ADK Annual Report 2010

Year ended December 31, 2010

ADK Profile

ASATSU-DK INC., commonly known by its initials ADK, was founded in March 1956 by 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, the world's largest marketing 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 service agency and 15th largest communications service group in the world.*

Since its foundation, it has steadily expanded its 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 recent years, amid dramatic changes in the communications environment, the role of advertising agencies is also changing significantly. ADK's quest is to become a genuine "Future Agency" that is able to respond flexibly to the changing needs of advertisers and contribute to the business performance of its clients.

* *Advertising Age,* April 2011

Contents

Business at a Glance

Consolidated Five-Year Summary

	Millions of Yen					Thousands of U.S. Dollars
	2010	2009	2008	2007	2006	2010
Income Statement Data						
Gross billings	¥346,565	¥350,211	¥399,452	¥435,011	¥420,059	$4,252,853
Gross profit	42,028	41,367	49,143	51,754	48,685	515,744
Selling, general and administrative expenses	42,006	42,123	45,444	44,619	42,292	515,474
Operating income (loss)	22	(756)	3,699	7,134	6,392	270
Income (loss) before income taxes and minority interests	(4,749)	343	3,775	10,122	9,682	(58,278)
Net income (loss)	(4,656)	73	2,125	5,350	5,070	
EBITDA*	¥ 810	¥ 187	¥ 4,502	¥ 8,274	¥ 7,590	$ 9,948

*EBITDA = Operating income + Depreciation/Amortization + Amortization of negative goodwill

Balance Sheet Data	Millions of Yen					Thousands of U.S. Dollars
Total assets	¥194,510	¥190,024	¥191,782	¥246,097	¥256,754	$2,386,919
Total net assets*	103,168	107,465	101,617	131,846	141,387	1,266,019
Total long-term liabilities	7,467	4,765	2,611	14,354	19,140	91,632

*Total net assets consists of Shareholder's equity, valuation and translation adjustments, and minority interests.

Per Common Share Data (Yen and U.S. Dollars)						
Net income (loss) per share (EPS)	¥ (110.28)	¥ 1.73	¥ 48.14	¥ 116.40	¥ 106.62	$ (1.35)
Dividend per share	20	20	20	42	27	0.25
Book value per share	2,423.06	2,499.05	2,334.48	2,898.49	2,979.79	29.73
No. of common shares outstanding*	42,165,296	42,585,533	43,088,073	45,091,103	47,096,993	

*Does not include treasury stock. In addition, ADK set up an Employee Stock Ownership Plan (ESOP) trust in fiscal 2010 (see page 46). Shares owned by the ESOP trust were included in treasury stock at fiscal year-end.

Financial Ratios					
AS PERCENT OF GROSS BILLINGS					
Gross profit	12.13%	11.81%	12.30%	11.90%	11.59%
SG&A expenses	12.12	12.03	11.38	10.26	10.07
Operating income (loss)	(0.01)	(0.22)	0.93	1.64	1.52
Income before income taxes and minority interests	(1.37)	0.10	0.94	2.33	2.31
Net income	(1.34)	0.02	0.53	1.23	1.21
AS PERCENT OF GROSS PROFIT					
Operating income (loss)	0.1%	(1.8%)	7.5%	13.8%	13.1%
Staff cost	67.3	67.0	62.4	57.8	57.8
Return on equity	(4.7)	0.1	1.8	3.9	3.7
Return on assets	(2.4)	0.04	1.7	2.8	2.5
Equity ratio*	52.5	56.0	52.4	53.1	54.7
Current ratio	1.52×	1.57×	1.50×	1.48×	1.44×

*The equity ratio, according to TSE formulas, equals book equity (excluding minority interest) divided by book total assets.
Note: For convenience purposes, U.S. dollar amounts are converted from Japanese yen at the rate of ¥81.49=US$1, the approximate rate of exchange as of December 31, 2010.

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.

• 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.
- ASATSU-DK Malaysia Sdn. Bhd.

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

North America
- ADK America Inc.

Performance of ADK Group Breakdown by Area

Millions of Yen
Year on Year

FY2010		Gross Billings	Gross Profit	Operating Income	Net Income
Japan	ADK	¥305,759	¥ 30,713	¥(1,674)	¥ (2,112)
		-1.7%	-2.8%	–	–
	Subsidiaries	38,141	7,339	397	(7)
		-2.1%	5.0%	154.5%	-96.5%
Subsidiaries in Greater China (Shanghai, Hong Kong, Taipei)		13,724	2,123	540	503
		19.0%	21.5%	157.6%	42.3%
Asia (Thailand, Malaysia)		8,896	1,712	439	401
		29.2%	37.9%	221.9%	79.6%
Europe and North America (Germany, Netherlands, USA)		3,760	489	52	99
		34.7%	16.0%	330.1%	-13.3%
(Adjustment)		(23,718)	(350)	267	(3,540)
Total		¥346,565	¥42,028	¥ 22	¥(4,656)

Message from the Management

Rebuilding Profitability and Enhancing Competitiveness

In a challenging environment, the ADK Group made good progress toward rebuilding profitability and enhancing competitiveness. Despite year-on-year declines in revenue and earnings, we are well positioned for sustained growth in the future.

Yoji Shimizu
Representative Director, President & Group CEO

To Our Valued Shareholders

It is our pleasure to report on the ADK Group's performance in fiscal 2010, ended December 31, 2010.

In fiscal 2010, the Japanese economy continued recovering, albeit at a modest level. In the latter half of the period, however, the pace of recovery weakened as the benefits of government stimulus policies faded and exports slowed. Although we have avoided economic recession for the time being, we are not yet in a position to predict full-scale economic recovery.

In the advertising industry, which accounts for the majority of the Group's revenue, there were signs of recovery in some areas, but conditions remained challenging in the absence of overall recovery.

In this environment, the Group stood united in an effort to improve profitability and control cost of sales more strictly. We also worked to enhance business efficiency, including through reductions in personnel expenses under our early retirement program. The benefits of such actions were limited, however, as the Group reported disappointing results. Gross billings totaled ¥346,565 million, a 1.0% year-on-year decline. Although gross profit increased 1.6% to ¥42,028 million, we reported limited operating income of ¥22 million and a net loss of ¥4,656 million.

Nevertheless, in the latter half of the year we noticed signs of gradual improvement in our results, and the gross margin for the year also improved. These factors show that the path we have followed to date has started to produce results.

We, the executives and employees of the ADK Group, are committed to taking full advantage of these positive signs and firmly stride toward recovery and further growth.

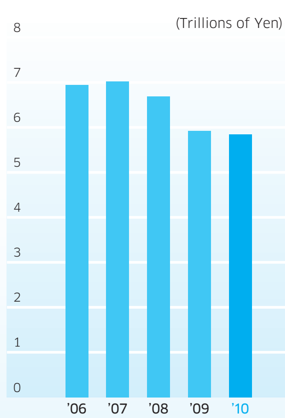
Growth Strategies

Since its establishment, the ADK Group has been working to serve clients by offering innovative and unique communications solutions.

Now, we are facing a rapidly changing communications environment, especially because of the development of the Internet, social media and mobile communications technologies. In this context, the ADK Group is striving harder than ever to offer optimal communications programs for clients to help them maximize ROI on their communications budgets. We achieve this through programs that integrate the various media surrounding consumers.

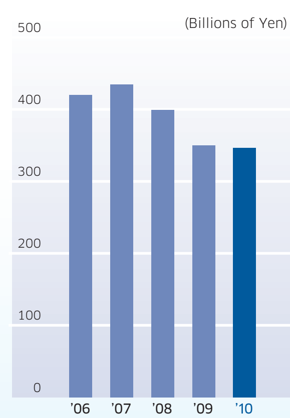
The global economy is expanding gradually, driven by steadily developing emerging markets. However, there are concerns about the Japanese domestic economy due to slow exports, which have been hit by the yen's appreciation, as well as low employment. Moreover, the Great East Japan Earthquake in March 2011 caused serious damage. Therefore, although total national advertising expenditures may have bottomed, we are still in a difficult market. Under such circumstances, we will initiate the following strategic actions:

Advertising Expenditures in Japan



Data: Dentsu

ADK Consolidated Gross Billings



1

Global

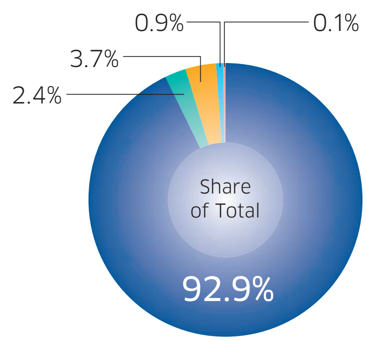
In fiscal 2010, the Group's subsidiaries in Asia (excluding Greater China) generated gross billings of ¥8,896 million, which accounted for 2.4% of the Group's total gross billings (before consolidation adjustment). Gross billings of subsidiaries in Greater China (including Hong Kong and Taiwan) accounted for 3.7%. We expect further development in these areas, although revenue from Asia in fiscal 2011 may be a little weak compared with that in fiscal 2010, when we recorded a large increase mainly due to the solid performance of a newly consolidated company in Malaysia.

To better meet the globalization needs of Japanese clients, the ADK Group has been developing its international network. More and more Japanese clients see Asia as a "must-go" market due to limited growth in their own country. Accordingly, they need more efficient communications services in Asia. In fiscal 2010, ADK established Dai-Ichi Kikaku (Malaysia) Sdn. Bhd., its second subsidiary in that nation. The Group will enhance its competitiveness by strategically investing in growing Asian markets, including Indonesia, Vietnam, Thailand and India. We will also develop human skills through "Planner's Village," an education program for advertising planners at our Asia Regional Office in Singapore.

In China, ADK already has subsidiaries in such important cities as Beijing, Shanghai and Guangzhou. Our subsidiary in Shanghai will operate as a hub company to supervise and coordinate our other subsidiaries in China. In 2010, ADK participated in the Chinese Private Enterprises Joint Pavilion project at Expo 2010 in Shanghai. Taking advantage of this achievement, we will market not only to Japanese clients but also to local Chinese companies. In addition, we will focus on fostering Chinese officers and directors who will become a core competency for the expansion of our business in China.

In some areas, ADK also takes advantage of its alliance with the WPP Group. For example, in India we established ADK Fortune, a joint venture with JWT in fiscal 2009.

ADK Group: FY2010 Performance Breakdown by Area



Gross Billings	(Millions of Yen)
Japan	343,900
Asia (Thailand, Malaysia)	8,896
Greater China (China, Hong Kong, Taiwan)	13,724
U.S.A.	3,512
Europe	248
Total before consolidation adjustment	¥370,283

2

Digital

Advertisers are keen to employ highly efficient communications programs that can accelerate their revenue, and they all know the importance of integrating digital media with other traditional media. In fiscal 2010, ADK's gross billings for digital media increased 14.9% year on year. However, our performance in this area was not satisfactory in comparison with our major competitors. Dentsu and Hakuhodo, for example, increased their digital gross billings by 46.2% and 29.7%, respectively. It is vital for us to enhance our digital advertising sales force.

With the aim of providing optimal communications programs that use various communications channels, including digital media and mass media, ADK reassigned its Communications Channel Planning Division from the Digital Business Group to the Media Content Center. We will also pursue greater collaboration with ADK Interactive Inc., an 80%-owned subsidiary specializing in Internet advertising.

In addition, we established a joint venture, Cross Ocean Media Inc., together with LAWSON (a convenience store chain operator) and NTT DOCOMO (a mobile phone provider), in March 2010 to develop new and valuable digital signage as in-store media.

3

Integrated Solutions

We in the communications service industry have long classified media by specific delivery vehicle, such as TV, radio, newspaper, magazine and billboards. But nowadays these classifications are unsuited to consumers' lifestyles. Social media like Facebook and Japan's Mixi have dramatically changed the landscape of the communications environment.

It is said that we are now in the "Triple Media" or "POE Media" era. This idea classifies media environments by their characteristics, notably paid media, owned media and earned media. Paid media is media in which companies can purchase advertising space, namely, traditional mass media. Owned media is that which companies own directly, including proprietary sites and branded sites. Earned media includes SNSs, Weblogs and Twitter, which evaluate companies and their trustworthiness based on information generated by consumers and other third parties. Consumers gather and send out information by wisely using these media. Of course, advertising clients want to wisely use these media, too.

POE Media

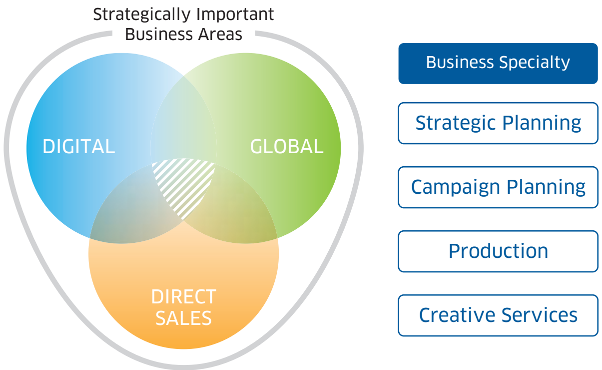
Paid Media
Media in which companies can purchase advertising space.
TV, Newspapers, Magazines, etc.

Owned Media
Media that companies own directly, including proprietary sites and branded sites.
Web site of XX Company, YY Beer, ZZ Pizza, etc.

Earned Media
Media that evaluate companies and their trustworthiness, based on information generated by consumers and other third parties.
Twitter, Facebook, Weblogs, etc.

To address clients' demands and offer integrated solutions in the POE Media era, ADK established its Integrated Solutions Center by amalgamating the former creative, planning and direct sales business divisions, as well as some other functions inside the Company. The Center houses a group of specialists who work to swiftly provide integrated solutions without sectional barriers. They are professionals specializing mainly in the four areas of strategic planning, campaign planning, creative services and production. The Center will focus on three strategically important areas: digital, global and direct sales business. It will also promote new branding methods to enhance clients' competitiveness by analyzing consumers' latest purchases and communications behavior.

Integrated Solution Center



4 Content

The content business represents a unique and important competitive edge for ADK and provides another source of revenue to complement its advertising business. In fiscal 2010, our animation-related business generated gross billings of around ¥6 billion, which accounted for about 2% of non-consolidated gross billings. Although not occupying a large share of gross billings, animation content can be a powerful driver to expand our advertising business. This can be done, for example, by using popular characters for clients' campaigns.

ADK has long been involved in producing and creating TV animation programs. We are one of the license holders of such well-known characters as *Doraemon* and *Yu-Gi-Oh!*. These are popular not only in Japan but also all over the world. ADK will foster and revitalize its long-beloved characters while developing new content to diversify its portfolio. We will also further cultivate overseas markets to sell existing and newly made programs and character goods.

5

Talent

The key to the ADK Group's competitiveness lies in its human talent resources. For this reason, we will continue investing in people who can respond to changes in the business environment. For example, we are nurturing "Global Account Directors," personnel capable of formulating global strategies and serving as trusted business partners to help clients develop overall overseas markets.

We are also increasing the number of Communications Designers, who are able to plan optimal cross-communications programs in this POE Media era. In addition, we are adding Communications Channel Planners who offer and analyze advertising expenditure ROI, which more and more clients are demanding.

6

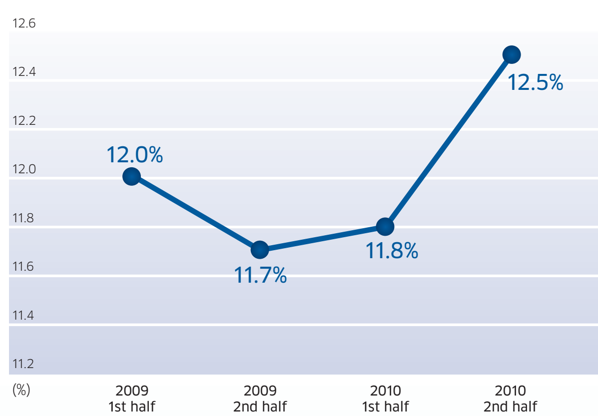
Cost Control

In fiscal 2010, ADK's profitability deteriorated amid severe market conditions in Japan. Enhancing profitability is our ongoing challenge. On a positive note, our gross margin showed improvement in the second half of the year.

We will step up efforts to reduce the cost of sales through better and more efficient management and tougher negotiation. We will also continue to meticulously control operating expenses, including personnel costs.

It is often said that advertising is a "people business." This means that human talent is the most important asset of an advertising company. While we recognize the crucial importance of human talent, in fiscal 2010 we implemented an early retirement program, with the aim of reducing staff costs and recruiting people suited to the new communications era. At the same time, we reallocated employees to more appropriate positions to improve overall organizational efficiency and proactively utilize our young talent.

Gross Margin



In conclusion, we will work as one to achieve business recovery under our "Management by All" corporate philosophy, which has not changed since our foundation. We look forward to the ongoing support and understanding of all shareholders.

March 2011

TOPICS 1

ADK's Achievements at the Shanghai Expo Japan Pavilion and Chinese Private Enterprises Joint Pavilion

Expo 2010 was held in Shanghai, China, for six months from May 1 to October 31, 2010. With "Better City, Better Life" as its theme, 246 participants, including 190 countries and 56 international organizations, took part. The event set two new visitor records for a world exposition. At 73,080,000 visits, it recorded the highest total number of visits, as well as a new daily visitor record with 1,030,000 visits on a single day.

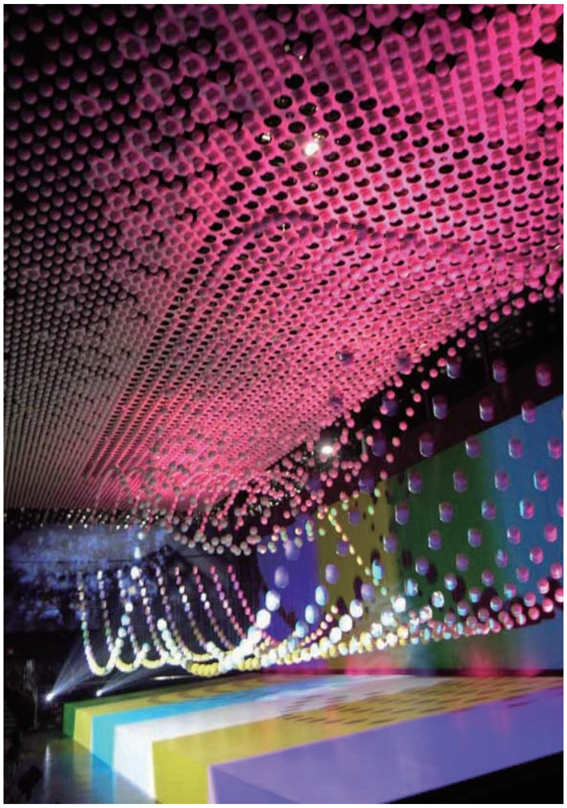
ADK was involved in the projects of two pavilions: the Japan Pavilion and the Chinese Private Enterprises Joint Pavilion.

At the Japan Pavilion, we managed the pavilion's publicity activities and events under the theme of "Harmony of the Hearts, Harmony of the Skills."

The Chinese Private Enterprises Joint Pavilion was sponsored by 16 private companies. All of them are well-known private Chinese enterprises involved in a diverse range of business fields, such as real estate, pharmaceuticals, finance, e-commerce, household furniture sales, home appliance sales, apparel manufacture and sales, and movies. The theme of the pavilion was "The Infinite Vitality." Facing international competition, ADK tendered successfully for formulating the pavilion's basic concept through architecture and design, as well as developing, constructing and operating the pavilion's exhibits.

The two pavilions were among the most popular at the Shanghai Expo, and both received high praise from not only the general public but also members of the Chinese and Japanese governments and Expo Committee members.

Since overseeing the Japan Pavilion at Expo 2005 in Aichi, Japan, we have participated in the Expo 2008 in Saragossa, Spain. These experiences, coupled with our recent involvement in the Shanghai Expo, have helped us gradually gain proficiency in the international exposition business. Our track record has also facilitated our involvement in other projects, such as the Japan Pavilion for Expo 2012 in Yeosu, South Korea. On top of this, we are convinced that the acclaim we received for the Chinese Private Enterprises Joint Pavilion will prove invaluable in procuring further work in the Chinese market from private enterprises and government organizations.



This innovative show, put on jointly by private Chinese enterprises, was a hot topic at Expo 2010.

Japan Pavilion

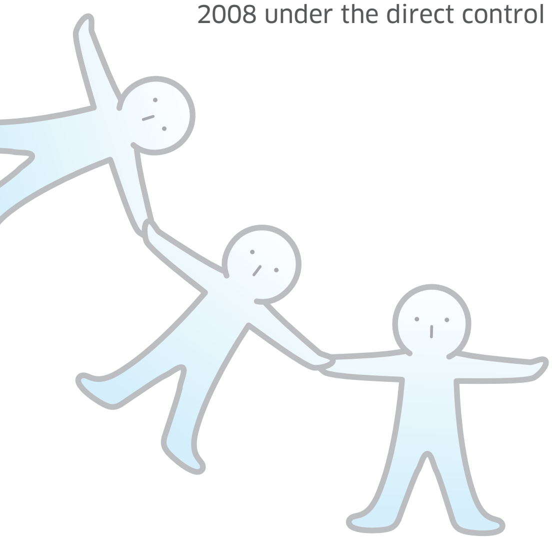
Chinese Private Enterprises Joint Pavilion

Corporate Social Responsibility

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; and
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 fundamental factor in fulfilling its social responsibility, and compliance is now most expected by stakeholders. In 2010, the Compliance Committee successively conducted training workshops targeting senior management to make them aware of their responsibilities for directing their staff to behave properly under the "ADK Compliance Guidelines," which conform to the "ADK Group Code of Conduct" and were issued in March 2008. Through these workshops, the Committee also raised awareness of ADK's in-house reporting system, called the "ADK Group Helpline," which is expected to function as a key engine to promote compliance.

Environmental Protection

ADK acquired ISO14001 certification in 2008. In 2010, the head office took the initiative in saving electricity consumption across the company by lowering the air-conditioning and light levels throughout the year. As a result, ADK successfully made a significant cutback in electricity and heating costs.

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.

Pro Bono creative work

Médecins du Monde Support for Medical Aid for the Democratic Republic of the Congo

Your cellular phone has an important link to the Congo.

Médecins du Monde (MdM), or Doctors of the World, is an international humanitarian aid organization. With headquarters in Paris, it is an NGO that sends volunteer medical and healthcare professionals to provide medical and health services to vulnerable populations around the world, irrespective of their nationality, ethnicity, beliefs or religion.

In June 2010, MdM Japon launched the "Congophone" Web site to assist MdM's medical aid campaign in the Democratic Republic of the Congo.

A long-running conflict and political instability in the Congo have made access to medical care difficult. It is said that one in five children die before their fifth birthday. However, the rest of the world knows little about the situation in the Congo. In Japan, too, we are not very familiar with the Congo, even though there is a close link between our everyday lives and that country. This link is the abundance of the mineral coltan, which is used in mobile phones. According to estimates, as much as 80% of the world's coltan reserves can be found in the Congo.

ADK is providing support on various fronts to inform the Japanese public of the situation in the Congo and encourage them to make donations. These include planning a campaign that uses mobile phones, as well as deploying creative content and social networking services, to increase media exposure. On the creative content side, we devised a newspaper insert with the hard-hitting design of a burnt letter with a hole in it. By including the QR code for the Congophone Web site in the leaflet, we sought to reach as many people as possible to tell them about the situation in the Congo. We are also using Twitter and blogs to spread this information.

Motivated by this campaign for medical aid to the Congo, ADK plans to continue supporting MdM's future medical aid activities.

TOPICS 2

Toward a New Era after the March 11 Disaster

–Launch of the "CSR in Emergency" Project

On March 11, 2011, an enormous earthquake registering 9.0 on the Richter scale struck eastern Japan. A huge tsunami triggered by the earthquake devastated coastal communities over a wide area. As of June 30, there were 15,511 confirmed dead and more than 7,000 persons still missing. This date marks the beginning of a huge shift in Japan. Many advertisers pulled scheduled television commercials and cancelled campaigns and events. They also had to make substantial revisions to advertising schedules for April onward. But more than anything else, it was the mind-set or attitude of consumers that changed. Spending on luxuries and entertainment has all but disappeared, as consumers refrain from buying anything except items that are truly necessary. The values and methodologies that existed prior to the disaster no longer hold sway. A dramatic shift has begun to take place in the social-cultural context and the consumption context that exist between consumer and company (product).

Noriyuki Nakai

What shape will this new era take? How should companies create touchpoints between themselves and consumers? A human-centric approach, where marketing balances a company's profitability with social responsibility as advocated by Philip Kotler in his book *Marketing 3.0*, might well become increasingly important.

Noriyuki Nakai, Operating Officer of ADK's Integrated Solution Center, was responsible for launching the project. In his words, "Just after the disaster, the public probably did not accept the resumption of television commercials and PR activities too early. Meanwhile, however, questions have begun to surface surrounding the disappearance of commercials from television and the successive cancellation of various events. Instead of withdrawing advertising, wouldn't the resumption of normal activities by companies in unaffected regions as soon as possible help revitalize the economy, which would ultimately benefit the affected regions? There are many who think this way. Also, there are companies that can do something precisely because of what they are. Shouldn't companies deploy their strengths to restore Japan's vitality? This would be the best way to help the affected regions. It is also part of a company's mission. These thoughts have been persistently simmering away at the back of my mind."

ADK quickly swung into action after the disaster. We launched the "CSR in Emergency" project by constructively reworking earlier projects that offered clients proposals for CSR activities. In a short space of time, we gathered media and consumer information, analyzed it and began offering clients appropriate advice and proposals concerning communication in times of emergency.

Kenji Morinaga, a Senior Planning Director who oversaw the gathering and analysis of information, came up with exactly the same predictions as Noriyuki Nakai, based on an impromptu survey undertaken immediately after the disaster. He says, "From now on, companies will not pursue profit alone. They will be responsible for the impact they have on society amid growing demand for social responsibility that takes appropriate action and meets the expectations of all of their stakeholders. At times like this, when such a catastrophe or serious accident affects a great many people, it will be essential for companies to engage in corporate activities that fulfill their social responsibilities as a corporate citizen."

Kenji Morinaga

According to figures released by the Cabinet in May 2011, real GDP in the January–March 2011 quarter slipped 0.9% year on year, equivalent to a 3.7% decline on an annualized basis. Although the economy is expected to recover from July onward, many private-sector analysts predict that real GDP growth in fiscal 2011 will be around zero (–0.3% to +0.6%). The "CSR in Emergency" project re-creates a new sociocultural context and consumption context between company and consumer by envisioning a new framework for a new era. This experimental project will help Japanese companies and the nation, and should make a considerable contribution to boosting ADK's business performance.

Naoki Sato, Director of the Communication Planning Division who heads client consultation, says, "Japan possesses underlying strengths that have enabled it to weather various crises in the past. The Japanese are known around the world for their diligence and perseverance. The Tohoku region devastated by the recent earthquake and tsunami will definitely recover very quickly. Advertising agencies like us will also make a contribution to company activities by doing our utmost when dealing with clients. I also believe that this will help Japan get back on its feet again."

Naoki Sato

Outline of Main Project Activities

1 Develop a corporate response strategy package for times of emergency (emergency–recovery period)

2 Develop a portal site for gathering and transmitting in-house and external information

3 Collect and analyze past case studies (response of companies and reactions of society and media)

4 Undertake various kinds of surveys (consumer awareness, media opinion, tracking of public opinion)

5 Develop emergency (emergency–recovery period) projects and ideas on communication strategies

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, 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 shareholders' rights must be prioritized.

ADK executes its various corporate governance strategies based on these ideas.

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.

At present, we have 13 directors, one of whom has representative status under Japanese law, with 10 serving as operating officers (as of March 30, 2011).

The Board of Directors meets once a month, in principle, and more often as necessary. In fiscal 2010, the Board met 20 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 nine as of March 30, 2011.

ADK has four corporate auditors, three of whom are external. One of the three is a lawyer and serves on a part-time basis. The three full-time corporate auditors attended all 20 meetings of the Board of Directors. The part-time corporate auditor attended almost all of the meetings. The Board of Corporate Auditors met nine times in fiscal 2010, and all four auditors attended all of the meetings. 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 Centers, Divisions, Departments and 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 the Centers, the Committee meets almost three times a month (36 times in fiscal 2010) 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 serves as "Regulations and Systems Relating to Risk Management" and is consistent with internal control systems as defined under the New Corporate Law in Japan.

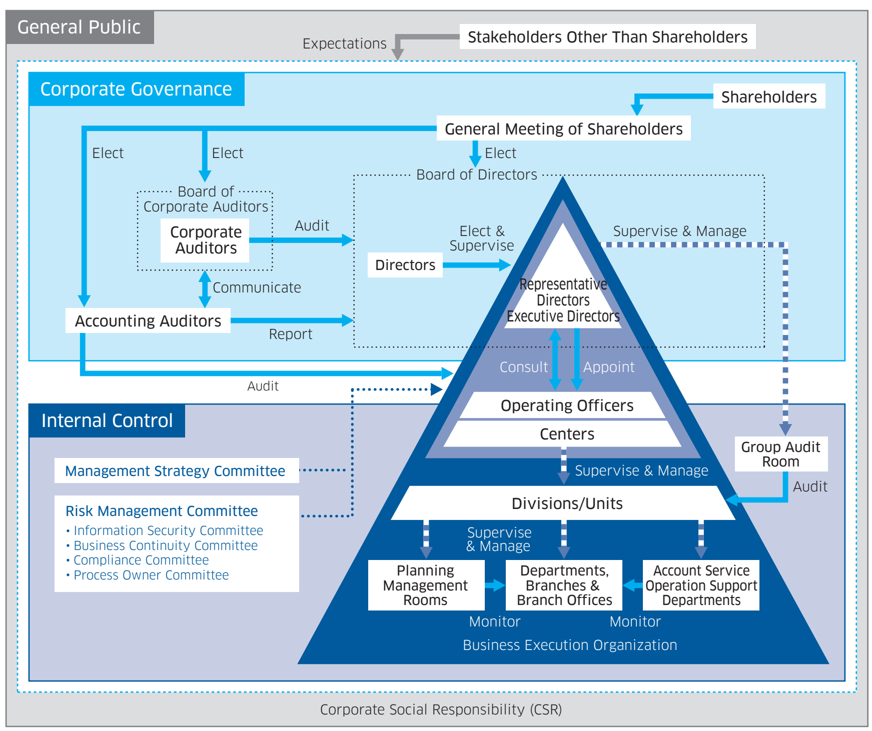
The Risk Management Committee heads four subordinate organizations, each of which undertakes its own specific risk management. They are the Compliance Committee, the Information Security Committee, the Business Continuity Committee and the Process Owner Committee.

The Compliance Committee is responsible for creating systems to prevent illegal acts and for operating ADK's internal reporting system. 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, power stoppages or an epidemic of H1N1 (super-flu). The duty of the Process Owner 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 Process Owner Committee, specializes in setting up an internal control reporting system as stipulated under the Financial Instruments and Exchange Law of Japan.

Note: For more details, please see the English translation of our Corporate Governance Report, which was filed with the Tokyo Stock Exchange, on our Web site.
http://www.adk.jp/english/html/ir/governance/index.html



Corporate Governance, Internal Control and Risk Management Framework

Management's Discussion and Analysis

Fiscal 2010 Performance Highlights

- Consolidated Gross Billings Down 1.0% to ¥346.5 billion
- Gross Margin Improved to 12.1%
- Gross Profit Up 1.6% to ¥42.0 billion
- Operating Income of ¥22.0 million
- Net Loss of ¥4.6 billion; Net Loss per Share of ¥110.28

ADK Group Overview

As of the end of 2010, 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 two 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 2010, gross billings in the advertising business amounted to ¥339,432 million, equivalent to 97.9% of consolidated total gross billings. Other businesses generated ¥7,133 million, or 2.1% of gross billings. The ADK Group's non-advertising business consists of book and magazine publishing and sales.

All overseas sales of the ADK Group were generated by the advertising business. Together, overseas sales represented 6.8% of consolidated gross billings.

The number of employees at the end of fiscal 2010 totaled 3,229, down 10 from a year earlier.

Consolidated Performance

Gross Billings

Gross billings totaled ¥346,565 million, a 1.0% year-on-year decline. This was due to weakness in the domestic advertising market, although Asian markets maintained solid growth.

Gross Profit

Gross profit increased 1.6% to ¥42,028 million, and the gross margin improved 0.3 percentage point to 12.1%. The consolidated gross margin improved even though the parent company's gross margin deteriorated because of intensifying competition.

Operating Income/Loss

Operating income in fiscal 2010 totaled ¥22 million (compared with a ¥756 million operating loss in fiscal 2009). Staff costs to gross profits were 67.3%.

Other Income and Expenses

The ADK Group incurred equity in earnings of affiliates—net of ¥213 million compared with ¥126 million in fiscal 2009. This was because both Digital Advertising Consortium Inc., a publicly traded Internet media buying rep, and Guangdong Guangxu (Asatsu) Advertising Co., Ltd., earned larger profits, even though ADK disposed of its investment in Nippon Information Industry Corp. (NII) on February 12, 2010.

The Group incurred a ¥1,022 million loss on sales of securities due to the disposal of NII, the equity-method book value of which was greater than the sale price. The total loss on valuation of securities was ¥2,324 million compared with ¥213 million in fiscal 2009. ADK, the parent company, implemented an early retirement program in fiscal 2010, leading to the retirement of 128 employees. Special retirement expenses resulting from the program amounted to ¥2,770 million. As a result, the loss before income taxes and minority interests totaled ¥4,749 million.

Net Income

The ADK Group de-recognized ¥1,559 million in deferred tax assets in accordance with the guidelines of the "Auditing Treatment concerning Determination of Recoverability of Deferred Tax Assets," or Audit Committee Report No. 66, issued by the Japanese Institute of Certified Public Accountants. As a result, the net loss was ¥4,656 million compared with net income of ¥73 million in fiscal 2009. The net loss per share was ¥110.28.

Balance Sheets and Cash Flow

Assets and Liabilities

At the fiscal year-end, the balance of total assets stood at ¥194,510 million, up ¥4,485 million from a year earlier. This was due to an increase in notes and accounts receivables—trade near the end of the year, reflecting an increase in gross billings toward year-end. Likewise, total liabilities increased ¥8,782 million to ¥91,341 million. The unrealized gain on available-for-sale securities increased ¥2,817 million to ¥7,727 million, but retained earnings decreased ¥5,447 million to ¥45,907 million, due to the ¥4,656 million net loss. As a result, total net assets decreased ¥4,296 million to ¥103,168 million, and the equity ratio* declined 3.5 percentage points to 52.5%.

*According to the TSE formulas, the equity ratio equals book equity, excluding minority interest, divided by book total assets.

Cash Flows

At the end of fiscal 2010, cash and cash equivalents amounted to ¥19,127 million, an increase of ¥283 million from the previous fiscal year-end. This was because cash inflows from investing activities surpassed cash outflows from operating and financing activities by ¥810 million. The Group also recognized a ¥745 million foreign currency translation negative adjustment to the balance and a ¥217 million increase due to the addition of a consolidated subsidiary.

Net cash used in operating activities amounted to ¥221 million compared with ¥6,404 million in cash provided by such activities in fiscal 2009. Among operating activities were a loss before income taxes and minority interests of ¥4,749 million and depreciation and amortization of ¥818 million, whereas increases in notes and accounts receivable and notes and accounts payable were ¥5,562 million and ¥5,068 million, respectively, because of larger gross billings toward the end of the year.

Net cash provided by investing activities totaled ¥2,298 million, up from ¥1,570 million in fiscal 2009. There was a ¥318 million net increase in time deposits, resulting from transfers to and reversals of time deposits of ¥5,049 million and ¥5,367 million, respectively. Proceeds from sales of marketable securities totaled ¥1,139 million. Proceeds from sales of securities and purchases of securities were ¥4,065 million and ¥1,521 million, respectively.

Net cash used in financing activities was ¥1,266 million compared with ¥2,141 million in fiscal 2009. The main factors included dividends paid of ¥851 million, purchases of treasury stocks—net of ¥747 million by the Employees Stock Ownership Plan (ESOP) and net purchases of odd-lot shares.

Capital Expenditures

(Millions of Yen)

	2010		2009	
	Capital expenditures	Depreciation	Capital expenditures	Depreciation
Buildings	¥ 49	¥125	¥ 29	¥129
Building improvements	–	1	–	2
Vehicles	27	28	10	24
Furniture, fixtures and equipment	107	148	61	172
Land	–	–	–	–
Licenses	–	–	–	–
Computer software	501	459	467	580
Lease assets	460	41	136	12
Others	–	12	–	21
Total	¥1,146	¥818	¥705	¥943

Free Cash Flow

(Millions of Yen)

	2010	2009
Net cash provided by operating activities	¥(221)	¥6,404
Business reinvestment*	(642)	(556)
Free cash flow	(864)	5,848

*Business reinvestment = Purchase of property and equipment + Purchase of intangible assets – Sales of property and equipment

Segment Information

Advertising Business

The Group's advertising business generated gross billings of ¥339,432 million, down 1.0% year on year, whereas segment operating income amounted to ¥49 million compared with a ¥618 million operating loss in fiscal 2009.

1 Non-Consolidated Performance Information

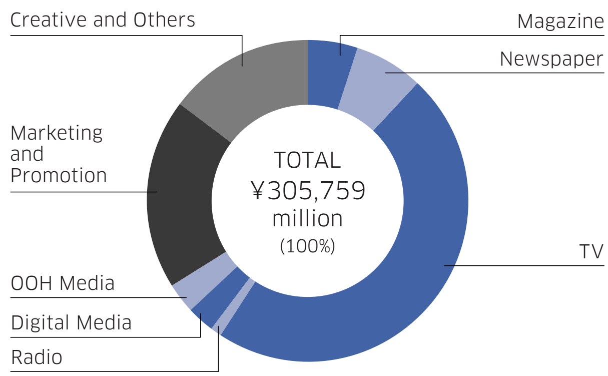
Because all of ADK's non-consolidated gross billings and income are generated from the advertising business, and those non-consolidated gross billings of ¥305,759 million (a 1.7% year-on-year decline) represent 90.1% of gross billings generated by the advertising business segment, the non-consolidated performance for investor information purposes is reviewed as follows.

Non-Consolidated Performance Summary

(Millions of Yen)

	2010	2009	Change
Gross billings	¥305,759	¥310,970	-1.7%
Gross profit	30,713	31,603	-2.8%
Operating income	(1,674)	(1,267)	–
Net income	(2,112)	(498)	–

Non-Consolidated Performance by Discipline



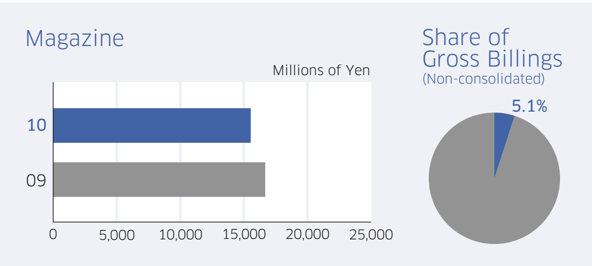
(Millions of Yen)

		Gross billings	Share of total	Y-o-Y change
Media	Magazine	¥ 15,576	5.1%	-7.6%
	Newspaper	21,201	6.9%	-2.0%
	TV	144,882	47.4%	-3.3%
	Radio	2,866	0.9%	-3.4%
	Digital Media	8,913	2.9%	14.9%
	OOH Media	8,712	2.9%	5.8%
Subtotal		202,152	66.1%	-2.5%
Non-Media	Marketing and Promotion	58,715	19.2%	-4.1%
	Creative and Others	44,892	14.7%	5.7%
Subtotal		103,607	33.9%	-0.1%
Total		¥305,759	100.0%	-1.7%

Notes:
1. Because ADK offers cross-media communications programs, the above figures may not strictly represent gross billings by medium.
2. ADK has changed the classification of gross billings by discipline as follows:
   The new "Marketing and Promotion" discipline covers the former "Sales Promotion," as well as Marketing, Digital Solutions, Digital Creative, Exposition Events, Public Relations and Consulting. Digital Solutions, previously recognized as "Digital Media," is now separated from "Digital Media" and has been added to "Marketing and Promotion." Digital Creative, previously recognized as "Creative and Others," is now separated from it and added to "Marketing and Promotion."
   Year-on-year change ratios are based on previous-year figures that have been restated to reflect the new classification.
3. Figures for gross billings by discipline are rounded down. Therefore, their sums do not equal the total or the subtotals.

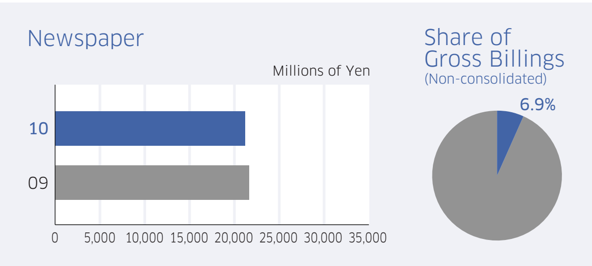
Magazine

Gross billings from magazine advertising decreased 7.6% year on year to ¥15,576 million, due to tighter budgets at many clients, especially those in the Apparel/Jewelry and Cosmetics/Toiletry Goods sectors. This was despite growth in gross billings from clients in the Hobbies/Sporting Goods and Information/Communications sectors.



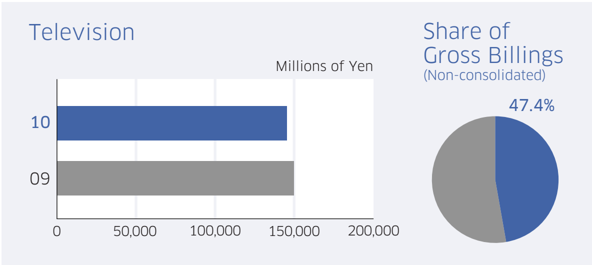
Newspaper

Gross billings from newspaper advertising declined 2.0% to ¥21,201 million. This was due to lower gross billings to clients in the Transportation/Leisure and Finance/Insurance sectors, which contrasted with larger gross billings to clients in the Foods and Automobiles/Auto-Related Products sectors.



Television

Gross billings from television advertising decreased 3.3% to ¥144,882 million. Program TV advertising sales declined due to a fall in business with clients in the Finance/Insurance and Information/Communications sectors, which contrasted with higher gross billings to clients in some other sectors, such as Beverages/Tobacco Products, Foods and Automobiles/Auto-Related Products. Spot TV advertising sales decreased also due to lower business with clients in the Beverages/Tobacco Products and Transportation/Leisure sectors, despite growth in business with clients in the Government/Organization, Apparel/Jewelry and Education/Healthcare Services/Religion sectors. The Company continued striving to promote sales from its content business by developing digital animation distribution on PCs and mobile devices, making investments in new programs and promoting events. However, the overall growth in the content business was sluggish.



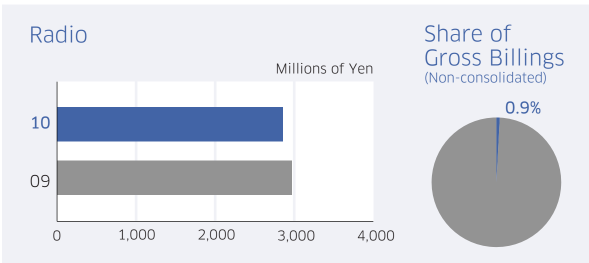
Gross Billings from Television Ads (Breakdown by Category)

(Millions of Yen)

	2010	2009	Change
Time (program-sponsored ad)	¥ 53,590	¥ 56,398	-5.0%
Spot	80,104	82,081	-2.4%
Content-related sales	11,186	11,297	-1.0%
Total	¥144,882	¥149,776	-3.3%

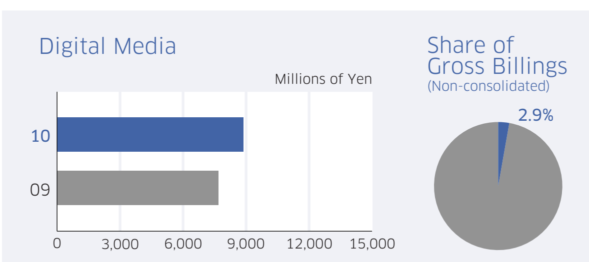
Radio

Gross billings from advertising on radio decreased 3.4% to ¥2,866 million. This was due to a decline in business with clients in the Transportation/Leisure, Distribution/Retail and Information/Communications sectors, which contrasted with increases in business with clients in the Automobiles/Auto-Related Products sector.



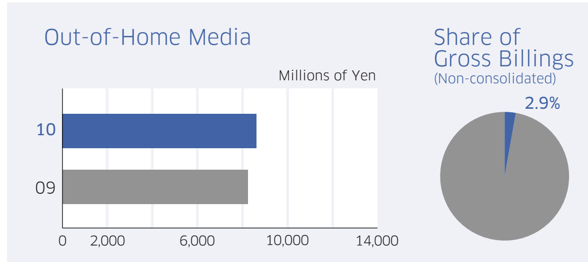
Digital Media

Gross billings from advertising on digital media (excluding digital solutions) grew 14.9% year on year to ¥8,913 million, thanks to tighter collaboration with 80% subsidiary ADK Interactive Inc., which is engaged in the planning and buying of digital media advertising and cross-media solutions. There were increases in gross billings to clients in the Information/Communications, Hobbies/Sporting Goods and Automobiles/Auto-Related Products sectors.



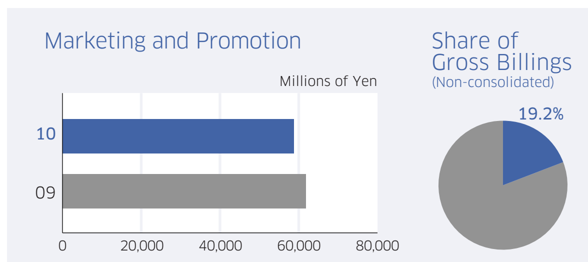
Out-of-Home Media

Gross billings from advertising on out-of-home media increased 5.8% to ¥8,712 million, thanks to our cross-media approach and development of in-store media. During the year, we focused on promoting transportation and billboard advertising and posted higher billings to clients in such sectors as Beverages/Tobacco Products and Government/Organization.



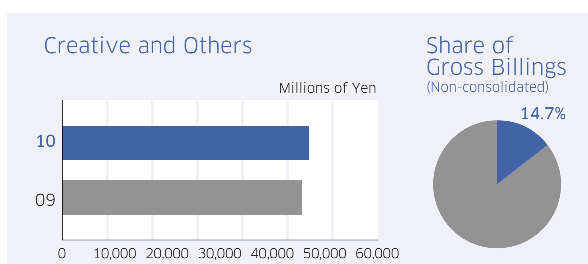
Marketing and Promotion

Gross billings from marketing and promotion declined 4.1% to ¥58,715 million, due to decreased business with clients in the Information/Communications and Real Estate/Housing sectors. By contrast, we reported increased business with clients in such sectors as Government/Organization and Finance/Insurance. This was because we offered integrated communications services, taking advantage of onsite merchandising and digital solutions to better respond to clients' demands.



Creative and Others

Sales of creative and others increased 5.7% to ¥44,892 million, thanks to increased business with clients in such sectors as Automobiles/Auto-Related Products and Information/Communications.



Non-Consolidated Gross Billings and Market Share (2001–2010)

(Millions of Yen)

Year	Gross billings	Change	Market share*
2001	¥358,830	5.3%	5.92%
2002	334,915	-6.7%	5.87%
2003	357,597	6.8%	6.29%
2004	373,897	4.6%	6.38%
2005	384,849	2.9%	5.64%
2006	378,804	-1.6%	5.46%
2007	387,860	2.4%	5.53%
2008	358,595	-7.5%	5.36%
2009	310,970	-13.3%	5.25%
2010	305,759	-1.7%	5.23%

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

Non-Consolidated Gross Billings Breakdown by Client Industry

(Millions of Yen)

	2010	Share of total	2009	Share of total	Change	Y-o-Y
Energy/Raw Materials/Machinery	¥ 4,976	1.6%	¥ 4,420	1.4%	¥ 555	12.6%
Food	33,602	11.0%	32,649	10.5%	952	2.9%
Beverages/Tobacco Products	17,653	5.8%	21,958	7.1%	(4,305)	-19.6%
Pharmaceuticals/Medical Supplies	12,728	4.2%	13,575	4.4%	(846)	-6.2%
Cosmetics/Toiletry Goods	34,746	11.4%	36,494	11.7%	(1,747)	-4.8%
Apparel/Jewelry	8,670	2.8%	8,211	2.6%	458	5.6%
Precision Instruments/Office Equipment	2,265	0.7%	2,529	0.8%	(264)	-10.5%
Electric Machines/AV Equipment	3,270	1.1%	3,590	1.2%	(320)	-8.9%
Automobiles/Auto-Related Products	15,857	5.2%	13,207	4.2%	2,650	20.1%
Household Products	3,464	1.1%	3,034	1.0%	429	14.2%
Hobbies/Sporting Goods	19,969	6.5%	19,228	6.2%	741	3.9%
Real Estate/Housing	7,772	2.5%	9,071	2.9%	(1,298)	-14.3%
Publications	3,563	1.2%	3,254	1.0%	309	9.5%
Information/Communications	38,557	12.6%	38,492	12.4%	65	0.2%
Distribution/Retail	24,846	8.1%	25,094	8.1%	(248)	-1.0%
Finance/Insurance	24,393	8.0%	24,957	8.0%	(563)	-2.3%
Transportation/Leisure	11,957	3.9%	14,961	4.8%	(3,004)	-20.1%
Restaurants/Other Services	6,464	2.1%	5,647	1.8%	817	14.5%
Government/Organization	12,120	4.0%	9,587	3.1%	2,533	26.4%
Education/Healthcare Services/Religion	4,931	1.6%	4,555	1.5%	375	8.2%
Classified Ads/Other	13,946	4.6%	16,446	5.3%	(2,499)	-15.2%
Total	¥305,759	100.0%	¥310,970	100.0%	¥(5,210)	-1.7%

2 Group Companies in the Advertising Business

The ADK Group's domestic advertising companies overall generated slightly larger gross billings than during the previous year. Also, they reported an overall increase in gross profit that was larger than the increase in operating expenses. Accordingly, those subsidiaries as a whole returned to operating profitability. All consolidated subsidiaries operating in the Greater China region (mainland China, Taiwan and Hong Kong) reported positive operating income. In other overseas markets, newly consolidated subsidiary ASATSU-DK (Malaysia) Sdn. Bhd. made a remarkable contribution to existing subsidiaries in that nation and reported larger gross billings and operating income as a whole.

Other Business Segment

Subsidiaries in the publishing business segment reported a 2.1% year-on-year decline in sales to ¥7,133 million. They also posted an operating loss of ¥24 million compared with a ¥135 million operating loss in fiscal 2009. Despite generating larger gross profit and an improved gross margin thanks to more meticulous selection of new titles, those subsidiaries failed to adequately absorb fixed costs.

Overseas Sales

The ADK Group obtained 6.8% of its gross billings from overseas compared with 5.4% in fiscal 2009. All overseas sales are in the advertising business.

Outlook for Fiscal 2011

Under an environment of slow growth, ADK has set the following consolidated forecasts for the two-quarter period ending June 30, 2011: gross billings of ¥171.0 billion, operating income of ¥0.75 billion and net income of ¥1.1 billion. For the entire year ending December 31, 2011, we forecast gross billings of ¥356.0 billion, operating income of ¥2.9 billion and net income of ¥2.6 billion. Our EPS forecast for the year is ¥61.66.

For fiscal 2011, we plan to pay a ¥10.00 interim dividend and a ¥12.00 year-end dividend, for total annual dividends of ¥22.00 per share and a payout ratio of 35.7%.

Note: The aforementioned forecasts were formulated before the Great East Japan Earthquake on March 11, 2011. Accordingly, the impact of the disaster has not been factored into the forecasts.

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

In fiscal 2010, the Group generated 93.2% of its gross billings from the Japanese domestic market. Japanese national advertising spending is directly influenced by corporate advertisers' budgets and, therefore, is closely correlated with nominal consumer spending and GDP. In the event that the domestic economy deteriorates seriously, the ADK Group's performance and financial condition could be negatively affected.

Response to the Development of New and Digital Media and Changing Consumers' Media Consumption

Media and advertising markets are rapidly and significantly changing. We do not see traditional and new media cannibalizing each other. Rather, they could enhance each other. The ADK Group continues to focus on both traditional and new and digital media through its cross-communications approach.

In addition, the Group has been accelerating efforts to enhance its functionalities to lead the digital advertising market, including the Internet. However, if ADK fails to adapt to changes in the advertising media, its performance and financial condition could be adversely affected.

Risks Arising from Trading Customs

1 Relationship with Advertisers

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

Advertising companies in Japan do not always have documented contracts with media and clients so as to maximize their flexibility 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 the 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.

2 Media Inventories

Normally, ADK purchases media inventories, particularly animation programs, at fixed prices based on orders from client advertisers. Occasionally, ADK speculates on inventories for strategic reasons. We strive to improve the quality of content and increase the demand for such programs by maintaining close relationships with the media. However, weak sales could lead to excess inventories, which could have an adverse effect on our performance and financial condition.

3 Credit Risks of 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. Moreover, sometimes an agency needs to help finance such subcontractors through 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, the agency is likely to suffer a loss.

Competitive Risk

The Top 5 advertising agencies in Japan share roughly 40% of the domestic advertising market. The ADK Group, with its share of 5%–6% and ranking third, competes against them and other companies. Advertising clients tend to select a preferred agency to enjoy economies of scale to minimize procurement costs. Consolidation among clients would accelerate this trend. In addition, the entry of foreign mega–agency groups into the Japanese market and many new and rapidly growing entrants in the Internet and other nontraditional mass media advertising market accelerates competition. In the event that ADK is unable to respond appropriately to client needs and changes in the advertising industry, and loses its competitiveness as a result, there is significant risk that its market share could decline and profitability could deteriorate. This would have a serious impact on its performance and financial condition.

Risks Arising from Operations

1 Client Portfolio

The amount of advertising spending by clients' industry sector may vary and change. In the past 10 years, according to a 2009 report by Dentsu Inc., companies in the sectors of Restaurants/Other Services, Apparel/Jewelry and Government/Organizations boosted spending, whereas those in the sectors of Automotive/Automotive–Related Products and Publications decreased spending. The ADK Group has a diversified portfolio of first-tier clients. The parent company's largest 10 and 20 clients accounted for around 20% and 30%, respectively, of total non-consolidated gross billings in fiscal 2010 and had a similar sector concentration risk as its competitors. 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.

2 Relationship with the Media

The ADK Group buys and resells various media including mass media and rapidly growing digital media. In fiscal 2010, the parent company ADK generated 66.1% of its gross billings by handling the four major mass media, as well as the Internet and digital advertising and OOH media. Gross billings from television represented 47.4% of ADK's non-consolidated gross billings. ADK strives to secure advertising time and/or space in these media. However, in the event of a decrease in advertising volume and/or changes in business terms and conditions and advertising methods, and/or the emergence of new advertising formats, and the ADK Group does not respond to these changes appropriately, there is a significant possibility that its performance and financial condition could be adversely affected.

3 Relationship with Subcontractors

Although ADK carries out 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 its performance and financial condition.

4 Staff

Advertising is a people business and human talents are critical assets 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 its performance and financial condition.

In addition, most of the staff cost is a fixed cost and the largest portion of selling, general and administrative expenses. On a consolidated basis, staff expenses represented as much as 67.3% of SG&A expenses in fiscal 2010. It is not easy to reduce staff costs even when gross profit decreases. Thus, staff costs significantly influence the Group's profitability.

5 Overseas Operations

ADK has been striving to develop overseas revenues. In fiscal 2010, the ADK Group generated 6.8% of its gross billings from overseas sources. In overseas markets, because of differences in culture, society, law and commercial customs, a variety of problems may arise. In addition, both country risk and currency risk are inherent in conducting international business. In the event that the ADK Group is unable to expand its overseas operations as planned, its performance and financial condition could be significantly affected.

6 Content Business

ADK has been successful in the animation content business, as well as in sports and cultural event marketing, which enables ADK to differentiate itself from competitors. ADK continues to develop new content under existing and new business models. However, the demography of Japan is aging and people's preferences and media consumption are changing. Accordingly, the content business is getting more complicated, and competition is becoming tougher. The typical amount of content development investment is increasing, volatility is growing and the time to recoup is increasing. In sum, the content business is getting riskier but less profitable. There is no guarantee of the continued success of this content or of its derivatives. Continued resale income from existing content is not guaranteed either. Accordingly, in the case that the ADK Group is not able to generate income as it expects, it could experience a significant impact on its performance and financial conditions.

7 Investment in Competitiveness

To enhance its competitiveness in the changing advertising market, ADK occasionally invests in new businesses, such as the Internet and OOH media. Moreover, ADK invests in data collection and R&D, which would be critical in offering cross-communications program ideas, and invests in IT for more efficient operations. However, in the event that the ADK Group is unable to realize benefits from the investments as planned, its performance and financial condition could be significantly affected.

8 Management of Group Companies

The ADK Group consists of the parent company, 52 subsidiaries, 22 affiliates and one related company, and operates in the advertising and publications businesses. Although the ADK Group strives hard to realize synergies among these companies, in the event that it is unable to do so as planned, its performance and financial condition could be significantly affected.

9 Relationship with WPP plc

ADK has maintained strategic operating and equity ties with WPP plc of the Republic of Ireland since August 1998, holding a 2.47% equity stake in WPP (as of December 31, 2010). WPP is the largest shareowner of ADK, holding 24.32% of the voting rights. 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 its influence on WPP Group operations is limited, in the event that the ADK Group is unable to realize the benefits from this relationship or if the relationship should negatively change in any way, there could be an impact on the ADK Group's performance and financial condition in the future.

Although the yen-translated market value of the equity stake in WPP was ¥31,250 million (at a stock price of £7.895 per share) as of the end of December 2010 compared with a book value of ¥22,262 million (at a stock price of £3.6517 per share under the lower-of-cost-or-market method), in the event of a major deterioration in the Group's Sterling-based stock price, there is a possibility that ADK would have to account for valuation losses on this holding.

10 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., or "DAC") totaled ¥52,790 million, representing 27.1% of its ¥194,510 million in total assets as of December 31, 2010. Of this amount, ¥44,030 million consisted of publicly traded equity securities, mostly the equity alliance with WPP plc and cross-shareholdings in advertising clients and other trading partners (excluding our investment in DAC, the non-consolidated results of which are accounted for by the equity method). The balance of unrealized gains on available-for-sale securities was ¥7,727 million after deducting deferred tax liabilities on such gains (compared with ¥4,940 million as of December 2009). However, in the event of a major decline in the market prices of these holdings, we would be forced to account for valuation losses.

11 Retirement Benefits and Pension Plans

ADK and some of its Group companies adopt combinations of defined contribution and defined benefits pension plans. At the end of 2004, ADK (parent company) 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 the staff costs, through a smaller Projected Benefit Obligation and less risky pension asset investment strategies.

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 it is accountable for, the Group recognizes its annual cash contribution to the fund as its periodic benefit costs applicable for the fund. In the case that the fund requires the Group to make a larger contribution due to changes in the discount rate, pension asset performance, number of member companies and beneficiaries, and so on, the Group may need to recognize larger net periodic benefit costs.

The fund's total pension assets and liabilities as of March 31, 2010, were ¥68,862 million (a ¥11,862 million year-on-year increase) and ¥86,650 million, respectively, and therefore the difference was negative ¥17,788 million. The discount rate for the liabilities was mainly 5.5%.

The ADK Group's cash contribution share by both employers and employees made during the year through March 2010 were 10.61% and 6.14%, respectively, making the total 16.75%. Applying simply the shares to the aforementioned total fund assets, the Group's prorated shares of assets as of March 31, 2010, were ¥11,532 million in total. Out of this amount, the employers' portion and the employees' portion were ¥7,304 million and ¥4,228 million, respectively. Likewise, the Group's prorated shares of pension liabilities were ¥14,511 million in total. Within this amount, the employers' portion and the employees' portion were ¥9,191 million and ¥5,320 million, respectively.

12 Contingent Litigation Risks

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

13 Legal Risks

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

14 Regulatory Changes

In Japan, there are a number of laws that bind advertising companies, including ADK. These include laws to prevent delays in payment to subcontractors and protect personal information, as well as regulations applicable to advertising companies. As a publicly listed company, moreover, ADK should be in compliance with internal control reporting systems. If there is a tightening of existing laws or regulations affecting the advertising activities of advertisers or the format or content of advertisements, and if the ADK Group needs to enhance its compliance environment, the financial results of the ADK Group and other advertising companies could be adversely affected. In the case of the introduction of new laws or regulations, or the reinterpretation of existing laws or regulations, the result could affect the ADK Group's performance.

as of March 30, 2011

Board of Directors and Auditors

Yoji Shimizu
Representative Director,
President & Group CEO

Takeo Hishiyama
Executive Director, Senior Operating Officer
Group Business Management

Jiro Kitamura
Executive Director, Senior Operating Officer
Integrated Account Service Management

Kazuhiko Narimatsu
Executive Director, Senior Operating Officer
Integrated Account Service Management

Osamu Okayasu
Executive Director, Operating Officer
Integrated Account Service Management

Shinichi Ueno
Executive Director, Operating Officer
Integrated Solution Center

Yoshiki Uemura
Executive Director, Operating Officer
Integrated Solution Center

Hiroshi Nakazato
Executive Director, Operating Officer
Corporate Business Development

Takeshi Kato
Executive Director, Operating Officer
Corporate Management Center

Hiroshi Nomiyama
Executive Director, Operating Officer
Integrated Account Service Management

Hiroaki Onohara
Executive Director, Operating Officer
Media & Content Center

Koichiro Naganuma
Director, Chairman of the Board

Stuart Neish
Non-Executive Director
Regional Director, WPP Asia Pacific

Yoshiro Sakai
Auditor (Full-time)

Makoto Ichikawa
Auditor (Full-time)

Hiroshi Ota
Auditor (Full-time)

Masayuki Yoshinari
Auditor

Financial Section

Consolidated Balance Sheets

ASATSU-DK INC. and Consolidated Subsidiaries
At December 31, 2010 and 2009

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
ASSETS	2010	2009	2010
CURRENT ASSETS:			
Cash and time deposits	¥ 21,520	¥ 21,605	$ 264,081
Marketable securities (Note 3)	1,436	2,145	17,622
Notes and accounts receivable—trade	92,774	87,957	1,138,471
Allowance for doubtful receivables	(286)	(677)	(3,510)
Inventories	8,274	8,824	101,534
Deferred tax assets (Note 7)	1,501	641	18,419
Other current assets	2,344	1,760	28,765
Total current assets	127,563	122,255	1,565,382
PROPERTY AND EQUIPMENT:			
Land	1,263	1,276	15,499
Buildings and leasehold improvements	3,920	4,048	48,104
Other	2,929	2,664	35,943
Total	8,112	7,988	99,546
Accumulated depreciation	(4,019)	(4,049)	(49,319)
Net property and equipment	4,093	3,939	50,227
INVESTMENTS AND OTHER ASSETS:			
Investment securities (Note 3)	47,372	45,550	581,323
Investments in unconsolidated subsidiaries and affiliated companies	5,743	8,047	70,475
Deferred tax assets (Note 7)	645	806	7,915
Other assets	9,094	9,427	111,597
Total investments and other assets	62,854	63,830	771,310
TOTAL	¥194,510	¥190,024	$2,386,919

See notes to consolidated financial statements.

LIABILITIES AND NET ASSETS	Millions of Yen 2010	Millions of Yen 2009	Thousands of U.S. Dollars (Note 1) 2010
CURRENT LIABILITIES:			
Short-term debt (Note 4)	¥ 84	¥ 346	$ 1,031
Current portion of long-term debt (Note 4)	278	92	3,411
Notes and accounts payable–trade	74,358	69,237	912,480
Income taxes payable (Note 7)	358	227	4,393
Accrued bonuses to employees	384	163	4,712
Allowance for sales returns	508	545	6,234
Deferred tax liabilities (Note 7)	–	–	–
Other current liabilities	7,905	7,184	97,007
Total current liabilities	83,875	77,794	1,029,268
LONG-TERM LIABILITIES:			
Long-term debt (Note 4)	765	253	9,388
Accrued retirement benefits (Note 5)	1,347	1,001	16,530
Allowance for retirement benefits to directors and corporate auditors*	1,203	1,208	14,763
Provision for loss on guarantees	–	45	–
Deferred tax liabilities (Note 7)	3,527	1,904	43,281
Other long-term liabilities	625	354	7,670
Total long-term liabilities	7,467	4,765	91,632
CONTINGENT LIABILITIES (Note 11)			
NET ASSETS (Note 6):			
Shareholders' equity			
Common stock			
Authorized: 206,000,000 shares in 2010 and 2009;			
Issued: 45,155,400 shares in 2010 and 2009, respectively	37,581	37,581	461,173
Capital surplus	20,024	20,024	245,723
Retained earnings	45,907	51,354	563,345
Treasury stock–at cost	(7,718)	(6,970)	(94,711)
Total shareholders' equity–net	95,794	101,989	1,175,530
Valuation and translation adjustments			
Unrealized gain on available-for-sale securities	7,727	4,910	94,822
Deferred gain on derivatives under hedge accounting	(94)	16	(1,154)
Foreign currency translation adjustments	(1,258)	(492)	(15,437)
Total valuation and translation adjustments	6,375	4,434	78,231
Minority interests	999	1,042	12,258
Total net assets	103,168	107,465	1,266,019
TOTAL	¥194,510	¥190,024	$2,386,919

*No allowance for retirement benefits to corporate auditors was standing as of December 31, 2010, 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, 2010 and 2009

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2010	2009	2010
GROSS BILLINGS (Note 13)	¥346,565	¥350,211	$4,252,853
COST OF SALES (Note 13)	304,537	308,844	3,737,109
Gross profit	42,028	41,367	515,744
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES (Notes 8 and 13)	42,006	42,123	515,474
Operating income (loss)	22	(756)	270
OTHER INCOME (EXPENSES):			
Interest and dividend income—net	1,421	1,337	17,438
Gain on sales of securities	14	143	172
Loss on sales of securities	(1,022)	(61)	(12,541)
Loss on valuation of securities	(2,324)	(213)	(28,519)
Loss on disposal of fixed assets	(59)	(319)	(724)
Equity in earnings (losses) of affiliated companies—net	213	126	2,614
Additional retirement benefits paid to employees	(2,770)	(43)	(33,992)
Provision for bad debts	(304)	0	(3,731)
Provision for loss on guarantees—net	45	(8)	552
Exchange loss	(236)	–	(2,896)
Other—net	251	137	3,079
Other income—net	(4,771)	1,099	(58,548)
INCOME (LOSS) BEFORE INCOME TAXES AND MINORITY INTERESTS	(4,749)	343	(58,278)
INCOME TAXES (Note 7):			
Current	524	797	6,430
Deferred	(640)	(560)	(7,854)
MINORITY INTERESTS IN NET INCOME	23	33	282
NET INCOME (LOSS)	¥ (4,656)	¥ 73	$ (57,136)

See notes to consolidated financial statements.

Consolidated Statements of Changes in Net Assets (1)

ASATSU-DK INC. and Consolidated Subsidiaries
Year Ended December 31, 2010

Year Ended December 31, 2010

Millions of Yen

	Shareholders' equity				
	Common stock	Capital surplus	Retained earnings	Treasury stock—at cost	Total shareholders' equity
Balance as of December 31, 2009	¥37,581	¥20,024	¥51,354	¥(6,970)	¥101,989
Effect of changes in accounting policies applied to foreign subsidiaries			–		–
Change during the consolidated fiscal year					
Dividend payments			(851)		(851)
Net income			(4,656)		(4,656)
Increase due to newly consolidated subsidiaries			81		81
Acquisitions of treasury stock				(825)	(825)
Disposals and cancellation of treasury stock				77	77
Other decrease of retained earnings*			(21)		(21)
Net change of items other than shareholders' equity					
Total change during the consolidated fiscal year	–	–	(5,447)	(748)	(6,195)
Balance as of December 31, 2010	¥37,581	¥20,024	¥45,907	¥(7,718)	¥ 95,794

	Valuation and translation adjustments				Minority interests	Total net assets
	Unrealized gain on available-for-sale securities	Deferred gain on derivatives under hedge accounting	Foreign currency translation adjustments	Total valuation and translation adjustments		
Balance as of December 31, 2009	¥4,910	¥ 16	¥ (492)	¥4,434	¥1,042	¥107,465
Effect of changes in accounting policies applied to foreign subsidiaries						–
Change during the consolidated fiscal year						
Dividend payments						(851)
Net income						(4,656)
Increase due to newly consolidated subsidiaries						81
Acquisitions of treasury stock						(825)
Disposals and cancellation of treasury stock						77
Other decrease of retained earnings*						(21)
Net change of items other than shareholders' equity	2,817	(110)	(766)	1,941	(43)	1,898
Total change during the consolidated fiscal year	2,817	(110)	(766)	1,941	(43)	(4,297)
Balance as of December 31, 2010	¥7,727	¥ (94)	¥(1,258)	¥6,375	¥ 999	¥103,168

*Other decrease of retained earnings is the 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, 2009

Millions of Yen

Year Ended December 31, 2009

	Shareholders' equity				
	Common stock	Capital surplus	Retained earnings	Treasury stock—at cost	Total shareholders' equity
Balance as of December 31, 2008	¥37,581	¥20,024	¥52,158	¥(6,088)	¥103,675
Effect of changes in accounting policies applied to foreign subsidiaries			0		0
Change during the consolidated fiscal year					
Dividend payments			(856)		(856)
Net income			73		73
Increase due to newly consolidated subsidiaries			–		–
Acquisitions of treasury stock				(882)	(882)
Disposals and cancellation of treasury stock		(0)		0	0
Other decrease of retained earnings*			(21)		(21)
Net change of items other than shareholders' equity					
Total change during the consolidated fiscal year	–	(0)	(804)	(882)	(1,686)
Balance as of December 31, 2009	¥37,581	¥20,024	¥51,354	¥(6,970)	¥101,989

	Valuation and translation adjustments				Minority interests	Total net assets
	Unrealized gain on available-for-sale securities	Deferred gain on derivatives under hedge accounting	Foreign currency translation adjustments	Total valuation and translation adjustments		
Balance as of December 31, 2008	¥(2,394)	¥(22)	¥(671)	¥(3,087)	¥1,029	¥101,617
Effect of changes in accounting policies applied to foreign subsidiaries						0
Change during the consolidated fiscal year						
Dividend payments						(856)
Net income						73
Increase due to newly consolidated subsidiaries						–
Acquisitions of treasury stock						(882)
Disposals and cancellation of treasury stock						0
Other decrease of retained earnings*						(21)
Net change of items other than shareholders' equity	7,304	38	179	7,521	13	7,534
Total change during the consolidated fiscal year	7,304	38	179	7,521	13	5,848
Balance as of December 31, 2009	¥ 4,910	¥ 16	¥(492)	¥ 4,434	¥1,042	¥107,465

*Other decrease of retained earnings is the 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 (3)

ASATSU-DK INC. and Consolidated Subsidiaries
Year Ended December 31, 2010

Thousands of U.S. Dollars (Note 1)

Year Ended December 31, 2010

	Shareholders' equity				
	Common stock	Capital surplus	Retained earnings	Treasury stock—at cost	Total shareholders' equity
Balance as of December 31, 2009	$461,173	$245,723	$630,188	$(85,532)	$1,251,552
Effect of changes in accounting policies applied to foreign subsidiaries			0		0
Change during the consolidated fiscal year					
Dividend payments			(10,443)		(10,443)
Net income			(57,136)		(57,136)
Increase due to newly consolidated subsidiaries			994		994
Acquisitions of treasury stock				(10,124)	(10,124)
Disposals and cancellation of treasury stock				945	945
Other decrease of retained earnings*			(258)		(258)
Net change of items other than shareholders' equity					
Total change during the consolidated fiscal year	–	–	(66,843)	(9,179)	(76,022)
Balance as of December 31, 2010	$461,173	$245,723	$563,345	$(94,711)	$1,175,530

	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, 2009	$60,253	$ 196	$ (6,037)	$54,412	$12,787	$1,318,751
Effect of changes in accounting policies applied to foreign subsidiaries						–
Change during the consolidated fiscal year						
Dividend payments						(10,443)
Net income						(57,136)
Increase due to newly consolidated subsidiaries						994
Acquisitions of treasury stock						(10,124)
Disposals and cancellation of treasury stock						945
Other decrease of retained earnings*						(258)
Net change of items other than shareholders' equity	34,569	(1,350)	(9,400)	23,819	(529)	23,290
Total change during the consolidated fiscal year	34,569	(1,350)	(9,400)	23,819	(529)	(52,732)
Balance as of December 31, 2010	$94,822	$(1,154)	$(15,437)	$78,231	$12,258	$1,266,019

*Other decrease of retained earnings is the 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)
	2010	2009	2010
PER SHARE OF COMMON STOCK:			
Net income			
Basic	¥ (110.28)	¥ 1.73	$ (1.35)
Diluted	–	1.72	–
Net assets	2,423.06	2,499.05	29.73
Cash dividend applicable to the year	20.00	20.00	0.25

Consolidated Statements of Cash Flows

ASATSU-DK INC. and Consolidated Subsidiaries
Years Ended December 31, 2010 and 2009

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2010	2009	2010
OPERATING ACTIVITIES:			
Income (loss) before income taxes and minority interests	¥ (4,749)	¥ 343	$(58,278)
Adjustments for:			
Income taxes—paid	(803)	(108)	(9,854)
Depreciation and amortization	818	943	10,038
Equity in earnings of affiliated companies	(213)	(126)	(2,614)
Gain on sales of securities	1,007	(82)	12,357
Loss on valuation of securities	2,324	213	28,519
Changes in assets and liabilities:			
(Increase) Decrease in notes and accounts receivable	(5,562)	14,028	(68,254)
Increase (Decrease) in inventories	293	(269)	3,596
Increase (Decrease) in notes and accounts payable	5,068	(8,471)	62,192
Increase in provision for bad debts	258	790	3,166
Increase in accrued retired benefits	346	150	4,246
Increase (Decrease) in payables	692	(748)	8,492
Others—net	300	(259)	3,681
Total adjustments	4,528	6,061	55,565
Net cash provided by (used for) operating activities	(221)	6,404	(2,713)
INVESTING ACTIVITIES:			
Increase in time deposits—net	318	974	3,902
Proceeds from sales of securities	4,065	7,930	49,883
Purchases of securities	(1,521)	(6,641)	(18,665)
Proceeds from sales of property and equipment	44	11	540
Purchases of property and equipment	(184)	(100)	(2,258)
Purchases of intangible assets	(501)	(467)	(6,147)
Other investing activities	77	(137)	945
Net cash provided by investing activities	2,298	1,570	28,200
FINANCING ACTIVITIES:			
Decrease in short-term debt—net	(251)	(209)	(3,080)
Increase of long-term debt	925	–	11,351
Repayment of long-term debt	(187)	(154)	(2,295)
Purchases of treasury stock—net	(747)	(882)	(9,167)
Dividends paid	(851)	(856)	(10,443)
Other financing activities	(155)	(40)	(1,902)
Net cash used for financing activities	(1,266)	(2,141)	(15,536)
FOREIGN CURRENCY TRANSLATION ADJUSTMENTS ON CASH AND CASH EQUIVALENTS	(745)	204	(9,142)
NET INCREASE IN CASH AND CASH EQUIVALENTS	¥ 66	¥ 6,037	$ 809
CASH AND CASH EQUIVALENTS, BEGINNING OF THE YEAR	18,844	12,807	231,243
CASH AND CASH EQUIVALENTS OF NEWLY CONSOLIDATED SUBSIDIARIES, BEGINNING OF THE YEAR	217	–	2,663
CASH AND CASH EQUIVALENTS, END OF THE YEAR	¥19,127	¥18,844	$234,715

See notes to consolidated financial statements.

Notes to Consolidated Financial Statements

ASATSU-DK INC. and Consolidated Subsidiaries
Years ended December 31, 2010 and 2009

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 Instruments 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 the application and disclosure requirements of 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 that 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 ¥81.49 to US$1.00, the approximate rate of exchange on December 31, 2010. 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Consolidation—The consolidated financial statements include the accounts of the Company and its significant twenty-four (24) (twenty-three (23) in 2009) 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-three (23) subsidiaries use a fiscal year ended at December 31, as 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 two (2) affiliated companies, in which the Company owns interests of 20% to 50%, are accounted for by the equity method. (Investments in three (3) affiliated companies were accounted for by the equity method in 2009.) Investments in the remaining twenty-eight (28) (thirty (30) in 2009) unconsolidated subsidiaries and twenty (20) (nineteen (19) in 2009) 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.

ASATSU-DK (Malaysia) Sdn. Bhd., which was an unconsolidated subsidiary for fiscal 2009, has become a consolidated subsidiary from fiscal 2010 due to its increasing materiality.

Nippon Information Industry Corp. ("NII"), which was an equity-method affiliate for fiscal 2009, has been excluded from the scope of the equity method for fiscal 2010 because the Company sold off its share in NII during the fiscal year. The amount of loss on sales of the securities was ¥978 million ($12,001 thousand).

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.

Effective from the financial statement for fiscal 2009, the financial statements of the overseas consolidated subsidiaries are made in accordance with ASBJ Practical Solution No. 18 (issued on May 17, 2006), where certain corrections are made upon consolidation. The effect of this Practical Solution on the operating loss and income before income taxes and minority interests is not material.

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

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

The balances of cash and cash equivalents as of December 31, 2010 and 2009, are reconciled to the balance sheets as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2010	2009	2010
Balance sheet:			
Cash and time deposits	¥21,520	¥21,605	$264,081
Securities	1,436	2,145	17,622
Total	22,956	23,750	281,703
Less:			
Time deposits more than three months	3,544	3,732	43,490
Securities not applicable to cash equivalents			
(e.g., Securities other than money management funds)	285	1,174	3,498
Cash and cash equivalents	¥19,127	¥18,844	$234,715

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

Effective from the financial statements for fiscal 2009, inventories are assessed in accordance with ASBJ Statement No. 9 (issued on July 5, 2006), where inventories with low expected profitability are written down when such judgment is made. As a result, for the year ended December 31, 2009, the operating loss was negatively affected by ¥69 million and income before income taxes and minority interests was lower by ¥208 million.

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 the 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 that are not classified as either of the aforementioned securities are reported at the fair value, and any resulting unrealized gains and losses, net of applicable taxes, are reported as an unrealized gain (loss) on available-for-sale securities, which is a component of net assets. As of the end of 2009 and 2010, the Company and its consolidated subsidiaries had 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 the 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 that have not been accounted for by the equity method is not readily available, such securities should be written down to the net asset value with a corresponding charge in the statement of income in the event the net asset value declines significantly. In these cases, such fair market value or 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 property and equipment other than 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: 3–65 years

Under an 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 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 to the 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 service and other factors. The Company accrues 100% of the obligations based on its rule required under the assumption that all directors retired at the balance sheet date.

The Company and some of its domestic subsidiaries are members of the Japan Advertising Industry Pension Fund. Because the Group cannot technically or reasonably define how much pension assets and liabilities the Group is accountable for, the Group recognizes its annual cash contribution to the fund as its periodic benefit costs applicable for the fund but not 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 on the Japanese tax code, for returned publication merchandise and losses derived from unsold publication merchandise.

i. Leases—In March 2007, the ASBJ issued ASBJ Statement No. 13, "Accounting Standard for Lease Transactions," which revised the previous accounting standard for lease transactions issued in June 1993. The revised accounting standard is required to be adopted for a fiscal year starting on or after April 2009.

ASBJ Statement No. 13 requires that all finance lease transactions should be capitalized to recognize lease assets and lease obligations on the balance sheet. However, the standard allows some leases to be accounted for as operating lease transactions, if the transactions were contracted on or before the end of the year before the fiscal year of adoption, if the leased property is not deemed to be transferred to the lessee and if certain "as-if-capitalized" information is disclosed in the notes to the lessee's consolidated financial statements.

The Group applied ASBJ Statement No. 13 effective from fiscal 2009 but keeps reporting certain applicable lease transactions as operating leases. For information on those operating leases, please refer to Note 9. Leases. In major overseas consolidated subsidiaries, leases are accounted for as finance leases and leased properties are capitalized.

As a result, lease assets of ¥113 million were capitalized as tangible fixed assets and ¥6 million as intangible fixed assets as of December 31, 2009. The effects of this change in accounting standard on the operating loss and income before income taxes and minority interests are not material. Lease assets are depreciated by the straight-line method over the terms of the respective leases with no salvage value.

j. Software and R&D Costs—Research-and-development costs are charged to income when incurred. Capitalized software for internal use amounting to ¥1,464 million ($17,965 thousand) in 2010 and ¥1,424 million in 2009, included in "Other assets" of investments and other assets, was amortized by the straight-line method based over 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 the 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—The appropriation of retained earnings at each year-end is 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 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.

Revenue and expense items of the consolidated overseas subsidiaries and affiliated companies for the years ended December 31, 2010, and the year ended December 31, 2009, are translated into Japanese yen at the average exchange rate for each year.

o. Derivatives and Hedging Activities—The Group uses derivative financial instruments to manage its exposure to fluctuations in foreign exchange. Foreign exchange forward contracts are utilized by the Group to reduce foreign currency exchange risks. The Group also has investments in debt securities with derivatives that are designed to enhance returns. Some of those investments have terms and conditions that could lead to a situation where the original face value of such security is not redeemed even if there is no credit event. However, because such loss would be limited to the face value at maximum, the influence of such risk is limited.

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 effect to the net income of an affiliated company that has the dilutive potential of shares and a weighted average number of shares outstanding during each year. The average number of common shares used in the computation was 42,221,554 shares for the fiscal year ended December 31, 2010, and 42,709,412 shares for the fiscal year ended December 31, 2009.

The cash dividend per common share presented in the accompanying consolidated statements of income is dividends applicable to net income of the respective years including dividends paid after the end of the year.

q. ESOP Trust—The Company is committed to reinforcing measures to ensure the welfare of its employees, who represent the driving force behind the Group's growth. In addition, the Company seeks to increase employees' awareness about our performance and stock price and thus boost medium- and long-term corporate value. To achieve these aims, the Company has introduced an ESOP trust as an incentive plan.

An ESOP trust is a trust-type employee incentive plan that uses ADK's employee shareholder group framework. Specifically, the Company will establish a trust, the beneficiaries of which will be employee members of the ADK Employee Shareholding Association (the "Association") who satisfy certain requirements. The trust will purchase a certain number of ADK shares, determined according to the Association's planned share purchases during the period from April 2010 to March 2015. Such shares will be acquired over a certain purchase period, also to be determined. Subsequently, the trust will sell shares to the Association at the market price each month on a set date.

The Company guarantees the losses in the trust account (the "Trust Account") resulting from the purchase and sale of the ADK shares and accounts for the transactions involving the trust as its own. Accordingly, shares of the Company held by the trust and the assets, liabilities, expenses and income of the trust were recorded in the accompanying consolidated financial statements.

For the purpose of calculating basic net income (loss) and net assets per common stock, the common stock held by the ESOP trust is considered as the treasury shares.

As of March 31, 2010, the number of shares of the Company held by the ESOP trust was 417,400.

3. MARKETABLE AND INVESTMENT SECURITIES

Millions of Yen

2010	Cost	Unrealized gains	Unrealized losses	Fair value
Available-for-sale:				
Equity securities	¥31,004	¥13,621	¥595	¥44,030
Debt securities	1,650	–	56	1,594
Other	355	17	11	361
Total	¥33,009	¥13,638	¥662	¥45,985

Millions of Yen

2009	Cost	Unrealized gains	Unrealized losses	Fair value
Available-for-sale:				
Equity securities	¥33,099	¥10,650	¥2,148	¥41,601
Debt securities	3,091	3	149	2,945
Other	338	7	6	339
Total	¥36,528	¥10,660	¥2,303	¥44,885

Thousands of U.S. Dollars

2010	Cost	Unrealized gains	Unrealized losses	Fair value
Available-for-sale:				
Equity securities	$380,464	$167,149	$7,302	$540,311
Debt securities	20,248	–	687	19,561
Other	4,356	209	135	4,430
Total	$405,068	$167,358	$8,124	$564,302

The carrying amount of the securities classified as available-for-sale securities for which the fair values were not readily determinable as of December 31, 2009, was as follows. Similar information for 2010 is disclosed in Note 10.

	Millions of Yen
2009	Carrying amount
Available-for-sale:	
Non-listed equity securities	¥1,944
Investment trust	739
Other	126
Total	¥2,809

Total sales of available-for-sale securities sold in the year ended December 31, 2009, amounted to ¥7,930 million ($97,312 thousand), the related gains amounted to ¥144 million ($1,767 thousand) and the related losses amounted to ¥66 million ($809 thousand).

The information on available-for-sales securities that were sold during the year ended December 31, 2010, was as follows:

	Millions of Yen		
2010	Proceeds	Realized gains	Realized losses
Available-for-sale:			
Equity securities	¥ 78	¥15	¥11
Debt securities	1,399	3	32
Other	30	–	–
Total	¥1,508	¥18	¥43

	Thousands of U.S. Dollars		
2010	Proceeds	Realized gains	Realized losses
Available-for-sale:			
Equity securities	$ 957	$184	$135
Debt securities	17,168	37	393
Other	380	–	–
Total	$18,505	$221	$528

The impairment losses on available-for-sale equity securities for the years ended December 31, 2010 and 2009, were ¥2,156 million ($26,457 thousand) and ¥67 million, respectively.

4. SHORT-TERM AND LONG-TERM DEBT

The weighted average annual interest rates applicable to the short-term debt were 1.94% and 1.42% at December 31, 2010 and 2009, respectively.

Long-term debt as of December 31, 2010 and 2009, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2010	2009	2010
Loans due through 2015*	¥1,043	¥345	$12,799
Amount due within one year	(278)	(92)	(3,411)
Total	¥ 765	¥253	$ 9,388
Obligations under capital leases*	¥ 459	¥122	$ 5,632
Amount due within one year	(101)	(27)	(1,239)
Total	¥ 358	¥ 95	$ 4,393

*The weighted average interest rates or the 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 were 1.63% p.a. in 2010 and 4.75% p.a. in 2009. The weighted average interest rates of the loans due within one year were 2.12% p.a. in 2010 and 4.07% p.a. in 2009. The weighted average interest rates of obligations under finance leases due beyond and within one year were 2.11% and 2.37%, respectively, in 2010.

The repayment schedule of long-term debt as of December 31, 2010, was as follows:

Year Ending December 31	Millions of Yen	Thousands of U.S. Dollars
2011	¥ 278	$ 3,411
2012	278	3,411
2013	241	2,957
2014	164	2,013
Later years	82	1,007
Total	¥1,043	$12,799

The repayment schedule of obligations under capital leases as of December 31, 2010, was as follows:

Year Ending December 31	Millions of Yen	Thousands of U.S. Dollars
2011	¥101	$1,239
2012	98	1,203
2013	98	1,203
2014	86	1,055
Later years	76	932
Total	¥459	$5,632

The amounts of long-term debt used for the ESOP trust at December 31, 2010, were as follows:
Current portion of long-term debt: ¥164 million ($2,012 thousand)
Long-term debt: ¥574 million ($7,043 thousand)

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 service and other factors.

The liabilities for employees' retirement benefits and pension plans as of December 31, 2010 and 2009, comprised the following:*

	Millions of Yen		Thousands of U.S. Dollars
	2010	2009	2010
Projected benefit obligation	¥10,545	¥11,367	$129,402
Fair value of plan assets	(7,301)	(8,227)	(89,594)
Unrecognized actuarial differences	(1,897)	(2,139)	(23,278)
Accrued retirement benefits	¥ 1,347	¥ 1,001	$ 16,530

The components of net periodic benefit costs for the years ended December 31, 2010 and 2009, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2010	2009	2010
Service cost	¥ 819	¥ 802	$10,050
Interest cost	209	204	2,565
Expected return on plan assets	(123)	(118)	(1,509)
Amortization of actuarial differences	256	255	3,141
Contributions paid during the period, etc.*	978	970	12,001
Net periodic benefits costs	¥2,139	¥2,113	$26,248

The discount rate used by the Group was 2.0% as of the years ended December 31, 2010 and 2009. The rate of expected return on plan assets used by the Group was 1.5% for the years ended December 31, 2010 and 2009. 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.

*For plans provided by the Japan Advertising Industry Pension Fund, the Group cannot technically or reasonably allocate pension assets and liabilities to the Group's account. Therefore, the Group recognizes its annual cash contribution to this fund as its periodic 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 prorated share of pension assets or liabilities for the Group as measured by the 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 prorated calculation is simply for informational purposes only.)

a. Total pension assets and liabilities of the fund

	Millions of Yen		Thousands of U.S. Dollars
	March 31, 2010	March 31, 2009	March 31, 2010
Pension liabilities*	¥(86,650)	¥(90,518)	$(1,063,321)
Pension assets	68,862	57,000	845,037
Net assets (deficits)	¥(17,788)	¥(33,518)	$ (218,284)

*The discounted rate for the liabilities used by the fund was mainly 5.5%.

b. The Group's share of the contribution to the fund

	April 1, 2009– March 31, 2010	April 1, 2008– March 31, 2009
Share of the Group as employers	10.61%	10.30%
Share of employees	6.14%	6.22%
Total	16.75%	16.52%

c. Prorated share of pension assets or liabilities as measured by the Group's share of the contribution to the fund

	Millions of Yen	
March 31, 2010	Share of the Group as employer	Share of employees
Pension liabilities	¥(9,191)	¥(5,320)
Pension assets	7,305	4,228
Net deficits	¥(1,886)	¥(1,092)

	Millions of Yen	
March 31, 2009	Share of the Group as employer	Share of employees
Pension liabilities	¥(9,320)	¥(5,634)
Pension assets	5,869	3,548
Net deficits	¥(3,451)	¥(2,086)

	Thousands of U.S. Dollars	
March 31, 2010	Share of the Group as employer	Share of employees
Pension liabilities	$(112,787)	$(65,284)
Pension assets	89,643	51,884
Net deficits	$ (23,144)	$(13,400)

d. Supplemental information

The Japan Advertising Industry Pension Fund's total net pension deficit amount of ¥17,788 million ($218,284 thousand) and ¥33,518 million on March 31, 2010, and March 31, 2009, stated in the item "a" above equals to the sum of prior service liabilities of ¥7,823 million ($96,000 thousand) and ¥7,083 million and net accumulated deficit carry-forward of ¥9,964 million ($122,273 thousand) and ¥26,435 million, respectively.

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 ¥117 million ($1,436 thousand) and ¥117 million during the periods from April 1, 2009, to March 31, 2010, and from April 1, 2008, to March 31, 2009, respectively, for this amortization.

6. CHANGE IN NET ASSETS

The type and number of shares issued and treasury stock as of December 31, 2010 and 2009, were as follows:

2010	Shares issued	Treasury stock
Type of shares	Common stock	Common stock
Number of shares as of December 31, 2009	45,155,400	2,569,867
Increase in the number of shares during the accounting period ended December 31, 2010	–	464,237
Decrease in the number of shares during the accounting period ended December 31, 2010	–	(44,000)
Number of shares as of December 31, 2010	45,155,400	2,990,104

Notes: 1. Increases in the number of treasury stock were due to the purchase of 461,400 shares by the ESOP trust and the purchase of 2,837 shares of less-than-one-unit shares.
2. Decreases in the number of treasury stock were due to sales of 44,000 shares by the ESOP trust.

2009	Shares issued	Treasury stock
Type of shares	Common stock	Common stock
Number of shares as of December 31, 2008	45,155,400	2,067,327
Increase in the number of shares during the accounting period ended December 31, 2009	–	502,804
Decrease in the number of shares during the accounting period ended December 31, 2009	–	(264)
Number of shares as of December 31, 2009	45,155,400	2,569,867

Notes: 1. Increases in the number of treasury stock were due to the purchase of 500,000 shares with the approval at a Board of Directors meeting and the purchase of 2,804 shares of less-than-one-unit shares.
2. Decreases in the number of treasury stocks were due to sales of 264 shares of less-than-one-unit shares.

Information related to dividends for the accounting periods ended December 31, 2010 and 2009, was as follows:

2010

Dividends paid during the accounting period ended December 31, 2010

Resolution by:	Board of Directors February 12, 2010	Board of Directors August 11, 2010
Total amount of dividends	¥425 million	¥421 million
Dividend per share	¥10	¥10
Record date	December 31, 2009	June 30, 2010
Payable date	March 12, 2010	September 13, 2010

Dividends paid to the ESOP trust in the amount of ¥4 million ($49 thousand) have been excluded from the total amount of dividends as stated under “Board of Directors August 11, 2010.”

Dividends attributable to the performance of the accounting period ended December 31, 2010, but paid after said accounting period

Resolution by:	Board of Directors February 10, 2011
Total amount of dividends	¥421 million
Fund for dividends	Retained earnings
Dividend per share	¥10
Record date	December 31, 2010
Payable date	March 14, 2011

Dividends paid to the ESOP trust in the amount of ¥4 million ($49 thousand) have been excluded from the total amount of dividends as stated above.

2009

Dividends paid during the accounting period ended December 31, 2009

Resolution by:	Board of Directors February 13, 2009	Board of Directors August 12, 2009
Total amount of dividends	¥430 million	¥425 million
Dividend per share	¥10	¥10
Record date	December 31, 2008	June 30, 2009
Payable date	March 12, 2009	September 14, 2009

Dividends attributable to the performance of the accounting period ended December 31, 2009, but paid after said accounting period

Resolution by:	Board of Directors February 12, 2010
Total amount of dividends	¥425 million
Fund for dividends	Retained earnings
Dividend per share	¥10
Record date	December 31, 2009
Payable date	March 12, 2010

7. INCOME TAXES

The Company and its domestic consolidated subsidiaries are subject to corporate, inhabitant and enterprise taxes based on income. The normal effective statutory tax rate for these taxes in the aggregate was 40.69% for 2010 and 2009, respectively, after reflection of the enterprise tax, in a 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, 2010 and 2009, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2010	2009	2010
Deferred tax assets:			
Allowance for doubtful receivables	¥ 679	¥ 712	$ 8,332
Accrued bonuses	81	22	994
Accrued retirement benefits	441	326	5,412
Inventory	122	104	1,497
Investment securities	1,300	407	15,953
Tax loss carry-forwards	1,776	327	21,794
Unrealized loss on marketable securities	146	46	1,792
Deferred tax assets in overseas consolidated subsidiaries*	32	40	393
Other	1,286	1,152	15,780
	5,863	3,136	71,947
Valuation allowance**	(2,152)	(135)	(26,408)
Total deferred tax assets	3,711	3,001	45,539
Deferred tax liabilities:			
Accrued retirement benefits	–	21	–
Unrealized gain on marketable securities	5,047	3,376	61,934
Deferred tax liabilities in overseas consolidated subsidiaries*	44	59	540
Other	0	–	0
Total deferred tax liabilities	5,091	3,456	62,474
Total net deferred tax assets (liabilities)	¥(1,380)	¥ (455)	$(16,935)

*The deferred tax assets and liabilities in overseas consolidated subsidiaries as a result of the tax effects of significant temporary differences and losses carried forward as of the end of fiscal 2010 and 2009 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2010	2009	2010
Deferred tax assets:			
Tax loss carry-forwards	¥ 41	¥ 71	$ 503
Other	22	27	270
Less valuation allowance**	(31)	(58)	(380)
Deferred tax assets	32	40	393
Deferred tax liabilities —Depreciation	43	59	528
—Other	–	–	–
Deferred tax liabilities	43	59	528
Net deferred tax assets (liabilities)	¥(11)	¥(19)	$(135)

**The valuation allowances shown above are provided for tax loss carry-forwards of certain subsidiaries under the Group's tax planning. The Company increased the valuation allowance for deferred tax assets by ¥1,559 million ($19,131 thousand).

Reconciliation between the normal effective statutory tax rate for the year ended December 31, 2009, and the actual effective tax rates reflected in the accompanying consolidated statements of income were as follows:

	2010*	2009
Normal effective statutory tax rate	–	40.69%
Certain expenses, including, but not limited to, entertainment expenses, permanently not deductible for tax purposes	–	92.99
Certain income, including, but not limited to, dividend income, permanently not taxable for tax purposes	–	(18.26)
Per capita levy	–	8.53
Corporate income tax for the past year	–	29.15
Amendment of effective tax rate for the past year	–	(48.33)
Tax rate difference applicable to overseas subsidiaries	–	(35.38)
Other—net	–	(0.44)
Actual effective tax rate	–	68.95%

*The effective tax rate for the year ended December 31, 2010, cannot be shown due to the financial position resulting in a loss before income taxes and minority interests.

8. RESEARCH-AND-DEVELOPMENT COSTS

Research-and-development costs charged to income for the years ended December 31, 2010 and 2009, were ¥1,035 million ($12,700 thousand) and ¥949 million, respectively.

9. LEASES

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

As discussed in Note 2.i. Leases, the Group accounts for certain leases as operating lease transactions, if the transactions were contracted on or before the end of 2009, if the leased property is not deemed to be transferred to the lessee and if certain "as-if-capitalized" information is disclosed in the notes to the lessee's consolidated financial statements. Pro forma information of those leased properties such as acquisition cost, accumulated depreciation, obligations under finance leases, depreciation expense and interest expense of finance leases on an "as-if-capitalized" basis for the years ended December 31, 2010 and 2009, were as follows:

Millions of Yen

Year Ended December 31, 2010	Furniture and equipment	Machinery and vehicles	Software	Total
Acquisition cost	¥915	¥–	¥167	¥1,082
Accumulated depreciation	726	–	147	873
Net leased property	¥189	¥–	¥ 20	¥ 209

Obligations under finance leases:

Millions of Yen

Due within one year	¥155
Due after one year	74
Total	¥229

Millions of Yen

Year Ended December 31, 2009	Furniture and equipment	Machinery and vehicles	Software	Total
Acquisition cost	¥1,364	¥–	¥337	¥1,701
Accumulated depreciation	901	–	263	1,164
Net leased property	¥ 463	¥–	¥ 74	¥ 537

Obligations under finance leases:

Millions of Yen

Due within one year	¥ 327
Due after one year	243
Total	¥ 570

Thousands of U.S. Dollars

Year Ended December 31, 2010	Furniture and equipment	Machinery and vehicles	Software	Total
Acquisition cost	$11,228	$–	$2,049	$13,277
Accumulated depreciation	8,909	–	1,804	10,713
Net leased property	$ 2,319	$–	$ 245	$ 2,564

Obligations under finance leases:

	Thousands of U.S. Dollars
Due within one year	$1,902
Due after one year	908
Total	$2,810

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

	Millions of Yen		Thousands of U.S. Dollars
	2010	2009	2010
Total lease payments	¥334	¥436	$4,099
Depreciation expense	293	412	3,596
Interest expense	9	17	110

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
	2010	2009	2010
Due within one year	¥ 605	¥ 576	$ 7,424
Due after one year	2,904	3,700	35,636
Total	¥3,509	¥4,276	$43,060

10. FINANCIAL INSTRUMENTS AND RELATED DISCLOSURES

On March 10, 2008, the ASBJ revised ASBJ Statement No. 10, “Accounting Standard for Financial Instruments,” and issued ASBJ Guidance No. 19, “Guidance on Accounting Standard for Financial Instruments and Related Disclosures.” This accounting standard and the guidance are applicable to financial instruments and the related disclosures at the end of the fiscal years ending on or after March 31, 2010, with early adoption permitted from the beginning of the fiscal years ending before March 31, 2010. The ADK Group applied the revised accounting standard and the new guidance for the fiscal year ending December 31, 2010.

(1) Group Policy for Financial Instruments

The ADK Group invests its cash surplus in low risk and liquid marketable financial asset classes. Such cash surpluses are generated from the Group’s own operations and bank loans. Derivatives are used, not for speculative purposes, but to manage financial exposure to the volatility of exchange rates by way of exchange reservation. In addition, the Group purchases bonds with embedded derivatives for the purpose of asset management.

(2) Nature and Extent of Risks Arising from Financial Instruments, and Risk Management Method

Receivables such as trade notes and accounts are exposed to customer credit risk.

Investment securities, mainly equity instruments of customers for the purpose of building strong business relationships other than equity instruments of business alliances, are exposed to the risk of market price fluctuations.

The payment terms of payables, such as trade notes and trade accounts, are only short term.

Bank loans are aimed at (mainly short-term) cash operation and the purchase of treasury stock under the ESOP trust system as the employees' benefit plan. Bank loans, most of which are contracted with a floating rate, are exposed to the risk of rate fluctuations.

Derivatives mainly include forward foreign currency contracts, which are used to manage exposure to market risks from changes in the foreign exchange rates of receivables and payables. Some domestic subsidiaries have purchased bonds with embedded derivatives that are exposed to the risk of a loss of principal.

Regarding Hedge Accounting, please see Note 2.o for more detailed information.

(3) Risk Management for Financial Instruments

Credit Risk Management

The Company manages its credit risk from receivables on the basis of internal accounting rules, which include screening customers, setting credit limits for each customer, designating due date controls for each receivable and monitoring the financial status of major customers through the cooperation of the accounting department and each front office to prevent the default risk of customers.

Consolidated subsidiaries of the Company manage their credit risks and control their receivables, and are required to report certain substantial events to the Company when they happen.

Market Risk Management (Foreign exchange risk and interest-rate risk)

To hedge the foreign currency exchange risk associated with foreign currency trade receivables and payables, foreign currency forward contracts are implemented for the purpose of hedging risks generated in the ordinary course of business.

Loan payables are exposed to market risks from changes in interest rates, however, these market risks are considered limited as the balance of loans payable is so small.

The market values of marketable and investment securities are managed by monitoring market prices and the financial position of the issuers on a regular basis, considering the relationships with the issuers.

Derivative transactions are determined in specified types and volume based on the Company's internal guidelines to be approved by the authorized person. After the approval, derivative transactions are implemented and managed by the accounting department. In addition, the accounting department is required to report the financial position and the results of derivative transactions to the management of the Company on a regular basis.

Liquidity Risk Management

The Company manages its liquidity risk by the corporate treasury department preparing and updating the fund management plan based on reports from each department, and manages liquidity by holding adequate volumes of liquid assets.

(4) Supplementary Explanation on the Estimated Fair Value

The fair values of financial instruments are based on the quoted price in active markets. If the quoted price is not available, other rational valuation techniques are used instead. Because various assumptions and factors are reflected in computing the fair value, different assumptions and factors could result in different fair values. The amounts of derivative contracts that are noted in Note 12 do not indicate market risks.

(a) Fair Value of Financial Instruments

As of December 31, 2010, the book value, the fair value and the difference between the two are as follows.

Financial instruments for which the quoted value cannot be reliably determined are not included in the following.

	Millions of Yen			Thousands of U.S. Dollars		
2010	Carrying amount[1]	Fair value[1]	Difference	Carrying amount[1]	Fair value[1]	Difference
Cash and time deposits	¥ 21,520	¥ 21,520	¥ –	$ 264,081	$ 264,081	$ –
Notes and accounts receivable	92,774	92,760	(14)	1,138,470	1,138,299	(171)
Securities and investment securities[2]	49,301	52,034	2,733	604,994	638,532	33,538
Notes and accounts payable	(74,358)	(74,358)	–	(912,480)	(912,480)	–
Short-term debt	(84)	(84)	–	(1,030)	(1,030)	–
Long-term debt	(1,043)	(1,050)	(7)	(12,799)	(12,885)	(86)
Derivative transaction[3]	106	106	–	1,300	1,300	–

Notes:
1. Liabilities are shown in parentheses.

2. The embedded derivatives, to the extent that they cannot be separated from the financial host contract, are considered with these as trading transactions for measurement purposes and are shown in "Investment securities."

3. Net receivables (payables) derived from derivative transactions are displayed in the table above. Total net payables are shown in parentheses.

• Cash, cash equivalents and time deposits, and notes and accounts receivable
The carrying values of cash, cash equivalents and time deposits, and notes and accounts receivable due in one year or less approximate the fair value because of short maturities. The fair values of notes and accounts receivable due after one year are calculated based on future cash flow discounted at an appropriate rate with credit spreads, for those grouped by a certain period of time and credit rating.

• Securities and investment securities
These mainly consist of stocks, bonds and mutual funds. The fair values of stocks are measured at the quoted market price on the stock exchange, whereas the fair values of bonds are measured at the quoted price obtained from a financial institution, and the fair values of mutual funds are measured at the constant values available.

• Notes and accounts payable, short-term debt
The carrying values of notes and accounts payable and short-term debt approximate the fair value because of their short-term maturities.

• Long-term debt
The carrying values of long-term debt with a floating rate approximate the fair value because the floating rate reflects the market rate on a regular basis and the credit spread of the Company remains almost the same. The fair values of long-term debt with a fixed rate are measured at the present value of the principal with interest added (including long-term debt due in one year or less), discounted at an expected rate applied for new borrowings with the same terms.

• Derivatives
Information on the fair value for derivatives is included in Note 12.

(b) Financial Instruments for Which the Fair Value Cannot Be Reliably Determined

	Carrying amount	
	Millions of Yen	Thousands of U.S. Dollars
Investment in equity instruments that do not have a quoted market price in an active market	¥1,823	$22,371
Investment in affiliates	2,964	36,372
Other	139	1,705
Total	¥4,926	$60,448

(5) Maturity Analysis for Financial Assets and Securities with Contractual Maturities

Millions of Yen

	Due in one year or less	Due after one year through five years	Due after five years through 10 years	Due after 10 years
Cash, cash equivalents and time deposits	¥ 21,520	¥ –	¥ –	¥ –
Notes and accounts receivable	92,185	589	–	–
Securities and investment securities				
Held-to-maturity securities				
Other	337	52	1,060	145
Total	¥114,042	¥641	¥1,060	¥145

Thousands of U.S. Dollars

	Due in one year or less	Due after one year through five years	Due after five years through 10 years	Due after 10 years
Cash, cash equivalents and time deposits	$ 264,081	$ –	$ –	$ –
Notes and accounts receivable	1,131,243	7,227	–	–
Securities and investment securities				
Held-to-maturity securities				
Other	4,136	638	13,007	1,779
Total	$1,399,460	$7,865	$13,007	$1,779

11. CONTINGENT LIABILITIES

As of December 31, 2010, 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, GroupM Japan	¥342	$4,197

Other contingent liability:
On January 8, 2010, the Company filed a lawsuit against Art Corporation seeking payments of unpaid considerations for services already provided and advance money in the total amount of ¥379 million ($4,650 thousand) together with late charges. On April 22, 2010, Art Corporation filed a countersuit against the Company seeking demands in the amount of ¥311 million ($3,816 thousand) together with late charges, however, both cases are still pending in the courts.

The Company, considering the fact that Art Corporation has filed a countersuit against it, has examined carefully and sufficiently the content of the counterclaim to obtain the presumption that the claim of the Company seeking payments of consideration for services provided and advance money is justifiable, whereas the counterclaim by Art Corporation is unjustified. The Company will handle its claim and the counterclaim appropriately consulting with the corporate lawyers of the Company, who have agreed with the presumption as stated above.

On July 30, 2010, the Company faced a lawsuit by Tokyu Agency Inc. claiming payment of consideration for advertisement in the amount of ¥142 million ($1,742 thousand) together with late charges and the case is still pending in court. The Company has examined the content of the claim to obtain the presumption that it is unjustified. The Company has given a defense claiming dismissal with prejudice on the merit after consultation with the corporate lawyers, who have agreed with the presumption as stated above. The Company will handle the lawsuit appropriately consulting with the corporate lawyers.

12. DERIVATIVES

The Group enters into foreign exchange forward contracts to hedge the foreign exchange risk associated with certain assets and liabilities denominated in foreign currencies. The Group also has investments in debt securities with derivatives that are designed to enhance returns. Some of those investments have terms and conditions that could lead to a situation where the original face value of such security is not redeemed even if there is no credit event. However, because such loss would be limited to the face value at maximum, the influence of such risk is limited.

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 the internal rules and policies that regulate the authorization and exposure limit amount.

As noted in Note 10, the Company applied ASBJ Statement No. 10, “Accounting Standard for Financial Instruments,” and ASBJ Guidance No. 19, “Guidance on the Accounting Standard for Financial Instruments and Related Disclosures.” The accounting standard and the guidance are applicable to financial instruments and related disclosures at the end of the fiscal year ended December 31, 2010, therefore the required information is disclosed only for 2010.

Derivative transactions to which hedge accounting was not applied at December 31, 2010

	Millions of Yen			
Year Ended December 31, 2010	Notional amounts	Due after one year	Fair value	Unrealized gain (loss)
Currency:				
OTC market				
Foreign exchange forward contracts				
– buying (US$)	¥141	¥70	¥106	¥(35)
Total				¥(35)

	Thousands of U.S. Dollars			
Year Ended December 31, 2010	Notional amounts	Due after one year	Fair value	Unrealized gain (loss)
Currency:				
OTC market				
Foreign exchange forward contracts				
– buying (US$)	$1,730	$859	$1,301	$(430)
Total				$(430)

Derivative transactions to which hedge accounting was applied at December 31, 2010

Year Ended December 31, 2010	Hedged item	Notional amounts	Due after one year	Fair value
				Millions of Yen
Currency:				
OTC market				
Non-designated as a hedging derivative				
Foreign exchange forward contracts				
–buying (US$)	Payables	¥1,986	¥1,042	¥1,818
–buying (HKD)	Payables	30	–	28
Subtotal		¥2,016	¥1,042	¥1,846
Designated as a hedging derivative				
Foreign exchange forward contracts				
–buying (US$)	Payables	¥ 28	–	*
–buying (EURO)	Payables	5	–	*
–buying (STG)	Payables	20	–	*
–buying (HKD)	Payables	73	–	*
Subtotal		¥ 126	–	–
Total		¥2,142	¥1,042	–

Year Ended December 31, 2010	Hedged item	Notional amounts	Due after one year	Fair value
				Thousands of U.S. Dollars
Currency:				
OTC market				
Non-designated as a hedging derivative				
Foreign exchange forward contracts				
–buying (US$)	Payables	$24,371	$12,787	$22,309
–buying (HKD)	Payables	368	–	344
Subtotal		$24,739	$12,787	$22,653
Designated as a hedging derivative				
Foreign exchange forward contracts				
–buying (US$)	Payables	$ 344	–	*
–buying (EURO)	Payables	61	–	*
–buying (STG)	Payables	245	–	*
–buying (HKD)	Payables	896	–	*
Subtotal		$ 1,546	–	–
Total		$26,285	$12,787	–

*The estimated fair value of forward foreign exchange contracts is included in the estimated fair value of accounts payable because amounts in such derivative contracts designated as hedging derivatives are handled together with the payables denominated in foreign currencies that are subject to hedge accounting.

The following is the fair value information for foreign currency forward contracts to which hedge accounting was not applied at December 31, 2009.

Derivative transactions that qualify for hedge accounting are excluded from the information below.

				Millions of Yen
Year Ended December 31, 2009	Notional amounts	Due after one year	Fair value	Unrealized gain (loss)
Currency:				
OTC market				
Foreign exchange forward contracts				
– buying (US$)	¥212	¥141	¥177	¥(33)
Total				¥(33)

The fair value of derivative transactions is measured at the quoted price obtained from the financial institution.

13. SEGMENT INFORMATION

Information about business segments, geographic segments and billings to foreign customers of the Group for the years ended December 31, 2010 and 2009, was as follows:

(1) Business Segment Information

Business segment information for the years ended December 31, 2010 and 2009, was as follows:

a. Billings and Operating Income

					Millions of Yen
2010	Advertising	Non-advertising	Total	Eliminations or Corporate	Consolidated
Billings to customers	¥339,432	¥7,133	¥346,565	–	¥346,565
Inter-segment billings	15	279	294	¥(294)	–
Total billings	339,447	7,412	346,859	(294)	346,565
The total of cost of sales and selling, general and administrative expenses	339,398	7,436	346,834	(292)	346,542
Operating income (loss)	¥ 49	¥ (24)	¥ 25	¥ (2)	¥ 23

					Millions of Yen
2009	Advertising	Non-advertising	Total	Eliminations or Corporate	Consolidated
Billings to customers	¥342,926	¥7,285	¥350,211	–	¥350,211
Inter-segment billings	24	350	374	¥(374)	–
Total billings	342,950	7,635	350,585	(374)	350,211
The total of cost of sales and selling, general and administrative expenses	343,568	7,770	351,338	(371)	350,967
Operating income (loss)	¥ (618)	¥ (135)	¥ (753)	¥ (3)	¥ (756)

b. Assets, Depreciation and Capital Expenditures

Millions of Yen

2010	Advertising	Non-advertising	Total	Eliminations or Corporate	Consolidated
Assets	¥185,666	¥8,972	¥194,638	¥(128)	¥194,510
Depreciation	781	37	818	–	818
Capital expenditures	1,103	43	1,146	–	1,146

Millions of Yen

2009	Advertising	Non-advertising	Total	Eliminations or Corporate	Consolidated
Assets	¥181,193	¥9,096	¥190,289	¥(265)	¥190,024
Depreciation	909	34	943	–	943
Capital expenditures	561	7	568	–	568

a. Billings and Operating Income

Thousands of U.S. Dollars

2010	Advertising	Non-advertising	Total	Eliminations or Corporate	Consolidated
Billings to customers	$4,165,321	$87,532	$4,252,853	–	$4,252,853
Inter-segment billings	184	3,424	3,608	$(3,608)	–
Total billings	4,165,505	90,956	4,256,461	(3,608)	4,252,853
The total of cost of sales and selling, general and administrative expenses	4,164,904	91,250	4,256,154	(3,583)	4,252,571
Operating income (loss)	$ 601	$ (294)	$ 307	$ (25)	$ 282

b. Assets, Depreciation and Capital Expenditures

Thousands of U.S. Dollars

2010	Advertising	Non-advertising	Total	Eliminations or Corporate	Consolidated
Assets	$2,278,390	$110,099	$2,388,489	$(1,570)	$2,386,919
Depreciation	9,584	454	10,038	–	10,038
Capital expenditures	13,535	528	14,063	–	14,063

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. As discussed in Note 2.c. Inventories, effective from the financial statements for fiscal 2009, inventories are assessed in accordance with ASBJ Statement No. 9 (issued on July 5, 2006), where inventories with low expected profitability are written down when such judgment is made. As a result, the operating loss of the advertising business segment for fiscal 2009 was negatively affected by ¥69 million.

(2) Geographic Segment Information

Because the billings and total assets of the overseas operations of the Group for the years ended December 31, 2010 and 2009, were less than 10% of those of the total consolidated operation, such segment information is not presented.

(3) Billings to Foreign Customers

Because the billings to foreign customers of the Group for the years ended December 31, 2010 and 2009, were 6.8% and 5.4%, respectively, or less than 10% of the total consolidated billings in the two periods, such information is not presented.

14. RELATED PARTY TRANSACTIONS

Transactions with a Principal Shareholder

The Company and WPP plc mutually own shares in the other, and WPP plc owns indirectly 22.87% of the Company's common stock. An outline of the transactions of the Company with the principal shareholder for the years ended December 31, 2010 and 2009, is as follows.

2010	Outline of the Transaction
Shareholder name	WPP plc
Type of the relationship	A principal shareholder owning more than 20% of the voting rights in the Company
Location	Dublin, Ireland
Type of business	Communications services
Shareholding ratio	22.87% (Indirectly owned)
The Company's share of ownership in WPP	2.49%
Type of the transaction	Dividends received
Amount of the transaction	¥681 million ($8,356 thousand)

2009	Outline of the Transaction
Shareholder name	WPP plc
Type of the relationship	A principal shareholder owning more than 20% of the voting rights in the Company
Location	Dublin, Ireland
Type of business	Communications services
Shareholding ratio	24.32% (Indirectly owned)
The Company's share of ownership in WPP	2.49%
Type of the transaction	Dividends received
Amount of the transaction	¥719 million

Notes: 1. The direct shareholder in the Company is WPP International Holding BV.
2. Since January 2004, the Group's Chairman and Group Chief Executive, Koichiro Naganuma, has been a non-executive director on the board of WPP plc. In return, Sir Martin Sorrell, Director and Chief Executive of WPP plc, has had a seat as a non-executive director on the board of the Company.

2010	Outline of the Transaction
Company name	Nippon Information Industry Corp. (NII)
Type of the relationship	An affiliated company
Location	Shibuya-ku, Tokyo, Japan
Type of business	Information handling services
Shareholding ratio	–
Type of the transaction	Sale of its shares in NII
Amount of the transaction	¥2,558 million ($27,708 thousand)

The Company, which had directly owned 33.7% of the shares of NII, sold all of its shares of NII to NII itself during the fiscal year ended December 31, 2010. The sale price of the NII shares was reasonably determined between the two parties, and the consideration was paid in a lump sum based on the terms of the contract. The amount of loss on sales of the securities was ¥978 million ($12,001 thousand).

15. QUARTERLY FINANCIAL HIGHLIGHTS

The quarterly financial highlights in 2010 were as follows:

Millions of Yen (except per common stock data)

2010	1st Quarter January 1, 2010– March 31, 2010	2nd Quarter April 1, 2010– June 30, 2010	3rd Quarter July 1, 2010– September 30, 2010	4th Quarter October 1, 2010– December 31, 2010
Gross billings	¥82,758	¥85,738	¥80,589	¥97,478
Income (loss) before taxes and minority interests	1,043	(3,686)	(321)	(1,783)
Net income (loss)	243	(2,112)	(151)	(2,636)
Net income (loss) per common stock (yen)	¥ 5.75	¥ (50.13)	¥ (3.60)	¥ (62.54)

Thousands of U.S. Dollars (except per common stock data)

2010	1st Quarter January 1, 2010– March 31, 2010	2nd Quarter April 1, 2010– June 30, 2010	3rd Quarter July 1, 2010– September 30, 2010	4th Quarter October 1, 2010– December 31, 2010
Gross billings	$1,015,560	$1,052,129	$988,943	$1,196,196
Income (loss) before taxes and minority interests	12,799	(45,233)	(3,939)	(21,880)
Net income (loss)	2,982	(25,917)	(1,853)	(32,348)
Net income (loss) per common stock (U.S. Dollars)	$ 0.071	$ (0.615)	$ (0.044)	$ (0.767)

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, 2010 and 2009, 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, 2010 and 2009, 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 25, 2011

Securities Holdings

ASATSU-DK INC. Consolidated Investments as of December 31, 2010

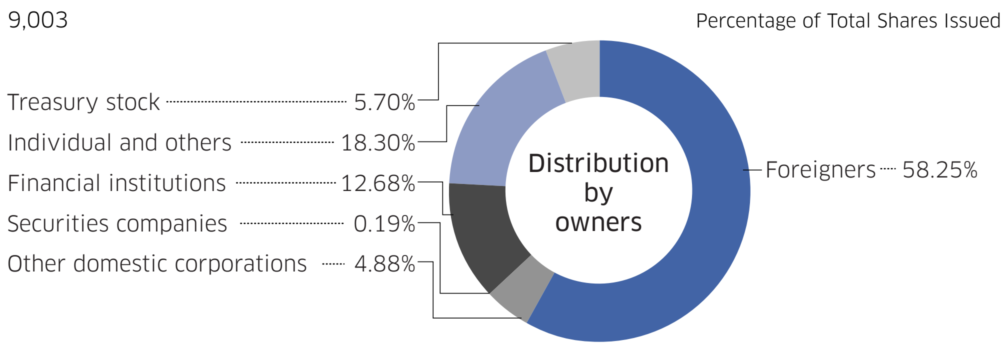
		Millions of Yen	
		2010	
Current	Bond investment trust/Money market fund	¥ 861	
	Bonds	234	1 funds
	Mutual funds in equities and bonds and others	339	9 funds
	Total	¥ 1,436	
Non-Current	WPP plc.	¥31,250	2.49% or 31,295,646 stocks
	Digital Advertising Consortium, Inc.	2,454	Equity method
	Other publicly traded equities	12,780	132 issues
	Publicly traded equities total	46,485	
	Non-publicly traded equities in affiliated companies	1,260	17 issues
	Non-publicly traded equities in subsidiary companies	1,703	20 issues
	Other non-publicly traded equities	1,823	70 issues
	Non-publicly traded equities total	4,787	
	Bonds	1,358	10 issues
	Mutual funds in equities and bonds and others	158	6 issues
	Total non-current investments in securities	52,790	
	Investments in affiliated companies (Non-securities)	325	7 funds
	Total	¥53,115	

	Millions of Yen	
Top Five Equitiy Investments by Balance	2010	
WPP plc.	¥31,250	31,295,646 shares
ASAHI BREWERIES, Ltd.	1,573	1,000,000 shares
Tokyo Broadcasting System, Incorporated	1,133	982,900 shares
Shiseido Co., Ltd.	754	425,265 shares
Mitsubishi Corporation	681	310,000 shares

Investor Information

(As of December 2010)

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	3,229 (consolidated basis) 1,936 (non-consolidated basis)
Common stock	Authorized: 206,000,000 shares Issued: 45,155,400 shares
Number of shareholders	9,003



Major shareholders

	Percentage of Ownership Voting*
WPP International Holding B.V.	24.26%
Northern Trust Company (AVFC) Sub Account American Client	6.62%
Northern Trust Company AVFC Re U.S. Tax-Exempted Pension Funds	3,95%
The Silchester International Investors International Value Equity Trust	3.93%
Masao Inagaki	3.85%
State Street Bank and Trust Company	3.58%
JP Morgan Chase Bank, 380055	3.38%
State Street Bank and Trust Company 505223	3.04%
The Master Trust Bank of Japan, Ltd., Retirement Benefit Trust Account (Mitsubishi Corporation Account)	1.80%
State Street Bank and Trust Company 505225	1.76%

*Percentage of Ownership Voting figures are based on 42,582,696 shares (45,155,400 shares issued and outstanding, minus 2,572,704 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

AGENCY GROUP

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