securities, a component of net assets. As of the end of 2007 and 2008, the Company and its consolidated subsidiaries have no balance of held-to-maturity debt securities.

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 which have not been 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 mainly by 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 by 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

Under the amendment of Japanese Corporation Tax Law, effective April 2007, the Company and its domestic subsidiaries are allowed to depreciate the entire cost of their property, plant and equipment leaving no salvage value. The property, plant and equipment acquired by March 31, 2007 are and will be depreciated to the value allowed to depreciate as originally scheduled before the amendment of the law, and then the remaining amount (i.e., the balance not yet depreciated) is and will be depreciated to zero value from the following year in five years. The effects of the changes and application of the amended tax law are immaterial.

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 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, except for the liability in regard with Japan Advertising Industry Pension Fund, as noted later.

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

The Company decided to abolish the system for granting retirement benefits for corporate auditors at the 52nd Ordinary General Meeting of Shareholders held on March 28, 2007 and to make cutoff payments for retirement benefits, which would be paid at the time of retirement of the respective corporate auditors. This has led to the reclassification of the balance sheet as of the end of 2007, where the allowance for retirement benefits to corporate auditors was transferred to other long-term liabilities.

During the fiscal 2008, some of the domestic consolidated subsidiaries stipulated their internal rules for retirement benefits to their board members and corporate auditors. Accordingly, these subsidiaries and the Group recognized allowance for retirement benefits to directors and corporate auditors incurred by the end of 2008.

The Company and some of its domestic subsidiaries are the members of 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 periodical benefit costs applicable for the fund but not as 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, where ownership of the leased property is deemed to be transferred 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 properties are capitalized.

j. Software and R&D Costs—Research and development costs are charged to income when incurred. Capitalized software for internal use amounting to ¥1,848 million ($20,302 thousand) in 2008 and ¥970 million in 2007, respectively, included in "Other assets" of investments and other assets, was amortized by the straight line method based on the 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 by applying statutory tax rate to the temporary differences. With respect to the deferred tax assets, the companies believe it is more likely than not that such tax benefits will be realized through the reduction of future taxable income.

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 of shareholders' equity 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 basic net income per share is based on net income attributable to shareholders of common stock and the weighted average number of shares outstanding during each year, and diluted net income per share is computed based on net income attributable to shareholders of common stock after giving the effect to the net income of an affiliated company which has the dilutive potential of shares and the weighted average number of shares outstanding during each year. The average number of common shares used in the computation was 44,145,863 shares for the fiscal year ended December 31, 2008 and 45,963,907 shares for the fiscal year ended December 31, 2007, respectively.

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

3. MARKETABLE AND INVESTMENT SECURITIES

The carrying amount and aggregate fair value of the securities classified as available-for-sale as of December 31, 2008 and 2007 were as follows:

	Millions of Yen			
2008	Cost	Unrealized gains	Unrealized losses	Fair value
Available-for-sale:				
Equity securities	¥33,231	¥4,358	¥7,756	¥29,833
Debt securities	5,363	4	499	4,868
Other	924	1	13	912
Total	¥39,518	¥4,363	¥8,268	¥35,613

	Millions of Yen			
2007	Cost	Unrealized gains	Unrealized losses	Fair value
Available-for-sale:				
Equity securities	¥34,636	¥34,132	¥ 561	¥68,207
Debt securities	10,732	146	689	10,189
Other	483	4	34	453
Total	¥45,851	¥34,282	¥1,284	¥78,849

2008	Cost	Unrealized gains	Unrealized losses	Fair value
	Thousands of U.S. Dollars			
Available-for-sale:				
Equity securities	$365,055	$47,874	$85,202	$327,727
Debt securities	58,915	44	5,482	53,477
Other	10,150	11	143	10,018
Total	$434,120	$47,929	$90,827	$391,222

The carrying amount of the securities classified as available-for-sale securities whose fair values are not readily determinable as of December 31, 2008 and 2007 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
Carrying amount	2008	2007	2008
Available-for-sale:			
Non-listed equity securities	¥1,451	¥1,639	$15,940
Investment trust	1,126	–	12,369
Money management funds	–	83	–
Free financial funds	–	4	–
Medium-term government bond funds	–	68	–
Other	155	279	1,703
Total	¥2,732	¥2,073	$30,012

Total sales of available-for-sale securities sold in the years ended December 31, 2008 and 2007 amounted to ¥11,393 million ($125,157 thousand) and ¥8,499 million and the related gains amounted to ¥1,464 million ($16,082 thousand) and ¥2,761 million, and the related losses amounted to ¥79 million ($868 thousand) and ¥0 million, respectively.

The redemption schedule for available-for-sale securities with maturities as of December 31, 2008 and 2007 is as follows. (Note: If a security with a derivative instrument is to be redeemed earlier than the contracted maximum maturity date under certain conditions, regardless of such conditions, the maximum maturity date is reflected in the schedule.)

2008	Due within one year	1 to 5 years	5 to 10 years	Over 10 years
	Millions of Yen			
Debt securities	¥1,568	¥1,132	¥491	¥1,674
Other	–	–	–	–
Total	¥1,568	¥1,132	¥491	¥1,674

2007	Due within one year	1 to 5 years	5 to 10 years	Over 10 years
	Millions of Yen			
Debt securities	¥3,099	¥3,459	¥1,021	¥2,610
Other	16	–	–	47
Total	¥3,115	¥3,459	¥1,021	¥2,657

2008	Due within one year	1 to 5 years	5 to 10 years	Over 10 years
	Thousands of U.S. Dollars			
Debt securities	$17,225	$12,435	$5,394	$18,390
Other	–	–	–	–
Total	$17,225	$12,435	$5,394	$18,390

4. SHORT-TERM AND LONG-TERM DEBT

The weighted average annual interest rates applicable to the short-term debt were 2.07% and 3.27% at December 31, 2008 and 2007, respectively.

Long-term debt as of December 31, 2008 and 2007 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2008	2007	2008
Loans due through 2013 (See note below.)	¥ 492	¥108	$ 5,405
Amount due within one year	(151)	(48)	(1,659)
Total	¥ 341	¥ 60	$ 3,746

Note: Weighted average interest rates or averages of interest rates applicable to loans outstanding at the end of each fiscal year weighted by then amounts of loans, for the loans due beyond one year are 4.53% p.a. in 2008 and 1.67% p.a. in 2007. Weighted average interest rates of the loans due within one year are 2.97% p.a. in 2008 and 2.62% p.a. in 2007.

Repayment schedule of long-term debt as of December 31, 2008, was as follows:

Year Ending December 31	Millions of Yen	Thousands of U.S. Dollars
2009	¥151	$1,659
2010	91	1,000
2011	91	1,000
2012	91	1,000
2013	68	746
Total	¥492	$5,405

The carrying amounts of assets pledged as collateral for long-term debt of ¥60 million ($659 thousand) as of December 31, 2008, were as follows:

	Millions of Yen	Thousands of U.S. Dollars
Land, property and equipment—net of accumulated depreciation	¥193	$2,120
Total	¥193	$2,120

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 and plans provided by the Japan Advertising Industry Pension Fund, as well as unfunded lump-sum payment plans under which all eligible employees are entitled to benefits based on the level of salary, length of services and certain other factors.

The liabilities for employees' retirement benefits and pension plans as of December 31, 2008 and 2007 are comprised of the following. (See the *Remarks below.)

	Millions of Yen		Thousands of U.S. Dollars
	2008	2007	2008
Projected benefit obligation	¥11,048	¥10,953	$121,366
Fair value of plan assets	(7,897)	(8,816)	(26,046)
Unrecognized actuarial differences	(2,371)	(891)	(86,751)
Accrued retirement benefits	¥ 780	¥ 1,246	$ 8,569

The components of net periodic benefit costs for the years ended December 31, 2008 and 2007 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2008	2007	2008
Service cost	¥ 762	¥ 792	$ 8,371
Interest cost	201	195	2,208
Expected return on plan assets	(132)	(123)	(1,450)
Amortization of actuarial differences	131	104	1,439
Contributions paid during the period, etc. (See the *Remarks below.)	978	929	10,743
Net periodic benefits costs	¥1,940	¥1,897	$21,311

The discount rate used by the Group was 2.0% as of the years ended December 31, 2008 and 2007. The rate of expected return on plan assets used by the Group was 1.5% for the years ended December 31, 2008 and 2007. 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 differences 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 periodical benefit costs, but does not recognize pension assets and liabilities as stated above.

Contributions paid during the period, etc., stated in the table shown above 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 purpose only.)

a. Total pension assets and liabilities of the fund

	Millions of Yen		Thousands of U.S. Dollars
	March 31, 2008	March 31, 2007	March 31, 2008
Pension liabilities	¥(86,836)	¥(65,101)	$(953,927)
Pension assets	70,570	80,894	775,239
Net assets (deficits)	¥(16,266)	¥ 15,793	$(178,688)

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

	April 1, 2007– March 31, 2008	April 1, 2006– March 31, 2007
Share of the Group as employers	9.01%	9.01%
Share of employees	5.54%	5.67%
Total	14.55%	14.68%

c. Products of pension assets or liabilities and the Group's share of the contribution to the fund

	Millions of Yen	
March 31, 2008	Share of the Group as employer	Share of employees
Pension liabilities	¥(7,824)	¥(4,807)
Pension assets	6,358	3,907
Net deficits	¥(1,466)	¥ (900)

	Millions of Yen	
March 31, 2007	Share of the Group as employer	Share of employees
Pension liabilities	¥(5,867)	¥(3,693)
Pension assets	7,290	4,588
Net assets	¥ 1,423	¥ 895

	Thousands of U.S. Dollars	
March 31, 2008	Share of the Group as employer	Share of employees
Pension liabilities	$(85,949)	$(52,806)
Pension assets	69,845	42,919
Net deficits	$(16,104)	$ (9,887)

d. Supplemental information

The fund's net pension deficit amount of ¥16,266 million ($178,688 thousand) on March 31, 2008 stated in the item "a" above equals to the sum of prior service liabilities of ¥7,553 million ($82,973 thousand) and net accumulated deficit carry-forward of ¥8,712 million ($95,705 thousand). Likewise, the fund's net pension asset amount of ¥15,793 million on March 31, 2007 equals to the sum of prior service liabilities of ¥7,724 million and earnings surplus of ¥23,518 million.

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 ¥111 million ($1,219 thousand) and ¥113 million during the periods from April 1, 2007 to March 31, 2008 and from April 1, 2006 to March 31, 2007, respectively, for this amortization.

6. CHANGE IN NET ASSETS

The type and number of shares issued and treasury stock as of December 31, 2008 and 2007 were as follows:

	Type of shares issued	Type of treasury stock
2008	Common stock	Common stock
Number of shares as of December 31, 2007	45,155,400	64,297
Number of shares increased during the accounting period ended December 31, 2008	–	2,004,159
Number of shares decreased during the accounting period ended December 31, 2008	–	(1,129)
Number of shares as of December 31, 2008	45,155,400	2,067,327

Notes: 1. Increase in the number of treasury stock was due to the purchase of 2,000,000 shares with an approval of board of directors meeting and purchase of 4,159 shares of less-than-one-unit shares.
2. Decreases in the number of treasury stock were due to sales of 1,129 shares of less-than-one-unit shares.

	Type of shares issued	Type of treasury stock
2007	Common stock	Common stock
Number of shares as of December 31, 2006	51,655,400	4,558,407
Number of shares increased during the accounting period ended December 31, 2007	–	2,006,087
Number of shares decreased during the accounting period ended December 31, 2007	(6,500,000)	(6,500,197)
Number of shares as of December 31, 2007	45,155,400	64,297

Notes: 1. Increase in the number of treasury stock was due to the purchase of 2,000,000 shares with an approval of board of directors meeting and purchase of 6,087 shares of less-than-one-unit shares.
2. Decreases in the number of treasury stock were due to the cancellation of treasury stock of 6,500,000 shares based on an approval by the board of directors and sales of 197 shares of less-than-one-unit shares.

Information related to dividends for the accounting periods ended December 31, 2008 and 2007, was as follows:

2008

Dividend paid during the accounting period ended December 31, 2008

Resolution	Board of Directors February 14, 2008	Board of Directors August 14, 2008
Total amount of dividend	¥1,442 million	¥440 million
Dividends per share	¥32	¥10
Record date	December 31, 2007	June 30, 2008
Payable date	March 12, 2008	September 16, 2008

Dividend attributable to the performance of the accounting period ended December 31, 2008, but paid after said accounting period

Resolution	Board of Directors February 13, 2008
Total amount of dividend	¥430 million
Fund of dividend	Retained earnings
Dividends per share	¥10
Record date	December 31, 2008
Payable date	March 12, 2009

2007

Dividend paid during the accounting period ended December 31, 2007

Resolution	Board of Directors February 14, 2007	Board of Directors August 15, 2007
Total amount of dividend	¥800 million	¥457 million
Dividends per share	¥17	¥10
Record date	December 31, 2006	June 30, 2007
Payable date	March 13, 2007	September 13, 2007

Dividend attributable to the performance of the accounting period ended December 31, 2007, but paid after said accounting period

Resolution	Board of Directors February 14, 2008
Total amount of dividend	¥1,442 million
Fund of dividend	Retained earnings
Dividends per share	¥32
Record date	December 31, 2007
Payable date	March 12, 2008

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 2008 and 2007, 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, 2008 and 2007 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2008	2007	2008
Deferred tax assets:			
Allowance for doubtful receivables	¥ 505	¥ 424	$ 5,548
Accrued bonuses	36	183	395
Accrued retirement benefits	300	386	3,295
Investment securities	392	403	4,307
Tax loss carry-forwards	424	131	4,657
Unrealized loss on marketable securities	1,921	–	21,103
Deferred tax assets in overseas consolidated subsidiaries*	150	43	1,648
Other	929	1,014	10,205
	4,657	2,584	51,158
Valuation allowance**	(242)	(117)	(2,658)
Total deferred tax assets	4,415	2,467	48,500
Deferred tax liabilities:			
Accrued retirement benefits	94	–	1,032
Unrealized gain on marketable securities	204	13,436	2,241
Deferred tax liabilities in overseas consolidated subsidiaries*	70	3	769
Other	15	–	165
Total deferred tax liabilities	383	13,439	4,207
Total net deferred tax liabilities	¥4,032	¥10,972	$44,293

*Remarks: The deferred tax assets and liabilities in overseas consolidated subsidiaries as results of the tax effects of significant temporary differences and losses carry-forward as of the end of fiscal years 2008 and 2007 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2008	2007	2008
Deferred tax assets:			
Tax loss carry-forwards	¥119	¥ 85	$1,307
Other	31	57	340
Less valuation allowance**	(72)	(99)	(790)
Deferred tax assets	78	43	857
Deferred tax liabilities –Depreciation	69	–	758
–Other	2	2	22
Deferred tax liabilities	71	2	780
Net deferred tax assets	¥ 7	¥ 41	$ 77

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

Reconciliation between the normal effective statutory tax rate for the years ended December 31, 2008 and 2007 and the actual effective tax rates reflected in the accompanying consolidated statements of income were as follows:

	2008	2007
Normal effective statutory tax rate	40.69%	40.69%
Certain expenses, including, but not limited to, entertainment expenses, permanently not deductible for tax purposes	10.23	5.61
Certain incomes, including, but not limited to, dividend income, permanently not taxable for tax purposes	(2.20)	(1.41)
Per capita levy	0.78	0.29
Tax rate difference applicable to overseas subsidiaries	(3.03)	–
Other–net	(2.98)	1.20
Actual effective tax rate	43.49%	46.38%

8. RESEARCH AND DEVELOPMENT COSTS

Research and development costs charged to income for the years ended December 31, 2008 and 2007 were ¥1,084 million ($11,908 thousand) and ¥844 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, 2008 and 2007, were as follows:

Millions of Yen

Year Ended December 31, 2008	Furniture and equipment	Machinery and vehicles	Software	Total
Acquisition cost	¥1,801	¥33	¥395	¥2,229
Accumulated depreciation	982	29	245	1,256
Net leased property	¥ 819	¥ 4	¥150	¥ 973

Obligations under finance leases:

Millions of Yen

Due within one year	¥ 436
Due after one year	574
Total	¥1,010

Millions of Yen

Year Ended December 31, 2007	Furniture and equipment	Machinery and vehicles	Software	Total
Acquisition cost	¥2,213	¥33	¥381	¥2,627
Accumulated depreciation	1,292	23	178	1,493
Net leased property	¥ 921	¥10	¥203	¥1,134

Obligations under finance leases:

Millions of Yen

Due within one year	¥ 433
Due after one year	732
Total	¥1,165

Year Ended December 31, 2008	Furniture and equipment	Machinery and vehicles	Software	Total
	Thousands of U.S. Dollars			
Acquisition cost	$19,784	$362	$4,339	$24,485
Accumulated depreciation	10,787	318	2,691	13,796
Net leased property	$ 8,997	$ 44	$1,648	$10,689

Obligations under finance leases:

	Thousands of U.S. Dollars
Due within one year	$ 4,790
Due after one year	6,305
Total	$11,095

Breakdown of lease payments, or depreciation expense and interest expense under finance leases:

	Millions of Yen		Thousands of U.S. Dollars
	2008	2007	2008
Total lease payments	¥490	¥603	$5,382
Depreciation expense	474	580	5,207
Interest expense	23	23	252

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
	2008	2007	2008
Due within one year	¥ 566	¥158	$ 6,218
Due after one year	4,019	164	44,150
Total	¥4,585	¥322	$50,368

10. CONTINGENT LIABILITIES

As of December 31, 2008, the Group had the following contingent liabilities:

Guarantee Obligations:

	Millions of Yen	Thousands of U.S. Dollars
Aggregated amount of guarantees for debts owed by subsidiaries and affiliates and payables by a client, Mindshare Japan	¥544	$5,976

Other contingent liability:
In September 2005, a former 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 and the other defendants' advertising business. The subsidiary and its legal counsel filed a motion to dismiss the complaint in November 2005. The court heard oral arguments on the motion in January 2006 and has not yet issued a ruling.

11. DERIVATIVES

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

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

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

The notional amounts, fair values and unrealized gain and loss on derivatives as of December 31, 2008 and 2007, were summarized as follows:

Millions of Yen

Year Ended December 31, 2008	Notional amounts	Due after one year	Fair value	Unrealized gain (loss)
Currency:				
OTC market				
Foreign exchange forward contracts				
– Buying (US$)	¥283	¥212	¥230	¥(48)
Total				¥(48)

Millions of Yen

Year Ended December 31, 2007	Notional amounts	Due after one year	Fair value	Unrealized gain (loss)
Currency:				
OTC market				
Foreign exchange forward contracts				
– Buying (US$)	¥ 354	¥283	¥339	¥(5)
Swaps	1,417	–	0	0
Total				¥(5)

Thousands of U.S. Dollars

Year Ended December 31, 2008	Notional amounts	Due after one year	Fair value	Unrealized gain (loss)
Currency:				
OTC market				
Foreign exchange forward contracts				
– Buying (US$)	$3,108	$2,328	$2,526	$(527)
Total				$(527)

Derivative transactions which were 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, 2008 and 2007, was as follows:

(1) Business Segment Information

Business segment information for the years ended December 31, 2008 and 2007 was as follows:

a. Billings and Operating Income

Millions of Yen

2008	Advertising	Non-advertising	Total	Eliminations or corporate	Consolidated
Billings to customers	¥391,229	¥8,223	¥399,452	–	¥399,452
Inter-segment billings	29	170	199	¥(199)	–
Total billings	391,258	8,393	399,651	(199)	399,452
Operating expenses	387,510	8,438	395,948	(195)	395,753
Operating income	¥ 3,748	¥ (45)	¥ 3,703	¥ (4)	¥ 3,699

Millions of Yen

2007	Advertising	Non-advertising	Total	Eliminations or corporate	Consolidated
Billings to customers	¥426,402	¥8,609	¥435,011	–	¥435,011
Inter-segment billings	37	222	259	¥(259)	–
Total billings	426,439	8,831	435,270	(259)	435,011
Operating expenses	419,300	8,835	428,135	(258)	427,877
Operating income	¥ 7,139	¥ (4)	¥ 7,135	¥ (1)	¥ 7,134

b. Assets, Depreciation and Capital Expenditures

Millions of Yen

2008	Advertising	Non-advertising	Total	Eliminations or corporate	Consolidated
Assets	¥182,633	¥9,536	¥192,169	¥(387)	¥191,782
Depreciation	764	39	803	–	803
Capital expenditures	2,060	5	2,065	–	2,065

Millions of Yen

2007	Advertising	Non-advertising	Total	Eliminations or corporate	Consolidated
Assets	¥236,659	¥9,703	¥246,362	¥(265)	¥246,097
Depreciation	1,130	40	1,170	–	1,170
Capital expenditures	599	8	607	–	607

a. Billings and Operating Income

Thousands of U.S. Dollars

2008	Advertising	Non-advertising	Total	Eliminations or corporate	Consolidated
Billings to customers	$4,297,802	$90,333	$4,388,135	–	$4,388,135
Inter-segment billings	319	1,867	2,186	$(2,186)	–
Total billings	4,298,121	92,200	4,390,321	(2,186)	4,388,135
Operating expenses	4,256,948	92,694	4,349,642	(2,142)	4,347,500
Operating income	$ 41,173	$ (494)	$ 40,679	$ (44)	$ 40,635

b. Assets, Depreciation and Capital Expenditures

Thousands of U.S. Dollars

2008	Advertising	Non-advertising	Total	Eliminations or corporate	Consolidated
Assets	$2,006,294	$104,757	$2,111,051	$(4,251)	$2,106,800
Depreciation	8,393	428	8,821	–	8,821
Capital expenditures	22,630	55	22,685	–	22,685

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

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

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

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, 2008 and 2007 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, 2008 and 2007, were 6.2% and 7.2%, 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, 2008 and 2007, 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, 2008 and 2007, 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 28, 2009

Securities Holdings

ASATSU-DK INC. Consolidated Investments as of December 31, 2008

		Millions of Yen 2008	
Current	Bond investment trust/Money market fund	¥ 1,125	
	Bonds	1,471	10 funds
	Mutual funds in equities and bonds and others	822	11 funds
	Total	¥ 3,419	
Non-Current	WPP plc.	¥16,605	2.49% or 31,295,646 stocks
	Digital Advertising Consortium Inc.	2,024	Equity method
	Other publicly traded equities	13,227	140 issues
	Publicly traded equities total	31,857	
	Non-publicly traded equities in affiliate companies	4,410	12 issues
	Non-publicly traded equities in subsidiary companies	565	20 issues
	Other non-publicly traded equities	1,451	73 issues
	Non-publicly traded equities total	6,426	
	Bonds	3,396	19 issues
	Mutual funds in equities and bonds and others	245	8 issues
	Total non-current investments in securities	¥ 3,641	
	Investments in affiliated companies (non-securities)	315	8 funds
	Investments in funds (non-securities)	118	7 funds
	Total non-current investments	¥42,360	

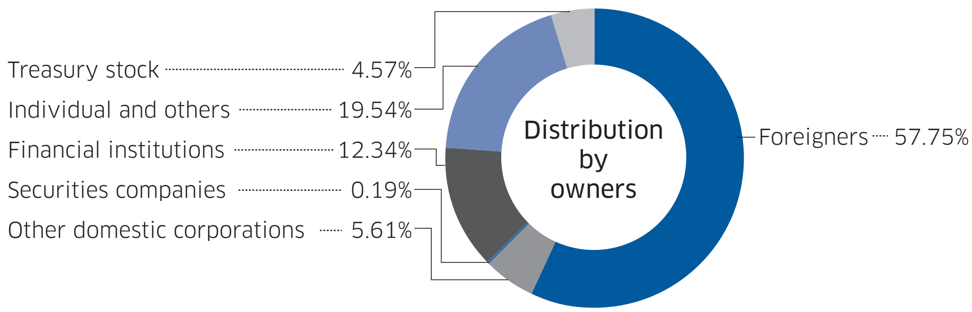
Top Five Equities by Balance	Millions of Yen 2008	
WPP plc.	¥16,605	31,295,646 shares
ASAHI BREWERIES, Ltd.	1,539	1,000,000 shares
Tokyo Broadcasting System, Incorporated	1,340	982,900 shares
Shiseido Co., Ltd.	762	417,597 shares
Shochiku Co., Ltd.	691	1,100,000 shares

Investor Information

(As of December 2008)

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	3,264 (consolidated basis) 2,034 (non-consolidated basis)
Common stock	Authorized: 206,000,000 shares Issued: 45,155,400 shares
Number of shareholders	9,618

Percentage of Total Shares Issued



Major shareholders

	Percentage of Ownership Voting*
WPP International Holding B.V.	23.98%
Northern Trust Company AVFC Re U.S. Tax-Exempted Pension Funds	5.72%
Northern Trust Company (AVFC) Sub Account American Client	5.69%
Mellon Bank N.A. Treaty Clients Omnibus	4.29%
The Silchester International Investors International Value Equity Trust	3.88%
Japan Trustee Service Bank, Ltd. (trust a/c 4G)	3.87%
Masao Inagaki	3.81%
CBNY-Third Avenue International Val. Fund	3.05%
The Master Trust Bank of Japan, Ltd., Retirement Benefit Trust Account (Mitsubishi Corporation Account)	1.78%
J.P. MORGAN CLEARING CORP-SEC	1.62%

* Percentage of Ownership Voting figures are based on 43,088,073 shares (45,155,400 shares issued and outstanding, minus 2,067,327 shares of treasury stock).

Stock listing	Tokyo Stock Exchange, First Section
Securities code	9747
Transfer agent	Tokyo Securities Transfer Agent Co., Ltd. 6-2, Otemachi 2-chome, Chiyoda-ku, Tokyo 100-0004, 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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(As of April 2008)

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

ASATSU-DK INC.

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

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