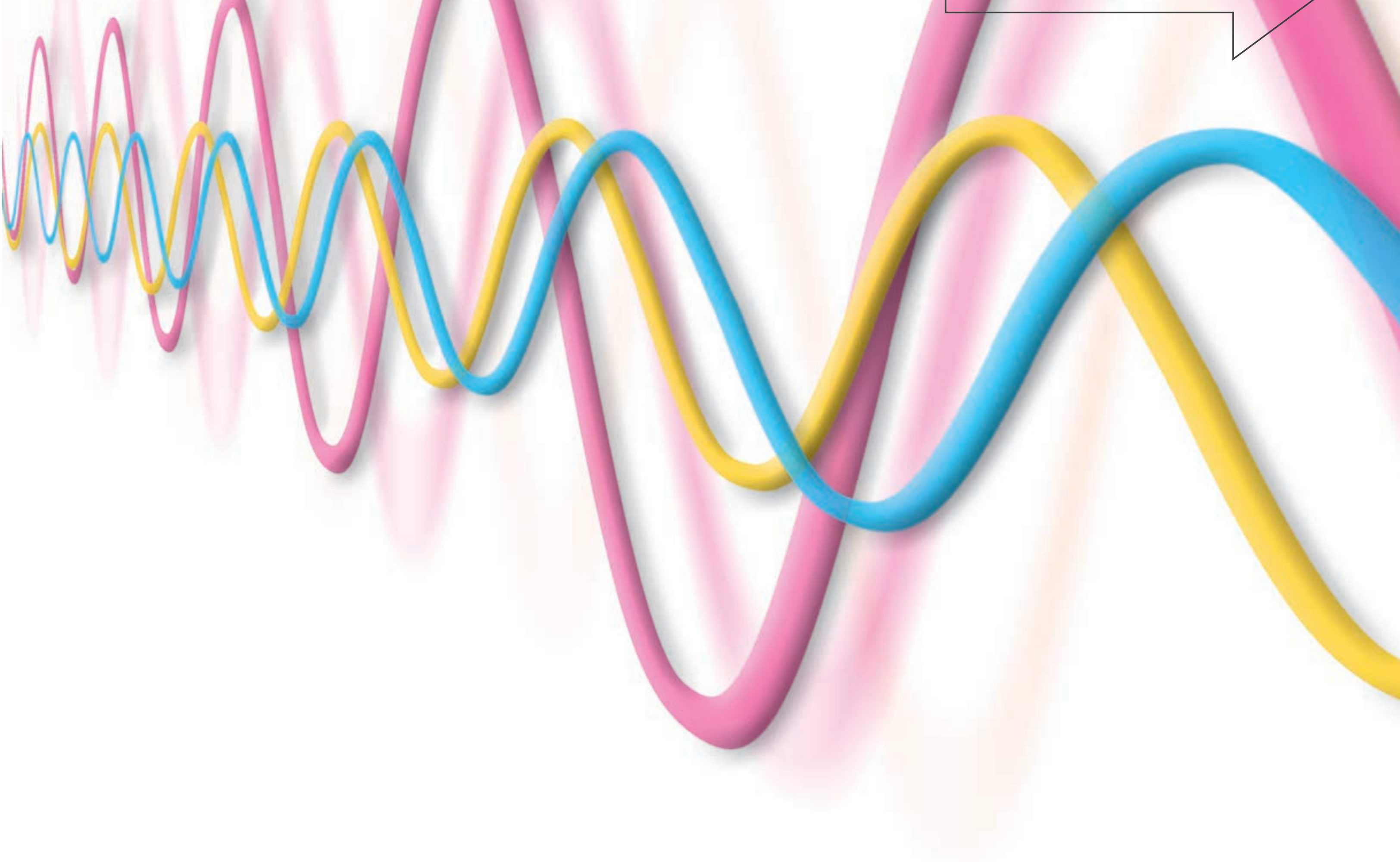
ANNUAL REPORT 2004
For the year ended March 31, 2004

Catching the *waves* and



TOKYO BROADCASTING SYSTEM, INC.

TBS

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Message from the Management 02

Terrestrial television in a digital age requires higher quality programming and content than in the past.

DELIVERING LASTING IMPRESSIONS AND RELIABLE INFORMATION WHILE TRANSCENDING GENERATIONS—this is the message of the TBS BRAND.

Through branding activities, the TBS Group will increase its popularity among viewers and listeners and further raise its value as an enterprise. To these ends, we continue to keep an open mind and constantly research new forms of organization and mechanisms for enhancing corporate vitality.

Catching the Waves

In order to give readers a better overall view of TBS's activities, we have included interviews with two employees who are involved in some of TBS's core operations.

Interview with Mr. Tashiro, The Division President of the TV Programming Division 06

We questioned Mr. Tashiro about what image of the TBS brand he tries to convey in his programming and his views about the future position of terrestrial television.

Interview with CG Director Sori 06

We interviewed Mr. Sori, the producer of the hit CG-animated movie *APPLESEED*, about what he thinks differentiates TBS's computer graphics technology from that of other stations, what he thinks is behind the success of *APPLESEED* and his future goals.

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TBS at a Glance

The TBS Group and Japan News Network (JNN) constitute one of Japan's premier media conglomerates. We deliver the most compelling dramas, the most reliable news and other high-quality content to large numbers of people through television, radio and other media.

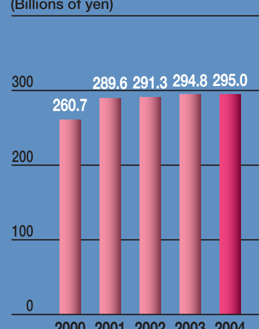
Our approach is to deliver lasting impressions and reliable information while transcending generations.

In addition to computer graphics and other cutting-edge technology developed for the fully digital era, the content production expertise we have cultivated over time is proudly on display not only in our mainstay

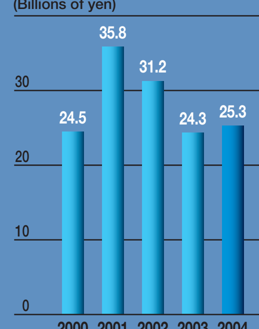
ready for the future

terrestrial television programs but also in theatrical films, DVDs selected from our programming archive and other productions. The TBS brand is clearly cherished by every generation. We firmly believe that this approach in itself will continue to raise the enterprise value of the TBS Group.

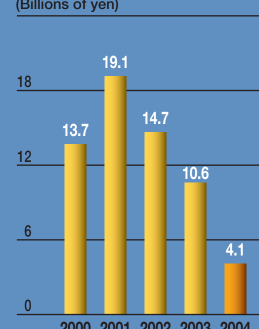
Net Sales
(Billions of yen)



Operating Income
(Billions of yen)



Net Income
(Billions of yen)



A New Era of Television

Digital terrestrial television commenced in the metropolitan areas of Tokyo, Osaka and Nagoya on December 1, 2003. TBS smoothly launched broadcasting in this format. Terrestrial television is scheduled to be completely digital by 2011, which will mean we have truly entered a **NEW ERA FOR THE TELEVISION BUSINESS**. The TBS Group and JNN will actively work to take advantage of this new operating environment.

TBS Brand Identity

Terrestrial television in a digital age requires higher quality programming and content than in the past.

DELIVERING LASTING IMPRESSIONS AND RELIABLE INFORMATION WHILE TRANSCENDING GENERATIONS—this is the message of the **TBS BRAND**. Through branding activities, the TBS Group will increase its popularity among viewers and listeners and further raise its value as an enterprise. To these ends, we continue to keep an open mind and constantly research new forms of organization and mechanisms for enhancing corporate vitality.

Consolidating Three Television Entities

From 2000 to 2001, TBS divided its production division into four entities: TBS Radio & Communications, Inc., the drama and variety division's TBS Entertainment, Inc., TBS Sports, Inc. and the commentary show division's TBS Live, Inc. The four entities were given three principal objectives: thorough cost reductions, successful company-wide implementation of management control and the creation of new attractive TV programs through prompt judgment and action.

Of these subsidiaries, **TBS RADIO & COMMUNICATIONS** has successfully achieved all three objectives, capturing the top audience ratings for 19 consecutive surveys, or three years, through August 2004. The subsidiary also increased revenue and income amid severe operating conditions for the radio business due to the competitive domestic advertising market. On the other hand, the three TV production entities were not able to generate adequate results with respect to the third objective, creating new attractive TV programs.

Our response is to form a **NEW TELEVISION COMPANY** in October 2004 by **CONSOLIDATING THE THREE SUBSIDIARIES THAT COMPRISED THE TELEVISION DIVISION**. The three TV companies produced remarkable results with respect to cost reductions and successful company-wide implementation of management control. We firmly believe that merging the three and pooling their content production capabilities, while continuing to leverage these accomplishments, will enable more efficient production of more compelling programming. This will positively impact our consolidated financial performance.

The new television company will be also responsible for current work related to the news division, technology and sales to be contracted out by the Company. TBS will continue to hold its TV broadcasting licenses, assets, facilities and copyrights.

Expanding Digital Frontier

Digital television by broadcast satellite (BS) has benefited by increased sales of LCD televisions. By the end of December 2003, over five million households were capable of receiving the service. And,

Hiroshi Inoue, *President*

that number continues to grow. **BS-i, Inc.** the TBS Group's BS digital broadcasting company, has become an industry leader, having received high marks for its high-quality programming and enhanced lineup of interactive content. For digital broadcasting over communications satellite (CS), we provide premium broadcasting through such channels as **JNN NEWS BIRD**, **a 24-HOUR NEWS CHANNEL** and **TBS CHANNEL**, which selects past years' popular dramas from TBS's enormous **PROGRAM ARCHIVE**. The number of subscribers to such programs has been steadily increasing.

In addition, beginning at the end of 2005, **TELEVISION BROADCASTING FOR MOBILE RECEIVERS** is expected to go on line as another form of digital terrestrial television. TV-equipped cellular phones are expected to rapidly increase in popularity in Japan's near future. In response, we have already begun researching new business models.

Bequeathing Our Program Archive to the Future

The Group is currently strengthening its foundations for new media development. We boast ample production capability, and the ability to produce our own high-quality dramas and documentaries. Programs produced for terrestrial television are further supplied to BS digital and CS digital television or released as DVDs or theatrical films, leading to **NEW REVENUE OPPORTUNITIES** for the Group. In addition, we plan to **BEQUEATH TO THE FUTURE** the program archive we have accumulated over the years. We plan to focus management resources for the present on terrestrial television programming, our main source of revenue. We also intend to steadily increase non-broadcasting revenue.

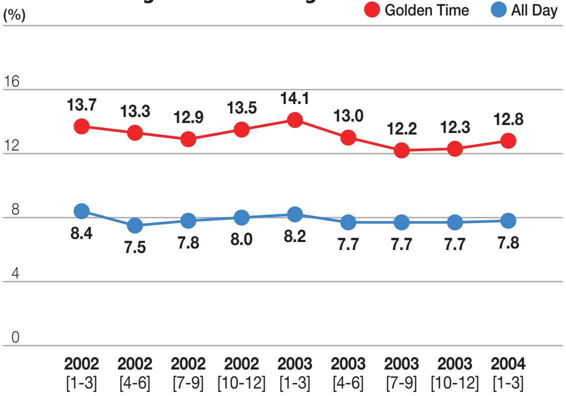
Corporate Governance

The corporate governance of TBS and the TBS Group is rooted in improving management efficiency and transparency, fulfilling social responsibility with respect to broadcasting, maximizing corporate value from the perspective of shareholders and other principles. We are working to strengthen the functions of our internal control system and risk management system while bolstering initiatives related to compliance. Additionally, as a part of our management restructuring activities, we decided, at the shareholders' meeting in June 2004, to terminate retirement bonuses for executive officers in order to institute a system that links officer compensation and bonuses to financial results.

Structural Reform of Personnel Costs

Human resources are a particularly important management resource. We have engaged in **STRUCTURAL REFORM OF PERSONNEL COSTS** partially to secure various and diverse human resources. We plan to acquire creative, talented personnel and build a content supply system that comes out ahead in the digital age by raising the emphasis on ability in our salary structure. To do so, we will boost the number of employees from current levels by approximately 100, with total personnel to number in the 1,300-1,400 range. We also intend to address the issue of corporate pensions. In the year ended March 2004, we posted an extraordinary loss of ¥10.4 billion related to actuarial differences on retirement benefit obligations, which corresponds to a pension liability shortfall. This was the first step in creating a financially sound pension system.

Annual Average Viewer Ratings



K-1 PREMIUM 2003 Dynamite!!

Suna No Utsuwa

Tokyo Friendly Park II

Yanki Boko Ni Kaeru

Akasaka Redevelopment Project

With a total cost in excess of ¥70.0 billion, the **AKASAKA REDEVELOPMENT PROJECT** got under way with the dismantling of existing facilities in fall 2003. The project, which uses around 33,000 square meters of TBS-owned land in Akasaka, was initiated to create a stable revenue stream to support our broadcasting business. A 180-meter, 39-floor office tower is scheduled for completion in January 2008 and will provide space for lease. Depending on market conditions, the tower is expected to bring in annual sales of ¥10.0 billion and operating cash flow of between ¥5.0 billion and ¥6.0 billion. Construction of a theater, a concert hall and a rental-housing complex is also scheduled.

Ongoing Growth in Operating Cash Flow

The Group has established **MEDIUM-TERM MANAGEMENT OBJECTIVES** ahead of completion of the redevelopment project in 2008. We will work for **ONGOING GROWTH IN CONSOLIDATED OPERATING CASH FLOW** to achieve a target of ¥30.0 billion by the year ending March 2009. We plan to accomplish this by becoming the top group in average viewer ratings and by increasing our share of advertising revenue. The increase in operating cash flow will be used to invest in digital television and our Akasaka redevelopment project.

Outlook for Year Ending March 2005

The operating environment in the year ended March 2004 presented a formidable challenge to our management plan's goals mainly due to increased costs of sports broadcasting rights. However, both consolidated net sales and ordinary income* increased for the first time in three years due to strong performances from DVD, movie, music and other software sales, as well as rights licensing. The broadcasting business got off to a good start, taking the number-one position in average TV viewer ratings during golden time in April 2004. In May, *Sekai No Chushinde Ai Wo Sakebu*, a movie in which we invested, was released and became a major hit. A TV drama of the same title broadcast in summer 2004 was also created and has had strong reviews.

The TBS Group intends to respond to the expectations of shareholders as a leading company in the integrated media industry by leveraging this kind of comprehensive strength.

August 2004

Hiroshi Inoue
President

*Ordinary income is operating income plus non-operating income from interest and dividend income and other items less non-operating expenses, such as interest expenses. Ordinary income is used as an important indicator of earning power for Japanese corporations.

Entering an era of full-fledged digitization, the Japanese TV broadcasting industry is facing significant competition from a variety of new media. The TBS Group is moving ahead by broadcasting compelling programs unrivaled by other broadcast networks. At the same time, we are working to create a next-generation archive, with its programs as high-quality content. That will be the source of new businesses to

Interview with Mr. Tashiro,

The Division President of the TV Programming Division

Fuyuhiko Tashiro

Entered TBS in 1977. Directed *Kekkonshitai Otokotachi*, one of the famous Friday-Night Drama featuring fashionable trendy people. A program he produces, *Shiawase Kazoku Keikaku*, which has been broadcast since 1997, won the Silver Rose Prize in the Game Show category at Switzerland's Festival Rose d'Or, an international contest for TV entertainment programs. It was the first award for a Japanese television station, and the program project was sold around the world. He was named president of the TV programming division in January 2003.

What image of the TBS brand are you attempting to convey through TBS programming?

The basic philosophy of TBS programming is to deliver lasting impressions and reliable information while transcending generational differences. We try to broadcast various programs that every generation wants to watch, not just young people. This idea of transcending generations expresses the distinctive nature of the TBS brand. And, personally, I want to continue to broadcast dramas that touch the heart and documentaries that delve into the human spirit.

What were some initiatives in 2003 to achieve these goals?

We devoted efforts to large-scale, special programs that attract many viewers. In 2003, we broadcast 15 of these programs and they all earned high viewer ratings. In 2004 as well, we are actively involved in creating this kind of programming.

In general, recent drama series in Japan have not earned the ratings they once did. Why do you think this is the case?

Drama series in Japan consist of one-hour episodes that go on for about 11 weeks before the story is brought to a

Interview with CG Director Sori

Fumihiko Sori

Entered TBS in 1988. Studied at USC's School of Cinema-Television in 1996. Worked on visual effects for *Titanic* at James Cameron's Digital Domain, Inc. After returning to Japan, supervised the visual effects for *Himitsu* in 1999 and *Keizoku* (film) in 2000. Has been responsible for the visual effects on a large number of TV dramas including *Beautiful Life*, *Keizoku* and *Ikebukuro West Gate Park*. Directed *Pinpon* in 2002 and produced *APPLESEED* in 2004.

Why do you think TBS's advanced digital computer graphics technology has a good reputation both domestically and internationally?

In 1996, TBS started an international exchange program with the University of Southern California in the area of computer graphics. I was a student in the first semester of the program and even participated in the CG production for director James Cameron's *Titanic*. Since then, every year one student goes to study for a year at USC's School of Cinema-Television. This program differentiates us from other networks and we have many personnel who have strong technological experience. For me, my experience working in Hollywood, the world leader in this area, has been extremely beneficial.

What do you think sets TBS's computer graphics technology apart from that of other stations with respect to applying it to drama production?

Around 10 years ago, TBS installed multiple units of the synthesis system Inferno, the first of all the stations to do so. We have produced almost all of our dramas in-house. Having this kind of technology has been a great advantage for TBS. Other stations tend to outsource difficult work, but often the costs are too high and the project won't even get

drive future growth. The following is a discussion with Mr. Tashiro, the head of the TV programming division, on creating programs appropriate for the TBS brand, and CG Director Sori, the producer of the full CG-animated movie *APPLESEED*, which will be opening across the U.S. in 2005, on TBS's advanced computer graphics technology and the creation of content with that technology.

conclusion. However, there are fewer and fewer themes that work with this format. Another cause is that viewers have come to demand a higher level of programming.

Are there any effective countermeasures?

Beginning in April 2004, we dropped one drama series slot and added a special two-hour slot on Wednesday that is not in the series format. Also, as a conventional drama series, we picked up the love story *Sekai No Chushinde Ai Wo Sakebu*, a best-selling novel that was also made into a hit movie. TBS is strategically investing in movies as well, and we expect synergies from linkage to television. I think collaboration with other industries will continue to increase by acquiring rights to this kind of high-quality content, which can be used in multiple ways in a variety of media.

Revenue from dramas, even with average ratings, may increase by releasing them on DVD. What is your view?

There are some programs that sell surprisingly well as DVDs, even though their ratings were not very good when initially broadcasted. I have mixed feelings about this, but we're always interested in taking on challenges from new

Sekai No Chushinde Ai Wo Sakebu

Satokibi Batake No Uta won the Grand Prize at the National Arts Festival by the Agency of Cultural Affairs.

perspectives. Some programs that are supported by a small number of fervent fans can, in the course of time, bask in the spotlight. What matters in the end is how many people saw the program.

With new media continuing to emerge, how do you position terrestrial television?

The central place of terrestrial television is not likely to change in the near future. As I am responsible for programming, I intend to improve our standing with other media by raising our value as an advertising medium through compelling programs.

past the planning stage. TBS, on the other hand, has expertise from many years of creating programs. We have achieved high-quality computer graphics at a low cost. This is effective in supporting the production of major dramas and other programs.

The full CG-animated film *APPLESEED*, a science-fiction movie that you produced and released in spring 2004, has been one of the most admired CG-animated film in Japan and will be released in over 10 U.S. cities in 2005. In your opinion, what has made it so successful?

I produced this film over the period of a year both inside and outside the station. I have confidence in the technology and the completeness of the images, but the film hasn't generated such favorable reviews due to technology alone. First, it has an elaborate storyline. We directed it to effectively utilizes computer graphics and to create a well-made entertaining movie. Also, from the initial stage of production, we planned for worldwide distribution. We received cooperation from world famous musicians Ryuichi Sakamoto and Paul Oakenfold, as well as the British band Basement Jaxx, on the theme song and other parts of the soundtrack. Another feature of international contents like *APPLESEED* is that it is easier to raise funds for them.

What are your future goals?

We have an in-house research and development project called TBS i-camp, established in anticipation of the new era of digital broadcasting. We are continuing with various attempts through TBS i-camp to approach media other than television. It is a kind of digital incubator that broadens the business opportunities of broadcasting and creates new sources of revenue. Personally, I want to create some cartoons series for TBS with the catchphrase, "From the creators of *APPLESEED*."

The basic policies of TBS with regard to corporate governance are to improve management efficiency and transparency, fulfill the social responsibilities of broadcasting and maximize corporate value from a shareholder viewpoint.

1. Basic Bodies for Management Policy

In addition to **the Shareholders' Meeting**, directors and **the Board of Directors**, and auditors and **the Statutory Board of Auditors**, the Company has **Executive Managing Directors** to facilitate presidential decision making. The Board of Directors has 18 members, four of whom are external directors, pursuant to the Commercial Code of Japan. The Statutory Board of Auditors consists of five members, two of whom are standing statutory auditors and three of whom are external auditors, in accordance with the Audit Special Exceptions Law. The Company also has established **an Executive Officer System** in order to promote greater efficiency in business execution. There are eight executive officers.

Executive Managing Directors Conduct preliminary discussions on a weekly basis regarding management policies and other matters. There are 10 standing directors including the chairman and the president.

Board of Directors Meets once a month. The board makes decisions on important matters related to business execution and issues reports on major items.

Council of Program Practice Deliberates on the appropriateness of broadcast programming based on the Broadcast Law. The committee is composed of nine external members that include people of experience or academic standing.

Management Liaison Committee Consolidates decisions made within the TBS Group related to important management policies and distributes information to relevant parties.

The Company also has various other committees as internal bodies to respond to the inquiries of the president and the Executive Managing Directors. These include **the Long-Term Management Planning Committee**, which draws up medium- and long-term management plans, and **the Budgetary Committee**, which compiles budgets for each term's business plan.

2. Internal Control System

Preliminary deliberations are conducted on major issues by **the Executive Managing Directors**. Individual matters related to investment and financing, among other issues, are discussed on a preliminary basis by **the Investment and Financial Judging Committee**. In addition, **the Management Liaison Committee**, which is comprised of standing directors and executive officers, meets weekly to consolidate decisions on matters related to internal control and distributes information accordingly.

Auditors attend meetings of the Board of Directors and conduct audits by inspecting documents related to the approval of major items. When necessary, **the Statutory Board of Auditors** can set up **the Statutory Board of Auditors Investigative Office** and elicit the assistance of employees it names.

3. Risk Management System

Comprehensive Coordination Committee Established in June 1996. The committee collects information related to risk management, considers countermeasures and reports to the Executive Managing Directors. The managing director in charge chairs the committee, which is participated in by five members with positions of division president or above, five executive secretaries and 20 special committee members from the Company's various departments. The special committee members gather weekly and respond to any incidents related to broadcast programming or the production process.

Office of Internal Inspection of Business
Established in June 2001. The office conducts investigations of fraud and non-compliance of employees based on in-house information. In cooperation with the office and other related sections, an in-house investigating team investigates suspected cases to make final decisions on how to deal with them. The office also collects group-wide information on potential problems that could lead to economic loss or decline in social standing for the Company. The office reports such information and possible countermeasures to the president.

4. Compliance

TBS has established **Insider Trading Regulations** aimed at preventing unfair securities transactions by executives and employees. **The Privacy Management Committee** enforces **Company's Privacy Policy**, which seeks to prevent the release of personal information and the use of such information for other than its intended purpose.

The Company also has regulations related to its IT network. **The IT Network Committee** works to prevent unauthorized access to the Company's networks and conducts checks to ensure email is being used appropriately.

The Board of Directors has established **Basic Policies for Managing Market Risk**, which it reviews twice a year. The results of hedging and other financial transactions are reported to the Executive Managing Directors.

The Disaster Prevention Committee conducts fire drills and has prepared **Earthquake Safety Manual**, which it amends regularly.

The Broadcast Ethics Committee meets monthly and is chaired by the managing director in charge. The committee reports problems related to broadcast ethics and distributes relevant information.

The Special Committee for Broadcasting and Human Rights was set up in February 1997. It receives proposals every three months from lawyers and journalists outside the Company.

Guidelines on News Ethics are revised once a year by TBS News. The guidelines aim to improve broadcast ethics and prevent human rights violations.

Most programmings are audited before broadcast primarily by **the Division of Program Review and Media Literacy**. Live programs are also monitored.

For some live broadcasts, dedicated staff check for errors in subtitles and other items.

TBS Broadcasting Standards (Preface) (Established October 1951; Amended April 1992)

The mission of TBS shall be to recognize the social responsibilities of broadcasting and its public mission, to endeavor to popularize and improve cultural expression by sufficiently leveraging the characteristics of various media and to contribute to the public welfare and the realization of a peaceful, democratic world, a better society and a healthier global environment.

Based on the principle that television and radio are the property of the citizens of Japan, TBS shall support freedom of expression, raise the social effectiveness of advertising and publicity and respond to the expectations and trust of the Japanese people by respecting basic human rights, valuing public opinion, maintaining impartial positions and ensuring autonomy.

TBS Group

As of March 31, 2004

TOKYO BROADCASTING SYSTEM, INC.

BROADCASTING — 17 Companies

TBS Radio & Communications, Inc.
TBS Entertainment, Inc.
TBS Sports, Inc.
TBS Live, Inc.
TBS Service, Inc.
TBS Vision, Inc.
ACS, Inc.
Tokyo Broadcasting System International, Inc.
Toho Seisaku Co., Ltd.
Pec Co., Ltd.
Akasaka Video Center Co., Ltd.
Dreamax Television Co., Ltd.
Akasaka Graphics Art, Inc.
Sounds Art Co., Ltd.
F&F, Inc.
Telecom Sounds, Inc.
ProCam., Inc.

REAL ESTATE — 5 Companies

Midoriyama Studio City Inc.
TBS Kaikan Co., Ltd.
TBS Kikaku Co., Ltd.
Akasaka Heat Supply Co., Ltd.
TBS Sun Work Co., Ltd.

OTHERS — 6 Companies

Nichion, Inc.
TBS Plaza Co., Ltd.
TBS Media Research Institute, Inc.
TRC Co., Ltd.
Grand Marché, Inc.
Yokohama BayStars Baseball Club, Inc.

COMPANIES UNDER THE EQUITY METHOD — 4 Companies

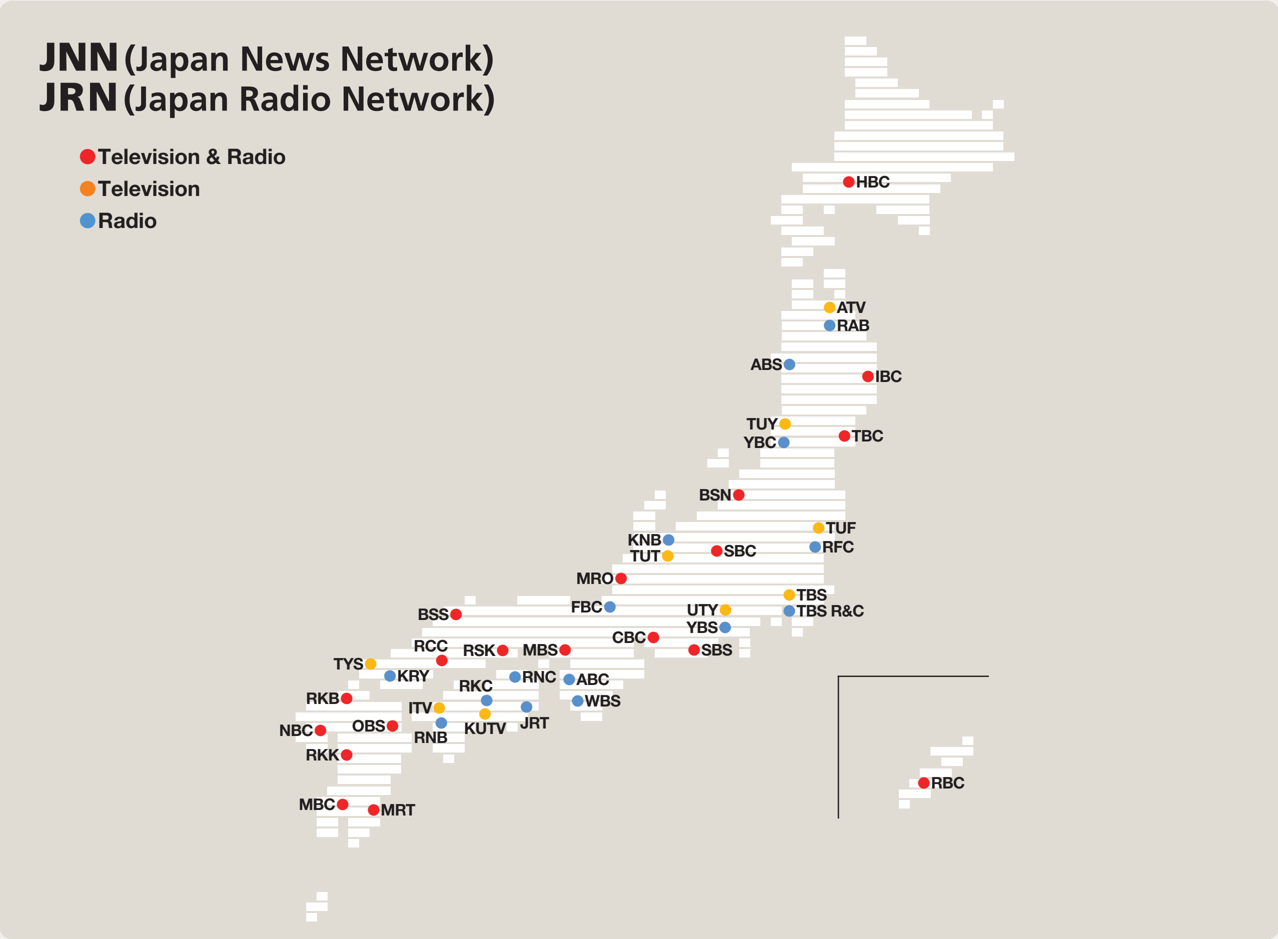
BS-i, Inc.
Tomo-Digi Corp.
Totsu Co., Ltd.
TLC. Co., Ltd.

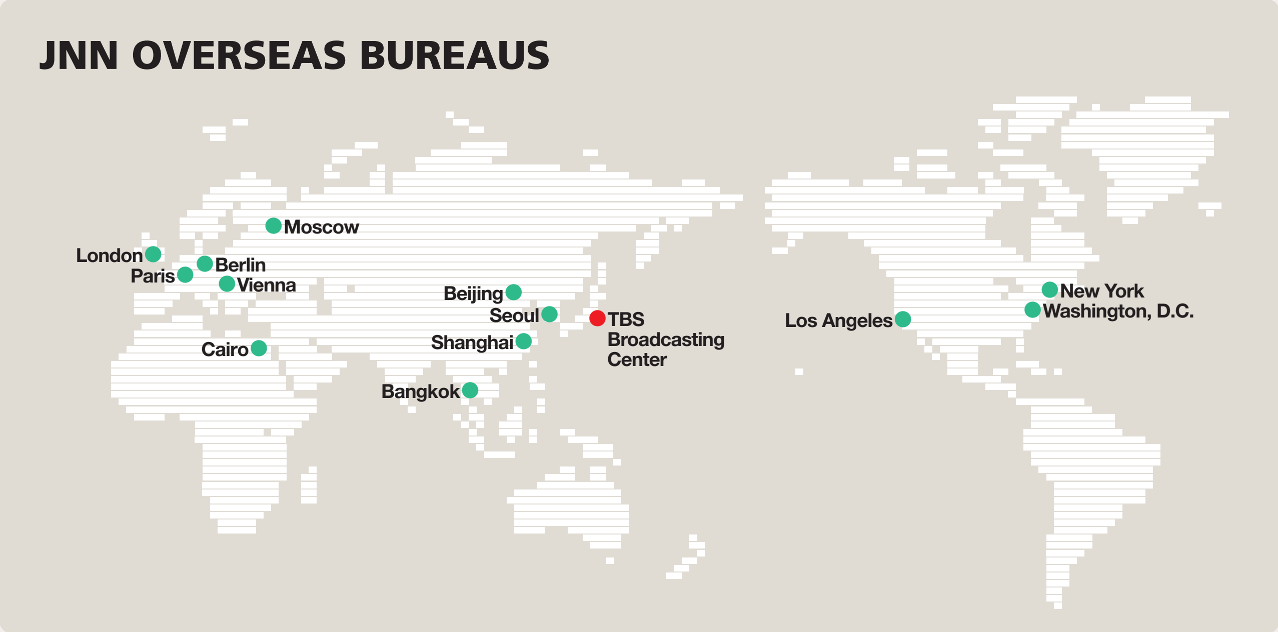
Change in Consolidated Subsidiary

Note: Kinoshita Production Co., Ltd. changed its corporate name to Dreamax Television Co., Ltd. on July 1, 2003.

Network

As of March 31, 2004





Consolidated Basis (Tokyo Broadcasting System, Inc. and Consolidated Subsidiaries)

	Millions of yen						Thousands of U.S. dollars
Years ended March 31	**2004**	2003	2002	2001	2000	1999	**2004**
For the year:							
Net sales	**¥295,016**	¥294,840	¥291,256	¥289,561	¥260,676	¥254,392	**$2,791,333**
Broadcasting	**257,387**	258,817	262,005	260,988	236,191	231,751	**2,435,301**
Real estate	**2,865**	3,939	4,703	4,903	5,129	5,749	**27,108**
Others	**34,764**	32,084	24,548	23,670	19,356	16,892	**328,924**
Cost of sales	**201,924**	197,992	193,028	186,968	173,852	170,955	**1,910,531**
Gross profit	**93,092**	96,848	98,228	102,593	86,824	83,437	**880,802**
Selling, general and administrative expenses	**67,821**	72,521	66,986	66,766	62,358	65,874	**641,697**
Operating income	**25,271**	24,327	31,242	35,827	24,466	17,563	**239,105**
Income before income taxes and minority interests	**10,305**	23,730	28,249	35,011	24,801	15,657	**97,502**
Net income	**4,077**	10,599	14,652	19,143	13,682	8,239	**38,575**
Capital expenditures	**20,018**	13,805	8,051	10,204	7,573	5,958	**189,403**
Depreciation	**10,811**	10,023	9,875	9,869	11,021	11,808	**102,290**
Per share data (in yen and U.S. dollars)**:**							
Net income	**¥ 21.73**	¥ 59.10	¥ 83.77	¥ 109.45	¥ 78.24	¥ 47.12	**$ 0.206**
Shareholders' equity	**1,850.28**	1,692.03	1,892.44	1,365.67	1,260.73	1,167.04	**17.51**
At year-end:							
Total assets	**¥484,606**	¥443,779	¥522,130	¥376,271	¥348,915	¥339,118	**$4,585,164**
Interest-bearing liabilities	**44,748**	49,497	57,892	58,236	59,515	79,611	**423,389**
Total shareholders' equity	**326,108**	298,288	330,946	238,871	220,515	204,080	**3,085,514**
Ratios:							
Return on assets (%)	**0.9**	2.2	3.3	5.3	4.0	2.5	**—**
Return on equity (%)	**1.3**	3.4	5.1	8.3	6.4	4.1	**—**
Equity ratio (%)	**67.3**	67.2	63.4	63.5	63.2	60.2	**—**

Note: The U.S. dollar amounts in this report are provided for convenience only and have been converted at the rate of ¥105.69 to $1.00, the approximate rate of exchange in effect as of March 31, 2004.

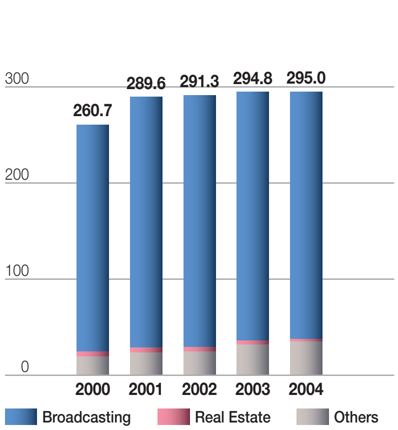
Non-Consolidated Net Sales (Tokyo Broadcasting System, Inc.)

	Millions of yen						Thousands of U.S. dollars
Years ended March 31	**2004**	2003	2002	2001	2000	1999	**2004**
Television:							
Time sales	**¥ 55,322**	¥ 54,861	¥ 55,174	¥ 53,147	¥49,693	¥49,898	**$523,436**
Spot sales	**101,110**	101,295	104,196	109,301	96,069	90,679	**956,666**
Programming	**62,237**	63,670	63,594	61,793	57,849	59,026	**588,864**
Others	**13,251**	14,178	13,885	9,962	5,851	6,174	**125,376**
Radio	**—**	—	8,679	15,812	15,361	16,020	**—**
Others	**24,744**	23,560	23,267	22,821	17,162	16,405	**234,119**

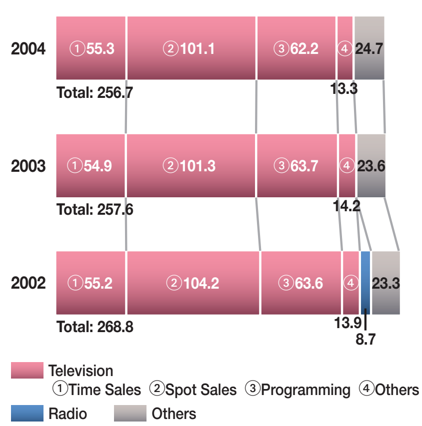
Note: The U.S. dollar amounts in this report are provided for convenience only and have been converted at the rate of ¥105.69 to $1.00, the approximate rate of exchange in effect as of March 31, 2004.

Tokyo Broadcasting System, Inc. and Consolidated Subsidiaries
Years ended March 31

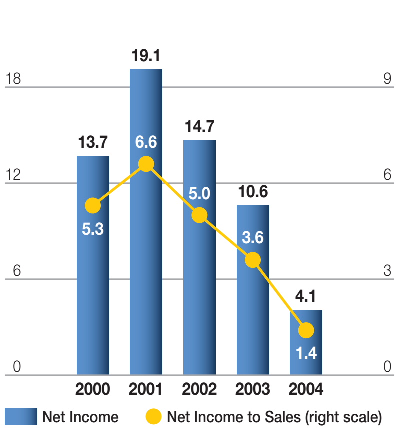
Net Sales by Segment
(Billions of yen)



Non-Consolidated Net Sales by Segment
(Billions of yen)

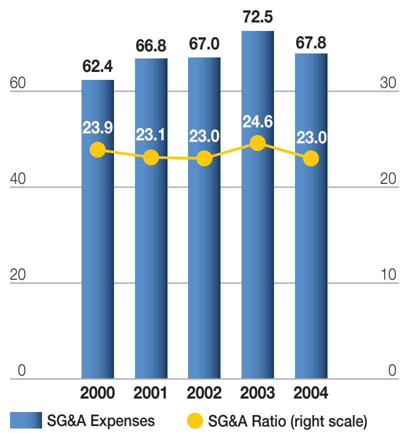


Net Income / Net Income to Sales
(Billions of yen) (%)

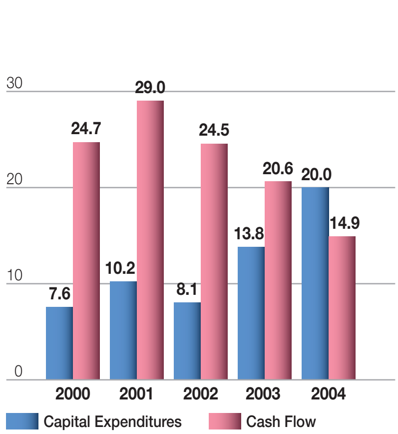


Operating Income / Operating Income to Sales
(Billions of yen) (%)

SG&A Expenses / SG&A Ratio
(Billions of yen) (%)

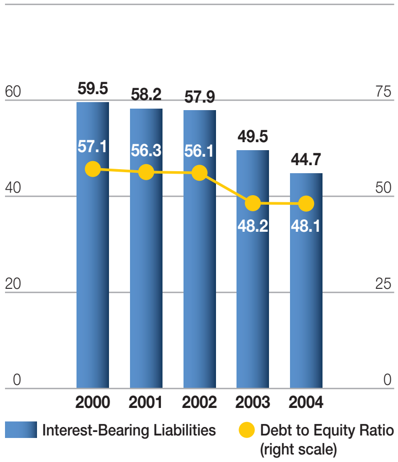


Capital Expenditures / Cash Flow*
(Billions of yen)



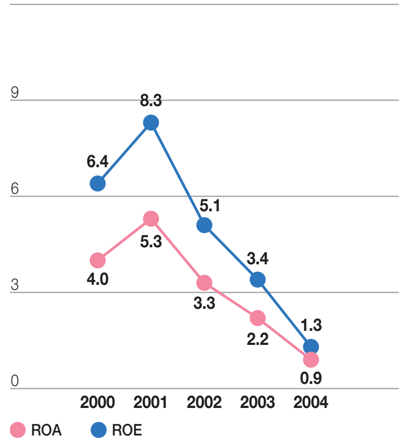
* Cash Flow = Net Income + Depreciation & Amortization

Interest-Bearing Liabilities / Debt to Equity Ratio*
(Billions of yen) (%)

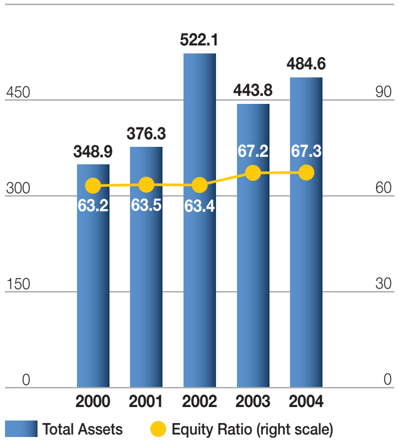


* Debt to Equity Ratio = Total Liabilities ÷ Total Shareholders' Equity × 100

ROA (Return on Assets) & ROE (Return on Equity)
(%)



Total Assets / Equity Ratio
(Billions of yen) (%)



OVERVIEW

In the fiscal year under review, ended March 31, 2004, the Japanese economy followed a gradual recovery trend, despite the impact of the Iraq war and SARS (Severe Acute Respiratory Syndrome), thanks to growth in exports and capital investment in the second half. However, against a backdrop of continued deflation and a severe employment environment, personal consumption lacked definition and business conditions fell short of achieving a full-scale recovery.

Companies temporarily reined in their advertising expenditure in the first half, but positive indicators began to emerge as corporate earnings improved, advertisements increased, especially for digital home electronics, and the overall advertising market held firm.

Operating in this environment, TBS and the TBS Group concentrated management resources in the production of high-quality programming in order to successfully navigate a transition period in the TV broadcasting industry characterized by digitization and the fusion of broadcasting and communications. On the operations side, the Company aggressively promoted flexible sales activities carefully tailored to the diversifying needs of advertisers.

Consolidated net sales for the term increased 0.1% from the previous year to ¥295,016 million, a historic high. Led by software and program rights, non-broadcasting revenues increased substantially and this compensated for decreased revenues from broadcasting. On the profit side, operating income increased 3.9% year-on-year to ¥25,271 million, but net income declined 61.5% from the previous term to ¥4,077 million due to the posting of extraordinary losses that included amortization of actuarial differences on retirement benefit obligations.

SEGMENT ANALYSIS

Broadcasting

Revenues from broadcasting for the fiscal year under review declined 0.6% year-on-year to ¥257,387 million, while operating income marked time with the previous year at ¥18,329 million.

TBS Broadcasting Center (Tokyo)

Television

Time sales came very close to the level of the previous year. While there was some slowing in sales from regular programs, sales were solid for special programming such as the *IAAF World Championships of Athletics in Paris* and *Satokibi Batake No Uta*, a special drama commemorating 50 years of television.

Spot sales for the term more or less marked time with the previous year as a result of record high monthly sales in March 2004 thanks to a gradual rebound in advertising demand in the second half. By segment, sales of advertising for general electronic equipment, precision machinery, office machinery and financial services were solid.

With respect to programming, the Company climbed from last year's position of fourth to third in average viewer ratings with a 7.7% overall rating. It maintained its third place positions from a year ago in golden time with 12.6% and prime time with 12.5%.

TBS also broadcast a large number of quality entertainment programs that were especially popular with viewers. In particular, the match between Akebono and Bob Sapp broadcast on New Year's Eve on *K-1 PREMIUM 2003 Dynamite!! The Match to Decide the Toughest Man in the World* garnered a momentary viewer rating of 43.0%. This was an exceptional achievement in that it was the first time in the history of Japanese television that a program earned higher ratings, if only for a few minutes, than NHK's annual *New Year's Eve Grand Song Festival*. Moreover, of the 15 major specials TBS broadcast over the course of the year, 10 garnered ratings of 15% or higher. In addition, the drama *Satokibi Batake No Uta* won the Grand Prize in the television division at the National Arts Festival, which is sponsored by the Agency of Cultural Affairs.

Viewer ratings for dramas slumped in summer 2003, but recovered in fall. The Company earned the top spot for average viewer ratings for golden time in April 2004.

Revenue from BS digital broadcasting company BS-i, Inc., an equity method subsidiary, increased ¥303 million year-on-year to ¥4,639 million. It was the only commercial BS station to post revenue gains. Its operating loss totaled ¥5,116 million, a ¥1,744 million improvement from the previous year. Sales of receivers for BS digital broadcasting grew at a pace exceeding that of the previous year, and the number of households capable of receiving BS digital broadcasting rose to 5.4 million as of the end of March 2004. Targeting an audience segment that differs from terrestrial television, BS-i will provide high-quality, attractive content that leverages the characteristics of interactive media.

Radio

In the radio segment, TBS's radio license was transferred to its subsidiary TBS Radio & Communications, Inc. on October 1, 2001.

Supported by strong audience ratings, time sales and spot sales in the year under review both recorded year-on-year improvements on the back of sales growth in food and beverages, communications, life- and non-life insurance and other areas. Net sales increased 2.4% year-on-year to ¥15,765 million and operating income climbed 45.9% year-on-year to ¥1,007 million. The substantial increase in operating income can be attributed to the effects of cost reductions, successful company-wide implementation of management control and creating new attractive TV programs through prompt judgments and actions—objectives that were set out when the subsidiary was established.

Additionally, TBS Radio & Communications earned the top slot in each of the six audience surveys conducted during the year under review. The company has been number one in 19 consecutive surveys covering the three years from August 2001 to August 2004. It continues to maintain its position as the leading radio company in the Tokyo Metropolitan Area.

Real Estate

Revenues from real estate declined 27.3% year-on-year to ¥2,865 million, and operating income dropped 42.4% year-on-year to ¥436 million. The decreases were due to the closure and dismantling of revenue-producing properties such as the TBS Kaikan and Akasaka Media Building, as a part of the Company's Akasaka redevelopment project.

Other Businesses

Revenues from other businesses increased 8.4% from the previous year to ¥34,764 million, while operating income climbed 20.1% year-on-year to ¥6,406 million. Growth in this segment was driven by sales in TBS's division handling "Other Businesses," which grew 12.4% from the previous year to ¥20,121 million, surpassing the ¥20,000 million mark for the first time.

In the software and program rights business, DVD sales of *Good Luck!!*, *Kisarazu Cat's Eye* and other dramas were strong, and the three-disk DVD box set *Hachijidayo! Zenninshugo*, which was released in January 2004, proved to be a major hit as more than 210,000 sets were sold in only a two-month period.

TBS also released a succession of popular theatrical films that included *Han Ochi* and *Kisarazu Cat's Eye Japan Series*. As a result of these activities, revenues from the software and program rights business rose significantly, increasing 42.6% from the previous year to ¥7,676 million.

Media commerce witnessed steady sales growth behind the strong performance of an Internet shopping site for cellular phones, which commenced operations in August 2003.

INCOME AND EXPENSES

Cost of sales increased 2.0% compared with the preceding year to ¥201,924 million, and the cost of sales ratio rose 1.2 percentage points to 68.4%.

Selling, general and administrative (SG&A) expenses decreased 6.5% year-on-year to ¥67,821 million. The SG&A expense ratio dropped 1.6 percentage points compared with the previous year to 23.0%. In addition to reductions in personnel costs, down 6.7% year-on-year, and outsourcing expenses, down 15.6% year-on-year, the Company posted retirement benefit expenses of approximately ¥10,400 million as an extraordinary loss in the year under review, whereas in the previous year approximately ¥2,000 million had been included in general and administrative expenses.

With the introduction of a new SAP integrated accounting system in October 2001, the Company is making steady progress in reforming its cost structure by expediting the identification of program costs and revising production processes.

TV program production costs totaled ¥119,000 million for the full term, an increase of 0.8% year-on-year. Production costs increased in the first half compared with the same period of the previous year due to broadcasting the *IAAF World Championships of Athletics in Paris* and news programming related to the Iraq war. The second half, however, marked time with a year ago thanks to efforts to reduce costs. TV program production costs for the year ending March 2005 are forecast to be almost the same as in the year under review, at approximately ¥119,000 million.

Capital expenditures for the year totaled ¥20,018 million, and depreciation amounted to ¥10,811 million. Principal expenditures were ¥5,200 million for transmission facilities for digital terrestrial television, ¥6,900 million for updating studios in order to produce high-definition television programs, ¥2,900 million for general broadcasting equipment and ¥3,100 million for the Akasaka redevelopment project. Investment related to digital terrestrial television has now reached its peak.

With construction finally set to begin for the Akasaka redevelopment project, TBS forecasts capital expenditures of ¥27,500 million and depreciation of ¥13,500 million for the year ending March 2005.

As a result of these developments, operating income increased 3.9% from the preceding year to ¥25,271 million, and the ratio of operating income to net sales inched up 0.3 percentage points to 8.6%. Net income declined 61.5% year-on-year to ¥4,077 million due to amortizing ¥10,444 million in actuarial differences on retirement benefit obligations and posting the amount as an extraordinary loss. The ratio of net income to sales dropped 2.2 percentage points to 1.4%.

FINANCIAL POSITION

Consolidated total assets amounted to ¥484,606 million, an increase of ¥40,827 million, or 9.2%, from the previous year-end. Of this total, current assets decreased ¥7,722 million, or 5.1%, year-on-year to ¥144,875 million. This was due to cash on hand and in banks declining ¥7,966 million because of capital expenditure for digital terrestrial television and the repayment of borrowings.

Fixed assets increased ¥48,549 million, or 16.7%, year-on-year to ¥339,731 million. Of this total, property and equipment, net rose ¥4,768 million, or 2.7%, from the previous year-end to ¥178,862 million due to capital expenditures centering on facilities for transmitting digital terrestrial television and facilities for responding to the spread of high-definition television. Investments and other assets climbed ¥43,781 million, or 37.4%, year-on-year to ¥160,869 million due in part to an increase—caused by the stock market recovery—in the market value of shares held by TBS in Tokyo Electron Ltd. and other companies.

Liabilities totaled ¥156,787 million, an increase of ¥13,028 million, or 9.1%, compared with the preceding year-end. Just as with total assets, this change was due to a recovery in the market value of investments in securities, which caused an increase of ¥13,374 million in deferred tax liabilities (long-term). Interest-bearing liabilities at the term-end totaled ¥44,748 million, a year-on-year decrease of ¥4,749 million. As a result, interest expense decreased ¥270 million, or 57.4%, compared with the previous year to ¥200 million.

Shareholders' equity amounted to ¥326,108 million, a year-on-year increase of ¥27,820 million, or 9.3%. As with total assets, higher market values for investments in securities led to an increase of ¥25,798 million in unrealized gains on available-for-sale securities. Retained earnings increased ¥2,073 million, and these factors contributed to the change in shareholders' equity. The shareholders' equity ratio remained almost the same as at the previous year-end, at 67.3%.

CASH FLOWS

Cash Flows from Operating Activities

Net cash provided by operating activities totaled ¥19,075 million, compared with ¥23,368 million in the previous year, for a year-on-year decline of ¥4,293 million. This was due to outflows of ¥6,295 million related to changes in assets and liabilities that comprised an increase of ¥1,860 million in notes and accounts receivable-trade, an increase in inventories of ¥2,749 million and a decrease in notes and accounts payable-trade of ¥1,686 million.

Income before income taxes and minority interests decreased 56.6% year-on-year to ¥10,305 million. However, taking into account the adjustments to income before income taxes and minority interests—specifically, retirement and severance benefit expenses of ¥8,066 million and losses on disposal of property and equipment from redevelopment of Company-owned land in Akasaka of ¥2,666 million—the Company secured funds in nearly the same amount as in the previous year. Therefore, the decrease in income before income taxes and minority interests was not a factor in cash outflow.

Cash Flows from Investing Activities

Net cash used in investing activities amounted to ¥20,412 million, compared with ¥7,193 million used in the previous year, for a year-on-year increase of ¥13,219 million. This was due to ¥20,018 million—a year-on-year increase of ¥6,213 million—for capital expenditures centered on the construction of facilities for digital terrestrial television, which commenced in December 2003, and to a substantial decline in proceeds from sale of marketable securities, which decreased from ¥10,988 million in the previous year to ¥2,382 million.

Cash Flows from Financing Activities

Net cash used in financing activities totaled ¥6,564 million, compared with ¥11,625 million used in the preceding year, for a year-on-year decrease of ¥5,061 million. Funds from affiliates centralized through a cash management system, which was implemented to effectively utilize funds dispersed throughout Group companies, decreased ¥4,677 million compared with the previous year, the initial year of the system. However, there were no significant outflows from redemption of bonds, leading to this year's result.

As a result of these activities, cash and cash equivalents at term-end totaled ¥57,530 million, a year-on-year decrease of ¥7,966 million.

OUTLOOK

Although there are some factors causing uncertainty such as the situation in Iraq, the economy for the present is sending positive signals. With the upturn in the advertising market, for the first time in three years TBS anticipates increased non-consolidated revenues in the fiscal year ending March 2005 from television broadcasting, the Company's revenue pillar.

However, the acquisition of facilities related to digitization is reaching its peak and increases in depreciation will put pressure on income. The Company plans to continue to strengthen terrestrial television programs while controlling costs appropriately and working to secure earnings.

TBS expects a substantial increase in net income because there will not be an extraordinary loss from actuarial differences on retirement benefit obligations, rather there will be an extraordinary gain from them.

As a result of these considerations, the Company forecasts consolidated net sales in the year ending March 2005 to increase 0.3% year-on-year to ¥296,000 million, operating income to decrease 18.9% year-on-year to ¥20,500 million and net income to increase 218.9% year-on-year to ¥13,000 million.

Consolidated Balance Sheets

Tokyo Broadcasting System, Inc. and Consolidated Subsidiaries
As of March 31, 2004 and 2003

	Millions of yen		*Thousands of U.S. dollars (Note 1)*
ASSETS	***2004***	*2003*	***2004***
Current assets:			
Cash on hand and in banks (Note 3)	**¥ 57,661**	¥ 65,627	**$ 545,567**
Marketable securities (Notes 2 (c) and 15)	**1,003**	2,381	**9,490**
Notes and accounts receivable—trade	**62,988**	61,128	**595,969**
Allowance for doubtful accounts (Note 2 (i))	**(217)**	(111)	**(2,053)**
Inventories (Notes 2 (d) and 5)	**11,930**	9,181	**112,877**
Deferred tax assets (Note 8)	**3,344**	3,080	**31,640**
Prepaid expenses and other current assets	**8,166**	11,311	**77,264**
Total current assets	**144,875**	152,597	**1,370,754**
Property and equipment (Note 2 (e))**:**			
Land	**76,157**	76,139	**720,570**
Buildings	**116,436**	122,333	**1,101,675**
Machinery and equipment (Note 6)	**78,938**	77,587	**746,882**
Construction in progress	**12,817**	6,173	**121,270**
Total property and equipment	**284,348**	282,232	**2,690,397**
Less: Accumulated depreciation	**(105,486)**	(108,138)	**(998,070)**
Property and equipment, net	**178,862**	174,094	**1,692,327**
Investments and other assets:			
Investments in securities (Notes 2 (c), 15 and 17)	**142,510**	95,950	**1,348,377**
Long-term prepaid expenses (Note 2 (g))	**4,683**	6,552	**44,309**
Intangible and other assets (Notes 2 (f), 2 (m) and 11)	**13,394**	13,728	**126,729**
Allowance for doubtful accounts (Note 2 (i))	**(578)**	(535)	**(5,469)**
Deferred tax assets (Note 8)	**860**	1,393	**8,137**
Total investments and other assets	**160,869**	117,088	**1,522,083**
Total assets	**¥ 484,606**	¥ 443,779	**$4,585,164**

The accompanying notes are an integral part of these consolidated balance sheets.

LIABILITIES, MINORITY INTERESTS AND SHAREHOLDERS' EQUITY	Millions of yen 2004	2003	Thousands of U.S. dollars (Note 1) 2004
Current liabilities:			
Short-term borrowings (Notes 7 and 17)	**¥ 9,091**	¥ 13,768	**$ 86,016**
Current portion of long-term debt (Note 7)	**5,472**	72	**51,774**
Notes and accounts payable—trade	**26,731**	28,417	**252,919**
Accounts payable—other	**17,962**	15,472	**169,950**
Income taxes payable (Notes 2 (l) and 8)	**4,181**	6,809	**39,559**
Accrued expenses	**4,673**	4,456	**44,214**
Other current liabilities	**3,132**	4,301	**29,634**
Total current liabilities	**71,242**	73,295	**674,066**
Long-term liabilities:			
Long-term debt (Note 7)	**30,185**	35,657	**285,599**
Allowance for retirement and severance benefits (Notes 2 (j) and 10)	**14,534**	6,671	**137,515**
Deferred tax liabilities (Note 8)	**38,030**	24,656	**359,826**
Other long-term liabilities	**2,796**	3,480	**26,455**
Total long-term liabilities	**85,545**	70,464	**809,395**
Total liabilities	**156,787**	143,759	**1,483,461**
Minority interests	**1,711**	1,732	**16,189**
Contingent liabilities (Note 19)			
Shareholders' equity:			
Common stock (Note 9)	**44,163**	44,163	**417,854**
Authorized: 400,000,000 shares			
Issued and outstanding:			
179,996,968 shares at March 31, 2004 and 2003			
Additional paid-in capital (Note 9)	**42,562**	42,562	**402,706**
Retained earnings (Note 9)	**174,970**	172,897	**1,655,502**
Accumulated other comprehensive income—			
Unrealized gain on available-for-sale securities (Note 2 (c))	**64,863**	39,065	**613,710**
Foreign currency translation adjustment (Note 2 (b))	**(39)**	25	**(369)**
Treasury stock at cost	**(411)**	(424)	**(3,889)**
Total shareholders' equity	**326,108**	298,288	**3,085,514**
Total liabilities, minority interests and shareholders' equity	**¥484,606**	¥443,779	**$4,585,164**

Consolidated Statements of Income

Tokyo Broadcasting System, Inc. and Consolidated Subsidiaries
For each of the three years in the period ended March 31, 2004

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2004	*2003*	*2002*	***2004***
Net sales (Notes 17 and 18)	**¥295,016**	¥294,840	¥291,256	**$2,791,333**
Cost of sales (Notes 16, 17 and 18)	**201,924**	197,992	193,028	**1,910,531**
Gross profit	**93,092**	96,848	98,228	**880,802**
Selling, general and administrative expenses (Notes 16, 17 and 18)	**67,821**	72,521	66,986	**641,697**
Operating income	**25,271**	24,327	31,242	**239,105**
Other income (expenses):				
Interest and dividend income	**417**	526	1,054	**3,946**
Interest expense (Note 17)	**(200)**	(470)	(854)	**(1,893)**
Equity in earnings of affiliates	**(1,846)**	(1,359)	(2,122)	**(17,466)**
Gain on sale of investment securities	**905**	360	212	**8,563**
Gain on deemed sale of subsidiary shares	**—**	915	—	**—**
Loss on devaluation of investment securities	**(789)**	(1,627)	(582)	**(7,465)**
Gain on contribution of securities to employee retirement benefit trust (Note 2 (j))	**—**	2,002	2,831	**—**
Retirement and severance benefit expenses (Notes 2 (j) and 10)	**(10,444)**	—	(3,498)	**(98,817)**
Loss on disposal of fixed assets (Note 12)	**(2,666)**	—	—	**(25,225)**
Other, net (Note 13)	**(343)**	(944)	(34)	**(3,246)**
Total	**(14,966)**	(597)	(2,993)	**(141,603)**
Income before income taxes and minority interests	**10,305**	23,730	28,249	**97,502**
Income taxes (Note 8)**:**				
Current	**10,527**	14,021	12,861	**99,602**
Deferred	**(4,205)**	(1,068)	284	**(39,786)**
Total	**6,322**	12,953	13,145	**59,816**
Minority interest in income (loss) of consolidated subsidiaries	**(94)**	178	452	**(889)**
Net income	**¥ 4,077**	¥ 10,599	¥ 14,652	**$ 38,575**

	Yen			U.S. dollars (Note 1)
Per share of common stock (Note 2 (n))**:**				
Net income—basic	**¥21.73**	¥59.10	¥83.77	**$0.206**
Net income—diluted	**21.72**	58.23	82.24	**0.206**
Cash dividends	**10.00**	10.00	10.00	**0.095**

The accompanying notes are an integral part of these statements.

Consolidated Statements of Shareholders' Equity

Tokyo Broadcasting System, Inc. and Consolidated Subsidiaries
For each of the three years in the period ended March 31, 2004

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2004	2003	2002	**2004**
Common stock:				
Balance at beginning of year	**¥ 44,163**	¥ 44,163	¥ 44,163	**$ 417,854**
Balance at end of year	**44,163**	44,163	44,163	**417,854**
Additional paid-in capital:				
Balance at beginning of year	**42,562**	41,429	41,429	**402,706**
Stock issued in a share exchange	**—**	1,133	—	**—**
Balance at end of year	**42,562**	42,562	41,429	**402,706**
Retained earnings:				
Balance at beginning of year	**172,897**	165,259	153,228	**1,635,888**
Increase from the merger by an equity-method affiliate	**—**	—	248	**—**
Net income	**4,077**	10,599	14,652	**38,575**
Cash dividends paid	**(1,766)**	(1,749)	(2,624)	**(16,709)**
Bonuses to directors and statutory auditors	**(238)**	(241)	(254)	**(2,252)**
Retirement of treasury stock	**—**	(971)	—	**—**
Other, net	**—**	—	9	**—**
Balance at end of year	**174,970**	172,897	165,259	**1,655,502**
Accumulated other comprehensive income:				
Balance at beginning of year	**39,090**	80,149	52	**369,855**
Unrealized gain (loss) on available-for-sale securities (Note 2 (c))	**25,798**	(41,004)	80,070	**244,091**
Foreign currency translation adjustment (Note 2 (b))	**(64)**	(55)	27	**(605)**
Balance at end of year	**64,824**	39,090	80,149	**613,341**
Treasury stock, at cost:	**(411)**	(424)	(54)	**(3,889)**
2002: 33,939 shares				
2003: 3,852,152 shares				
2004: 3,884,698 shares				
Total shareholders' equity	**¥326,108**	¥298,288	¥330,946	**$3,085,514**

The accompanying notes are an integral part of these statements.

Consolidated Statements of Cash Flows

Tokyo Broadcasting System, Inc. and Consolidated Subsidiaries
For each of the three years in the period ended March 31, 2004

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2004	2003	2002	**2004**
Cash flows from operating activities:				
Income before income taxes and minority interests	**¥ 10,305**	¥ 23,730	¥ 28,249	**$ 97,502**
Adjustments to reconcile income before income taxes and minority interests to net cash provided by operating activities:				
Depreciation	**10,811**	10,023	9,875	**102,290**
Amortization of long-term prepaid expenses	**2,064**	1,964	87	**19,529**
Gain on deemed sale of subsidiary shares	**—**	(915)	—	**—**
Gain on contribution of securities to employees' retirement benefit trust	**—**	(2,002)	(2,831)	**—**
Loss on devaluation of investment securities	**789**	1,627	582	**7,465**
Retirement and severance benefit expenses	**8,066**	(782)	3,498	**76,318**
Increase (Decrease) in allowance for doubtful accounts	**149**	142	(253)	**1,410**
Interest and dividend income	**(417)**	(526)	(1,054)	**(3,946)**
Interest expense	**200**	470	854	**1,893**
Loss on bond redemption	**—**	—	682	**—**
Equity in earnings of affiliates	**1,846**	1,359	2,122	**17,466**
Foreign exchange gains, net	**—**	(39)	(25)	**—**
Gain on sale of investment securities	**(905)**	(360)	(212)	**(8,563)**
Loss on disposal of fixed assets	**2,929**	—	—	**27,713**
Decrease (Increase) in notes and accounts receivable—trade	**(1,860)**	(106)	3,156	**(17,598)**
(Increase) Decrease in inventories	**(2,749)**	318	(1,275)	**(26,010)**
(Decrease) Increase in notes and accounts payable—trade	**(1,686)**	(224)	(1,091)	**(15,953)**
Others, net	**2,502**	829	(4,106)	**23,673**
Subtotal	**32,044**	35,508	38,258	**303,189**
Interest and dividends received	**416**	525	1,054	**3,936**
Interest paid	**(230)**	(481)	(984)	**(2,176)**
Income taxes paid	**(13,155)**	(12,184)	(19,444)	**(124,468)**
Net cash provided by operating activities	**19,075**	23,368	18,884	**180,481**
Cash flows from investing activities:				
Proceeds from withdrawal of time deposits	**—**	1,220	162	**—**
Proceeds from sale of marketable securities	**2,382**	10,988	44,664	**22,538**
Payment for purchase of property and equipment	**(15,196)**	(12,340)	(6,157)	**(143,779)**
Proceeds from sales of property and equipment	**30**	1,050	139	**284**
Payment for purchase of intangible assets	**(2,058)**	(1,465)	(1,777)	**(19,472)**
Payment for purchase of investments in securities	**(6,036)**	(7,114)	(1,755)	**(57,111)**
Proceeds from sale of investments in securities	**1,031**	362	502	**9,755**
Payment for purchase of subsidiaries' stock (Note 4)	**—**	—	(7,412)	**—**
Others, net	**(565)**	106	(1,194)	**(5,346)**
Net cash provided by (used in) investing activities	**(20,412)**	(7,193)	27,172	**(193,131)**
Cash flows from financing activities:				
Proceeds from short-term borrowings	**472**	13,768	—	**4,466**
Repayment of short-term borrowings	**(5,149)**	—	(71)	**(48,718)**
Proceeds from long-term borrowings	**—**	—	10,000	**—**
Repayment of long-term borrowings	**(72)**	(122)	(272)	**(681)**
Proceeds from issuance of bonds	**—**	—	20,000	**—**
Redemption of bonds	**—**	(22,039)	(30,682)	**—**
Payment for purchase of treasury stock	**(5)**	(56)	(30)	**(47)**
Proceeds from sale of treasury stock	**—**	—	15	**—**
Dividends paid	**(1,766)**	(1,749)	(2,624)	**(16,709)**
Dividends paid to minority shareholders	**(4)**	(34)	(14)	**(38)**
Dividends to minority shareholders due to the retirement of treasury stock	**—**	(971)	—	**—**
Others, net	**(40)**	(422)	(59)	**(379)**
Net cash used in financing activities	**(6,564)**	(11,625)	(3,737)	**(62,106)**
Effect of exchange rate change on cash and cash equivalents	**(65)**	(55)	16	**(615)**
Net increase (decrease) in cash and cash equivalents	**(7,966)**	4,495	42,335	**(75,371)**
Cash and cash equivalents at beginning of year	**65,496**	61,001	18,666	**619,699**
Cash and cash equivalents at end of year (Note 3)	**¥ 57,530**	¥ 65,496	¥ 61,001	**$ 544,328**

The accompanying notes are an integral part of these statements.

1. Basis of Presentation of Consolidated Financial Statements

The accompanying consolidated financial statements have been prepared in accordance with the provisions set forth in the Japanese Securities and Exchange Law and its related accounting regulations, and in conformity with accounting principles generally accepted in Japan, which are different in certain respects as to application and disclosure requirements of International Financial Reporting Standards.

The accounts of overseas subsidiaries are based on their accounting records maintained in conformity with generally accepted accounting principles prevailing in the respective countries of domicile. The accompanying consolidated financial statements have been restructured and translated into English (with some expanded descriptions and the inclusion of consolidated statements of shareholders' equity) from the consolidated financial statements of the Company prepared in accordance with Japanese GAAP and filed with the appropriate Local Finance Bureau of the Ministry of Finance as required by the Securities and Exchange Law. Some supplementary information included in the statutory Japanese language consolidated financial statements, but not considered necessary for fair presentation, is not presented in the accompanying consolidated financial statements.

The translation of the Japanese yen amounts into U.S. dollars are included solely for the convenience of readers outside Japan, using the prevailing exchange rate at March 31, 2004, which was ¥105.69 to U.S.$1. The convenience translations should not be construed as representations that the Japanese yen amounts have been, could have been, or could in the future be, converted into U.S. dollars at this or any other rate of exchange.

2. Summary of Significant Accounting Policies

(a) Principles of consolidation

Consolidation

The consolidated financial statements include the accounts of the Company and its significant subsidiaries which are controlled by the Company through substantial ownership of more than 50% of the voting rights or through ownership of 40-50% of the voting rights and the existence of certain conditions evidencing control by the Company of the decision-making body of such companies. Material inter-company balances, transactions and profits have been eliminated in consolidation.

The number of the consolidated subsidiaries was 28 for 2004, 2003 and 2002. The numbers of the unconsolidated subsidiaries for 2004, 2003 and 2002 were 17, 13 and 15, respectively. The total assets, net sales, net income and retained earnings of the unconsolidated subsidiaries are not material to the consolidated financial statements.

In the elimination of investments in subsidiaries, the assets and liabilities of the subsidiaries, including the portion attributable to minority shareholders, are recorded at the fair value at the time the Company acquired control of the respective subsidiaries. The amount of the difference between the cost of investment in consolidated subsidiaries and the underlying net equity at the acquisition dates based on the fair value (hereafter, "consolidation goodwill") is generally amortized over a period of five years on a straight-line basis, except that the consolidation goodwill related to "Yokohama BayStars" is amortized over twenty years on a straight-line basis and an immaterial difference is expensed in the year of acquisition.

The Company added ProCam., Inc. to its subsidiaries through acquisition of majority of the issued shares of ProCam., Inc. on July 1, 2002. Art House Co., Ltd. was merged into Acs, Inc. on April 1, 2002.

The accounts of the consolidated subsidiaries are included on the basis of their respective fiscal years, which ended mainly on March 31. Significant transactions made after the respective fiscal year-end other than March 31 are adjusted for consolidation as necessary. Grand Marché, Inc. has changed its closing date from January 31 to March 31, and the consolidated financial statements include the 14-month period ended March 31, 2003.

Kinoshita Production Co., Ltd. changed its corporate name to Dreamax Television Co., Ltd. on July 1, 2003.

Equity method

Investments in unconsolidated subsidiaries and certain companies where the Company has more than 15% of the voting rights and has the ability to significantly influence their financial, operational or business policies are accounted for using the equity method. The number of companies accounted for under the equity method was 4 for 2004, 2003 and 2002.

(b) Foreign currency translation

All monetary assets and liabilities denominated in foreign currencies are translated at the current exchange rates at the balance sheet date, and the translation gains and losses are charged to income.

Balance sheets and statements of income of the consolidated overseas subsidiary are translated into Japanese yen at the year-end rate except for shareholders' equity accounts, which are translated at the historical rates.

(c) Marketable securities and investments in securities

The Company and its consolidated subsidiaries reassess the intent of holding each security and classify those securities as (a) securities held for trading purposes (hereafter, "trading securities"), (b) debt securities intended to be held to maturity (hereafter, "held-to-maturity debt securities"), (c) equity securities issued by subsidiaries and affiliated companies and (d) for all other securities that are not classified in any of the above categories (hereafter, "available-for-sale securities").

The Company and its subsidiaries had no trading securities nor held-to-maturity debt securities. Equity securities issued by subsidiaries and affiliated companies which are not consolidated or accounted for using the equity method are stated at cost based on the moving average method. Effective April 1, 2001, available-for-sale securities with available fair market value are required to be stated at fair market value as of each balance sheet date. Unrealized gains and losses on these securities are reported, net of applicable income taxes, as a separate component of shareholders' equity. The cost of securities sold is determined by the moving average method.

As a result of adopting the new accounting standard for available-for-sale securities, unrealized gain on securities increased by ¥80,070 million, deferred income tax liabilities increased by ¥58,861 million and minority interests increased by ¥1,044 million.

(d) Inventories

Inventories are stated at cost, determined by the specific identification method.

(e) Property and equipment

Property and equipment are stated at cost. Depreciation of property and equipment is computed by the declining-balance method at rates based on the estimated useful lives of assets except that depreciation of buildings is computed mainly by the straight-line method over their estimated useful lives.

(f) Intangible assets

Amortization of intangible assets is computed by the straight-line method at rates based on the estimated useful lives.

(Software costs)

Amortization of the software for internal use is computed by the straight-line method at rates based on the estimated useful lives (five years).

(g) Long-term prepaid expenses

Amortization of long-term prepaid expenses is computed by the straight-line method.

(Advertisement effect related to Yokohama BayStars)

The Company and BS-i, Inc. (an affiliated company) acquired 700,000 shares of Yokohama BayStars Baseball Club, Inc. for ¥14,000 million (470,000 shares for ¥9,400 million by the Company and 230,000 shares for ¥4,600 million by BS-i) during the year ended March 31, 2002. Acquisition price paid by the Company included the estimated fair value of the expected advertisement effect through Yokohama BayStars in the amount of ¥6,019 million, which was recorded as long-term prepaid expenses and amortized over five years on a straight-line basis.

(h) Deferred charges

Bond issuance costs are expensed as incurred.

(i) Allowance for doubtful accounts

Allowance for doubtful accounts was established based primarily upon the Company's past credit loss experience and an evaluation of potential losses in outstanding accounts.

(j)Allowance for retirement and severance benefits

(1) Employees' retirement and severance benefits

The liabilities and expenses for retirement and severance benefits are determined based on the amounts actuarially calculated using certain assumptions.

Actuarial gains or losses incurred during the year are recognized in the following year. Prior service costs are amortized using the straight-line method over a certain period within the expected average remaining service life of employees.

For the year ended March 31, 2003, retirement and severance benefits for executive officers of the Company were provided under the internal guidelines, and the liability for the benefits was included in the allowance for retirement and severance benefits in the accompanying balance sheet. For the year ended March 31, 2004, there was no executive officer covered by such benefits.

(2) Directors' retirement and severance benefits

The Company provides the allowance for directors' retirement and severance benefits, which is also included in the allowance for retirement and severance benefits in the accompanying balance sheets.

(Additional information)

The Board of Directors of the Company resolved on May 19, 2004 that the Company would terminate the pension plans for directors upon closing of the annual general meeting of shareholders to be held on June 29, 2004. Accordingly, the Company's shareholders approved on June 29, 2004 that the current directors and corporate auditors upon retirement shall receive pensions, in accordance with the internal procedures then, within the amount accrued based on their services through June 29, 2004.

(k) Leases

Finance leases, except those leases for which the ownership of the leased assets are considered to be transferred to the lessee, are accounted for in the same manner as operating leases.

(l) Income taxes

The provision for income taxes is computed based on the pretax income included in the consolidated statements of income. The asset and liability approach is used to recognize deferred income taxes for the expected future tax consequences of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes.

(m) Derivative transaction and hedge accounting

For the year ended March 31, 2001, the Company entered into forward foreign exchange contracts to hedge foreign currency payables. The Company defers recognition of gains or losses resulting from changes in fair value of derivative financial instruments used for hedging purposes until the related losses or gains on the hedged items are recognized.

For the year ended March 31, 2002, the Company also entered into interest rate swap contracts to manage its interest rate risk exposures on certain liabilities. If interest rate swap contracts are used as hedges and meet certain hedging criteria, the net amount to be paid or received under the contract is added to or deducted from the interest on the assets or liabilities for which they are used.

(n) Per share information

Net income per share is computed based on the weighted-average number of shares of common stock outstanding during each year. Dividends per share have been presented on an accrual basis and include dividends approved or to be approved after March 31 but applicable to the year then ended.

Effective April 1, 2002, the Company adopted a new accounting standard for earnings per share and related guidance (Accounting Standards Board Statement No. 2, "Accounting Standard for Earnings Per Share" and Financial Standards Implementation Guidance No. 4, "Implementation Guidance for Accounting Standard for Earnings Per Share," issued by the Accounting Standards Board of Japan on September 25, 2002).

The Company's basic and diluted net income per share would have been ¥60.46 and ¥59.56, respectively, for the year ended March 31, 2003, had the amounts been computed under the former standard. The Company's basic and diluted net income per share would have been ¥23.15 ($0.219) for the year ended March 31, 2004, had the amounts been computed under the former standard.

(o) Statement of cash flows
In preparing the consolidated statement of cash flows, cash on hand, readily-available deposits and short-term highly liquid investments with maturities of not exceeding three months at the time of purchase are considered to be cash and cash equivalents.

(p) Reclassification
Certain prior period amounts in the consolidated financial statements have been reclassified to conform to the March 31, 2004 presentation. These reclassifications had no effect on the Company's consolidated net income or shareholders' equity.

(q) Use of estimates
The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(r) New accounting standard
In the year ended March 31, 2004, the Company did not adopt early the new accounting standard for impairment of fixed assets ("Opinion Concerning Establishment of Accounting Standard for Impairment of Fixed Assets" issued by the Business Accounting Deliberation Council on August 9, 2002) and the implementation guidance for the accounting standard for impairment of fixed assets (the Financial Accounting Standard Implementation Guidance No. 6 issued by the Accounting Standards Board of Japan on October 31, 2003). The new accounting standard is required to be adopted in periods beginning on or after April 1, 2005, but the standard does not prohibit earlier adoption. The Company will adopt these standards effective April 1, 2005.

The Company has begun its analysis of possible impairment of fixed assets. The Company cannot currently estimate the effect of adoption of the new standard, because the Company has not yet completed its analysis.

3. Cash and Cash Equivalents

Cash and cash equivalents at March 31, 2004, 2003 and 2002 were as follows:

	Millions of yen			*Thousands of U.S. dollars*
	2004	*2003*	*2002*	***2004***
Cash on hand and in banks	**¥57,661**	¥65,627	¥62,352	**$545,567**
Time deposits with the original maturity over three months	**(131)**	(131)	(1,351)	**(1,239)**
Cash and cash equivalents	**¥57,530**	¥65,496	¥61,001	**$544,328**

4. Statement of Cash Flows

The amounts of assets and liabilities of newly consolidated subsidiary
For the year ended March 31, 2003, the Company newly consolidated a subsidiary (ProCam., Inc.). The amounts of assets and liabilities at the beginning of the consolidation period of the newly consolidated subsidiary used in the computation of the current year's consolidated results and the acquisition cost of investments are as follows:

	Millions of yen
Current assets	¥ 300
Payment for purchase of subsidiary's stock	300
Cash and cash equivalents acquired	(300)
Acquisition cost of investment	¥ —

5. Inventories

Inventories at March 31, 2004 and 2003 were as follows:

	Millions of yen		*Thousands of U.S. dollars*
	2004	*2003*	***2004***
Program rights	**¥11,818**	¥9,058	**$111,817**
Real property held for sale and other	**112**	123	**1,060**
Total	**¥11,930**	¥9,181	**$112,877**

Program rights represent the costs incurred in connection with the production of programming or the purchase of rights to programs that are available to be broadcast in the future.

6. Pledged Assets

The net carrying value of pledged assets at March 31, 2004 and 2003 was as follows:

	Millions of yen		*Thousands of U.S. dollars*
	2004	*2003*	***2004***
Machinery and equipment	**¥549**	¥651	**$5,194**
Total	**¥549**	¥651	**$5,194**

These assets listed above were pledged to secure long-term borrowings (¥257million ($2,432 thousand) and ¥330 million at March 31, 2004 and 2003, respectively) including current portion (¥72 million ($681 thousand) and ¥72 million at March 31, 2004 and 2003, respectively).

7. Short-term Borrowings and Long-term Debt

Short-term borrowings represent 365-day notes issued to banks with the average interest rate of 0.12% at March 31, 2004.

Long-term debt at March 31, 2004 and 2003 was as follows:

	Millions of yen		*Thousands of U.S. dollars*
	2004	*2003*	***2004***
0.66% unsecured bonds due 2006	**¥10,000**	¥10,000	**$ 94,616**
0.89% unsecured bonds due 2007	**10,000**	10,000	**94,616**
Long-term borrowings from banks	**15,657**	15,729	**148,141**
	35,657	35,729	**337,373**
Less current portion	**(5,472)**	(72)	**(51,774)**
Total	**¥30,185**	¥35,657	**$285,599**

At March 31, 2004, due dates for long-term borrowings with the average interest rate of 1.320% per annum (excluding current portion) ranged from June 2004 to March 2008.

The annual maturities of long-term debt (including bonds and long-term borrowings) are as follows:

Year ending March 31	*Millions of yen*	*Thousands of U.S. dollars*
2005	¥ 5,472	$ 51,774
2006	10,072	95,297
2007	10,073	95,307
2008	10,040	94,995
	¥35,657	$337,373

8. Income Taxes

The statutory tax rate used for calculation of the deferred tax assets and liabilities was 42.05% for the year ended March 31, 2002.

Effective for years commencing on or after April 1, 2004, according to the revised local tax law, income tax rates for enterprise taxes will be reduced as a result of introducing the assessment by estimation on the basis of the size of business. Based on the change of income tax rates, for calculation of deferred tax assets and liabilities, the Company and consolidated domestic subsidiaries used the statutory tax rates of 42.05% and 40.49% for current items and non-current items, respectively, for the year ended March 31, 2003.

As a result, deferred tax liabilities decreased by ¥894 million and income taxes-deferred increased by ¥145 million compared with what would have been recorded under the previous local tax law.

During the year ended March 31, 2004, the statutory tax rate effective for the years beginning on or after April 1, 2004 slightly changed to 40.69% due to the fine-tuning of the tax rate for each local tax authority. Based on the change of income tax rates, for calculation of deferred income tax assets and liabilities, the Company and consolidated domestic subsidiaries used the statutory tax rate of 40.69% for current items and non-current items for the year ended March 31, 2004.

As a result, deferred income tax liabilities increased by ¥183 million ($1,731 thousand), deferred income tax assets decreased by ¥111 million ($1,050 thousand) and income taxes-deferred increased by ¥72 million ($681 thousand) compared with what would have been recorded under the previous local tax law.

Significant components of the deferred income taxes of the Company at March 31, 2004 and 2003 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	**2004**
Excess allowance for retirement and severance benefits for employees	**¥ 5,191**	¥ 1,306	**$ 49,115**
Excess accrued bonuses	**1,680**	1,338	**15,896**
Enterprise taxes	**370**	710	**3,501**
Allowance for retirement and severance benefits for directors	**496**	594	**4,693**
Devaluation of investments in securities	**1,220**	939	**11,543**
Loss on program rights	**432**	380	**4,088**
Unrealized gain on available-for-sale securities	**(44,912)**	(27,031)	**(424,941)**
Amortization of long-term prepaid expenses	**980**	506	**9,272**
Other	**1,697**	1,581	**16,056**
Less valuation allowance	**(980)**	(506)	**(9,272)**
Deferred tax liabilities, net	**¥(33,826)**	¥(20,183)	**$(320,049)**

Reconciliation of the differences between the statutory tax rate and the effective tax rate for the years ended March 31, 2004 and 2003 was as follows:

	2004	2003
Statutory tax rate	**42.05%**	42.05%
Increase (reduction) in taxes resulting from:		
Non-deductible expenses and non-taxable income	**11.59**	5.11
Equity in (earnings) losses of affiliates	**7.53**	2.41
Gain on deemed sale of subsidiary shares	**—**	(1.62)
Change in statutory tax rate	**2.22**	1.02
Effect of treasury stock repurchases	**—**	4.64
Effect of tax credit	**(2.23)**	—
Other	**0.19**	0.97
Effective tax rate	**61.35%**	54.58%

9. Shareholders' Equity

Under the Commercial Code of Japan (the "Code"), at least 50% of the issue price of new shares is required to be designated as common stock. The portion which is not transferred to common stock is determined by resolution of the Board of Directors. Proceeds not transferred to common stock are credited to additional paid-in capital.

Under the Code, certain amounts of retained earnings equal to at least 10% of cash dividends and bonuses to directors and statutory auditors must be set aside as a legal reserve, until the total amount of the reserve and additional paid-in capital equals 25% of common stock. The legal reserve and additional paid-in capital may be used to eliminate or reduce a deficit by resolution of the shareholders or may be capitalized by resolution of the Board of Directors. On condition that the total amount of legal reserve and additional paid-in capital remains being equal to or exceeding 25% of common stock, they are available for distribution by the resolution of the shareholders' meeting. Legal reserve is included in retained earnings in the accompanying financial statements.

The maximum amount that the Company can distribute as dividends is calculated based on the non-consolidated financial statements of the Company and in accordance with the Code.

At the Annual Shareholders' Meeting held on June 29, 2004, the Company's shareholders approved (1) payment of a year-end cash dividend of ¥10.00 ($0.095) per share aggregating ¥883 million ($8,355 thousand) to the shareholders of record as of March 31, 2004 and (2) payment of bonuses to directors and statutory auditors aggregating ¥90 million ($852 thousand). In conformity with the Code, this declaration of cash dividends is not reflected in the consolidated financial statements as of March 31, 2004.

Effective April 1, 2002, the Company adopted the new accounting standard for treasury stock and reversal of statutory reserves (Accounting Standards Board Statement No. 1, "Accounting Standard for Treasury Stock and Reversal of Statutory Reserves," issued by the Accounting Standards Board of Japan on February 21, 2002). The impact of the adoption of this new accounting standard on the financial statements was immaterial.

10. Employees' Retirement and Severance Benefits

The liabilities for retirement and severance benefits included in the consolidated balance sheets as of March 31, 2004 and 2003 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	**2004**
Projected benefit obligation	**¥ 49,244**	¥ 46,829	**$ 465,929**
Less: Fair value of plan assets	**(41,012)**	(32,522)	**(388,041)**
Unfunded obligation	**8,232**	14,307	**77,888**
Unrecognized actuarial differences	**5,027**	(10,444)	**47,564**
Liability for retirement and severance benefit, net	**13,259**	3,863	**125,452**
Prepaid pension cost	**—**	1,330	**—**
Liability for retirement and severance benefits	**¥ 13,259**	¥ 5,193	**$ 125,452**

Included in the consolidated statements of income for the years ended March 31, 2004 and 2003 were retirement and severance benefit expenses comprised the following:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	**2004**
Service costs-benefits earned during the year	**¥ 1,234**	¥1,735	**$ 11,676**
Interest cost on projected benefit obligation	**1,259**	1,275	**11,912**
Expected return on plan assets	**(536)**	(631)	**(5,071)**
Amortization of actuarial differences	**10,444**	2,010	**98,817**
Retirement and severance benefit expenses	**¥12,401**	¥4,389	**$117,334**

The discount rates used by the Company are 2.25% and 3.0% for the year ended March 31, 2004 and 2003, respectively. The rate of expected return on plan assets used by the Company is 2.5% for both 2004 and 2003. The estimated amount of all retirement benefits to be paid at the future retirement date is allocated equally to each service year based on the estimated number of total service years. Actuarial differences are to be charged to income in the following year of recognition.

11. Deferred Hedge Loss

Net deferred hedge loss in the accompanying consolidated balance sheets as of March 31, 2004 consisted of the following:

	Millions of yen	Thousands of U.S. dollars
	2004	2004
Deferred hedge loss	¥(1,685)	$(15,943)
Deferred hedge gain	412	3,898
Deferred hedge loss, net	¥(1,273)	$(12,045)

12. Loss on Disposal of Fixed Assets

Loss on disposal of fixed assets for the year ended March 31, 2004 consisted of the following:

	Millions of yen	Thousands of U.S. dollars
	2004	2004
Disposal of buildings	¥2,175	$20,579
Disposal of machinery and equipment	88	833
Removal cost	402	3,804
Others	1	9
Total	¥2,666	$25,225

13. Other Income (Expenses)

Details of other income (expenses)—"Other, net" in the accompanying consolidated statements of income were as follows:

	Millions of yen			Thousands of U.S. dollars
	2004	2003	2002	**2004**
Gain on sale of securities	**¥ —**	¥ —	¥ 7	**$ —**
Loss on bond redemption	**—**	—	(682)	**—**
Loss on regular disposal of property and equipment, net	**(263)**	(391)	(153)	**(2,488)**
Benefit on consumption taxes	**—**	95	468	**—**
Gain on sale of business	**—**	506	—	**—**
Additional severance benefits	**(126)**	(302)	—	**(1,192)**
Amortization of advance payments	**—**	(340)	—	**—**
Insurance proceeds	**160**	263	81	**1,514**
Other, net	**(114)**	(775)	245	**(1,080)**
Total	**¥(343)**	¥(944)	¥ (34)	**$(3,246)**

14. Leases

Finance leases, excluding those leases for which the ownership of the leased assets is considered to be transferred to the lessee, as of and for the years ended March 31, 2004 and 2003 were as follows:

(1) As if capitalized amounts of purchase price, accumulated depreciation and book value of leased assets:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	**2004**
Purchase price:			
Buildings	**¥ 67**	¥ 6	**$ 634**
Machinery	**12,147**	12,396	**114,930**
Equipment	**1,760**	1,987	**16,652**
	¥13,974	¥14,389	**$132,216**
Accumulated depreciation:			
Buildings	**¥10**	¥ 1	**$ 95**
Machinery	**7,032**	5,433	**66,534**
Equipment	**961**	972	**9,092**
	¥ 8,003	¥ 6,406	**$ 75,721**
Book value:			
Buildings	**¥ 57**	¥ 5	**$ 539**
Machinery	**5,115**	6,963	**48,396**
Equipment	**799**	1,015	**7,560**
	¥ 5,971	¥ 7,983	**$ 56,495**

(2) Lease commitments (including interest portion):

	Millions of yen		Thousands of U.S. dollars
	2004	2003	**2004**
Due within one year	**¥2,502**	¥2,762	**$23,673**
Due after one year	**3,469**	5,221	**32,822**
Total	**¥5,971**	¥7,983	**$56,495**

(3) Lease expenses and depreciation equivalents:

	Millions of yen			Thousands of U.S. dollars
	2004	2003	2002	**2004**
Lease expenses	**¥2,845**	¥2,791	¥3,012	**$26,918**
Depreciation equivalents	**¥2,845**	¥2,791	¥3,012	**$26,918**

Depreciation equivalents are computed by the straight-line method over the lease terms with no residual value.

15. Securities

The following tables summarize acquisition costs, book values and fair value of securities with available fair market values as of March 31, 2004:

(1) Securities with book values exceeding acquisition costs

	Millions of yen			Thousands of U.S. dollars		
Type	*Acquisition cost*	*Book value*	*Difference*	*Acquisition cost*	*Book value*	*Difference*
Available-for-sale securities with available fair market values:						
Equity securities	**¥12,269**	**¥123,045**	**¥110,776**	**$116,085**	**$1,164,207**	**$1,048,122**
Debt securities	**500**	**504**	**4**	**4,731**	**4,769**	**38**
Other securities	**—**	**—**	**—**	**—**	**—**	**—**
Total	**¥12,769**	**¥123,549**	**¥110,780**	**$120,816**	**$1,168,976**	**$1,048,160**

(2) Other securities

	Millions of yen			Thousands of U.S. dollars		
Type	*Acquisition cost*	*Book value*	*Difference*	*Acquisition cost*	*Book value*	*Difference*
Available-for-sale securities with available fair market values:						
Equity securities	**¥2,835**	**¥2,439**	**¥(396)**	**$26,824**	**$23,077**	**$(3,747)**
Debt securities	**500**	**499**	**(1)**	**4,730**	**4,721**	**(9)**
Other securities	**—**	**—**	**—**	**—**	**—**	**—**
Total	**¥3,335**	**¥2,938**	**¥(397)**	**$31,554**	**$27,798**	**$(3,756)**

Total sales of available-for-sale securities during the year ended March 31, 2004 amounted to ¥1,031 million ($9,755 thousand) and the related gains and losses amounted to ¥905 million ($8,563 thousand) and ¥5 million ($47 thousand), respectively.

The following tables summarize book values of securities with no available fair market values as of March 31, 2004:

	Millions of yen	*Thousands of U.S. dollars*
Non-listed equity securities	¥10,510	$ 99,441
Available-for-sale securities	6,516	61,652
Total	¥17,026	$161,093

Maturities of debt securities classified as available-for-sale at March 31, 2004 are as follows:

				Millions of yen
Type	*Within one year*	*Over one year but within five years*	*Over five years but within ten years*	*Over ten years*
Corporate bonds	**¥1,003**	**¥—**	**¥—**	**¥—**
Total	**¥1,003**	**¥—**	**¥—**	**¥—**

				Thousands of U.S. dollars
Type	*Within one year*	*Over one year but within five years*	*Over five years but within ten years*	*Over ten years*
Corporate bonds	**$9,490**	**$—**	**$—**	**$—**
Total	**$9,490**	**$—**	**$—**	**$—**

The following tables summarize acquisition costs, book values and fair value of securities with available fair market values as of March 31, 2003:

(1) Securities with book values exceeding acquisition costs

			Millions of yen
Type	*Acquisition cost*	*Book value*	*Difference*
Available-for-sale securities with available fair market values:			
Equity securities	¥4,621	¥72,300	¥67,679
Debt securities	1,183	1,203	20
Other securities	—	—	—
Total	¥5,804	¥73,503	¥67,699

(2) Other securities

			Millions of yen
Type	*Acquisition cost*	*Book value*	*Difference*
Available-for-sale securities with available fair market values:			
Equity securities	¥4,542	¥3,555	¥(987)
Debt securities	1,500	1,500	—
Other securities	4	4	—
Total	¥6,046	¥5,059	¥(987)

Total sales of available-for-sale securities during the year ended March 31, 2003 amounted to ¥362 million and the related gains and losses amounted to ¥360 million and ¥16 million, respectively.

The following tables summarize book values of securities with no available fair market values as of March 31, 2003:

	Millions of yen
Non-listed equity securities	¥12,510
Available-for-sale securities	7,259
Total	¥19,769

Maturities of debt securities classified as available-for-sale at March 31, 2003 are as follows:

				Millions of yen
Type	*Within one year*	*Over one year but within five years*	*Over five years but within ten years*	*Over ten years*
Corporate bonds	¥ 681	¥515	¥ 7	¥—
Others	1,500	—	—	—
Total	¥2,181	¥515	¥ 7	¥—

16. Research and Development Expenses

Research and development expenses are included in both cost of sales and selling, general and administrative expenses. Research and development expenses for the years ended March 31, 2004, 2003 and 2002 were ¥429 million ($4,059 thousand), ¥410 million and ¥462 million, respectively.

17. Related Party Transactions

Some of the Company's directors and statutory auditors (collectively, "the said directors") served as a representative director of other parties ("the said parties"). In this connection, the transactions between the Company and the said parties have been recognized as related party transactions in Japan. All of the following related party transactions were made by the said directors on behalf of the said parties and were consummated at arm's length.

The summary of related party transactions for each of the three years in the period ended March 31, 2004 was as follows:

Description of transactions (Nature of related parties)

	Millions of yen			Thousands of U.S. dollars
	2004	2003	2002	**2004**
Revenues:				
a) Directors				
Sales of advertising time (from certain broadcasting stations, an advertising agency and a newspaper publishing company)	**¥111,668**	¥112,293	¥112,272	**$1,056,562**
Room rent (from some associations)	**4**	3	6	**38**
b) Affiliated company				
Production fee	**3,575**	—	—	**33,825**
Expenses:				
a) Directors				
Dealing commission (to an advertising agency)	**21,561**	22,202	21,085	**204,002**
Network compensation (to certain broadcasting stations)	**2,924**	2,739	2,273	**27,666**
Advertisement in the paper (to a certain newspaper publishing company)	**85**	62	62	**804**
Donation (to a certain entity)	**30**	30	30	**284**
b) Affiliated company				
Program purchase expense	**457**	—	—	**4,324**
Interest expense	**14**	6	—	**132**
Others				
Affiliated company				
Underwriting of new shares issued	**—**	5,033	—	**—**
Borrowings	**—**	13,768	—	**—**
Repayment of short-term borrowings, net	**4,677**	—	—	**44,252**

Description of receivables and payables (Nature of related parties)

	Millions of yen 2004	Millions of yen 2003	Thousands of U.S. dollars 2004
Receivable pertaining to:			
a) Directors			
Sales of advertising time (from certain broadcasting stations, an advertising agency and a newspaper publishing company)	**¥23,204**	¥23,082	**$219,548**
b) Affiliates			
Production fee (from a broadcasting station)	**293**	—	**2,772**
Payable pertaining to:			
a) Directors			
Dealing commission (to an advertising agency)	**972**	1,023	**9,197**
Network compensation (to certain broadcasting stations)	**534**	783	**5,053**
Advertisement in the paper (to a certain newspaper publishing company)	**3**	7	**28**
b) Affiliates			
Short-term borrowings	**9,091**	13,768	**86,016**
Program purchase expense (to a broadcasting station)	**27**	—	**255**

18. Segment Information

The Company's and its subsidiaries' businesses are divided into the broadcasting segment, real estate segment and other segment. The others segment includes sales of DVD and VHS videos, overseas and domestic program sales, theatrical films, events, merchandising, e-commerce and management of professional baseball club, etc.

Financial information by industry segment for the years ended March 31, 2004, 2003 and 2002 are summarized as follows:

Millions of yen

Year ended March 31, 2004	*Broadcasting*	*Real estate*	*Others*	*Total*	*Elimination/ Headquarters*	*Consolidated*
1. Operating revenues and operating income						
Operating revenues						
(1) Outside customers	**¥257,387**	**¥ 2,865**	**¥34,764**	**¥295,016**	**¥ —**	**¥295,016**
(2) Inter-segment	**3,339**	**4,705**	**6,123**	**14,167**	**(14,167)**	**—**
Total	**260,726**	**7,570**	**40,887**	**309,183**	**(14,167)**	**295,016**
Operating expenses	**242,397**	**7,134**	**34,481**	**284,012**	**(14,267)**	**269,745**
Operating income	**¥ 18,329**	**¥ 436**	**¥ 6,406**	**¥ 25,171**	**¥ 100**	**¥ 25,271**
2. Assets, depreciation and capital expenditures						
Assets	**¥203,347**	**¥94,840**	**¥29,330**	**¥327,517**	**¥157,089**	**¥484,606**
Depreciation	**¥ 7,892**	**¥ 1,692**	**¥ 1,227**	**¥ 10,811**	**¥ —**	**¥ 10,811**
Capital expenditures	**¥ 13,542**	**¥ 5,136**	**¥ 1,340**	**¥ 20,018**	**¥ —**	**¥ 20,018**

Thousands of U.S. dollars

Year ended March 31, 2004	*Broadcasting*	*Real estate*	*Others*	*Total*	*Elimination/ Headquarters*	*Consolidated*
1. Operating revenues and operating income						
Operating revenues						
(1) Outside customers	**$ 2,435,301**	**$ 27,108**	**$328,924**	**$ 2,791,333**	**$ —**	**$2,791,333**
(2) Inter-segment	**31,592**	**44,517**	**57,934**	**134,043**	**(134,043)**	**—**
Total	**2,466,893**	**71,625**	**386,858**	**2,925,376**	**(134,043)**	**2,791,333**
Operating expenses	**2,293,471**	**67,500**	**326,247**	**2,687,218**	**(134,990)**	**2,552,228**
Operating income	**$ 173,422**	**$ 4,125**	**$ 60,611**	**$ 238,158**	**$ 947**	**$ 239,105**
2. Assets, depreciation and capital expenditures						
Assets	**$1,923,995**	**$897,341**	**$277,510**	**$3,098,846**	**$1,486,318**	**$4,585,164**
Depreciation	**$ 74,671**	**$ 16,009**	**$ 11,610**	**$ 102,290**	**$ —**	**$ 102,290**
Capital expenditures	**$ 128,129**	**$ 48,595**	**$ 12,679**	**$ 189,403**	**$ —**	**$ 189,403**

Year ended March 31, 2003	Broadcasting	Real estate	Others	Total	Elimination/ Headquarters	Consolidated
						Millions of yen
1. Operating revenues and operating income						
Operating revenues						
(1) Outside customers	¥258,817	¥ 3,939	¥32,084	¥294,840	¥ —	¥294,840
(2) Inter-segment	3,926	5,373	5,612	14,911	(14,911)	—
Total	262,743	9,312	37,696	309,751	(14,911)	294,840
Operating expenses	244,413	8,555	32,362	285,330	(14,817)	270,513
Operating income	¥ 18,330	¥ 757	¥ 5,334	¥ 24,421	¥ (94)	¥ 24,327
2. Assets, depreciation and capital expenditures						
Assets	¥188,551	¥93,316	¥36,913	¥318,780	¥124,999	¥443,779
Depreciation	¥ 7,397	¥ 1,759	¥ 867	¥ 10,023	¥ —	¥ 10,023
Capital expenditures	¥ 9,609	¥ 2,306	¥ 1,890	¥ 13,805	¥ —	¥ 13,805

Year ended March 31, 2002	Broadcasting	Real estate	Others	Total	Elimination/ Headquarters	Consolidated
						Millions of yen
1. Operating revenues and operating income						
Operating revenues						
(1) Outside customers	¥262,005	¥ 4,703	¥24,548	¥291,256	¥ —	¥291,256
(2) Inter-segment	4,089	5,934	4,032	14,055	(14,055)	—
Total	266,094	10,637	28,580	305,311	(14,055)	291,256
Operating expenses	240,440	8,904	24,710	274,054	(14,040)	260,014
Operating income	¥ 25,654	¥ 1,733	¥ 3,870	¥ 31,257	¥ (15)	¥ 31,242
2. Assets, depreciation and capital expenditures						
Assets	¥194,951	¥94,247	¥39,819	¥329,017	¥193,113	¥522,130
Depreciation	¥ 7,438	¥ 1,844	¥ 593	¥ 9,875	¥ —	¥ 9,875
Capital expenditures	¥ 5,825	¥ 1,430	¥ 796	¥ 8,051	¥ —	¥ 8,051

Headquarters assets, consisting primarily of the Company's cash, marketable securities and investments in securities, were included in elimination/headquarters and were ¥164,937 million ($1,560,569 thousand), ¥135,077 million and ¥195,173 million for the years ended March 31, 2004, 2003 and 2002, respectively.

As the sales and assets of the foreign operations of the Company and its consolidated subsidiaries constituted less than 10% of the consolidated totals for each of the years ended March 31, 2004, 2003 and 2002, the disclosure of geographical segment information has been omitted.

Also, the disclosure of the overseas sales of the Company and its subsidiaries for the years ended March 31, 2004, 2003 and 2002 were omitted as such sales were less than 10% of consolidated net sales.

19. Contingent Liabilities

Contingent liabilities at March 31, 2004 were as follows:

	Millions of yen	*Thousands of U.S. dollars*
	2004	2004
Guarantee of bank loans for employees	¥7,267	$68,758
Guarantee of bank loans for other parties	2,372	22,443
Total	¥9,639	$91,201

Independent Auditors' Report

To the Shareholders and the Board of Directors of
Tokyo Broadcasting System, Inc.:

We have audited the accompanying consolidated balance sheets of Tokyo Broadcasting System, Inc. and consolidated subsidiaries as of March 31, 2004 and 2003, and the related consolidated statements of income, shareholders' equity and cash flows for each of the three years in the period ended March 31, 2004, expressed in Japanese yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to independently express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Tokyo Broadcasting System, Inc. and subsidiaries as of March 31, 2004 and 2003, and the consolidated results of their operations and their cash flows for each of the three years in the period ended March 31, 2004, in conformity with accounting principles generally accepted in Japan.

As discussed in Note 2 (c) to the consolidated financial statements, effective April 1, 2001, Tokyo Broadcasting System, Inc. and domestic subsidiaries prospectively adopted the new Japanese accounting standards for available-for-sale securities.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2004 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 to the consolidated financial statements.

KPMG AZSA & Co.

Tokyo, Japan
June 29, 2004

Corporate Data

As of March 31, 2004

Date of Establishment
May 10, 1951 (Registered on May 17)

Head Office
5-3-6 Akasaka, Minato-ku, Tokyo 107-8006, Japan

Business Activities
General broadcasting (television broadcasting) in accordance with the Broadcast Law and other broadcasting;
Production and distribution of television programs and DVD, video, etc;
Telecommunication services

TV broadcasting: JORX-TV

Number of Employees
1,281

Stock Exchange Listing
Tokyo Stock Exchange

Common Shares Issued
179,996,968

Paid-in Capital
¥44,163 million

Number of Shareholders
8,844

Fiscal Year-End
March 31

Cash Dividends:
Payable to registered shareholders as of March 31

Semi-Annual Cash Dividends
Payable to registered shareholders as of September 30, based on the resolution of the Board of Directors

Shareholders' Meeting
June

Board of Directors and Auditors

As of June 29, 2004

Chairman
Yukio Sunahara

President
Hiroshi Inoue

Executive Vice President
Kiyoshi Wakabayashi

Managing Directors
Keizo Zaitsu
Kenichiro Kidokoro
Morihiro Kodama
Nobuaki Chikuma

Directors
Toshichika Ishihara
Yoshitomo Mori
Tadataka Mizuno
Toshishige Namai
Naoki Ito
Kazuo Hiramoto
Yoji Shimizu
Ken Moroi
Yutaka Narita
Akira Saito
Masahiro Yamamoto

Standing Statutory Auditors
Kunio Ogawa
Masao Saito

Auditors
Keiichiro Okabe
Takeo Tanaka
Yoshifumi Nishikawa

Executive Officers
Hideki Maekawa
Tadashi Shoji
Kunikatsu Kondo
Hideo Kozakura
Kiyoshi Saito
Toshiaki Harada
Tadaaki Oda
Shinya Yamaguchi

Further Information:
For further information about TBS's operations, current programs and more please see our website at http://www.tbs.co.jp/. An interactive version of our Annual Report 2004 and back numbers from 2000 to 2003 can be found at http://www.tbs.co.jp/ir/index.html. If you would like complimentary copies of our latest Annual Report, please write to our Investor Relations Department at the following address.

Office of Investor Relations
TOKYO BROADCASTING SYSTEM, INC.
5-3-6 Akasaka, Minato-ku, Tokyo 107-8006, Japan

Major Shareholders

Shareholders	*Number of shares held*	*Ratio to total shares issued (% ownership)*
The Master Trust Bank of Japan, Ltd. (Trust Account)	21,270,000	13.84
Japan Trustee Service Bank, Ltd. (Trust Account)	14,493,700	9.43
Nippon Life Insurance Co.	7,931,235	5.16
Sumitomo Mitsui Banking Corp.	6,745,267	4.38
State Street Bank & Trust Co.	4,598,800	2.99
The Master Trust Bank of Japan, Ltd. (Pension Account—Pension Trust Account held for Dentsu, Inc.)	4,505,000	2.93
Boston Safe Deposit BSDT	4,076,200	2.65
Mainichi Broadcasting System, Inc.	3,440,000	2.23
The Chase Manhattan Bank N.A. London	3,029,000	1.97
The Dai-ichi Mutual Life Insurance Co.	2,560,000	1.66

Notes:
1. TBS holds 3,494,026 treasury stocks, but because they are non-voting stocks, it has been excluded from the above list of major shareholders.
2. The percentage (as provided for by the Radio Law) of overseas shareholders with voting rights at fiscal year-end was 19.99%.
3. Voting rights ratios are shown rounded down to the second decimal point.

TBS

TOKYO BROADCASTING SYSTEM, INC.
5-3-6 Akasaka, Minato-ku, Tokyo 107-8006, Japan
www.tbs.co.jp

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