

Guidelines for ADK Reformation

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ADK's DNA : Management by All

1. **Employees should share management's perspective to ensure work quality, be cost conscious and take responsibility for profits.**
2. **Realized profits are shared under a performance-based pay system which satisfies employees spiritually and physically as they work hard to increase profits.**

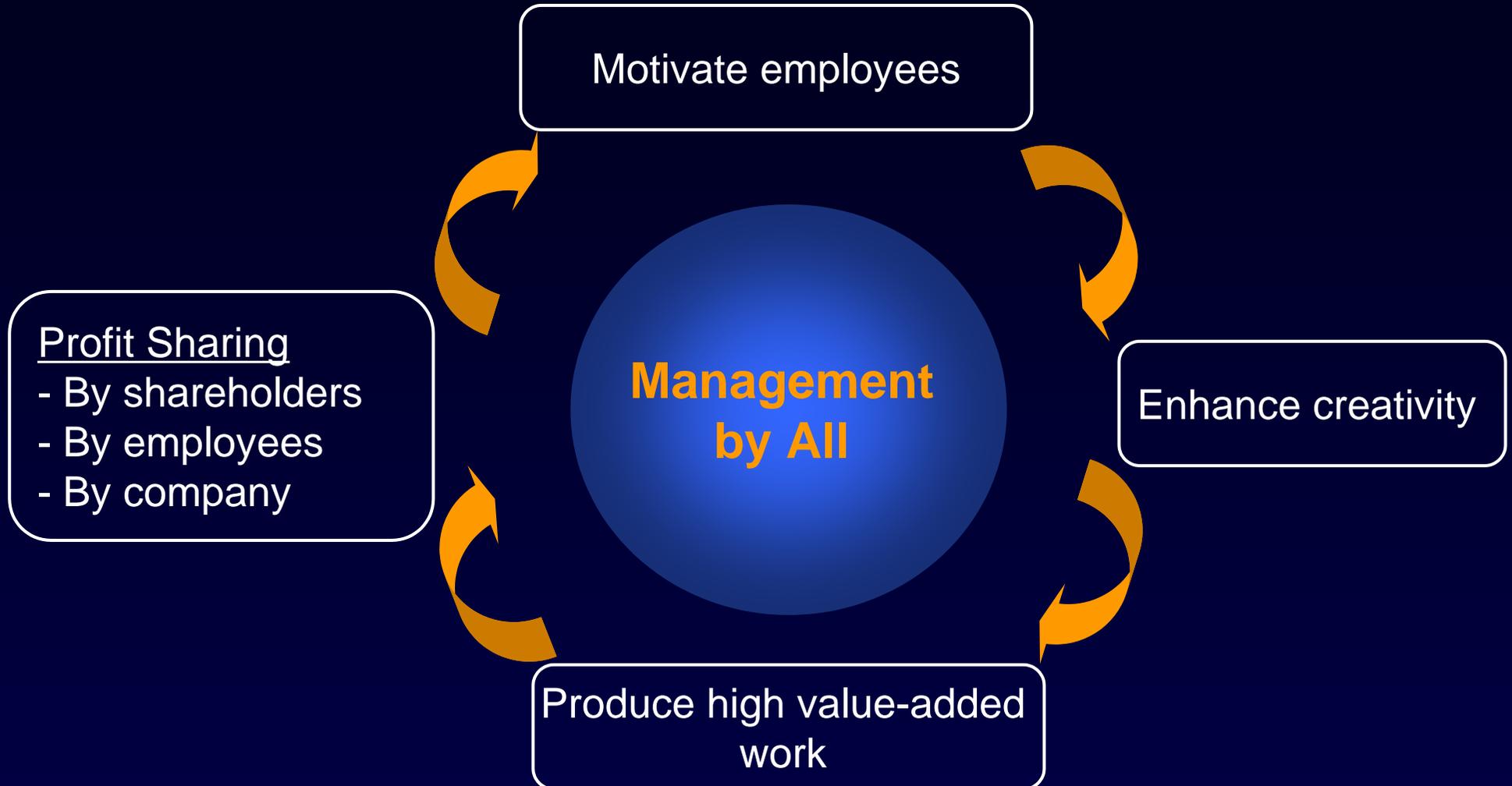
In other words,

As the advertising business is a people business, employees should have the spirit of new venture owners in ensuring ADK's success.

The Management System based on “Management by All” (1)

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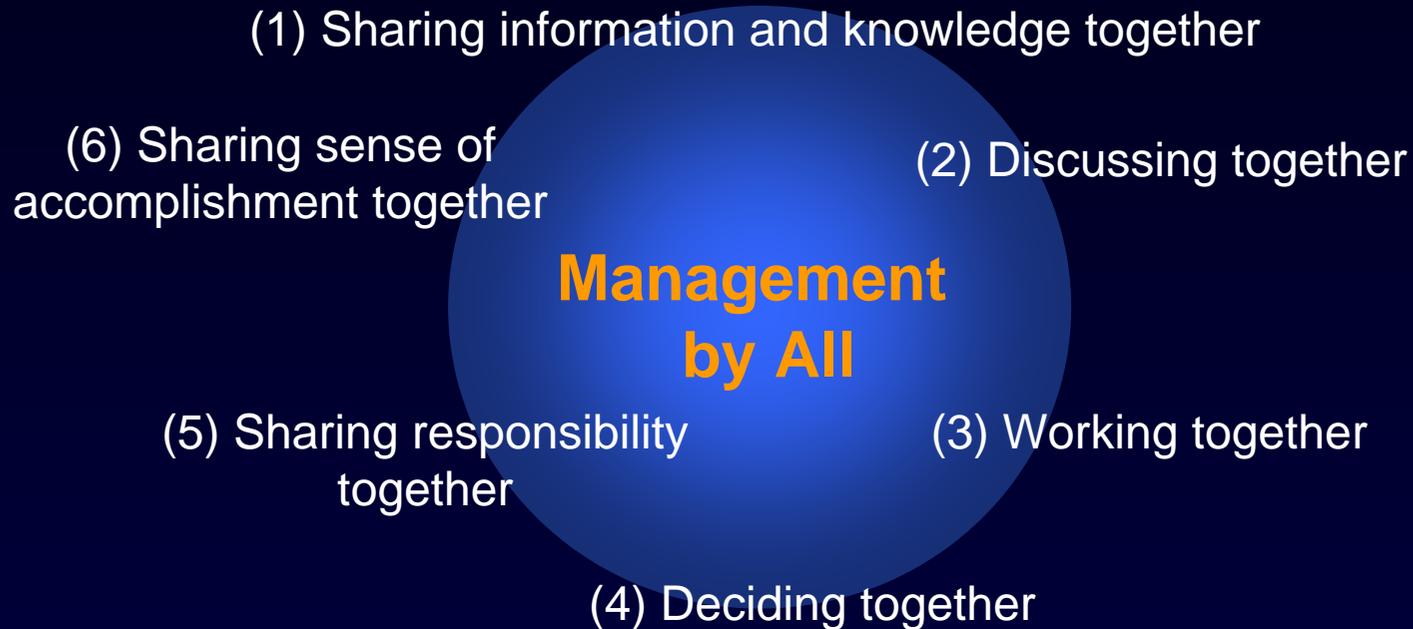
“You are the Company”



The Management System based on “Management by All” (2)

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“We are together in these ways”

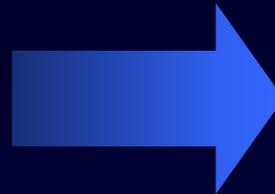


Transparent & Accountable Management System

A Reengineering Road Map

“To visualize the future
we first need to be aware of the present.”

Where are we now?
Comprehension of the present situation



Direction for growth!
ADK's goals and vision of the future

Reengineering for Our Future

The Need for Courageous Reengineering

Significant Deterioration in ADK's Financial Position & Operational Efficiency (over the last 10 years*)

Sales	1.6 times
Revenue (Gross Margin)	1.3 times
Operating Profit	0.5 times

Operational Efficiency Index	<u>ADK</u>	<u>Worldwide Std.</u>
Labor Cost to Revenue Ratio	45.2% 62.1%	50%
Operating Profit to Revenue Rate	27.2% 10.0%	15 20%

(*'90~'00)

Where We are Now (2)

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Loss of Core Client : Mitsubishi Motors (Domestic)

Poor Economic Environment (Local & Global)

Reengineering Theme : “Back to Basics”

A small but talented group and a lean organization

Avoid the top-heavy, hierarchical organizational structure:

- Create an environment where the young can exercise their talent and exhibit their capabilities.

Become a creative company that's worth working for:

- Enjoy work without having to fight the barriers on a path to career and personal fulfillment.

Restore ADK's Traditional Strong Customer Ties

Set a Clear and Unified Strategy

Urgent Issues: Secure new automotive accounts and penetrate further into our existing auto accounts.

Macro View: Analyze client portfolio and select targeted clients in new and fast-growing industries.

Micro View: 1) Study dissatisfied clients of competitors and initiate pinpoint portfolio attacks;
2) Explore our short lists and revitalize any 'sleepers'.

Set a Clear and Unified Strategy

Overcome/break down departmental barriers and concentrate all corporate resources on our customers and generate new business.

Strengthen our infrastructure to ensure quality and exercise leadership.

- Gain consumer insights
- Sharpen creativity
- Maximize media
(bargaining power, content, media marketing)

Strengthening ADK Headquarters' Functions

To Maximize Reengineering Goals

Human Resources Strategy:

- Eliminate seniority-based pay system
- Transparent personnel evaluation system
- Investment and training
- Stock options program

Financial Engineering Strategy:

- Improve Balance Sheet in addition to P&L Statement
- Continual assessment of investments in securities
- Share buybacks (held as treasury stock; newly legalized)

To Maximize Reengineering Goals

Corporate Planning:

- Consolidate affiliates for synergy creation
- Implement M&A strategy for further growth
- Internal investment funds for infrastructure upgrading and for cultivating large clients
(rather than cross-shareholding with clients and financial institutions)

- ADK will be the company where those chosen and those gifted with remarkable talents will want to work because it is where individuality is highly regarded and where opinions can be freely expressed.
- ADK has a proud history and is known as the company which always questions traditional values and practices, and provides inventive solutions to client needs.

- ADK has specialized affiliates, including Kyowa Kikaku, Kyodo Public Relations and DAC. Through maximizing synergy effects, we aim to be a Top 10 communications group.
- ADK has world-class networks through WPP resources and the ADK Network. We aim to become a globally-active communications company.

- ADK has the ability to offer stock options and profit sharing to employees by improving EPS and maintaining a high share price.

**To achieve these goals,
ADK will set a medium-term financial target
(refer to next 2 pages).**

Key Criteria of Medium-term Financial Performance

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- **Increase revenues**
(Gross margin ratio, Gross profit amount, p/h gross profit amount)
- **Ratio of labor costs to revenues**
- **OP / Revenue (Ratio of Operating Profit to Revenue)**
- **Conversion rate**
- **Growth in operating profit**

- **EPS**
- **ROE**
- **EV/EBITDA**

Medium-term Earnings Indicator (non-consolidated base)

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In light of the current economic environment, we may be conservative in the area of revenue growth but aggressive in profit creation through cost savings.

- Annual Growth in Revenue 3% ± p. a.
- Labor Cost/
Revenue

	<u>'99</u>	<u>'00</u>	<u>'01</u>	<u>Medium-term target</u>
	66%	62%	61%	55%
- Operating profit/
Revenue

	<u>'99</u>	<u>'00</u>	<u>'01</u>	<u>Medium-term target</u>
	6%	10%	10.7%	15%
- Annual Growth in Operating Profit 10% ± p. a.