ADK Annual Report 2011

Year ended December 31, 2011

ADK

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 the 14th largest communications service group in the world.*
Since its foundation, ADK 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.

* *Advertising Age*, April 30, 2012

History

1956	ASATSU (now ASATSU-DK) commenced advertising agency operations
1984	Establishes strategic business alliance and capital tie-up with BBDO International, Inc. (currently BBDO, Omnicom Group)
1987	Becomes first advertising company to list its shares on the Second Section of the Tokyo Stock Exchange (TSE)
1990	Elevated to First Section of the TSE
1998	Establishes strategic business alliance and capital tie-up with WPP Group plc.
1999	ASATSU-DK Inc. formed through the merger of ASATSU Inc. and Dai-Ichi Kikaku Co., Ltd.

Contents

Business at a Glance

Consolidated Five-Year Summary

	Millions of Yen					Thousands of U.S. Dollars
	2011	2010	2009	2008	2007	2011
Income Statement Data						
Gross billings	¥347,112	¥346,565	¥350,211	¥399,452	¥435,011	$4,465,036
Gross profit	45,836	42,028	41,367	49,143	51,754	589,612
Selling, general and administrative expenses	41,983	42,006	42,123	45,444	44,619	540,051
Operating income (loss)	3,853	22	(756)	3,699	7,134	49,561
Income (loss) before income taxes and minority interests	5,028	(4,749)	343	3,775	10,122	64,679
Net income (loss)	2,294	(4,656)	73	2,125	5,350	29,503
EBITDA*	¥ 4,828	¥ 810	¥ 187	¥ 4,502	¥ 8,274	$ 62,107

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

Balance Sheet Data	Millions of Yen					Thousands of U.S. Dollars
Total assets	¥184,188	¥194,510	¥190,024	¥191,782	¥246,097	$2,369,285
Total net assets*	96,800	103,168	107,465	101,617	131,846	1,245,178
Total long-term liabilities	5,278	7,467	4,765	2,611	14,354	67,892

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

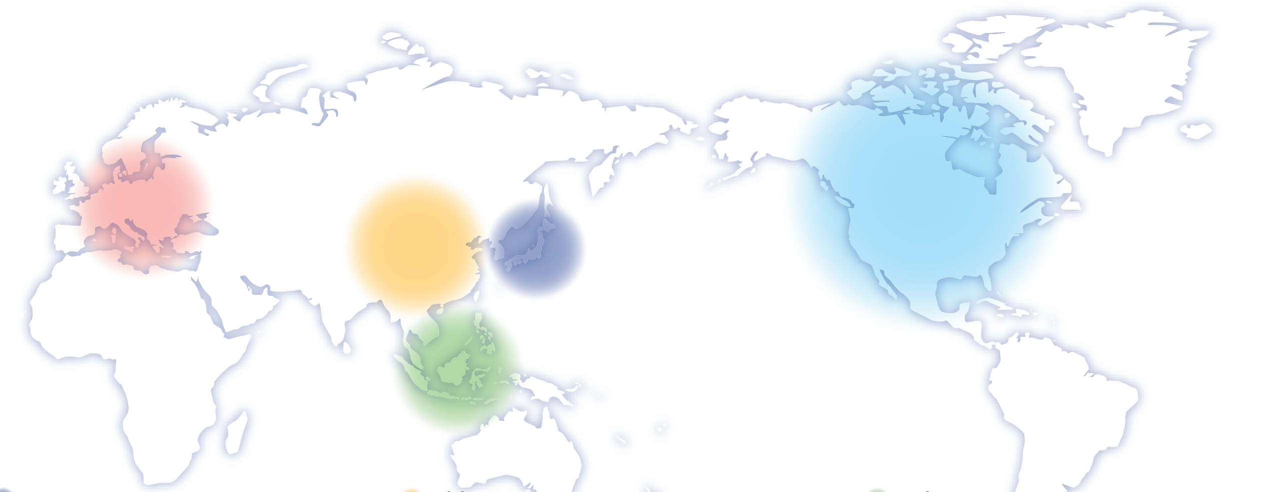
Per Common Share Data (Yen and U.S. Dollars)						
Net income (loss) per share (EPS)	¥ 54.37	¥ (110.28)	¥ 1.73	¥ 48.14	¥ 116.40	$0.70
Dividend per share	109	20	20	20	42	1.40
Book value per share	2,270.23	2,423.06	2,499.05	2,334.48	2,898.49	29.20
No. of common shares outstanding*	42,213,802	42,165,296	42,585,533	43,088,073	45,091,103	

*Does not include treasury stock. In addition, ADK set up an Employee Stock Ownership Plan (ESOP) trust in fiscal 2010 (see page 43). Shares owned by the ESOP trust were included in treasury stock at fiscal year-end.

Financial Ratios					
AS PERCENT OF GROSS BILLINGS					
Gross profit	13.21%	12.13%	11.81%	12.30%	11.90%
SG&A expenses	12.10	12.12	12.03	11.38	10.26
Operating income (loss)	1.11	(0.01)	(0.22)	0.93	1.64
Income (loss) before income taxes and minority interests	1.45	(1.37)	0.10	0.94	2.33
Net income (loss)	0.66	(1.34)	0.02	0.53	1.23
AS PERCENT OF GROSS PROFIT					
Operating income (loss)	8.4%	0.1%	(1.8%)	7.5%	13.8%
Staff cost	61.8	67.3	67.0	62.4	57.8
Return on equity	2.4	(4.7)	0.1	1.8	3.9
Return on assets	1.2	(2.4)	0.04	1.7	2.8
Equity ratio*	52.0	52.5	56.0	52.4	53.1
Current ratio	1.55×	1.52×	1.57×	1.50×	1.48×

*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 ¥77.74=US$1, the approximate rate of exchange as of December 31, 2011.

ADK Group



Japan
- Kyowa Kikaku Ltd.
- ADK International Inc.
- ADK Dialog Inc.
- ADK Arts Inc.
- Boys Inc.
- Digital Advertising Consortium Inc.■
- ◦ Eiken Co., Ltd.
- ◦ NIHONBUNGEISHA Co., Ltd.
- ◦ Neo Shobo Inc.

China
- Guangdong Guangxu (ASATSU) Advertising Co., Ltd.*
- ASATSU-DK HONG KONG 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.

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

■ Digital Advertising Consortium Inc.
In the fiscal year under review, ADK sold all of its shares of Digital Advertising Consortium Inc. (DAC), an equity-method affiliate in the previous fiscal year. Accordingly, DAC was removed from the scope of equity-method application on September 30, 2011.

Performance of ADK Group Breakdown by Area

Millions of Yen
Year on Year

FY2011		Gross Billings	Gross Profit	Operating Income	Net Income
Japan	ADK	¥301,878	¥33,156	¥1,734	¥ 2,302
		-1.3%	8.0%	–	–
	Subsidiaries	42,107	8,461	909	101
		10.4%	15.3%	129.1%	–
Subsidiaries in Greater China (Shanghai, Hong Kong, Taipei)		15,513	2,451	734	714
		13.0%	15.4%	36.0%	41.9%
Asia (Thailand, Malaysia)		8,749	1,675	351	369
		-1.7%	-2.1%	-19.9%	-7.9%
Europe and North America (Germany, Netherlands, USA)		3,214	465	34	56
		-14.5%	-5.2%	-32.9%	-43.5%
(Adjustment)		(24,350)	(374)	86	(1,250)
Total		¥ 347,111	¥45,836	¥3,852	¥ 2,293

K. Naganuma

Koichiro Naganuma
Representative Director, Chairman of the Board

Yoji Shimizu

Yoji Shimizu
Representative Director, President & Group CEO

To Our Valued Shareholders

It is a pleasure to report on the ADK Group's performance in fiscal 2011, ended December 31, 2011.

At the Board of Directors meeting held following the close of the Annual General Meeting on March 29, 2012, Koichiro Naganuma and Yoji Shimizu were elected as representative directors and assumed their positions on the same day. Under our new organization based on two representative directors, we will further strengthen our operational system to allow swift and accurate responses to increasingly complex business issues, thus promoting advancement of the ADK Group. We look forward to your support for these endeavors.

In fiscal 2011, the Japanese economy retreated significantly in the wake of the Great East Japan Earthquake, an unprecedented natural disaster. Toward the middle of the year, the economy showed some signs of recovery thanks to ongoing efforts aimed at disaster restoration, including a rapid recovery of the supply chain. With the added impact of the growing debt crisis in Europe and flooding in Thailand, however, full-scale economic recovery failed to materialize.

In the advertising industry, which accounts for the majority of the Group's revenue, conditions remained uncertain.

Under these circumstances, the ADK Group focused on providing services that address structural changes in the business environment. We also worked actively to advance our business in newly emerging markets and achieve a business recovery. As a result, gross billings remained mostly unchanged year on year, edging up slightly. However, we enjoyed a certain level of recovery, posting significant year on year growth in earnings.

We, the executives and employees of the ADK Group, are committed to further reinforcing our corporate foundation in order to realize sustained growth even in the current difficult business environment. In these endeavors, we will continue following the "Management by All" philosophy, unchanged since our foundation.

June 2012

Medium-Term Business Plan

The ADK Group has embarked on its new medium-term business plan, covering the three-year period from January 2012 to December 2014. Guided by the "Enterprising Spirit" it has embraced since its foundation, ADK and its fellow Group companies will target further significant advances as a "Global Communications Company" that generates new levels of value.

Plan Overview

The Japanese economy remains in a state of stagnation, characterized by such factors as domestic market saturation, a low birthrate and an aging population, as well as deflationary undertones and ongoing appreciation of the yen. In the future, as well, we cannot expect major growth in GDP.

Accompanying the depressed economy is weakness in advertising expenditures. Despite signs of bottoming in 2010, advertising expenditures in 2011 declined slightly year on year, affected by the Great East Japan Earthquake in the first half and flooding in Thailand in the second half.

Under these circumstances, many of our advertising clients are finding new markets in emerging nations. However, cost competition in such nations is intensifying, and the key to success against such competition lies in the ability to deliver sophisticated technologies and high added value. With respect to their advertising outlays, clients are emphasizing return on investment (ROI). They are also seeking new marketing and communications techniques, such as the ever-growing social network services (SNS), to appeal to the diversified tastes of consumers.

Facing these challenges, the ADK Group is seeking to become a "Global Communications Company" that generates and delivers new levels of value in the communications domain, driven by an enterprising spirit and original perspectives. In the process, we will strive to benefit clients, consumers and society.

Three areas of focus under the plan are as follows:

(1) Strengthen solutions capabilities in the digital domain.
(2) Concentrate on global markets, centering on Greater China and the rest of Asia.
(3) Diversify income sources by deploying strengths in the animation content business and developing new businesses.

Our consolidated numerical targets for fiscal 2014 are as follows:

[1] Operating income of ¥7.5 billion
[2] Operating margin of 13.0%
[3] Return on equity (ROE) of 5.0%

Core Strategies for Achieving Plan Targets

1 Strengthen solutions capabilities in the digital domain

Reinforce digital media and solutions capabilities

ADK and other members of the ADK Group are building an infrastructure aimed at enhancing the efficiency of their digital media operations and strengthening their solutions delivery capabilities. Spearheaded by the Digital Business Division, ADK (parent company) is enhancing its comprehensive production capabilities in terms of both organizational structure and human resources, with the aim of improving its digital proposal and sales skills. In January 2012, we established the Communications Architect Department, staffed by producers capable of proposing integrated communications programs underpinned by digital media. It will work to deliver unique proposals, including in cooperation with overseas creators, while fostering and upgrading the skills of its producers.

In August 2012, ADK established its own media rep company, called ADK Digital Communications Inc. (ADDC), as a joint venture with Dentsu Digital Holdings, Inc. The new company enables us to enhance the efficiency of our digital media operations and broaden the spectrum of offerings we can provide to our clients.

Search engine marketing (SEM) and affiliate marketing are integral components of a communications program but require time and labor to be implemented properly. Deploying the resources of fellow Group companies, ADK will focus on addressing this issue in an efficient manner.

Today, corporations have access to huge volumes of data, but the analysis and deployment of such data for business purposes represent major challenges. For this reason, ADK will concentrate on enhancing its data analysis and planning capabilities. One powerful method is access log analysis using SiteCatalyst, and accordingly we place urgent priority on increasing the number of personnel with analytical skills while enhancing their capabilities.

Social customer relationship management (CRM) is crucial to achievement of sustained corporate growth. Together with partner companies, ADK is focusing its efforts on this area.

2 Emerging markets (such as Greater China and Asia)

Expand income in Southeast Asian markets

In Southeast Asia, ADK has identified India, Indonesia and Thailand as key markets, and is seeking to attract business from Japanese companies—including home electronics manufacturers, telecommunications carriers, and automakers—that are seeking to expand their regional market share. We will promote our new marketing techniques to swiftly address rapid market changes, while proposing communications programs that incorporate the insights of consumers in each region. To this end, we will establish and reinforce local business bases and actively invest in local resources.

Expand income in China

ADK made inroads in mainland China ahead of its competitors, establishing its own operations in major Chinese cities. Mobilizing our local experience and network, we will concentrate on clients in industries earmarked for future market growth in China. Notable among these are home electronics manufacturers, telecommunications carriers, automakers and general merchandise producers. In addition to major coastal cities, we will broaden our responsiveness to small and medium-sized cities in interior regions experiencing explosive growth.

At present, around 90% of our business in China is with Japanese clients, but we are also focusing on tapping local clients. At Expo 2010 in Shanghai, we planned and operated the Chinese Private Enterprises Joint Pavilion in collaboration with 17 prominent Chinese private-sector corporations. We are confident that the channels established with such companies while working on the pavilion project will lead to expansion of our local business.

Overseas sales currently account for 7.4%* of the ADK Group's total billings. By 2014, we hope to raise this ratio to 10% or higher.

*Calculated as the ratio of aggregate sales of overseas consolidated subsidiaries to total Group gross billings before consolidation adjustment

3 Diversify income sources

Strengthen the animation content business

One of ADK's key strengths is its animation content business, especially TV animation. With more than 50 years of experience, ADK has pioneer status in the character merchandising business and a portfolio of much exceptional content.

Going forward, we will develop original ADK content and reinforce our sales capabilities while renewing our focus on tapping the global market. In 2010, we launched our animation content distribution business in China with the establishment of IMMG-Beijing Co., Ltd. In other regions—such as Asia, the Americas and Europe—we will set up operations and form alliances with partner companies in order to upgrade our sales prowess. We will also focus on new and peripheral businesses. Examples include musical theaters of animation content, hosting of events, and development and sales of DVDs and related items.

Reinforce direct business support

Amid changing consumer lifestyles, the direct sales (mail order) business market continued to expand. Rather than rely solely on traditional distribution channels, therefore, many companies are broadening their operations through direct sales. For some time, ADK has provided meticulous services to clients engaged in direct sales. Deploying the expertise we have amassed in the process, we are expanding and strengthening the specialist skills of our producers. At the same time, we are working in alliance with fellow Group companies, with an emphasis on enhancing our CRM capabilities, in order to broaden our overall business. Utilizing knowledge gained in Japan, moreover, we will establish a direct mail business infrastructure in China and actively apply reaourses to advance our direct business in that nation.

Boost Growth and Profitability of Core Businesses

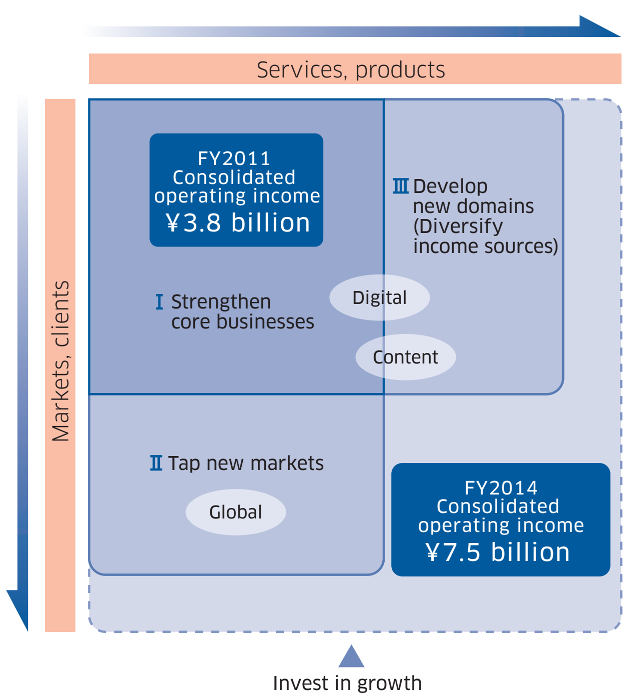
To achieve our operating income target of ¥7.5 billion in fiscal 2014, we will need to increase revenue by implementing the aforementioned strategies. Also extremely important, however, will be enhancing the efficiency and profitability of our existing advertising business, which forms the core of our current operations.

At the parent company, we will shift personnel and other resources to clients in growth sectors in a flexible manner. We will also ensure ample profits by enabling visualization of personnel work status and internal costs, as well as stringently controlling overall costs, including personnel expenses. In addition, we will reinforce strategies utilizing the specialist expertise of various Group companies and renew our emphasis on in-house production, with the aim of raising Groupwide profitability.

Invest in Growth

Going forward, the ADK Group will invest actively in growth areas in order to implement the strategies described above and boost profitability. Specifically, we will secure an investment fund and invest in key areas. In addition to priority businesses—global, digital and content—these include social communication and other areas earmarked for strategic growth. Also crucial in this regard will be investment in personnel development and skills enhancement. As an urgent priority, we will focus on nurturing and increasing the numbers of international personnel capable of addressing the global strategies of clients, as well as specialists in the digital domain, a key growth area.

ADK Group's Growth Strategy



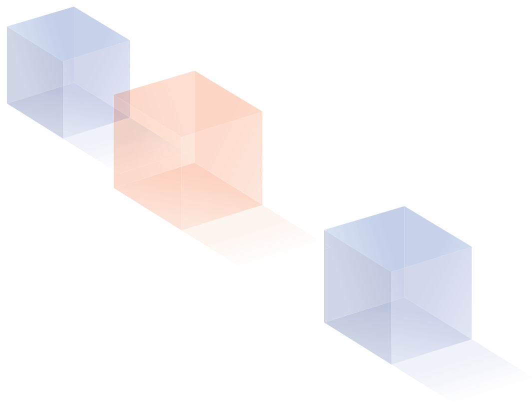
Financial Strategies and Shareholder Return

ADK has a stable financial foundation, with a consolidated equity ratio in excess of 50% and a current ratio above 1.5 times. Because our performance weakened following the collapse of Lehman Brothers in 2008, we have placed a strong emphasis on financial stability. However, we returned to profitability in fiscal 2010, so in the future we will focus on more efficient financial and capital strategies.

With respect to shareholder return, we will maintain stable and consistent dividend payments. Our policy is to pay 35% of consolidated net income to shareholders in the form of cash dividends while setting an annual dividend at a minimum of ¥20.00 per share, in principle. We will also undertake share buybacks to maintain a good balance between retaining the earnings necessary for business investments and ensuring financial stability.

By combining the aforementioned profit expansion strategies and shareholder return policy, we will boost capital efficiency with an ROE target of 5.0% in fiscal 2014. In fiscal 2015 and beyond as well, we will renew our emphasis on operational efficiency.

The ADK Group will strive to achieve sustained growth in corporate value through the aforementioned initiatives, while embracing the "Management by All" philosophy, unchanged since its foundation. We look forward to the support of our shareholders and all other stakeholders.



Corporate Social Responsibility

ADK's basic policy is to take an active role in realizing a sustainable society. Based on this policy, we have continued to pursue 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 Continuing to engage in the 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 demended by stakeholders. In 2011, the Compliance Committee conducted a number of training workshops targeting all employees. The aim of the workshops was to make employees aware of senior management's 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 the 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 2011, the entire company pursued a number of energy-saving measures to address the aftermath of the Great East Japan Earthquake. These included decreasing the temperature settings of office air-conditioning systems and lowering the level of office lighting. Coupled with the energy-saving benefits of replacing personal computers and other equipment, these efforts led to significant reductions in electricity and space heating/cooling usage volumes.

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, ADK conducted the following activities in 2011.

Pro Bono Activity

Recovering from the Great East Japan Earthquake

Medical Assistance Centering on Psychological and Emotional Care

Nicocoro Project

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.

Since participating in the creative content side of the “Congophone” campaign—aimed at informing the Japanese public about the situation in the Congo in 2010—ADK has continued supporting MdM’s activities.

On March 11, 2011, the Great East Japan Earthquake struck Japan. In early April 2011, MdM began working in the town of Otsuchi in Iwate Prefecture. Medical professionals working for MdM have been visiting temporary shelters and private homes to provide mainly psychological and emotional care to survivors. Named the “Nicocoro Project,” ADK created a Web site established specifically for MdM’s program. The name “Nicocoro” combines the Japanese terms *niko-niko* (meaning “smile”) and *kokoro* (which means “heart” and “spirit”). It embodies the aspiration of bringing cheer and hope back into the lives of survivors through the provision of psychological and emotional care.

Since then, psychiatrists, nurses, relaxation therapists and other professional volunteers have been helping the people of Otsuchi. Those who survived the disaster have experienced the trauma of having lost loved ones, their homes, possessions and livelihoods, and also face an uncertain future living in shelters and temporary housing. The resulting stress is unimaginable. In some cases, individuals who did not display any symptoms immediately after the disaster began to recall events once the situation had settled down somewhat. Such people may also suffer psychological and emotional distress for a long time.

In addition to prescribing medication, professionals working under the Nicocoro Project have been focusing on teaching methods of self-relaxation, including breathing techniques and massage.

The project’s Web site contains information for survivors about the various services available, as well as messages from doctors and pointers on how to look after themselves. At the same time, the Web site seeks both volunteers and donations to keep the project’s activities going.

ADK’s contribution since the launch of the project has included creating the Nicocoro logo, visual content and the Web site, as well as producing and sending out press releases. As part of efforts to raise the profile of the Nicocoro Project in Japan, ADK has placed advertisements about the project in the *Yomiuri, Mainichi* and other national newspapers.

Topics 1

ADK supports reconstruction from the Great East Japan Earthquake and the Tsunami

Photo Collection from the Devastated Area

To provide support for communities devastated by the Great East Japan Earthquake and the tsunami, ADK published a collection of photos taken by Shinichi Sato. Mr. Sato operates a photography studio in Minami-Sanriku Town, Miyagi Prefecture, an area destroyed by the Great East Japan Earthquake. Despite being a victim of the disaster himself, Mr. Sato continued to photograph local scenes (disaster victims/areas) from immediately after the earthquake until today. From every purchase of the photography collection, ¥300 is donated as aid money to Minami-Sanriku Town. In addition, all further profits are donated as aid money.

Photo Letter from Minami-Sanriku by Shinichi Sato is the collection of photos taken by Mr. Sato since immediately after the disaster. Even though there are some shocking photos portraying the tremendous impact of the tsunami (like those appearing in the press), the collection includes many snapshots of local people—photos befitting the operator of the town photo studio. Accordingly, it is full of warm-hearted images that could only have been photographed by Mr. Sato. The photographs show the true nature of the townspeople instead of contrived images. More than anything, the collection is filled with energy for reconstruction.

ADK believes that Mr. Sato's collection conveys hope for the future of his home town and its irreplaceable citizens. Through cooperation from Mr. Sato and other local citizens, ADK plans to continuously and periodically publish a *Photo Letter from Minami-Sanriku by Shinichi Sato* collection. We believe "continuity" is an important aspect of reconstruction, which will take some time. The second series is scheduled for release in June 2012.

Photographer Profile

Born in 1966 in Minami-Sanriku Town, Motoyoshi County, Miyagi Prefecture. Together with his parents, operated a photography studio named "Sagara Studio" in Minami-Sanriku Town. However, he lost both his home and studio to the tsunami occurring after the Great East Japan Earthquake on March 11, 2011. "I will take photos from the hardest of times. This way, whatever happens in the future, we can all overcome together." Using a single camera that he took before evacuating, beginning from immediately after the earthquake, he continues to photograph the devastated town's path to reconstruction.

Photo Letter from Minami-Sanriku by Shinichi Sato
Author: Shinichi Sato
Format: B5 paper; 96 pages
Publication date: September 27, 2011
Publisher: ADK Minami-Sanriku Town Reconstruction Support Project
Released by: NIHONBUNGEISHA Co., Ltd.

Topics 2

ADK 2011 Insight Forum—China & Asia

ADK Shares with Clients Its Extensive Knowledge on Asia

On November 28, 2011, ADK held the "ADK 2011 Insight Forum–China & Asia" at the Marunouchi Building Hall in Tokyo. Some 400 clients with an interest in markets in China and Asia attended the forum. In addition, representatives from around 20 media organizations, including newspapers, television networks and industry magazines, covered the event.

The purpose of the forum was to pass on insights and information from a consumer perspective that ADK has amassed through its early focus on China and other Asian markets and establishing offices in the region. The forum's program included addresses by guest speakers, as well as executives from ADK's regional headquarters in China and other countries. Japanese economist Eisuke Sakakibara spoke on the topic "A New Future Outlook for China and Asia," and Professor Bernd H. Schmitt of New York's Columbia Business School talked on "Diversity and Change Among Consumers in Asia." In addition to individual speakers, there was a panel discussion on survey data from six Asian countries. The panelists, who were ADK employees working in Asia, shared their insights and engaged in a lively exchange of opinions. According to the results of a follow-up questionnaire, nearly 90% of participants felt that overall the forum had been useful. It was pleasing to learn that we succeeded in providing our clients with valuable insights on how to do business in Asia.

As a dynamic advertising agency, we regard the forum not only as a one-off event but also as an opportunity to connect directly with clients and proactively create new business. ADK will continue evolving by boldly accepting new challenges that transcend the conventional model.


A speaker addresses the audience


Professor Schmitt gives his presentation


Panel discussion

A photo montage of the forum's speakers

Corporate Governance

1 Corporate Governance

1 Corporate Governance Structure

ADK recognizes that enhancing management decision-making efficiency and reinforcing the management supervisory function constantly raises shareholder value over the long term and ultimately enhances competitiveness. ADK also believes that corporate governance that functions effectively is essential for maximizing shareholder value.

Management has to reconcile the complex interests of various stakeholders. As a publicly listed company, improving an environment that protects shareholder rights and facilitates fair and equal dealings is vital for effective corporate governance. This is because the selection and supervision of management and the authority of directors to perform their management duties ultimately depend on the confidence of shareholders—who provide the capital—and because a listed company also seeks broad access to capital markets, which are made up of an unspecified number of investors.

ADK bases its policy on corporate governance on these principles.

a. Organizational Framework

ADK adopts the corporate auditor system. We have concluded that this structure is superior from the standpoint of efficient management decision making. Under this structure, the Board of Directors, consisting primarily of internal directors, makes decisions flexibly in a timely manner while sharing the abundance of information at its disposal through the division of responsibilities for all of the Company's activities among the Directors.

Three external directors were newly elected at the Ordinary General Meeting of Shareholders held on March 29, 2012. The Company believes that close cooperation between outside directors, corporate auditors, internal auditors and directors responsible for the Company's internal control system facilitates the reinforcement of the supervisory function and the monitoring of business execution.

At fiscal year-end, ADK had 13 directors,* one of whom had representative status, whereas 10 served as operating officers.

*Thirteen directors were elected at the Ordinary General Meeting of Shareholders held on March 29, 2012. Currently, two directors have representative status, whereas seven serve as operating officers.

The Board of Directors meets once a month, in principle, and more often as necessary. In fiscal 2011, the Board met 23 times.

With regard to the business execution and management supervisory frameworks, ADK appoints 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 Groups, Centers, Divisions and Departments, all reporting to the president.

In February 2012, we established the Operating Executive Committee, which is chaired by the president. The Committee is tasked with making decisions on matters delegated to it by the Board of Directors, and other specified matters. Corporate auditors attend Board meetings, and the Committee's deliberations concerning resolution items are reported to the Board of Directors. To ensure common recognition and transparency of important issues among employees, excerpts of meeting minutes are posted on the Company's intranet.

b. Status of Establishment of Risk Management

In May 2006, the Board of Directors passed a resolution concerning "Basic Policies for Establishing an Internal Control System" (most recently revised on December 29, 2011) based on Japan's Companies Act 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 the internal control systems as defined under Japan's Companies Act.

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 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 influenza. The duty of the Process Owner Committee is to meet internal control reporting system requirements under the Financial Instruments and Exchange Law of Japan.

c. Status of the Establishment of a System of Internal Controls

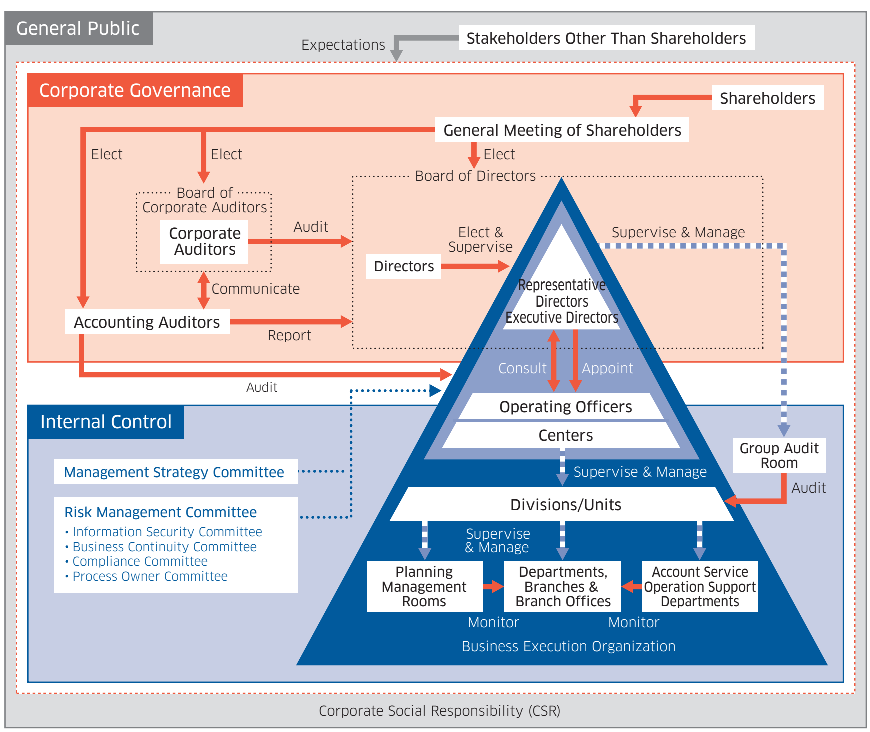
ADK operates a group-wide internal control system as stipulated under the Companies Act. The Risk Management Committee spearheads the Company's internal control system. One of its subordinate bodies, the Process Owner Committee, specializes in setting up and maintaining an internal control reporting system that maintains the reliability of financial reporting.

2 Internal Audits and Auditing by Corporate Auditors

a. Organization, Personnel and Procedures

The Group Audit Office is responsible for conducting internal audits. As of December 31, 2011, the office had a staff of eight.

ADK has four corporate auditors, three of whom are full-time. Three of the four corporate auditors are external, one of whom is an attorney. We maintain a robust system of corporate auditing by employing four or more corporate auditors, three or more external auditors, and three or more full-time corporate auditors, all of which exceed the statutory minimum. Makoto Ichikawa, one of our corporate auditors, has a wealth of experience working in financial institutions and possesses a high level of expertise in financial affairs and accounting. Hiroshi Ota, also a corporate auditor, has a strong background working for



Business Execution Monitoring, Internal Control and Risk Management Framework

Note:
The Group's system of internal controls is divided into three areas for monitoring purposes, each of which is overseen by a particular office or department. The Group Audit Office monitors the Group's overall business execution framework, the Account Service Operation Support Department monitors the organization attached to the Integrated Account Service Management Center, and the Planning Management Office monitors the organization attached to the Media Buying and Staff Center.

securities companies, and he too possesses a high level of expertise in financial affairs and accounting.

In fiscal 2011, the Board of Directors met on 23 occasions. Full-time corporate auditors Yoshiro Sakai and Makoto Ichikawa attended all of these meetings, whereas Hiroshi Ota attended all 16 Board of Directors meetings held after his appointment in fiscal 2011. Part-time corporate auditor Masayuki Yoshinari attended 14 of the 16 Board meetings held after his appointment in fiscal 2011.

In fiscal 2011, the Board of Corporate Auditors met 12 times. Mr. Sakai and Mr. Ichikawa attended all of these meetings, and Mr. Ota and Mr. Yoshinari attended all nine meetings held after their appointments.

One support staff member is assigned to assist the corporate auditors with their duties. As a means of reinforcing independence from directors, the approval of the corporate auditors is obtained beforehand concerning the support staff member's performance review, personnel transfer and the determination of applicable rewards and penalties.

b. Coordination Between Internal Auditors, Corporate Auditors and Accounting Auditors

The Group Audit Office submits audit reports to the president and the corporate auditors. Attendance at meetings of the Board of Corporate Auditors by Group Audit Office employees ensures coordination between internal auditing and auditing by the corporate auditors.

To promote close cooperation between corporate auditors, in addition to official Board of Corporate Auditors meetings, both full-time and part-time corporate auditors discuss important matters at meetings held after Board of Directors' meetings. Furthermore, accounting auditors from Ernst & Young ShinNihon LLC, which is contracted to audit ADK's accounts, are required to attend meetings of the Board of Corporate Auditors. At these meetings, the accounting auditors submit reports and brief the corporate auditors on items including the annual audit of the Company's accounts and the auditing system of Ernst & Young ShinNihon LLC.

3 External Directors and External Corporate Auditors

a. System, Function and Roles of External Directors and External Corporate Auditors

As of March 30, 2012, ADK had three external directors and three external corporate auditors. All six are independent officers, that is, no conflicts of interest exist between any of these officers and general shareholders. The Company has notified the Tokyo Stock Exchange of these external officers. Two of the three external corporate auditors are full-time auditors, and as such attend meetings of the Executive Board and Board of Directors and other important meetings. They routinely monitor business execution and participate in discussions at these meetings as necessary to ensure the appropriateness of decisionmaking.

In accordance with Article 427, Paragraph 1, of the Companies Act of Japan, ADK has concluded limited liability agreements with each external director and external corporate auditor that limit their liability under Article 423, Paragraph 1, of the Act. This limitation of liability applies if the external directors and external corporate auditors perform their duties in good faith and without gross negligence.

b. Personal Relationships, Capital Relationships, Business Relationships or Other Relationships of Interest Between the Company and the Company's External Corporate Auditors

No conflicts of interest exist between ADK and any of its external directors or external corporate auditors.

4 Executive Remuneration

a. Total Executive Remuneration, Total per Type of Executive Remuneration and Number of Eligible Executives

Position	Total remuneration (Millions of Yen)	Total per type of remuneration (Millions of Yen)			Number of eligible persons
		Fixed remuneration	Bonuses	Retirement benefits	
Directors (excludes external directors)	309	301	–	7	14
Corporate auditors (excludes external corporate auditors)	16	16	–	–	1
External executives	34	34	–	–	5

Notes:
1. Bonuses were not paid in fiscal 2011.
2. The above remuneration includes that paid to two directors who retired upon the conclusion of the Company's 56th Ordinary General Meeting of Shareholders held on March 30, 2012. One of the Company's 13 directors as of the end of fiscal 2011 serves without compensation and therefore is not included in the table above.
3. The amount of retirement benefits is the portion for services rendered during fiscal 2011 that will be included in the retirement benefit to be paid to each director upon his retirement.

b. Total Performance-Linked Remuneration

No executives were paid performance-linked remuneration in an amount exceeding ¥100 million during fiscal 2011.

c. Summary of Policies Concerning Determination of Directors' Total Remuneration

Directors charged with business execution receive "fixed remuneration" and "performance-linked remuneration" determined according to the functions they perform. External directors, directors and corporate auditors not charged with business execution receive fixed remuneration only.

The Company offers both long-term and short-term incentives to directors charged with business execution in the form of performance-linked remuneration. It consists of "bonuses" that are linked to short-term performance and "stock options" that are linked to long-term performance. Because the Company does not treat directors as employees, it does not pay separate salaries to directors. The Company has abolished the system of granting of retirement benefits to retiring directors and corporate auditors. It terminated the granting of retirement benefits to corporate auditors as of the close of the 52nd Ordinary General Meeting of Shareholders held on March 28, 2007, and terminated the granting of retirement benefits to directors as of the close of the 56th Ordinary General Meeting of Shareholders held on March 30, 2011.

The Company determines specific levels of remuneration by referring to corresponding data on a group of companies in the non-manufacturing sector that achieves a similar level of net sales as the Company and its peers.

i. Fixed Remuneration

The Company passed a resolution at the 56th Ordinary General Meeting of Shareholders held on March 30, 2011, to limit directors' fixed annual remuneration to an amount not exceeding ¥500 million. Previously, the Company had passed a resolution at the Extraordinary General Meeting of Shareholders held on November 20, 1998, to limit corporate auditors' fixed monthly remuneration to an amount not exceeding ¥10 million monthly. Fixed remuneration for directors is made up of the conventional "basic remuneration," plus "in-house share purchase funds" for purchasing shares via the directors' shareholding association. However, "in-house share purchase funds" are paid only to full-time directors.

ii. Bonuses

The Company passed a resolution at the 57th Ordinary General Meeting of Shareholders held on March 29, 2012, to grant directors (excluding external directors) bonuses separate from the aforementioned fixed remuneration that are commensurate with the consolidated operating income recorded each business year in an amount not exceeding ¥150 million annually. The Company does not grant bonuses when annual consolidated operating income does not reach the targeted amount. When the targeted amount has been achieved, the Company grants bonuses amounting to 20%–40% of base remuneration, which is fixed remuneration. (However, this excludes any funds for acquiring treasury stock through the directors' shareholding association.)

iii. Stock Options

The Company passed a resolution at the 57th Ordinary General Meeting of Shareholders held on March 29, 2012, to grant directors (excluding external directors) stock acquisition rights separate from the aforementioned fixed remuneration and the aforementioned bonuses, not to exceed ¥100 million annually. The amount of such stock acquisition rights shall be equivalent to approximately 30% of the basic remuneration portion of fixed remuneration (excludes in-house share purchase funds for purchasing shares via the directors' shareholding association).

The exercise price of such stock acquisition rights shall be ¥1.00 per share. The number of share acquisition rights to be exercised fluctuates within a range from 0% to 100% of the total number of stock acquisition rights allocated according to the Total Shareholder Return results (i.e. , the sum of the difference between the average stock price on the Tokyo Stock Exchange in the three months (excluding non-trading dates) immediately preceding the allotment date and the average stock price on the Tokyo Stock Exchange in the three months (excluding non-trading dates) immediately preceding the first date of the exercise period and the dividend per share for the period from the allotment date to the first date of the exercise period, divided by the average stock price on the Tokyo Stock Exchange in the three months (excluding non-trading dates) immediately preceding the allotment date) from the allotment date to the first date of the exercise period.

5 Accounting Auditors

In accordance with the Companies Act and the Financial Instruments and Exchange Law, the Company has a contractual agreement with Ernst & Young ShinNihon LLC to serve as its accounting auditor. Furthermore, no special interests exist between any managing partners of said audit organization engaged in the auditing of the Company's accounts and the Company.

Details of the independent account auditors who audited the Company's fiscal 2011 accounts, the name of their accounting firm and the number of persons who assisted with the audit are provided below.

Certified Public Accountants (Account Auditors)		Company
Designated employee with limited liability	Mitsuo Sakamoto	Ernst & Young ShinNihon LLC
Designated employee with limited liability	Kazuki Hayashi	

Persons who assisted the auditing of accounts consisted of 16 Certified Public Accountants and seven other persons.

Yasumori Audit Corporation retired from the position of the Company's independent auditor on the expiration of its contract as of the close of the 56th Ordinary General Meeting of Shareholders held on March 30, 2011. At the same meeting of shareholders, the Company newly appointed Ernst & Young ShinNihon LLC as its independent auditor.

6 Number of Directors

The Company's Articles of Incorporation specify a minimum of three directors. There is no maximum number of directors. The Company appoints directors to a term of one year, which increases opportunities for shareholders to test the mandate of directors.

7 Change to Resolutions on the Appointment of Directors

Under the Articles of Incorporation, a resolution for appointing a director shall be adopted by a majority of votes upon the participation of one-third or more of shareholders with exercisable voting rights. The purpose of this reduction in the quorum is to facilitate smooth general meetings of shareholders.

The appointment of a director shall not be determined by cumulative voting.

8 Delegation of Authority to the Board of Directors

Under the Articles of Incorporation, items covered in Article 459, Paragraph 1, of the Companies Act, su ch as distribution of surplus and purchase of treasury stock, shall, except as otherwise provided for in laws or regulations, be determined by resolution of the Board of

Directors, and not by resolution of a general meeting of shareholders. The Board has been delegated authority to distribute surplus funds in order to facilitate flexible profit distribution and acquisition of treasury stock in line with the Company's policy that positions shareholder return as a high management priority. Furthermore, this authority is not granted to general shareholder meetings to avoid excessive returns and procedural confusion due to the duplication of the Board of Directors' policy on shareholder return and the policy on returns reflected in shareholder proposals.

9 Change to Requirements for Special Resolutions at General Shareholder Meetings

Under the Articles of Incorporation, resolutions covered in Article 309, Paragraph 2, of the Companies Act shall be adopted by a majority exceeding two-thirds of votes upon the participation of one-third or more of shareholders with exercisable voting rights. The purpose of this reduction in the quorum is to facilitate smooth general meetings of shareholders.

2 Auditor Remuneration

1 Remuneration of Certified Public Accountants

(Millions of Yen)

	Fiscal 2010		Fiscal 2011	
	Remuneration for audit certification work	Remuneration for non-auditing work	Remuneration for audit certification work	Remuneration for non-auditing work
ADK	110	–	110	–
Affiliates	–	–	–	–
Total	110	–	110	–

Note:
In the previous fiscal year, the Company had a contract with Yasumori Audit Corporation. In the year under review, the Company had a contract with Ernst & Young ShinNihon LLC.

2 Other Important Remuneration

Fiscal 2010 (January 1–December 31, 2010)
Not applicable

Fiscal 2011 (January 1–December 31, 2011)
Certain consolidated overseas affiliates paid remuneration in the amount of ¥2 million for authorized audit certification work by audit offices belonging to the network of Ernst & Young ShinNihon LLC, which the Company contracts for auditing services by Certified Public Accountants.

3 Non-Auditing Work Conducted by Certified Public Accountants

Fiscal 2010 (January 1–December 31, 2010)
Not applicable

Fiscal 2011 (January 1–December 31, 2011)
Not applicable

4 Policy on Determining Audit Remuneration

Decisions regarding remuneration for auditing work conducted by accounting auditors shall be determined upon obtaining the approval of the Board of Corporate Auditors pursuant to Article 399 of the Companies Act following discussion that takes into consideration the appropriateness of the number of audit hours based on the details of an audit plan submitted by the accounting auditors.

Board of Directors and Auditors

as of March 29, 2012

[From front left] Kazuhiro Narimatsu, Koichiro Naganuma, Yoji Shimizu, Shinichi Ueno
[From back left] Hiroshi Nomiyama, Takeshi Kato, Hideaki Kido, Hiroaki Ohbayashi, Stuart Neish, Mochio Umeda, Hiroaki Onohara, Yoshiki Uemura, Hiroshi Nakazato

Koichiro Naganuma
Representative Director,
Chairman of the Board

Yoji Shimizu
Representative Director,
President & Group CEO

Kazuhiko Narimatsu
Executive Director, Senior Operating Officer
Account Service Management

Shinichi Ueno
Executive Director, Senior Operating Officer
Integrated Solution Center

Yoshiki Uemura
Executive Director, Operating Officer
Network Service and Procurement Management

Hiroshi Nakazato
Executive Director, Operating Officer
Business Development and Integrated Solution Center

Hiroaki Onohara
Executive Director, Operating Officer
Media & Content Center

Hiroshi Nomiyama
Executive Director, Operating Officer
Account Service Management

Takeshi Kato
Executive Director, Operating Officer
Corporate Management and Planning Center

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

Hiroshi Ohbayashi
Outside Director

Hideaki Kido
Outside Director

Mochio Umeda
Outside Director

Yoshiro Sakai
Auditor (Full-time)

Hiroshi Ota
Auditor (Full-time)

Makoto Ichikawa
Auditor (Full-time)

Masayuki Yoshinari
Auditor

Financial Section

Management's Discussion and Analysis

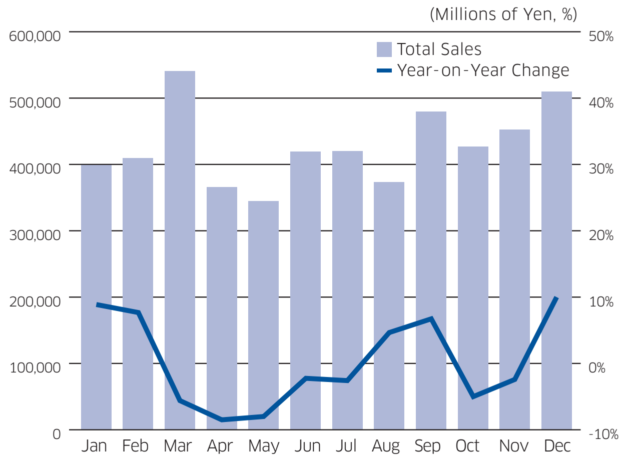
Fiscal 2011 Consolidated Performance Highlights

- Gross Billings Up 0.2% to ¥347.1 billion
- Gross Profit Up 9.1% to ¥45.8 billion
- Gross Margin Improved to 13.2%
- Operating Income Up Significantly to ¥3.8 billion
- Returned to Profitability: Net Income of ¥2.2 billion; Net Income per Share of ¥54.37

ADK Group Overview

In fiscal 2011, mainly due to the Great East Japan Earthquake and the European sovereign debt crisis, Japan experienced severe economic conditions throughout the year. Toward the end of 2010, the economy seemed to be coming out of a leveling-off phase, but later sharply declined due to the disruptions of the supply chain and the restrictions posed on the electric power supply following the Great East Japan Earthquake and the damages at the nuclear power plants. Mid year, the country's economy recovered from the slump thanks to the rapid recovery of the supply chain and the improving world economy. However, the pace of the recovery of the world economy slowed as the severity of the sovereign debt crisis in Europe increased, and in summer and thenceforth, partly due to the sharp appreciation of the yen and the flooding in Thailand, the pace of recovery of the Japanese economy slackened.

2011 Advertising Expenditures in Japan



Preliminary Report on the Current Survey of Selected Service Industries: Research and Statistics Department, Minister's Secretariat, Ministry of Economy, Trade and Industry

Dentsu estimated total advertising expenditures in 2011 as ¥5.7 trillion, down 2.3% from the previous year. According to the Current Survey of Selected Service Industries by the Ministry of Economy, Trade and Industry (METI), total sales in the advertising industry increased year on year in August and September consecutively, showing signs of recovery. However, they fell in October and November, and were again lower year on year. In December, they showed a 10.1% increase but it seems that the instability will continue.

Amid these circumstances, the ADK Group provided communication programs giving priority to the maximization of the return on investment (ROI) of the advertisers. The Group also worked proactively to develop its business in the newly emerging nations and China and in the animation content business. Consequently, the Group achieved sales that were a little higher than the previous year. The Group also achieved a certain extent of recovery in income from the previous year by strictly managing the cost of sales and reducing selling, general and administrative expenses.

Consolidated Performance

Gross Billings

Gross billings totaled ¥347,112 million, an increase of 0.2% compared with fiscal 2010, thanks to increased sales of subsidiaries in the advertising business in Japan, as well as in Greater China and Southeast Asia. The parent company ADK recorded a decline in sales partly because of damage from the Great East Japan Earthquake and the shortage of electric power caused by the accident at the Fukushima nuclear power station. (For more details of non-consolidated performance, please see page 25.)

Gross Profit

Gross profit increased 9.1% year on year to ¥45,836 million. The gross margin improved 1.1 percentage points to 13.2%, mainly because of a significant improvement of ADK's profitability, from 10.0% in fiscal 2010 to 11.0% in fiscal 2011, with rigorous control of cost of sales. Also, the Group improved its profitability by utilizing more of the in-house operational resources within the group companies.

Operating Income

Operating income was ¥3,853 million, an increase from ¥22 million in fiscal 2010. SG&A expenses decreased 0.1% due to an effort to control both staff cost and other expenses at ADK, the parent company. The staff cost of subsidiaries increased because ADK International Inc. merged a smaller advertising company, and subsidiaries in promising market areas such as Shanghai increased the number of their staff.

Other Income and Expenses

Dividend income was ¥1,194 million, and the equity in earnings of affiliates was ¥184 million.

The Group posted a ¥1,862 million gain on sales of securities including a ¥1,242 million profit from the sale of Digital Advertising Consortium Inc. shares. The loss on valuation of securities was ¥1,279 million.

Net Income

As a result, income before income taxes and minority interests totaled ¥5,028 million compared with a ¥4,749 million loss for fiscal 2010. The Group reported net income of ¥2,294 million compared with a ¥4,656 million loss for fiscal 2010.

Appropriation of Earnings

Pursuant to Article 459-1 of the New Corporate Law in Japan, ADK's Articles of Incorporation include a provision allowing the Board of Directors to determine distribution of earnings and other matters. In exercising this authority, the Board follows the policies outlined below.

We believe that returning profits to shareholders is one of the ADK Group's most important management priorities. Our policy is to maximize our total corporate value by maintaining a balance between (a) short- and long-term shareholder return based on cash dividends and share buybacks and (b) the retention of earnings required for business investments based on medium- and long-term management strategies.

QUARTERLY FINANCIAL HIGHLIGHTS

(Millions of Yen)

	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
	January 1, 2011– March 31, 2011	April 1, 2011– June 30, 2011	July 1, 2011– September 30, 2011	October 1, 2011– December 31, 2011
Gross billings	85,381	80,256	84,356	97,117
Income before income taxes and minority interests	293	1,600	1,668	1,465
Net income	170	705	440	977

In determining the amount of cash dividends, we have set a policy calling for 35% of Group consolidated net income to be distributed annually as dividends. At the same time, we emphasize long-term distribution stability on the condition that the annual cash dividend will be a minimum of ¥20.00 per share, in principle. For the time being, we will pay dividends on a semiannual basis. In principle, therefore, we aim to pay an interim dividend of ¥10.00 per share and a year-end dividend of ¥10.00, or achieve a total payout ratio of 35%—whichever is higher.

Based on the aforementioned policy, ADK announced a ¥10.00 year-end dividend at its Board of Directors meeting held on February 22, 2012, with the disbursement date set at March 21, 2012. We previously paid an interim dividend of ¥10.00 for shareholders of record as of September 30, 2011. In addition to the two standard record dates (September 30 and March 31), the Board of Directors, at its meeting on October 13, 2011, decided to set a temporary record date of October 12, 2011, and pay an extraordinary additional dividend of ¥89.00 per share. This brought the annual cash dividend for the year to ¥109.00 per share.

The Company also focuses on buying back shares, in addition to increasing net income, as a means of accelerating improvements of return on equity (ROE). In implementing such buybacks, we consider market conditions surrounding the Group, consolidated earnings power and financial stability, and we make sure there is no impediment to our growth strategies.

Balance Sheets and Cash Flows

Assets and Liabilities

During fiscal 2011, the balance of total assets decreased by ¥10,322 million to ¥184,188 million due to a decrease in investment securities, reflecting a decline in market value. The total of current and long-term liabilities decreased by ¥3,954 million to ¥87,388 million due to a decrease in deferred tax liabilities, reflecting the aforementioned decline in market value of investment securities. Net assets decreased by ¥6,368 million to ¥96,800 million, with a 52.0% book to net assets ratio, down 0.5 percentage point from a year earlier.

Free Cash Flow

(Millions of Yen)

	2011	2010
Net cash provided by operating activities	¥8,957	¥ (221)
Business reinvestment*	(1,895)	(642)
Free cash flow	7,062	(864)

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

Cash Flows

At the end of fiscal 2011, cash and cash equivalents amounted to ¥26,519 million, an increase of ¥7,392 million from the previous fiscal year-end because the cash inflow of operating and investing activities surpassed cash outflow for financing activities by ¥7,793 million.

Net cash provided by operating activities was ¥8,957 million compared with ¥221 million used in fiscal 2010, whereas the decrease in notes and accounts receivable and the increase in notes and accounts payable were ¥3,536 million and ¥3,099 million, respectively.

Net cash of ¥3,780 million was provided by investing activities compared with ¥2,298 million provided in fiscal 2010 due to proceeds from sales of securities.

Net cash used for financing activities was ¥4,944 million compared with ¥1,266 million used in fiscal 2010, mainly for dividends paid to shareholders of ¥4,600 million, including extra dividends.

Capital Expenditures

(Millions of Yen)

	2011		2010	
	Capital expenditures	Depreciation	Capital expenditures	Depreciation
Buildings	¥ 78	¥184	¥ 49	¥125
Building improvements	–	0	–	1
Vehicles	17	22	27	28
Furniture, fixtures and equipment	255	176	107	148
Land	–	–	–	–
Licenses	–	–	–	–
Computer software	1,570	456	501	459
Lease assets	23	119	460	41
Others	–	16	–	12
Total	¥1,945	¥975	¥1,146	¥818

Segment Information

Advertising Business

The Group's advertising business segment generated gross billings of ¥340,082 million, registering 0.2% year-on-year growth, whereas segment profit (operating income) grew significantly, from ¥49 million in fiscal 2010 to ¥3,859 million in fiscal 2011.

The subsidiaries in Japan and overseas increased gross billings, however, ADK slightly decreased gross billings. ADK and its subsidiaries in Japan and overseas all increased their profit.

Non-Consolidated Performance Information

The parent company, ADK, which is the core of the Group, reported gross billings of ¥301,878 million, down 1.3% from fiscal 2010. ADK continued to devote itself to measures aiming at the improvement of profitability such as strict cost control of sales cost. As a result, gross profit was ¥33,156 million, up 8.0% year on year. Due to the continuous effort to control selling, general and administrative expenses, operating income was ¥1,734 million compared with a ¥1,674 million operating loss for fiscal 2010.

ADK recorded an increase in gross billings from clients in the Beverages/Tobacco and Pharmaceuticals & Medical Supplies sectors. However, gross billings from clients in the sectors of Distribution/Retail, Transportation/Leisure and Foods, etc., decreased.

Broken down by business discipline, TV advertising, Radio advertising and Creative and Others grew year on year, but in other divisions, income was down from fiscal 2010.

Non-Consolidated Performance Summary

(Millions of Yen)

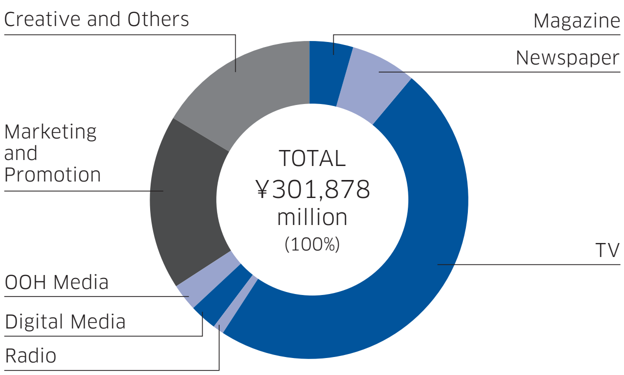
	2011	2010	Change
Gross billings	¥301,878	¥305,759	-1.3%
Gross profit	33,156	30,713	8.0%
Operating income	1,734	(1,674)	–
Net income	2,302	(2,112)	–

Non-Consolidated Gross Billings Breakdown by Client Industry

(Millions of Yen)

	2011	Share of total	2010	Share of total	Change	Year-on-Year change
Energy/Raw Materials/Machinery	¥ 5,027	1.6%	¥ 4,976	1.4%	¥ 50	1.0%
Food	31,739	11.0%	33,602	10.5%	(1,862)	-5.5%
Beverages/Tobacco Products	23,034	5.8%	17,653	7.1%	5,380	30.5%
Pharmaceuticals/Medical Supplies	15,687	4.2%	12,728	4.4%	2,958	23.2%
Cosmetics/Toiletry Goods	33,038	11.4%	34,746	11.7%	(1,707)	-4.9%
Apparel/Jewelry	8,766	2.9%	8,670	2.8%	95	1.1%
Precision Instruments/Office Equipment	2,037	0.7%	2,265	0.7%	(228)	-10.1%
Electric Machines/AV Equipment	3,667	1.2%	3,270	1.1%	397	12.1%
Automobiles/Auto-Related Products	15,418	5.1%	15,857	5.2%	(438)	-2.8%
Household Products	3,193	1.1%	3,464	1.1%	(271)	-7.8%
Hobbies/Sporting Goods	20,997	7.0%	19,969	6.5%	1,027	5.1%
Real Estate/Housing	8,555	2.8%	7,772	2.5%	783	10.1%
Publications	2,668	0.9%	3,563	1.2%	(894)	-25.1%
Information/Communications	35,725	11.8%	38,557	12.6%	(2,831)	-7.3%
Distribution/Retail	21,330	7.1%	24,846	8.1%	(3,516)	-14.2%
Finance/Insurance	25,912	8.6%	24,393	8.0%	1,519	6.2%
Transportation/Leisure	10,620	3.5%	11,957	3.9%	(1,336)	-11.2%
Restaurants/Other Services	6,728	2.2%	6,464	2.1%	264	4.1%
Government/Organizations	9,561	3.2%	12,120	4.0%	(2,559)	-21.1%
Education/Healthcare Services/Religion	5,679	1.9%	4,931	1.6%	748	15.2%
Classified Ads/Other	12,486	4.1%	13,946	4.6%	(1,460)	-10.5%
Total	¥301,878	100.0%	¥305,759	100.0%	¥ (3,881)	-1.3%

Non-Consolidated Performance by Discipline



(Millions of Yen)

Breakdown by Discipline		Gross billings	Composition	Year-on-Year change
Media	Magazine	¥ 13,599	4.5%	-12.7%
	Newspaper	20,371	6.8%	-3.9%
	TV	145,178	48.1%	0.2%
	Radio	3,215	1.1%	12.2%
	Digital Media	8,276	2.7%	-7.1%
	OOH Media	8,525	2.8%	-2.1%
Subtotal		199,166	66.0%	-1.5%
Non-Media	Marketing and Promotion	53,772	17.8%	-8.4%
	Creative and Others	48,938	16.2%	9.0%
Subtotal		102,711	34.0%	-0.9%
Total		¥301,878	100.0%	-1.3%

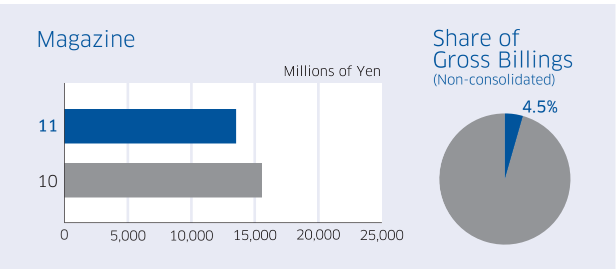
Notes:

1. Because we offer cross-media programs, data may not represent gross billings by medium.
2. TV includes Program, Spot and Content.
3. Digital Media includes Internet and Mobile-Related Media. Digital Solutions, such as Web Site Creation and System Development, are included in "Marketing and Promotion."
4. OOH (Out-of-Home) Media includes transportation and outdoor advertising and insertions.
5. Marketing and Promotion includes Marketing, Communication Planning, Promotion, Events, PR, Exposition Events and Digital Solutions, etc.

Magazine

According to the Preliminary Report on the Current Survey of Selected Service Industries announced by METI, total sales of magazine advertising in Japan declined 7.4%.

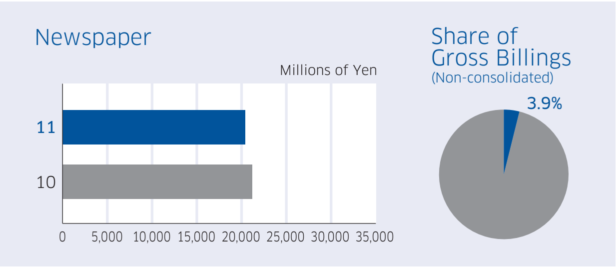
ADK's gross billings from magazine advertising were ¥13,599 million, a 12.7% year-on-year decline, due to tighter budgets at many clients especially those in the Hobbies/Sporting Goods, Beverages/Tobacco and Information/Communications sectors, although gross billings from clients in the Education/Healthcare Services/Religion and Household Products sectors grew.



Newspaper

Total sales of newspaper advertising in Japan declined 7.2%.

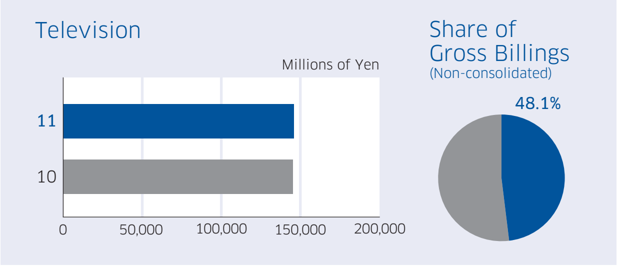
ADK's gross billings from newspaper advertising suffered a decline with smaller gross billings of clients in the Finance/Insurance and Automobile/Auto-Related Products sectors, although we handled larger gross billings of clients in the Government/Organizations, Transportation/Leisure and Distribution/Retail sectors. As a result, gross billings for newspaper ads were ¥20,371 million, a 3.9% year-on-year decline.



Television

Total sales of television advertising in Japan were almost unchanged from the previous year, with a 0.6% decline.

ADK's gross billings from television advertising increased 0.2% year on year to ¥145,178 million. Program TV advertising sales increased 1.7% thanks to larger gross billings from clients in the Cosmetics/Toiletry, Finance/Insurance and Hobbies/Sporting Goods sectors, although the company reported a decrease due to smaller business with clients in the Information/Communications and Food sectors. Spot TV advertising sales decreased 2.2% due to smaller business with clients in the Information/Communications and Cosmetics/Toiletry sectors, even though business with clients in the Pharmaceuticals/Medical Supplies and Beverages/Tobacco sectors grew. We promoted sales of our animation content business by developing digital animation distribution sites on PCs and mobile phones, investment in new characters and active use of popular characters.



Gross Billings from Television Ads (Breakdown by Category)

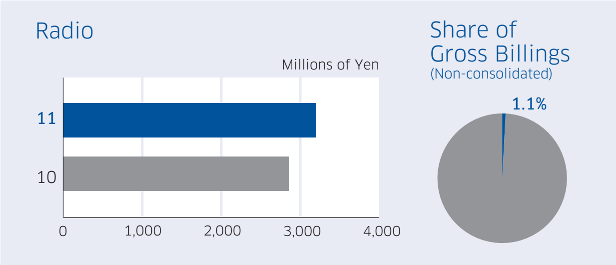
(Millions of Yen)

	2011	2010	Change
Time (program-sponsored ad)	¥ 54,475	¥ 53,590	1.7%
Spot	78,314	80,104	-2.2%
Content-related sales	12,388	11,186	10.7%
Total	¥145,178	¥144,882	0.2%

Radio

Total sales of radio advertising in Japan declined 3.7%.

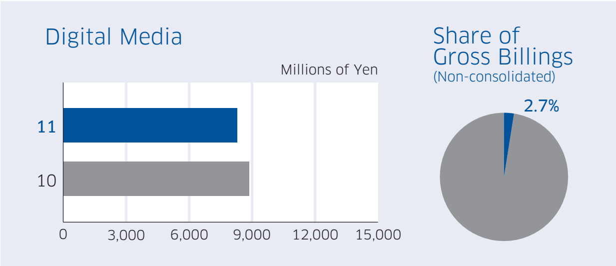
ADK's gross billings from advertising on radio increased to ¥3,215 million, for year-on-year growth of 12.2%, thanks to larger business with clients in such sectors as Financial/Insurance and Beverages/Tobacco, even with smaller business with clients in the Energy/Materials/Machinery and Food sectors.



Digital Media

Total sales of Internet advertising in Japan increased 11.8%.

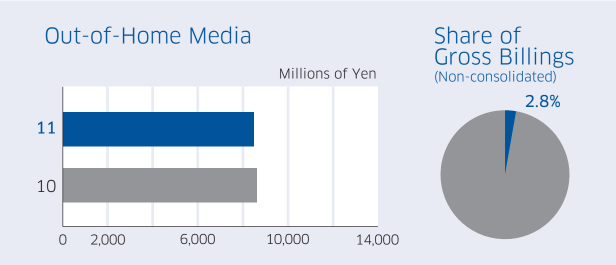
ADK established ADK Digital Communications Inc. in August with an aim to increase sales and improve the Group's profitability. But it began its services in October, therefore advertising in the digital media business did not grow enough in the year under review. The gross billings from advertisement on digital media including mobile were ¥8,276 million, a year-on-year decrease of 7.1%, due to a decline in business with clients in the Information/Communications, Hobbies/Sporting Goods and Automobiles/Auto-Related Products sectors although business with clients in the Cosmetics/Toiletry Goods and Food sectors grew.



Out-of-Home Media

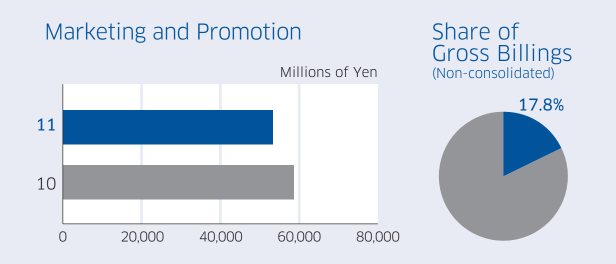
This category includes outdoor advertising such as billboards, traffic advertising and inserts. Japan's total sales of outdoor advertising increased 8.3% and traffic ads decreased 3.3%, whereas inserts and direct mail increased 0.3%.

ADK's gross billings from advertising on out-of-home media were ¥8,525 million, or a 2.1% year-on-year decrease, due to a decline in business with clients in the Automobile/Auto-Related Products, and Transportation/Leisure sectors, although we grew business with clients in sectors such as Beverages/Tobacco, Pharmaceuticals/Medical Supplies, etc., by offering our cross-media approach and the development of in-store media.



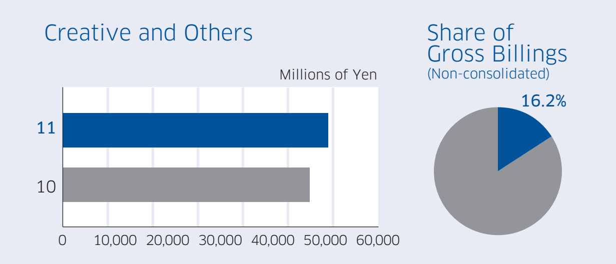
Marketing and Promotion

According to the aforementioned survey of METI, the total sales of sales promotion, PR and event planning in Japan decreased 3.3% in 2011. ADK's gross billings from the marketing and promotion business decreased to ¥53,772 million a decrease of or 8.4% year on year due to smaller business with clients in the Distribution/Retail and Government/Organizations sectors, although we grew business with clients in sectors such as Beverages/Tobacco and Finance/Insurance by offering integrated communications services taking advantages of onsite merchandising and digital solutions to better respond to client demands.



Creative and Others

ADK's gross billings of creative and others increased to ¥48,938 million, or 9.0% year on year. Sales of creative increased 10.7%, thanks to larger business with clients in sectors such as Information/Communications, Beverages/Tobacco, Pharmaceuticals/Medical Supplies and Food.



Other Business

Subsidiaries in the publishing business segment reported ¥7,029 million in sales, a 1.5% year-on-year decline, and continued to report a segment loss of ¥8 million compared with a segment loss of ¥24 million in fiscal 2010.

Overseas Sales

The ADK Group obtained 7.4% of its gross billings from abroad compared with 6.8% in fiscal 2010. All overseas sales are in the advertising business.

Outlook for Fiscal 2012

In the Japanese economy, owing to continuing strong demand for post-earthquake projects and the effects of various governmental policies, the trend toward a gradual recovery is expected to continue. However, it is also anticipated that considerable uncertainty over the future economy will continue due to several concerns, such as the shortage of electric power supply, the strong yen and the European sovereign debt crisis.

In such a slow growth environment, ADK forecasts consolidated performance for fiscal 2012, of gross billings of ¥352 billion, ¥3.9 billion in operating income, ¥5.4 billion in ordinary income and ¥3 billion in net income. EPS for the year is forecast at ¥71.07.

On a nonconsolidated basis, the forecasts for fiscal 2012 are ¥306 billion in gross billings, ¥2.0 billion in operating income, ¥3.4 billion in ordinary income and ¥1.7 billion in net income. EPS for the year is forecast at ¥40.27.

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 2011, the Group generated 92.6% 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 G roup's performance and financial condition could be negatively affected.

Response to Diversification and Digitalization of Media and Changing Consumers' Media Consumption

Advertising media continue to diversify with the advent of new display equipment, such as digital signage, smartphones and tablet PCs. At the same time, people's media consumption and behaviors are changing with the rapid diffusion of social networks, such as Facebook and Twitter. Therefore, markets of traditional mass media, especially print media, are shrinking, whereas the Internet business is growing fast. Advertising clients expect their advertising companies to offer advanced solutions utilizing digital media, thereby allowing clients to gather and analyze data of people's media consumption and purchasing behavior. We do not see traditional and new media cannibalizing each other. Rather, they could enhance each other. The ADK Group continues to provide solutions, including its cross-communications approach, which can integrate both traditional and digital media. 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 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 ADK Group, as Japan's third-largest advertising group, competes against other large 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, competition is accelerated by the entry of foreign mega-agency groups into the Japanese market, as well as many new and rapidly growing entrants in the Internet and other nontraditional mass media advertising markets. 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

Advertising spending by client industry sector may vary and change. In the past 10 years, according to a 2010 report by Dentsu Inc., companies in the Information/Communications, Cosmetics/Toiletry Products, Apparel/Jewelry and Finance/Insurance sectors increased their spending, whereas companies in the Government/Organizations, Hobbies/Sporting Goods, Pharmaceuticals/Medical Supplies and Transportation/Leisure sectors decreased their 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 2011, which is 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, such as mobile and the Internet. In fiscal 2011, the parent company generated 66.0% of its gross billings by handling the four major mass media, as well as the Internet, digital advertising and OOH media. Gross billings from television represented 48.1% 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 its staff costs are fixed costs and represent the largest portion of its selling, general and administrative expenses. On a consolidated basis, staff costs represented as much as 61.8% of SG&A expenses in fiscal 2011. 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 2011, the ADK Group generated 7.4% 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 rising, volatility is growing and the time to recoup investments is increasing. In sum, the content business is getting riskier but less profitable. There is no guarantee that such content or its derivatives will continue to succeed. 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 the digital business domain. Moreover, ADK invests in data collection and R&D, which would be critical in offering cross-communications program ideas, and invests in IT to enhance operational efficiency. However, in the event that the ADK Group is unable to realize benefits from its 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, 51 subsidiaries, 16 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 since August 1998, holding a 2.48% equity stake in WPP (as of December 31, 2011). 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 has formed a number of creative and promotional tie-ups and will continue to develop operations worldwide.

Although ADK plans to continue and expand its capital and business alliance with WPP Group, 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 ¥25,328 million (at a stock price of £6.755 per share) as of the end of December 2011 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 WPP 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) totaled ¥42,133 million, representing 22.9% of its ¥184,188 million in total assets as of December 31, 2011. Of this amount, ¥37,053 million consisted of publicly traded equity securities, mostly the equity alliance with WPP plc and cross-shareholdings in advertising clients and other trading partners. The balance of unrealized gains on available-for-sale securities was ¥4,063 million after deducting deferred tax liabilities on such gains (compared with ¥7,727 million as of December 31, 2010). 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, as well as lump-sum retirement allowances.

In the event of deterioration in its 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 the amounts of 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.

12 Contingent Litigation Risks

The ADK Group cannot disregard the possibility of becoming involved in future lawsuits or disputes, either directly or indirectly, due to various circumstances. If the Group does become involved in a lawsuit or dispute, its business results and financial position could be affected depending on the nature, progress and outcome of said lawsuit or dispute.

13 Risk Related to Legal Restrictions, etc.

The advertising activities of an advertiser are subject to legal restrictions under various laws—such as the Law for Preventing Unjustifiable Lagniappes and Misleading Representation, the Copyright Law, the Trademark Law, the Pharmaceutical Affairs Law and the Specified Commercial Transactions Law—as well as to various self-imposed restrictions regarding media publications, evaluation criteria and so on. In the event that tightening or new establishment of such legal restrictions or self-imposed control restrains the advertising activities of an advertiser, this could influence the business results and financial status of the Group.

Also, although there are no laws or regulations specific to the advertising business itself, which is the main business of the Group, the accompanying businesses are subject to restrictions under various laws, such as the Construction Industry Act and the Security Services Act. The Group is also subject to the Law on the Prevention of Delay in the Payment of Subcontracting Charges and Related Matters, the Act for Protection of Computer Processed Personal Data Held by Administrative Organs and other laws regulating business activities in general. Moreover, the Group is required to strictly observe the Internal Control Reporting System stipulated in the Financial Instruments and Exchange Act. Although we believe that none of the above can severely affect the Group, in the event that we are unable to appropriately respond to changes in these legal restrictions in the future, such inability could affect the business results and financial status of the Group, such as an increase in operational expenses required to cope with the situation.

Consolidated Balance Sheets

ASATSU-DK INC. and Consolidated Subsidiaries
At December 31, 2011 and 2010

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
ASSETS	2011	2010	2011
CURRENT ASSETS:			
Cash and time deposits	¥ 22,642	¥ 21,520	$ 291,249
Marketable securities (Note 3)	6,334	1,436	81,478
Notes and accounts receivable			
−trade	88,956	92,774	1,144,272
Allowance for doubtful receivables	(311)	(286)	(3,999)
Inventories	6,841	8,274	87,996
Deferred tax assets (Note 7)	1,134	1,501	14,581
Other current assets	1,618	2,344	20,826
Total current assets	127,214	127,563	1,636,403
PROPERTY AND EQUIPMENT:			
Land	1,260	1,263	16,202
Buildings and leasehold improvements	4,503	3,920	57,924
Other	3,193	2,929	41,069
Total	8,956	8,112	115,195
Accumulated depreciation	(4,644)	(4,019)	(59,734)
Net property and equipment	4,312	4,093	55,461
INVESTMENTS AND OTHER ASSETS:			
Investment securities (Note 3)	39,902	47,372	513,274
Investments in unconsolidated subsidiaries and affiliated companies	2,232	5,743	28,706
Deferred tax assets (Note 7)	412	645	5,303
Other assets	10,116	9,094	130,138
Total investments and other assets	52,662	62,854	677,421
TOTAL	¥184,188	¥194,510	$2,369,285

See notes to consolidated financial statements.

LIABILITIES AND NET ASSETS	Millions of Yen 2011	Millions of Yen 2010	Thousands of U.S. Dollars (Note 1) 2011
CURRENT LIABILITIES:			
Short-term debt (Note 4)	¥ 94	¥ 84	$ 1,210
Current portion of long-term debt (Note 4)	273	278	3,510
Notes and accounts payable—trade	71,383	74,358	918,226
Income taxes payable (Note 7)	741	358	9,531
Accrued bonuses to employees	764	384	9,823
Accrued bonuses to directors	12		154
Allowance for sales returns	600	508	7,721
Deferred tax liabilities (Note 7)	1	–	8
Other current liabilities	8,242	7,905	106,032
Total current liabilities	82,110	83,875	1,056,215
LONG-TERM LIABILITIES:			
Long-term debt (Note 4)	484	765	6,224
Accrued retirement benefits (Note 5)	1,378	1,347	17,721
Allowance for retirement benefits to directors	395	1,203	5,077
Provision for loss on guarantees	35	–	448
Deferred tax liabilities (Note 7)	1,582	3,527	20,345
Other long-term liabilities	1,404	625	18,077
Total long-term liabilities	5,278	7,467	67,892
CONTINGENT LIABILITIES (Note 11)			
NET ASSETS (Note 6):			
Shareholders' equity			
Common stock			
Authorized: 206,000,000 shares in 2011 and 2010;			
Issued: 45,155,400 shares in 2011 and 2010, respectively	37,581	37,581	483,424
Capital surplus	20,024	20,024	257,575
Retained earnings	43,557	45,907	560,297
Treasury stock—at cost	(7,632)	(7,718)	(98,182)
Total shareholders' equity—net	93,530	95,794	1,203,114
Accumulated other comprehensive income			
Unrealized gain on available-for-sale securities	4,063	7,727	52,266
Deferred loss on derivatives under hedge accounting	(77)	(94)	(986)
Foreign currency translation adjustments	(1,681)	(1,258)	(21,631)
Total accumulated other comprehensive income	2,305	6,375	29,649
Minority interests	965	999	12,415
Total net assets	96,800	103,168	1,245,178
TOTAL	¥184,188	¥194,510	$2,369,285

See notes to consolidated financial statements.

Consolidated Statements of Income and Comprehensive Income

ASATSU-DK INC. and Consolidated Subsidiaries
Years Ended December 31, 2011 and 2010

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2011	2010	2011
GROSS BILLINGS (Note 15)	¥347,112	¥346,565	$4,465,036
COST OF SALES (Note 15)	301,276	304,537	3,875,424
Gross profit	45,836	42,028	589,612
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES (Notes 8 and 15)	41,983	42,006	540,051
Operating income	3,853	22	49,561
OTHER INCOME (EXPENSES):			
Interest and dividend income–net	1,391	1,421	17,892
Gains on sales of securities	1,862	14	23,955
Losses on sales of securities	(78)	(1,022)	(1,009)
Losses on valuation of securities	(1,279)	(2,324)	(16,449)
Equity in earnings of affiliated companies–net	184	213	2,373
Additional retirement benefits paid to employees	(7)	(2,770)	(96)
Provision for bad debts reserve–net of reversals	2	(304)	26
Provision for loss on guarantees–net	–	45	–
Foreign exchange losses–net	(94)	(236)	(1,203)
Loss on settlement of dispute	(538)	–	(6,919)
Other–net	(268)	192	(3,452)
Other income (expenses)–net	1,175	(4,771)	15,118
INCOME (LOSS) BEFORE INCOME TAXES AND MINORITY INTERESTS	5,028	(4,749)	64,679
INCOME TAXES (Note 7):			
Current	1,073	524	13,801
Deferred	1,651	(640)	21,245
Total	2,724	(116)	35,046
INCOME (LOSS) BEFORE MINORITY INTERESTS	2,304	(4,633)	29,633
MINORITY INTERESTS IN NET INCOME	10	23	130
NET INCOME (LOSS)	2,294	(4,656)	29,503
MINORITY INTERESTS IN NET INCOME	10	23	130
INCOME (LOSS) BEFORE MINORITY INTERESTS	2,304	(4,633)	29,633
OTHER COMPREHENSIVE INCOME			
Unrealized gains (losses) on available-for-sale securities	(3,636)	2,873	(46,771)
Deferred gains (losses) on derivatives under hedge accounting	17	(110)	219
Foreign currency translation adjustments	(451)	(772)	(5,801)
Share of other comprehensive income in equity-method affiliates	(27)	(55)	(347)
Total other comprehensive income	(4,097)	1,936	(52,700)
COMPREHENSIVE INCOME	(1,793)	(2,697)	(23,067)
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO			
Shareholders of ASATSU-DK INC.	(1,776)	(2,714)	(22,848)
Minority Interests	(17)	17	(219)

See notes to consolidated financial statements.

Consolidated Statements of Changes in Net Assets (1)

ASATSU-DK INC. and Consolidated Subsidiaries
Years Ended December 31, 2011 and 2010

Year Ended December 31, 2011

Millions of Yen

	Shareholders' equity				
	Common stock	Capital surplus	Retained earnings	Treasury stock-at cost	Total shareholders' equity
Balance as of December 31, 2010	¥37,581	¥20,024	¥45,907	¥(7,718)	¥95,794
Changes during the fiscal year					
Dividend payments			(4,641)		(4,641)
Net income			2,294		2,294
Acquisitions of treasury stock				(2)	(2)
Disposals and cancellation of treasury stock				88	88
Other decrease of retained earnings			(3)		(3)
Net change of items other than shareholders' equity					
Total changes during the fiscal year	–	–	(2,350)	86	(2,264)
Balance as of December 31, 2011	¥37,581	¥20,024	¥43,557	¥(7,632)	¥93,530

Year Ended December 31, 2011

Millions of Yen

	Accumulated other comprehensive income					
	Unrealized gain on available-for-sale securities	Deferred loss on derivatives under hedge accounting	Foreign currency translation adjustments	Total valuation and translation adjustments	Minority interests	Total net assets
Balance as of December 31, 2010	¥ 7,727	¥(94)	¥(1,258)	¥ 6,375	¥999	¥103,168
Changes during the fiscal year						
Dividend payments						(4,641)
Net income						2,294
Acquisitions of treasury stock						(2)
Disposals and cancellation of treasury stock						88
Other decrease of retained earnings						(3)
Net change of items other than shareholders' equity	(3,664)	17	(423)	(4,070)	(34)	(4,104)
Total changes during the fiscal year	(3,664)	17	(423)	(4,070)	(34)	(6,368)
Balance as of December 31, 2011	¥ 4,063	¥(77)	¥(1,681)	¥ 2,305	¥965	¥ 96,800

See notes to consolidated financial statements.

Consolidated Statements of Changes in Net Assets (2)

ASATSU-DK INC. and Consolidated Subsidiaries
Years Ended December 31, 2011 and 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			–		–
Changes during the 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 changes of items other than shareholders' equity					
Total changes during the fiscal year	–	–	(5,447)	(748)	(6,195)
Balance as of December 31, 2010	¥37,581	¥20,024	¥45,907	¥(7,718)	¥ 95,794

Year Ended December 31, 2010

Millions of Yen

	Accumulated other comprehensive income					
	Unrealized gain on available-for-sale securities	Deferred loss 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	¥4,910	¥ 16	¥ (492)	¥4,434	¥1,042	¥107,465
Effect of changes in accounting policies applied to foreign subsidiaries						–
Changes during the 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 changes of items other than shareholders' equity	2,817	(110)	(766)	1,941	(43)	1,898
Total changes during the 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

Consolidated Statements of Changes in Net Assets (3)

ASATSU-DK INC. and Consolidated Subsidiaries
Years Ended December 31, 2011 and 2010

Year Ended December 31, 2011

Thousands of U.S. Dollars (Note 1)

	Shareholders' equity				
	Common stock	Capital surplus	Retained earnings	Treasury stock-at cost	Total shareholders' equity
Balance as of December 31, 2010	$483,424	$257,575	$590,522	$(99,288)	$1,232,233
Changes during the fiscal year					
Dividend payments			(59,699)		(59,699)
Net income			29,503		29,503
Acquisitions of treasury stock				(26)	(26)
Disposals and cancellation of treasury stock				1,132	1,132
Other decrease of retained earnings			(29)		(29)
Net change of items other than shareholders' equity					
Total changes during the fiscal year	–	–	(30,225)	1,106	(29,119)
Balance as of December 31, 2011	$483,424	$257,575	$560,297	$(98,182)	$1,203,114

Year Ended December 31, 2011

Thousands of U.S. Dollars (Note 1)

	Accumulated other comprehensive income					
	Unrealized gain on available-for-sale securities	Deferred loss on derivatives under hedge accounting	Foreign currency translation adjustments	Total valuation and translation adjustments	Minority interests	Total net assets
Balance as of December 31, 2010	$ 99,397	$(1,205)	$(16,190)	$82,002	$12,852	$1,327,087
Changes during the fiscal year						
Dividend payments						(59,699)
Net income						29,503
Acquisitions of treasury stock						(26)
Disposals and cancellation of treasury stock						1,132
Other decrease of retained earnings						(29)
Net change of items other than shareholders' equity	(47,131)	219	(5,441)	(52,353)	(437)	(52,790)
Total changes during the fiscal year	(47,131)	219	(5,441)	(52,353)	(437)	(81,909)
Balance as of December 31, 2011	$ 52,266	$ (986)	$(21,631)	$ 29,649	$12,415	$1,245,178

See notes to consolidated financial statements.

Consolidated Statements of Cash Flows

ASATSU-DK INC. and Consolidated Subsidiaries
Years Ended December 31, 2011 and 2010

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2011	2010	2011
OPERATING ACTIVITIES:			
Income (loss) before income taxes and minority interests	¥ 5,028	¥ (4,749)	$ 64,679
Adjustments for:			
Income taxes–paid	(680)	(803)	(8,749)
Depreciation and amortization	975	818	12,546
Equity in earnings of affiliated companies	(184)	(213)	(2,373)
Gains on sales of securities	(1,784)	1,007	(22,946)
Losses on valuation of securities	1,279	2,324	16,449
Changes in assets and liabilities:			
Decrease (Increase) in notes and accounts receivable	3,536	(5,562)	45,484
Increase in inventories	1,318	293	16,960
(Decrease) Increase in notes and accounts payable	(3,099)	5,068	(39,860)
Increase in provision for bad debts	47	258	610
Increase in accrued retirement benefits	35	346	454
Decrease in receivables	624	173	8,031
Increase in payables	490	692	6,309
Others–net	1,372	127	17,627
Total adjustments	3,929	4,528	50,542
Net cash provided by (used for) operating activities	8,957	(221)	115,221
INVESTING ACTIVITIES:			
Increase in time deposits–net	1,213	318	15,601
Proceeds from sales of securities	5,085	4,065	65,410
Purchases of securities	(819)	(1,521)	(10,529)
Proceeds from sales of property and equipment	27	44	345
Purchases of property and equipment	(351)	(184)	(4,517)
Purchases of intangible assets	(1,571)	(501)	(20,205)
Other investing activities	196	77	2,516
Net cash provided by investing activities	3,780	2,298	48,621
FINANCING ACTIVITIES:			
Increase (Decrease) in short-term debt–net	10	(251)	129
Increase of long-term debt	–	925	–
Repayment of long-term debt	(276)	(187)	(3,547)
Purchases of treasury stock–net	86	(747)	1,104
Dividends paid	(4,600)	(851)	(59,170)
Other financing activities	(164)	(155)	(2,117)
Net cash used for financing activities	(4,944)	(1,266)	(63,601)
FOREIGN CURRENCY TRANSLATION ADJUSTMENTS ON CASH AND CASH EQUIVALENTS	(450)	(745)	(5,786)
NET INCREASE IN CASH AND CASH EQUIVALENTS	¥ 7,343	¥ 66	$ 94,455
CASH AND CASH EQUIVALENTS, BEGINNING OF THE YEAR	19,127	18,844	246,048
CASH AND CASH EQUIVALENTS OF NEWLY CONSOLIDATED SUBSIDIARIES, BEGINNING OF THE YEAR	–	217	–
CASH AND CASH EQUIVALENTS RESULTING FROM MERGER BETWEEN CONSOLIDATED SUBSIDIARIES AND UNCONSOLIDATED SUBSIDIARIES	49	–	624
CASH AND CASH EQUIVALENTS, END OF THE YEAR	¥26,519	¥19,127	$341,127

See notes to consolidated financial statements.

Notes to Consolidated Financial Statements

ASATSU-DK INC. and Consolidated Subsidiaries
Years Ended December 31, 2011 and 2010

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.

Under Japanese GAAP, consolidated statements of comprehensive income are required from the fiscal year ended December 31, 2011, and have been presented herein. Accordingly, accumulated other comprehensive income is presented in the consolidated balance sheets and the consolidated statement of changes in net assets. In addition, "income before minority interests" is disclosed in the consolidated statements of income and comprehensive income from the year ended December 31, 2011.

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 ¥77.74 to US$1.00, the approximate rate of exchange on December 31, 2011. 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-four (24) in 2010) 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 have a fiscal year-end of December 31, as does the Company. One subsidiary has a fiscal year-end of 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 period from its respective year-end date to the year-end date of the consolidated financial statements.

Investments in one (1) affiliated company, in which the Company owns interests of 20% to 50%, are accounted for by the equity method. (Investments in two (2) affiliated companies were accounted for by the equity method in 2010.) Investments in the remaining twenty-seven (27) (twenty-eight (28) in 2010) unconsolidated subsidiaries and fifteen (15) (twenty (20) in 2010) affiliated companies are stated at cost. If these companies had been 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.

Digital Advertising Consortium, Inc ("DAC"), which was an equity-method affiliate for fiscal 2010, has been excluded from the scope of the equity method for fiscal 2011 because the Company sold off its shares in DAC during the fiscal year.

During the fiscal year, DAC changed its fiscal year-end from November 30 to March 31, and as a result, the figures for DAC and its consolidated subsidiaries used in the calculation of the Company's consolidated results are for the 10-month period from December 1, 2010, to September 30, 2011. The amount of gain on sales of the shares in DAC was ¥1,242 million ($15,976 thousand), included in gain on sales of securities for the fiscal year.

Goodwill is charged or credited to income in the year incurred.

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

b. Cash and Cash Equivalents—Cash and cash equivalents consist of cash, demand deposits with banks and those 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 time deposits as of December 31, 2011 and 2010, in the consolidated balance sheets, are reconciled to cash and cash equivalents for the years then ended as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2011	2010	2011
Balance sheet:			
Cash and time deposits	¥22,642	¥21,520	$291,249
Securities	6,334	1,436	81,478
Total	28,976	22,956	372,727
Less:			
Time deposits more than three months	2,417	3,544	31,085
Securities not applicable to cash equivalents (e.g., securities other than money management funds)	40	285	515
Cash and cash equivalents	¥26,519	¥19,127	$341,127

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.

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

i) trading securities, which are held for the purpose of earning capital gains in the near term, are reported at fair value, and the related unrealized gains and losses are reflected in earnings in the period such gains or losses arise; ii) held-to-maturity debt securities, which are expected to be held to maturity with positive intent and ability, are reported at cost after amortization or accumulation of any differences between cost and face value; and iii) available-for-sale securities that are not classified as either of the aforementioned securities are reported at fair value, and any resulting unrealized gains and losses, net of applicable taxes, are reported as unrealized gains (losses) on available-for-sale securities in net assets. As of the end of 2011 and 2010, the Company and its consolidated subsidiaries had no held-to-maturity debt securities.

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

e. Allowance for Doubtful Receivables—A general provision is made for doubtful receivables based on the actual rate of uncollected receivables of the Company in prior years. Provisions are also made against for specific receivables as and when required.

f. Property and Equipment—Property and equipment are carried at cost. Depreciation of 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

In March 2008, the Accounting Standards Board of Japan (ASBJ) issued the accounting standard for asset retirement obligations, ASBJ Statement No. 18, "Accounting Standard for Asset Retirement Obligations," and ASBJ Guidance No. 21, "Guidance on Accounting Standard for Asset Retirement Obligations."

The Company applied this accounting standard effective January 1, 2011. The effect of this change was to decrease operating income by ¥38 million ($489 thousand) and income before income taxes and minority interests by ¥282 million ($3,627 thousand) for the year ended December 31, 2011.

g. Accrued Bonuses to Employees—The Group accrued the estimated amount of bonuses to be paid for employees.

h. Accrued Bonuses to Directors—The Group accrued the estimated amount of bonuses to be paid for directors of certain domestic subsidiaries.

i. 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.

j. 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 of the Japan Advertising Industry Pension Fund, as noted below. Actuarial differences are amortized over 13 years, which is within the average remaining service lives of the employees of each consolidated company, on a straight-line basis, and past service costs are expensed as they are incurred.

The directors of some domestic subsidiaries are entitled, in most circumstances, to lump-sum severance payments based on current rates of pay, length of service and other factors. The Group accrued 100% of the obligations based on internal regulations 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.

The retirement benefits system for directors of the Company was abolished in February 2011 and the shareholders' meeting of the Company held on March 30, 2011, approved a resolution to pay the remaining balance of retirement benefits to directors upon their retirement. As a result, accrued retirement benefits for directors of the Company were reclassified to other long-term liabilities at December 31, 2011.

k. 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.

l. 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.

ASBJ Statement No. 13 requires all finance lease transactions to be capitalized so that lease assets and lease obligations are recognized on the balance sheet. However, the standard allows certain leases to be accounted for as operating lease transactions, provided those transactions were contracted on or before the end of the year before the fiscal year of adoption of the revised Statement and provided the leased property is not deemed to be transferred to the lessee. In such cases, information to show the impact had such leases been capitalized is disclosed in the notes to the lessee's consolidated financial statements.

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

m. Software and R&D Costs—Research-and-development costs are charged to income when incurred. Capitalized software for internal use amounting to ¥2,328 million ($29,952 thousand) in 2011 and ¥1,464 million in 2010, included in "Other assets" of investments and other assets, was amortized by the straight-line method based on estimated useful lives of three to five years.

n. 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.

o. Appropriation of Retained Earnings—The appropriation of retained earnings at each year-end is reflected in the consolidated financial statements for the following year.

p. Translation of Foreign Currency Amounts—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. Foreign exchange gains and losses from translation are recognized in the consolidated statements of income in the cases where not hedged by foreign exchange derivatives or where hedging transactions do not qualify for hedge accounting.

The accounts of consolidated foreign subsidiaries and affiliated companies are translated into Japanese yen as follows:

a. Asset and liability items are translated at the exchange rates at the balance sheet dates;
b. Components of shareholders' equity are translated at their historical rates at acquisition or upon occurrence; and
c. Revenues, expenses and cash flow items are translated into Japanese yen at the average exchange rate for each year.

Differences arising from such translation are shown as "Foreign currency translation adjustments" in a separate component of net assets.

q. Derivatives and Hedging Activities—The Group uses forward exchange contracts to manage its exposure to fluctuations in foreign exchange. The Group also has investments in bonds with embedded derivatives, some of which have terms and conditions where risk exists that the original face value of such securities might not be redeemed even if there is no default. However, because the maximum amount of any such losses would be limited to the face value of such bonds, the impact of the 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 risk of foreign currency fluctuations are translated at the contracted rate if the forward contracts qualify for specific hedge accounting.

r. 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 42,187,505 and 42,221,554 shares for the fiscal years ended December 31, 2011 and 2010, respectively.

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 respective year.

s. 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 trusts 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 treasury stock.

3. MARKETABLE AND INVESTMENT SECURITIES

The fair value of marketable and investment securities as of December 31, 2011 and 2010 was as follows:

2011

Millions of Yen

	Cost	Unrealized gains	Unrealized losses	Fair value
Available-for-sale:				
Equity securities	¥30,587	¥7,010	¥544	¥37,053
Debt securities	1,460	1	69	1,392
Other	199	9	13	195
Total	¥32,246	¥7,020	¥626	¥38,640

2010

Millions of Yen

	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

2011

Thousands of U.S. Dollars

	Cost	Unrealized gains	Unrealized losses	Fair value
Available-for-sale:				
Equity securities	$393,453	$90,172	$6,998	$476,627
Debt securities	18,781	13	888	17,906
Other	2,560	116	167	2,509
Total	$414,794	$90,301	$8,053	$497,042

Available-for-sale securities sold during the year ended December 31, 2011, were as follows:

2011

Millions of Yen

	Proceeds	Realized gains	Realized losses
Available-for-sale:			
Equity securities	¥ 707	¥598	¥79
Debt securities	559	9	1
Other	27	–	–
Total	¥1,293	¥607	¥80

2010

Millions of Yen

	Proceeds	Realized gains	Realized losses
Available-for-sale:			
Equity securities	¥ 78	¥15	¥11
Debt securities	1,399	3	32
Other	30	–	–
Total	¥1,507	¥18	¥43

2011

Thousands of U.S. Dollars

	Proceeds	Realized gains	Realized losses
Available-for-sale:			
Equity securities	$ 9,094	$7,692	$1,016
Debt securities	7,191	116	13
Other	347	–	–
Total	$16,632	$7,808	$1,029

Impairment losses on available-for-sale equity securities for the years ended December 31, 2011 and 2010, were ¥430 million ($5,531 thousand) and ¥2,156 million, respectively.

When the fair value of securities has declined to below 50% of cost and there is no contradictory evidence, this is considered to be a significant decline and impairment losses are recognized. Further, where the decline is less than 50% but more than 30% of cost and that decline is consistent, if, based on analysis of the specific financial and operational conditions of each investee, recovery of fair value to cost is considered unlikely, an impairment is recognized.

4. SHORT-TERM AND LONG-TERM DEBT

The weighted average annual interest rates applicable to the short-term debt were 1.82% and 1.94% at December 31, 2011 and 2010, respectively.

Long-term debt as of December 31, 2011 and 2010, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2011	2010	2011
Loans due through 2015*	¥ 757	¥1,043	$ 9,734
Current portion	(273)	(278)	(3,510)
Total	¥ 484	¥ 765	$ 6,224

	Millions of Yen		Thousands of U.S. Dollars
	2011	2010	2011
Obligations under capital leases*	¥ 375	¥ 459	$ 4,824
Current portion	(102)	(101)	(1,312)
Total	¥ 273	¥ 358	$ 3,512

* The weighted average interest rates or the averages of interest rates applicable to loans outstanding at the end of each fiscal year weighted by amounts of such loans as of said date, for loans due after more than one year were 1.31% p.a. in 2011 and 1.63% p.a. in 2010. The weighted average interest rates of the loans due within one year were 2.08% p.a. in 2011 and 2.12% p.a. in 2010. The weighted average interest rates of obligations under finance leases due after more than and within one year were 2.11% and 2.14% in 2011 and 2010, respectively.

The repayment schedule of long-term debt as of December 31, 2011, was as follows:

Year Ending December 31	Millions of Yen	Thousands of U.S. Dollars
2012	¥273	$3,510
2013	238	3,060
2014	164	2,110
2015	82	1,054
Later years	-	-
Total	¥757	$9,734

The repayment schedule of obligations under capital leases as of December 31, 2011, was as follows:

Year Ending December 31	Millions of Yen	Thousands of U.S. Dollars
2012	¥102	$1,312
2013	102	1,312
2014	90	1,158
2015	63	810
Later years	18	232
Total	¥375	$4,824

The amounts of long-term debt used for the ESOP trust at December 31, 2011, were as follows:
Current portion of long-term debt: ¥164 million ($2,109 thousand)
Long-term debt: ¥410 million ($5,274 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 levels of salary, length of service and other factors.

Liabilities for employees' retirement benefits and pension plans as of December 31, 2011 and 2010 comprised the following:*

	Millions of Yen		Thousands of U.S. Dollars
	2011	2010	2011
Projected benefit obligation	¥11,051	¥10,545	$142,148
Fair value of plan assets	(7,625)	(7,301)	(98,083)
Unrecognized actuarial differences	(2,048)	(1,897)	(26,344)
Accrued retirement benefits	¥ 1,378	¥ 1,347	$ 17,721

Components of net periodic benefit costs for the years ended December 31, 2011 and 2010 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2011	2010	2011
Service cost	¥ 843	¥ 819	$10,844
Interest cost	192	209	2,470
Expected return on plan assets	(109)	(123)	(1,402)
Amortization of actuarial differences	258	256	3,319
Contributions paid during the period, etc.*	942	978	12,117
Net periodic benefits costs	¥2,126	¥2,139	$27,348

The discount rate used by the Group was 2.0% as of ended December 31, 2011 and 2010. The rate of expected return on plan assets used by the Group was 1.5% as of December 31, 2011 and 2010. 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: This 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, 2011	March 31, 2010	March 31, 2011
Pension liabilities*	¥(88,314)	¥(86,650)	$(1,136,017)
Pension assets	71,037	68,862	913,776
Net assets (deficits)	¥(17,277)	¥(17,788)	$ (222,241)

*The discount rate for the pension liabilities was mainly 5.5%.

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

	April 1, 2010–March 31, 2011	April 1, 2009–March 31, 2010
Share of the Group as employer	10.39%	10.61%
Share of employees	6.09%	6.14%
Total	16.48%	16.75%

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

March 31, 2011

	Millions of Yen	
	Share of the Group as employer	Share of employees
Pension liabilities	¥(9,178)	¥(5,372)
Pension assets	7,383	4,321
Net deficit	¥(1,795)	¥(1,051)

March 31, 2010

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

March 31, 2011

	Thousands of U.S. Dollars	
	Share of the Group as employer	Share of employees
Pension liabilities	$(118,060)	$(69,102)
Pension assets	94,970	55,583
Net deficit	$ (23,090)	$(13,519)

d. Supplemental information

The Japan Advertising Industry Pension Fund's total net pension deficit of ¥17,277 million ($222,241 thousand) and ¥17,788 million as of March 31, 2011, and March 31, 2010, respectively, stated in "a" above equals the sum of prior service liabilities of ¥7,161 million ($92,115 thousand) and ¥7,823 million and net accumulated deficit carry-forward of ¥10,115 million ($130,113 thousand) and ¥9,964 million, respectively.

Prior service cost is amortized over 20 years by the straight-line method , and the Group expensed additional contributions of ¥116 million ($1,492 thousand) and ¥117 million during the periods from April 1, 2010, to March 31, 2011, and from April 1, 2009, to March 31, 2010, respectively, for this amortization.

6. CHANGE IN NET ASSETS

The type of and the changes in the number of shares issued and treasury stock as of and for the years ended December 31, 2011 and 2010, were as follows:

2011

Millions of Yen

	Shares issued	Treasury stock
Type of shares	Common stock	Common stock
Number of shares as of December 31, 2010	45,155,400	2,990,104
Increase in the number of shares	–	1,153
Decrease in the number of shares	–	(49,659)
Number of shares as of December 31, 2011	45,155,400	2,941,598

Notes: 1. The increase in the number of treasury stock was due to the purchase of 1,153 shares of less-than-one-unit.
2. The decrease in the number of treasury stock was due to sales of 49,500 shares by the ESOP trust and sales of 159 shares of less-than-one-unit.

2010

Millions of Yen

	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	–	464,237
Decrease in the number of shares	–	(44,000)
Number of shares as of December 31, 2010	45,155,400	2,990,104

Notes: 1. The increase in the number of treasury stock was due to the purchase of 461,400 shares by the ESOP trust and the purchase of 2,837 shares of less than one unit.
2. The decrease in the number of treasury stock was due to sales of 44,000 shares by the ESOP trust.

Information related to dividends for the fiscal years ended December 31, 2011 and 2010, was as follows:

Dividends paid during the fiscal year ended December 31, 2011

Resolution by:	Board of Directors February 10, 2011	Board of Directors August 10, 2011	Board of Directors October 13, 2011
Total amount of dividends*	¥421 million	¥421 million	¥3,756 million
Dividend per share	¥10	¥10	¥89
Record date	December 31, 2010	June 30, 2011	October 31, 2011
Effective date	March 14, 2011	September 12, 2011	December 26, 2011

*Dividends paid to the ESOP trust in the amount of ¥4 million ($51 thousand), ¥3 million ($38 thousand) and ¥33 million ($424 thousand) have been excluded from the total amount of dividends at February 10, 2011, August 10, 2011, and October 13, 2011, respectively.

Dividends whose record date was in the fiscal year ended December 31, 2011, but whose effective date was in the following fiscal year

Resolution by:	Board of Directors February 22, 2012
Total amount of dividends*	¥422 million
Fund for dividends	Retained earnings
Dividend per share	¥10
Record date	December 31, 2011
Effective date	March 21, 2012

*Dividends paid to the ESOP trust in the amount of ¥3 million ($38 thousand) have been excluded from the total amount of dividends.

Dividends paid during the fiscal year 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
Effective date	March 12, 2010	September 13, 2010

*Dividends paid to the ESOP trust in the amount of ¥4 million have been excluded from the total amount of dividends.

Dividends whose record date was in the fiscal year ended December 31, 2010, but whose effective date was in the following fiscal year

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

*Dividends paid to the ESOP trust in the amount of ¥4 million have been excluded from the total amount of dividends.

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 resulted in approximately 40.69% for 2011 and 2010, respectively. 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, 2011 and 2010, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2011	2010	2011
Deferred tax assets:			
Allowance for doubtful receivables	¥ 594	¥ 679	$ 7,641
Accrued bonuses	267	81	3,435
Accrued retirement benefits	188	441	2,418
Inventory	57	122	733
Investment securities	998	1,300	12,838
Loss on settlement of dispute	248	–	3,190
Tax loss carry-forwards	215	1,776	2,766
Unrealized loss on marketable securities	144	146	1,852
Deferred tax assets in overseas consolidated subsidiaries*	50	32	643
Other	1,244	1,286	16,002
	4,005	5,863	51,518
Valuation allowance	(1,906)	(2,152)	(24,518)
Total deferred tax assets	2,099	3,711	27,000
Deferred tax liabilities:			
Accrued retirement benefits	–	–	–
Unrealized gain on marketable securities	2,079	5,047	26,743
Deferred tax liabilities in overseas consolidated subsidiaries*	41	44	527
Other	15	0	193
Total deferred tax liabilities	2,135	5,091	27,463
Total net deferred tax assets (liabilities)	¥ (36)	¥(1,380)	$ (463)

*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 December 31, 2011 and 2010, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2011	2010	2011
Deferred tax assets:			
Tax loss carry-forwards	¥ 11	¥ 41	$ 141
Other	58	22	746
Less valuation allowance	(20)	(31)	(257)
Deferred tax assets	49	32	630
Deferred tax liabilities			
Depreciation	40	43	515
Other	1	–	12
Deferred tax liabilities	41	43	527
Net deferred tax assets (liabilities)	¥ 8	¥(11)	$ 103

The reconciliation between the statutory tax rate for the year ended December 31, 2011, and the actual effective tax rate reflected in the accompanying consolidated statement of income were as follows:

	2011	2010
Statutory tax rate	40.69%	–
Certain expenses, including, but not limited to, entertainment expenses, permanently not deductible for tax purposes	6.50	–
Certain income, including, but not limited to, dividend income, permanently not taxable for tax purposes	(2.98)	–
Per capita levy	0.61	–
Consolidated adjustment due to sale of affiliated company	8.71	–
Amendment of statutory tax rate	1.66	–
Tax rate difference applicable to overseas subsidiaries	(4.58)	–
Change in valuation allowance	2.11	
Other—net	1.46	–
Effective tax rate	54.18%	–

*The reconciliation for the year ended December 31, 2010, is not shown as a loss before income taxes and minority interests was recorded.

(Change of deferred tax assets and deferred tax liabilities by the change of the effective statutory tax rate)
The "Act on the Partial Revision of the Income Tax Act for the Establishment of a Taxation System Responding to Structural Transformation of Economy and Society" and the "Act on Special Measures for Securing Financial Resources Needed to Implement Measures to Recover from the Great East Japan Earthquake" were issued on December 2, 2011. By these acts, the statutory tax rate used to calculate deferred tax assets and liabilities was changed from 40.69%, which was used for the year ended December 31, 2010. The new effective tax rates will be as follows, depending on when the temporary differences will reverse.
From January 1, 2013, to December 31, 2015: 38.01%
On and after January 1, 2016: 35.64%
As a result, deferred tax liabilities, net of deferred tax assets, decreased by ¥218 million ($2,804 thousand), deferred income taxes increased by ¥84 million ($1,080 thousand) and unrealized gains on available-for-sale increased by ¥301 million ($3,871 thousand) as of and for the year ended December 31, 2011.

8. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES, AND OTHER INCOME (EXPENSES)

Included within selling, general and administrative expenses are research-and-development costs charged to income for the years ended December 31, 2011 and 2010, of ¥1,103 million ($14,188 thousand) and ¥1,035 million, respectively.

Included within gains on sales of securities and losses on sales of securities in Other Income (Expenses) for the years ended December 31, 2011 and 2010, are gains on the sale of an equity-accounted affiliate of ¥1,242 million ($15,986 thousand) and losses on the sale of an equity-accounted affiliate of ¥978 million, respectively.

9. LEASES

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

As discussed in Note 2.l. Leases, the Group accounts for certain leases as operating lease transactions, provided the transactions were contracted on or before March 31, 2009, provided the leased assets are not deemed to be transferred to the lessee, and provided certain information is disclosed in the notes to the lessee's consolidated financial statements to show the impact had such leases been capitalized. The pro forma information for such operating lease transactions, such as acquisition cost, accumulated depreciation, obligations under finance leases, depreciation/amortization expense and interest expense of s for the years ended December 31, 2011 and 2010, were as follows:

Year ended December 31, 2011

Millions of Yen

	Furniture and equipment	Machinery and Vehicles	Software	Total
Acquisition cost	¥384	¥ –	¥45	¥429
Accumulated depreciation/amortization	322	–	39	361
Net book value	¥ 62	¥ –	¥6	¥ 68

Obligations under finance leases:

	Millions of Yen
Due within one year	¥53
Due after one year	22
Total	¥75

Year ended December 31, 2010

Millions of Yen

	Furniture and equipment	Machinery and Vehicles	Software	Total
Acquisition cost	¥915	¥ –	¥167	¥1,082
Accumulated depreciation/amortization	726	–	147	873
Net book value	¥189	¥ –	¥ 20	¥ 209

Obligations under finance leases:

	Millions of Yen
Due within one year	¥155
Due after one year	74
Total	¥229

Year ended December 31, 2011

Thousands of U.S. Dollars

	Furniture and equipment	Machinery and Vehicles	Software	Total
Acquisition cost	$4,940	$ –	$579	$5,519
Accumulated depreciation/amortization	4,142	–	502	4,644
Net book value	$ 798	$ –	$ 77	$ 875

Obligations under finance leases:

	Thousands of U.S. Dollars
Due within one year	$682
Due after one year	283
Total	$965

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

	Millions of Yen		Thousands of U.S. Dollars
	2011	2010	2011
Total lease payments	¥126	¥334	$1,621
Depreciation/amortization expense	111	293	1,428
Interest expense	2	9	26

Depreciation/amortization expense and interest expense, which are not reflected in the accompanying consolidated statements of income and comprehensive income, are computed by the straight-line method and the interest method, respectively.

Obligations under operating leases:

	Millions of Yen		Thousands of U.S. Dollars
	2011	2010	2011
Due within one year	¥ 618	¥ 605	$ 7,950
Due after one year	2,552	2,904	32,827
Total	¥3,170	¥3,509	$40,777

10. FINANCIAL INSTRUMENTS AND RELATED DISCLOSURES

(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 hedging transactions. 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 floating rates, 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.q. 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 entered into for the purpose of hedging risks associated with 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 entered into 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 actual factors could result in different fair values. The amounts of derivative contracts presented in Note 13 do not indicate market risk.

(a) Fair value of financial instruments

Carrying amounts, the fair values and unrealized gains (losses) as of December 31, 2011, and December 31, 2010, were as follows. Financial instruments whose quoted value cannot be reliably determined were not included in the following tables.

2011

Millions of Yen

	Carrying amount[1]	Fair value	Unrealized gains (losses)
Cash and time deposits	¥ 22,642	¥ 22,642	¥ –
Notes and accounts receivable	88,956	88,952	(4)
Securities and investment securities[2]	44,774	44,774	–
Notes and accounts payable	(71,383)	(71,383)	–
Short-term debt	(94)	(94)	–
Long-term debt	(757)	(759)	(2)
Derivative transactions[3]	51	51	–

2010

Millions of Yen

	Carrying amount[1]	Fair value	Unrealized gains (losses)
Cash and time deposits	¥ 21,520	¥ 21,520	¥ –
Notes and accounts receivable	92,774	92,760	(14)
Securities and investment securities[2]	49,301	52,034	2,733
Notes and accounts payable	(74,358)	(74,358)	–
Short-term debt	(84)	(84)	–
Long-term debt	(1,043)	(1,050)	(7)
Derivative transactions[3]	106	106	–

2011

Thousands of U.S. Dollars

	Carrying amount[1]	Fair value	Unrealized gains (losses)
Cash and time deposits	$ 291,249	$ 291,249	$ –
Notes and accounts receivable	1,144,272	1,144,221	(51)
Securities and investment securities[2]	575,945	575,945	–
Notes and accounts payable	(918,227)	(918,227)	–
Short-term debt	(1,209)	(1,209)	–
Long-term debt	(9,737)	(9,763)	(26)
Derivative transactions[3]	656	656	–

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. Derivative transactions presented in the table above are net amounts. 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 floating rates approximate the fair value because floating rates reflect the market rate and the credit spread of the Company remains almost the same. The fair values of long-term debt with fixed rates are measured at the present value of the principal and interest (including long-term debt due in one year or less), discounted at an expected rate applied for new borrowings with the same terms.

> Derivative transactions
Information on the fair value for derivatives is included in Note 13.

(b) Carrying amount of financial instruments whose fair value cannot be reliably determined

	Millions of Yen		Thousands of U.S. Dollars
	2011	2010	2011
Investments in securities with no available market value	¥1,411	¥1,823	$18,151
Investments in affiliates	2,057	2,964	26,459
Other	224	139	2,881
Total	¥3,692	¥4,926	$47,491

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

2011 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	¥ 22,642	¥ –	¥ –	¥ –
Notes and accounts receivable	88,846	110	–	–
Securities and investment securities	3	116	1,232	40
Held-to-maturity securities				
Other				
Total	¥111,491	¥226	¥1,232	¥40

2010 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	337	52	1,060	145
Held-to-maturity securities				
Other				
Total	¥114,042	¥641	¥1,060	¥145

2011 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	$ 291,249	$ –	$ –	$ –
Notes and accounts receivable	1,142,860	1,412	–	–
Securities and investment securities	43	1,493	15,847	514
Held-to-maturity securities				
Other				
Total	$1,434,152	$2 ,905	$15,847	$514

11. CONTINGENT LIABILITIES

As of December 31, 2011, the Group had the following contingent liabilities:

Guarantee Obligations:

	Millions of Yen	Thousands of U.S. Dollars
Aggregated amount of guarantees for debts of subsidiaries and affiliates and payables of a client, GroupM Japan	¥463	$5,955

Other contingent liabilities:
On January 8, 2010, the Company filed a lawsuit against Art Corporation seeking payment of unpaid receivables for services already provided and advance money in the total amount of ¥379 million ($4,875 thousand) together with late charges. On April 22, 2010, Art Corporation filed a countersuit against the Company seeking claims of ¥311 million ($4,000 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 and has concluded that its claim is justifiable, whereas the counterclaim by Art Corporation is unjustified. The Company will handle its claim and the counterclaim consulting appropriately 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 advertisements in the amount of ¥142 million ($1,826 thousand) together with late charges and the case is still pending in court. The Company has examined the content of the claim and has concluded that it is unjustified. The Company has given a defense claiming dismissal with prejudice on merits after consultation with the corporate lawyers, who have agreed with the conclusion as stated above. The Company will handle the lawsuit appropriately consulting with the corporate lawyers.

12. PER SHARE INFORMATION

Per share information for the years ended December 31, 2011 and 2010, were as follows:

	Yen		U.S. Dollars
	2011	2010	2011
PER SHARE OF COMMON STOCK:			
(As of and for the years ended December 31)			
Net income (loss)			
Basic	¥ 54.37	¥ (110.28)	$ 0.70
Diluted	–	–	–
Net assets	2,270.23	2,423.06	29.20
Cash dividend applicable to the year	109.00	20.00	1.40

13. 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 embedded derivatives. 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 impact 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.

Derivative transactions to which hedge accounting was not applied

Year ended December 31, 2011

	Millions of Yen			
	Notional amounts	Due after one year	Fair value	Unrealized gain (loss)
Currency:				
OTC market				
Foreign exchange forward contracts				
–buying (US$)	¥70	¥–	¥51	¥(19)
Total				¥(19)

Year ended December 31, 2010

Millions of Yen

	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)

Year ended December 31, 2011

Thousands of U.S. Dollars

	Notional amounts	Due after one year	Fair value	Unrealized gain (loss)
Currency:				
OTC market				
Foreign exchange forward contracts				
–buying (US$)	$900	$ –	$656	$ (244)
Total				(244)

Derivative transactions to which hedge accounting was applied

Year ended December 31, 2011

Millions of Yen

	Hedged item	Notional amounts	Due after one year	Fair value
Currency:				
OTC market				
Not designated as hedging instrument				
Foreign exchange forward contracts				
–buying (US$)	Payables	¥1,171	¥272	¥1,041
Subtotal		¥1,171	¥272	¥1,041
Designated as hedging instruments				
Foreign exchange forward contracts				
–buying (US$)	Payables	¥ 26	¥ –	*
–buying (EURO)	Payables	16	–	*
–buying (STG)	Payables	4	–	*
Subtotal		¥ 46	¥ –	–
Total		¥1,217	¥272	–

Year ended December 31, 2010

Millions of Yen

	Hedged item	Notional amounts	Due after one year	Fair value
Currency:				
OTC market				
Not designated as hedging instrument				
Foreign exchange forward contracts				
–buying (US$)	Payables	¥1,986	¥1,042	¥1,818
–buying (HKD)	Payables	30	–	28
Subtotal		¥2,016	¥1,042	¥1,846
Designated as hedging instruments				
Foreign exchange forward contracts				
–buying (US$)	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, 2011

Thousands of U.S. Dollars

	Hedged item	Notional amounts	Due after one year	Fair value
Currency:				
OTC market				
Not designated as hedging instrument				
Foreign exchange forward contracts				
–buying (US$)	Payables	$15,063	$3,499	$13,391
Subtotal		$15,063	$3,499	$13,391
Designated as hedging instruments				
Foreign exchange forward contracts				
–buying (US$)	Payables	$ 335	$ –	*
–buying (EURO)	Payables	206	–	*
–buying (STG)	Payables	51	–	*
Subtotal		$ 592	$ –	–
Total		$15,655	$3,499	–

* 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 instruments are handled together with the payables denominated in foreign currencies that are subject to hedge accounting.

14. SUBSEQUENT EVENTS

(1) Retirement of Treasury Stock

On February 14, 2012, the Board of Directors resolved to retire a portion of treasury stock in accordance with Article 178 of the Companies Act and completed the transaction.

Reason for Retirement

The Company has purchased and held treasury stocks for the purpose of exercising flexible capital policy responding to changes in the business environment. The Company will retire the treasury stocks with the aim to increase returns to shareholders by reducing the number of shares issued.

Details

Method of retirement: The Company offset the capital surplus against the shares to be retired

Class of shares to be retired: Common Stock

Number of shares to be retired: 2,500,000 shares (Representing 5.53% of issued shares prior to retirement)

Effective date of retirement: February 27, 2012

Number of shares issued after this retirement: 42,655,400 shares

(2) Stock Option Program

At the 57th general shareholders meeting held on March 29, 2012, shareholders of the Company approved a stock option plan. The program provides for granting stock options to directors, excluding outside directors and part-time directors, of the Company.

15. SEGMENT INFORMATION

In March 2008, the ASBJ revised ASBJ Statement No. 17, "Accounting Standard for Segment Information Disclosures," and issued ASBJ Guidance No. 20, "Guidance on Accounting Standard for Segment Information Disclosures." Under the standard and guidance, an entity is required to report financial and descriptive information about its reportable segments.

Reportable segments are operating segments or aggregations of operating segments that meet specified criteria. Operating segments are components of an entity about which separate financial information is available and such information is evaluated regularly by the Board of Directors in deciding how to allocate resources and in assessing performance. Generally, segment information is required to be reported on the same basis as is used internally for evaluating operating segment performance and deciding how to allocate resources to operating segments. This accounting standard and the guidance are applicable to segment information disclosures for the fiscal years beginning on or after April 1, 2010.

The segment information for the year ended December 31, 2010, under the revised accounting standard is also disclosed hereunder as required.

(1) Description of Reportable Segment

The Group's reportable segments are those for which separate financial information is available and regular evaluation by the Company's management is performed in order to decide how resources are allocated among the Group. Therefore, the Group consists of "the advertising segment" and "other business segments."

The Group's advertising segment covers all kinds of advertising activities that include planning and treatment of advertisements in various media such as magazines, newspapers, television, radio, digital media and OOH media. The advertising activities also include planning and production for ad expressions and content, and service activities such as sales promotion, marketing, and public relations. The Group's other business segments include the publication and sales of magazines and books.

(2) Methods of Measurement for the Amounts of Sales, Profit (Loss), Assets and Other Items for Each Reportable Segment

The accounting policies of each reportable segment are consistent with those disclosed in Note 2, "Summary of Significant Accounting Policies."

Segment profit (loss) is based on operating income of the Consolidated Statement of Income.

The pricing of intra-segment sales or transfer is on an arm's length basis.

(3) Information about Sales, Profit (Loss), Assets, Liabilities and Other Items

Prior year information is omitted as information that would be disclosed pursuant to the "Accounting Standard for Disclosures about Segments of an Enterprise and Related Information" (ASBJ Statement No. 17, March 27, 2009) has been disclosed as consolidated segment information based on the previous treatment of segment information.

2011

Millions of Yen

	Reportable segments			Adjustments	Consolidated(3)
	Advertising	Other business	Total		
Sales					
Sales to external customers	¥340,083	¥7,029	¥347,112	¥ –	¥347,112
Inter-segment sales or transfers	0	60	60	(60)	0
Total	340,083	7,089	347,172	(60)	347,112
Segment profit (loss)	3,859	(8)	3,851	2*1	3,853
Segment assets	175,552	8,791	184,343	(155)*2	184,188
Other:					
Depreciation/amortization *4	934	41	975	–	975
Increase in property and equipment, and intangible assets	1,926	19	1,945	–	1,945

2011

Thousands of U.S. Dollars

	Reportable segments: Advertising	Reportable segments: Other business	Reportable segments: Total	Adjustments	Consolidated
Sales					
Sales to external customers	$4,374,621	$90,415	$4,465,036	$ –	$4,465,036
Inter-segment sales or transfers	0	773	773	(773)	–
Total	4,374,621	91,188	4,465,809	(773)	4,465,036
Segment profit (loss)	49,640	(92)	49,548	13*1	49,561
Segment assets	2,258,194	113,082	2,371,276	(1,991)*2	2,369,285
Other:					
Depreciation/amortization*4	12,014	528	12,542	–	12,542
Increase in property and equipment, and intangible assets	24,775	244	25,019	–	25,019

Notes: 1. Segment profit (loss) consists of elimination for inter-segment transactions and unrealized gain.
2. Adjustment to segment assets consists of elimination for inter-segment transactions.
3. Segment profit (loss) is adjusted with respect to operating income of the consolidated statement of income.
4. Depreciation/amortization includes software capitalized on the balance sheet.

Related Information

(1) Information by products and services

Information about products and services is omitted as the same information is disclosed within "segment information."

(2) Information by geographical areas

Information by business segments, geographic segments and billings to foreign customers of the Group for the years ended December 31, 2011 and 2010, was as follows:

a. Sales

Information about sales is omitted as sales in Japan account for more than 90% of the net sales in the consolidated statements of income.

b. Property and equipment

Millions of Yen

2011		
Japan	Overseas	Total
¥3,612	¥699	¥4,311

Thousands of U.S. Dollars

2011		
Japan	Overseas	Total
$46,463	$8,991	$55,454

c. Major customers

Information about major customers is omitted as no customer accounts for more than 10% of the net sales in the consolidated statements of income.

Information about Impairment Losses of Assets by Reportable Segment

2011

Millions of Yen

	Advertising	Other business	Eliminations	Total
Impairment losses of assets	¥255	–	–	¥255

2011

Thousands of U.S. Dollars

	Advertising	Other business	Eliminations	Total
Impairment losses of assets	$3,280	–	–	$3,280

Segment Information for the Year Ended December 31, 2010

(1) Business segment information

Business segment information for the year ended December 31, 2010, was as follows:

a. Billings and operating income

2010

Millions of Yen

	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
Total of cost of sales and selling, general and administrative expenses	339,398	7,436	346,834	(291)	346,543
Operating income (loss)	¥ 49	¥ (24)	¥ 25	¥ (3)	¥ 22

b. Assets, depreciation/amortization and capital expenditures

2010

Millions of Yen

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

Note: 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) Geographic segment information

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

(3) Billings to foreign customers

Because the billings to foreign customers of the Group for the year ended December 31, 2010, was 6.8%, which is less than 10% of the total consolidated billings in the period, such information is not presented.

Report of Independent Auditors

The Board of Directors
ASATSU-DK INC.

We have audited the accompanying consolidated balance sheet of ASATSU-DK INC. and consolidated subsidiaries as of December 31, 2011, and the related consolidated statement of income and comprehensive income, changes in net assets, and cash flows for the year then ended, all expressed in yen. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these 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 financial statements referred to above present fairly, in all material respects, the consolidated financial position of ASATSU-DK INC. and consolidated subsidiaries at December 31, 2011, and the consolidated results of their operations and their cash flows for the year then ended in conformity with accounting principles generally accepted in Japan.

The financial statements of ASATSU-DK INC. and its consolidated subsidiaries as of December 31, 2010, and for the year then ended were audited by other auditors whose report dated March 25, 2011, expressed an unqualified opinion on those statements.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended December 31, 2011, are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1.

Ernst & Young ShinNihon LLC

March 29, 2012
Tokyo, Japan

Securities Holdings

ASATSU-DK INC. Consolidated Investments
as of December 31, 2011

		Millions of Yen 2011	
Current	Bond investment trust/Money market fund	¥ 6,133	
	Bonds	4	2 funds
	Mutual funds in equities and bonds and others	196	9 funds
	Total current investments in securities	¥ 6,334	
Non-Current	WPP plc.	¥25,328	2.48% or 31,295,646 stocks
	Other publicly traded equities	11,725	131 issues
	Publicly traded equities total	37,053	
	Non-publicly traded equities in affiliated companies	¥996	12 issues
	Non-publicly traded equities in subsidiary companies	1,061	19 issues
	Other non-publicly traded equities	1,411	73 issues
	Non-publicly traded equities total	3,468	
	Bonds	1,389	9 issues
	Mutual funds in equities and bonds and others	221	6 issues
	Total non-current investments in securities	¥42,133	

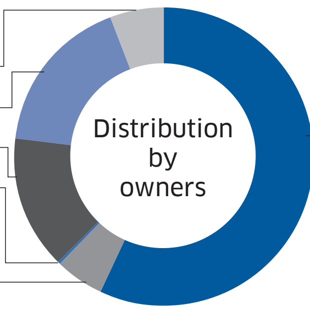
Top Five Equitiy Investments by Balance	Millions of Yen 2011	
WPP plc.	¥2,328	31,295,646 shares
ASAHI Group Holdings, Ltd.	1,690	1,000,000 shares
Tokyo Broadcasting System, Incorporated	973	982,900 shares
Shochiku Co., Ltd.	804	1,100,000 shares
NISSHIN FOODS HOLDINGS CO., LTD.	663	220,000 shares

Investor Information

(As of December 2011)

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	3,416 (consolidated basis) 1,925 (non-consolidated basis)
Common stock	Authorized: 206,000,000 shares Issued: 45,155,400 shares
Number of shareholders	8,804

Percentage of Total Shares Issued



Major shareholders

	Percentage of Ownership Voting*
WPP International Holding B.V.	24.26%
Northern Trust Company (AVFC) Sub Account American Client	6.03%
The Silchester International Investors International Value Equity Trust	3.93%
Northern Trust Company AVFC Re U.S. Tax-Exempted Pension Funds	3.91%
Masao Inagaki	3.15%
State Street Bank and Trust Company 505225	2.65%
JP Morgan Chase Bank, 380055	2.57%
Japan Trustee Service Bank, Ltd. (trust a/c)	2.32%
State Street Bank and Trust Company	2.26%
Mellon Bank N.A. as Agent for Its Client Mellon Omnibus US Pension	2.10%

*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

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(As of April 2012)

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

ASATSU-DK INC.

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