

# 1Q FY 2003 Financial Report

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May 14, 2003  
Asatsu-DK Inc.

# Japanese Advertising Market in 2003

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	<u>2001</u>	<u>2002</u>	<u>2003 (Forecast)</u>
Real GDP	+0.4%	+0.3%	+1.1%
Nominal GDP	-1.2%	-1.4%	-0.6%

(Source: Daiwa Institute of Research)

Advertising Industry	¥6.580trn	¥5.703trn	About same as 2002
	-0.9%	-5.9%	0% ±
Ad Expenditure/Nominal GDP	1.19%	1.14%	1.15%

- Tough market environment to continue in 2003
- Heated competition for market share

# Billings of Top Ad Agencies (Q1, 2003)

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	<u>Jan.-Mar.</u>	(Unit: million yen) <u>vs. Previous Term</u>
Dentsu	339,455	99.5%
Hakuhodo	189,767	109.3%
ADK	89,123	111.8%
Tokyu Agency	44,163	95.3%
Daiko Advertising	42,904	105.7%
Yomiko advertising	38,808	117.9%
I&S/BBDO	20,918	89.3%
East Japan Marketing & Communications	22,236	89.5%
Asahi Advertising	17,097	106.3%
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Total for 9 companies	804,474	103.3%

# ADK Strategies to Achieve 2003 Budget

(Unit: million yen)

	2002	2003		
	Result	Forecast	Net Increase	Growth Rate
Billings	334,916	340,000	5,084	101.5%
Revenue (Gross Margin)	32,005	34,700	2,695	108.4%
Operating Cost	29,586	30,900	1,314	104.4%
Operating Profit	2,419	3,800	1,381	157.1%
OP/GM	7.6%	11.0%		
Staff Cost/GM	60.6%	58.2%		



(1) Billings/Gross Margin Growth Program

(2) Cost of Sales Reduction Program

(3) Operating Cost Saving Program

(4) Reorganization Program

# 2003 Strategies

## (1) Billings/Gross Margin Growth Program

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- Management by Objectives

Set clear sales/profit budget for each group and individual and motivate them to reach their goals

- Expand scope of business to cover a full 360 °

Be aggressive in areas even beyond the mass media business



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- Continue to utilize “Investment Fund ” to cultivate new business

Attract new clients and new brands of existing clients

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- Continue to improve competitive strengths/edge

Establish ADK's own unique Total Communication and Branding methodologies based on Ex-Marketing

Utilize research to gain better consumer insights

Continue new client projects in fast growing sectors (cultivate financial /medical /auto/environmental clients)

Continue to strengthen ADK's all-around creativity

Adapt IT and broadband know-how



# 2003 Strategies

## (2) Cost of Sales Reduction Program

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### Media

Expand revenues from careful cost management of media inventory

### SP / Creative

Improve “club vendor system” (selection and focus) and control cost

# 2003 Strategies

## (3) Operating Cost Saving Program

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- Implement programs to determine areas in which to cut costs and improve cost structure

Effective use of space in ADK's new office building  
(re-location of group companies to new ADK office)

Implement procurement program in conjunction with WPP

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- Human Resource Management

Control staff costs by using indicators such as PH gross profit and PH profit as well as the ratio of staff cost / gross profit

Review overseas expatriate workforce and expenses through the process of localizing ADK affiliates in overseas markets

# 2003 Strategies

## (4) Reorganization Program

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- Shift to performance-based compensation system as opposed to traditional seniority system by capitalizing on early retirement program implemented last year
- Be an action-oriented organization as opposed to a red tape-oriented organization

3F Organization

Fast (speedy)

Flat

Flexible

# 2003 Strategies

## (5) Program for the Improvement of Group Companies

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- Create synergistic benefits through cooperation with group companies
- Improve consolidated profit performance by enhancing effectiveness through re-structuring group companies

**1st Quarter**

**Non-Consolidated  
Financial Results**

# 1st Quarter Profit & Loss

(Unit: million yen)

	2002 (Jan. to Mar.)	2003 (Jan. to Mar.)	VS. 2002	2003 1st Half Forecast
Billings	79,686	89,123	111.8%	170,000
Revenue (Gross Margin)	8,231	9,177	111.5%	17,100
Operating Profit	7,770	7,656	98.5%	15,300
Staff Cost	5,363	5,104	95.2%	9,980
Others	2,407	2,552	106.0%	5,320
Operating Profit	461	1,521	329.9%	1,800
OP/GM	5.6%	16.6%		10.5%
Staff Cost/GM	65.2%	55.6%		58.4%

# 1st Quarter Billings Analysis by Sector

(Unit: million yen)

	2002 Jan. to Mar.		2003 Jan. to Mar.			
	Billings	Composition Ratio	Billings	Composition Ratio	Change	vs. Previous Term
Energy/Raw materials/Machinery	1,429	1.8%	1,297	1.5%	-132	90.8%
Foods	7,834	9.8%	9,981	11.2%	2,147	127.4%
Beverages/Tobacco Products	8,776	11.0%	6,541	7.3%	-2,235	74.5%
Pharmaceuticals/Medical Supplies	3,624	4.5%	3,173	3.6%	-451	87.6%
Cosmetics/Toiletries	7,061	8.9%	7,881	8.8%	820	111.6%
Apparel/Accessories	2,767	3.5%	2,890	3.2%	123	104.4%
Precision Instruments/Office Equipment	1,289	1.6%	2,068	2.3%	779	160.4%
Electric Machinery/AV Equipment	1,848	2.3%	2,600	2.9%	752	140.7%
Transport Equipment	7,249	9.1%	7,609	8.5%	360	105.0%
Household Products	414	0.5%	554	0.6%	140	133.8%
Hobbies/Sporting goods	3,662	4.6%	5,115	5.7%	1,453	139.7%
Real Estate/Housing Facilities	991	1.2%	1,111	1.2%	120	112.1%
Publications	1,420	1.8%	1,653	1.9%	233	116.4%
Information/Communications	9,369	11.8%	8,782	9.9%	-587	93.7%
Distribution/Retail	4,148	5.2%	5,159	5.8%	1,011	124.4%
Finance/Insurance	8,224	10.3%	12,140	13.6%	3,916	147.6%
Transportation/Leisure	2,443	3.1%	2,795	3.1%	352	114.4%
Food Services/Other Services	1,266	1.6%	2,316	2.6%	1,050	182.9%
Government/Organizations	1,796	2.3%	1,939	2.2%	143	108.0%
Education/Health Services	535	0.7%	323	0.4%	-212	60.4%
Classified Ads/Others	3,540	4.4%	3,196	3.6%	-344	90.3%
Total	79,685	100.0%	89,123	100.0%	9,438	111.8%



# 1st Quarter Billings/Gross Margin Analysis by Advertising Medium

(Unit: million yen)

	<b>Billings</b>	<b>vs. Previous Term</b>	<b>Revenue (Gross Margin)</b>	<b>vs. Previous Term</b>
<b>Magazine</b>	<b>4,665</b>	100.7%	<b>531</b>	101.1%
<b>Newspaper</b>	<b>9,020</b>	103.2%	<b>811</b>	106.6%
<b>Television</b>	<b>43,085</b>	118.2%	<b>4,806</b>	108.5%
<b>Radio</b>	<b>1,007</b>	107.9%	<b>143</b>	100.7%
<b>Digital</b>	<b>1,019</b>	112.0%	<b>110</b>	125.0%
<b>Sales Promotion</b>	<b>15,591</b>	99.2%	<b>1,594</b>	102.6%
<b>Creative</b>	<b>10,487</b>	108.2%	<b>866</b>	113.6%
<b>Marketing</b>	<b>1,470</b>	157.6%	<b>94</b>	494.7%
<b>Other</b>	<b>2,779</b>	166.3%	<b>222</b>	-
<b>Total</b>	<b>89,123</b>	<b>111.8%</b>	<b>9,177</b>	<b>111.5%</b>

# 1st Quarter Billings/Gross Margin (Revenue) Analysis

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Non-Japanese clients  
vs.  
Japanese clients

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Media buying business  
vs.  
Brand-related business

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New clients  
vs.  
Existing clients

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# 1st Quarter Billings/Gross Margin Analysis by Non-Japanese clients and Japanese clients

(Unit: million yen)

	Billings	Composition Ratio	vs. Previous Term	Revenue	Composition Ratio	vs. Previous Term
Non-Japanese clients	19,612	22.0%	131.8%	984	10.7%	135.1%
Japanese clients	69,511	78.0%	107.3%	8,193	89.3%	109.2%
Total	89,123	100.0%	111.8%	9,177	100.0%	111.5%

# 1st Quarter Billings/Revenue Analysis by Media Buying Business vs. Brand-related Business

(Unit: million yen)

	<b>Billings</b>	Composition Ratio	vs. Previous Term	<b>Revenue</b>	Composition Ratio	vs. Previous Term	Gross profit ratio
Media buying	11,912	13.4%	141.6%	320	3.5%	169.5%	2.7%
Brand related business	77,211	86.6%	108.3%	8,857	96.5%	110.1%	11.5%
Total	89,123	100.0%	111.8%	9,177	100.0%	111.5%	10.3%

# 1st Quarter Billings/Revenue Analysis by New Clients vs. Existing Clients

(Unit: million yen)

	Billings	Composition Ratio	Revenue	Composition Ratio
New clients	6,860	7.7%	679	7.4%
Existing clients	82,263	92.3%	8,498	92.6%
Total	89,123	100.0%	9,177	100.0%

# 1st Quarter Expense Analysis

(Unit: million yen)

	Jan.to Mar. 2002	Jan.to Mar. 2003	Change	
Staff Cost	5,363	5,104	-259	Reduced by the carry-over effect of the early retirement program implemented last year.
Other Operating Cost	2,407	2,552	145	Increased rent expenses through consolidation of head office buildings Information infrastructure upgrades
Total Operating Cost	7,770	7,656	-114	

Note: The current rent cost will be reduced by re-location of the group companies from April (savings of roughly 15-20 million yen per month)

**1st Quarter**

**Consolidated  
Financial Results**

# 1st Quarter Profit & Loss

(Unit: million yen)

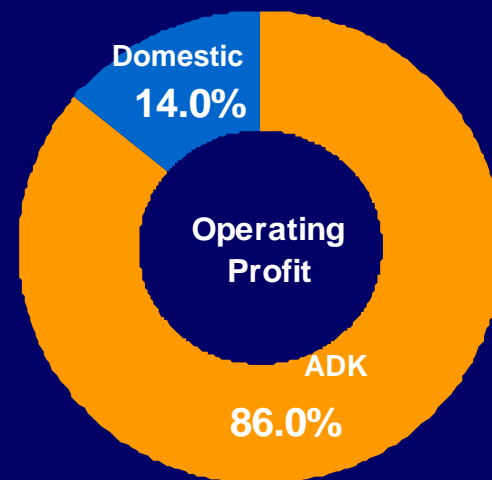
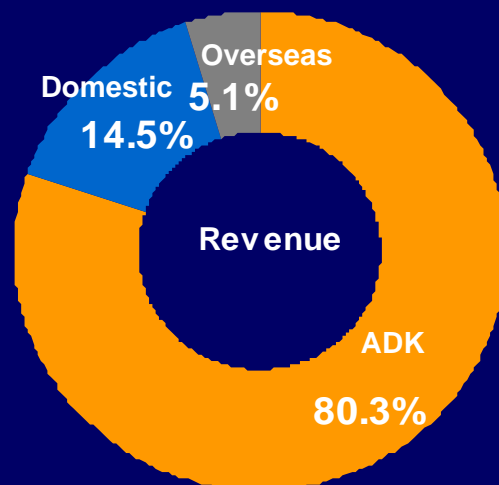
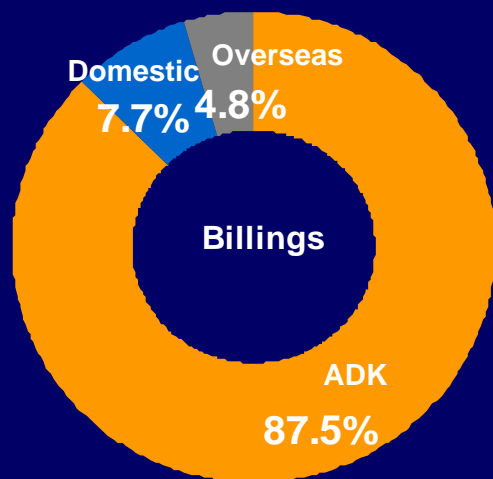
	2003 (Jan. to Mar.)	Group-to-Parent Ratio	2003 1st Half Forecast
Billings	98,441	1.10	189,000
Revenue (Gross Margin)	11,467	1.25	21,500
Operating Cost	9,633	1.26	19,300
Staff Cost	6,364	1.25	12,300
Others	3,269	1.28	7,000
Operating profit	1,834	1.21	2,200
OP/GM	16.0%		10.2%
Staff Cost/GM	55.5%		57.2%



# 1st Quarter Profit/Loss Analysis

(Unit: million yen)

	Billings	Revenue (Gross Margin)	Operating Profit
ADK alone	89,123	9,177	1,521
Total for 12 domestic companies	7,792	1,661	247
Total for 10 overseas companies	4,915	585	-11
Consolidated adjustment	-3,389	43	77
<b>Total</b>	<b>98,441</b>	<b>11,467</b>	<b>1,834</b>



Operating Profit:  
excluding overseas profit

# 1st Half and Year Total Consolidated Forecast

(Unit: million yen)

	1st Half 2003	Year Total 2003	vs. 2002	2002 Actual
Billings	189,000	378,000	101.1%	373,899
Revenue	21,500	43,600	105.0%	41,529
Operating Cost	19,300	38,800	102.8%	37,731
Staff Cost	12,300	25,100	102.3%	24,547
Others	7,000	13,700	103.9%	13,184
Operating Profit	2,200	4,800	126.4%	3,798
Recurring Profit	2,800	6,000	115.6%	5,190
Pretax profit	2,300	4,900	-	-4,776
Net profit	1,100	2,400	-	-3,637

**Furthermore....**

# The path ADK Should Take

## Reaffirmation of the company's position

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### Behind the corporate philosophy of “Management by all”

(1) ADK positions itself as the challenger  
in the Japanese advertising industry :

- An agency that consistently doubles its effort, expertise and courage.
- An agency that consistently challenges existing ideas, business practices and introduces new business models
- An agency that understands global trends and utilizes global communication resources centering on WPP.

# The path ADK Should Take

Reaffirmation of the company's position

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(2) In other words, ADK aims to be the most innovative and unique agency in the Japanese advertising industry.

## B/S (Non-Consolidated) December 31, 2002

(Unit: million yen)

Assets		Liabilities and Shareholders' Equity	
Current Assets		Current Liabilities	
Cash & Deposits	9,956	Notes payable	23,753
Notes receivable	12,477	Accounts payable	54,358
Accounts receivable	74,261	Others	2,687
Marketable securities	1,427	Current Liabilities Total	80,798
Production orders in progress	5,758	Fixed Liabilities	
Others	5,677	Allowance for retirement benefits	2,657
Total Current Assets	109,556	Others	1,142
Fixed Assets		Total Fixed Liabilities	
Tangible Fixed Assets	3,627	Total Liabilities	
Intangible Fixed Assets	2,682	84,597	
Investments and Other Assets		Shareholders' Equity	
Investment securities	58,114	Common Stock	37,581
Others	10,363	Capital reserve	40,607
Investments and Other Assets Total	68,477	Earned surplus reserve	1,555
Total Fixed Assets	74,787	Other surplus	19,339
		Valuation differential on securities	5,127
		Treasury Stock	-4,465
		Total Shareholders' Equity	99,746
Total Assets		Total Liabilities and Shareholders' Equity	
	184,343		184,343

Shareholders'  
equity ratio  
54.1

## B/S (Consolidated) December 31, 2002

(Unit: million yen)

Assets		Liabilities and Shareholders' Equity	
Current Assets		Current Liabilities	
Cash & deposits	19,249	Notes payable & Accounts payable	83,337
Notes receivable & Accounts receivable	97,490	Short-term debt	896
Marketable securities	1,534	Others	6,161
Inventory assets	7,466	Total Current Liabilities	90,394
Others	6,187	Fixed Liabilities	
Assets	131,926	Bonds & Long-term debt	1,000
		Allowance for retirement benefits	3,541
Fixed Assets		Others	1,616
Tangible Fixed Assets	6,014	Total Fixed Liabilities	6,157
Intangible Fixed Assets	3,096	Total Liabilities	96,552
Investments and Other Assets		Minority Interests	1,153
Investment securities	56,572	Shareholders' Equity	
Others	11,617	Common Stock	37,581
Total Investments and Other Assets	68,189	Capital reserve	40,607
Total Fixed Assets	77,301	Consolidated surplus	32,512
		Valuation differential on other securities	5,367
		Foreign currency translation adjustments	-82
		Treasury stock	-4,465
		Total Shareholders' Equity	111,521
Total Assets	209,227	Total Liabilities and Shareholders' Equity	209,227

Shareholders' equity ratio including minority shareholders' Interests 53.9%

Ratio of consolidated to non-consolidated total assets 1.13

## Current Animation Programs bought by ADK

	Program Name	Station
1	Doraemon	ANB
2	Crayon Shin-chan	ANB
3	ATASHIn'CHI	ANB
4	Masked Rider 555	ANB
5	Tomorrow's Nadja	ABC
6	Kochikame	CX
7	One Piece	CX
8	YU-GI-OH! Duel Monster	TX
9	The Prince of Tennis	TX
10	Bonbarman Jeters	TX
11	Shin Megami Tensei: D Children Light & Dark	TX
12	Super Living Robot Transformers: Car Robots	TX
13	(New) Korokke	TX
14	(New) Bouken Yuuki Pluster World	TX
15	(New) Tank Knights Portriss	TX