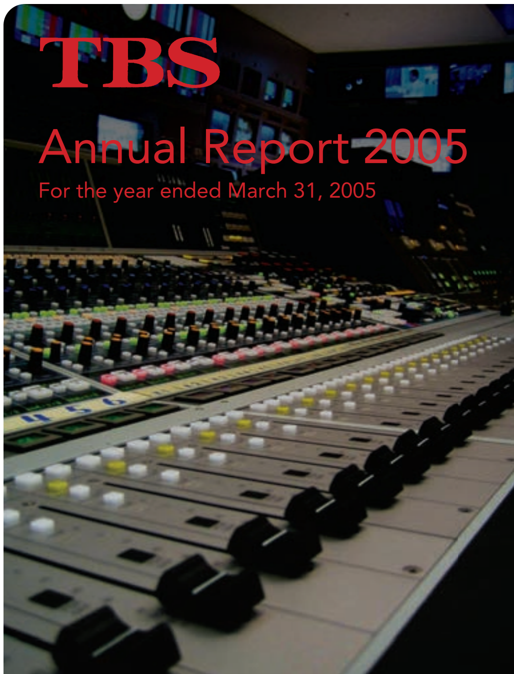
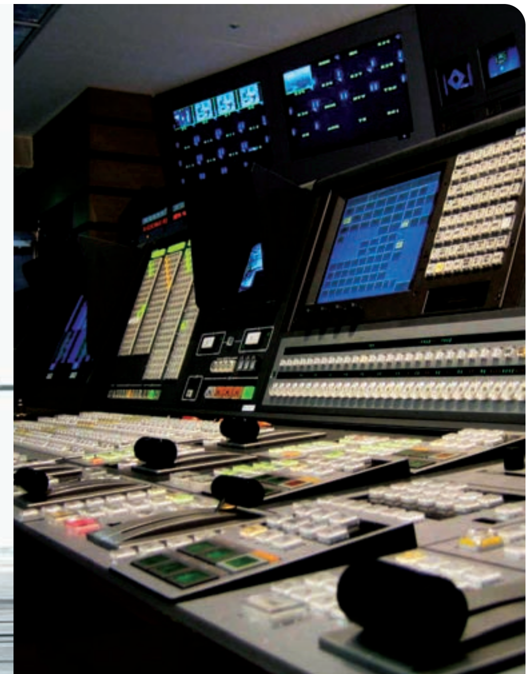
TBS

Annual Report 2005

For the year ended March 31, 2005





Definitive Focus on

Brand, Strategy, Programs, and People

TOKYO BROADCASTING SYSTEM, INC.

Contents

Hiroshi Inoue
President

Kenichiro Kidokoro
Senior Managing Director,
Tokyo Broadcasting System Television, Inc.

Nagisa Oyoshi
Strategic Planning of Mobile DTV,
Division of Digital Media

Morihiro Kodama
Managing Director,
Tokyo Broadcasting System Television, Inc.

Kazuya Hamana
Vice President,
Cinema Producer,
Multi Visual Ventures Dept.,
Content Business Division

Tadataka Mizuno
Managing Director

Kenjiro Sato
Deputy Division President,
Office of Premises Development

Forward-looking statements:

This annual report includes forward-looking statements pertaining to expectations, plans, strategies, management goals, future performance, expenses, revenues, income and other forecasts formulated on past experiences. Forward-looking statements necessarily entail some degree of uncertainty, and the content conveyed in the results as well as underlying factors identified in the report may differ materially from actual results depending on changes in those factors.

From left
•Akasaka Redevelopment Project
•*Arashi No Yoru Ni*
©2005 "Arashi No Yoru Ni" Production Committee
•*Tokyo Friendly Park II*

Definitive Focus on Brand

Delivering Lasting Impressions and Reliable Information while Transcending Generations

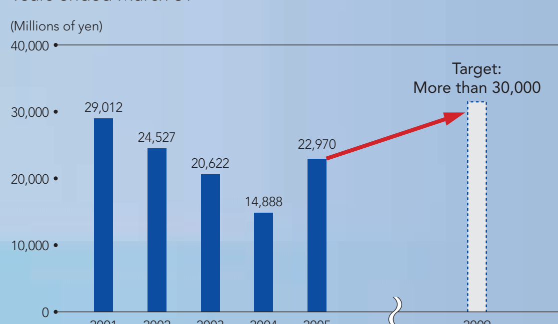
A Winner in the Digital Age

The rapid development and deployment of digital technology has dramatically changed business conditions for many companies. The broadcasting business in Japan is confronting various new challenges, as cellular phones and broadband help diversify transmission methods, new competitors seeking to acquire advertising revenue emerge, and viewer tastes and preferences splinter and change.

Nonetheless, the digital era in television broadcasting now enables viewers to simply and conveniently view high-quality programming when and where they want. Television terminals, which have traditionally been stationary receivers located indoors for the most part, may be replaced with interactive free-placement data terminals in the near future. This affords opportunities for the TBS Group to consistently achieve **STRONG GROWTH IN CASH FLOW AND ENTERPRISE VALUE**.

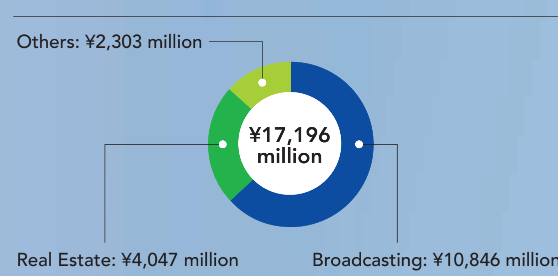
The TBS Group, one of Japan's leading media conglomerates, has the strongest and best production capabilities in the nation for creating emotionally moving dramas, reliable news programs, variety shows enjoyable for the whole family, exciting live sports broadcasts, and other high-quality content. The Group is seeking to reach its full potential on many fronts to ensure a winning market position in the digital age.

Consolidated Cash Flow
Years ended March 31



Cash Flow = Net Income + Depreciation & Amortization

Capital Expenditures
For the year ended March 31, 2005



Hiroshi Inoue
President

Definitive Focus on Strategy

Proliferation of digital terrestrial television

In December 2003, digital terrestrial television began in Japan's three leading metropolitan areas of Tokyo, Osaka, and Nagoya. The Athens Olympics in August 2004 led to the widespread diffusion of digital receivers, boosting second-stage transmission output to 700 watts in September 2004. Digital terrestrial television will rise to 10 kilowatts by the end of 2005, with viewing capability rising to 14 million households in the Tokyo metropolitan area. In addition, with all terrestrial television set to switch from analog to digital in 2011, the TBS Group and Japan News Network (JNN) are aggressively working to accelerate the diffusion of digital terrestrial television.

Fusing broadcasting with the Internet? Not really possible

In Japan, where the infrastructure for fiberoptics and other broadband capabilities is making rapidly diffusing, many observers are now heralding the coming fusion of television with the Internet. We think this perception is somewhat misguided.

TBS takes seriously its corporate social responsibility to continually work to enhance civil liberties, safeguard copyrights and other protections, help educate children, and contribute to the betterment of the community. The Company provides broadcasting services based on independent broadcasting standards and internal regulatory systems. These services cannot be effectively blended with Internet-related services, which are not subject to regulations or constraints. We intend to offer services that **SEAMLESSLY LINK BROADCASTING WITH THE INTERNET** based on a spirit of cooperation and competition.

New frontiers for television

Digital terrestrial television **ONE-SEGMENT SERVICES FOR CELLULAR PHONES** are set to begin at the end of March 2006. Terrestrial television with high-quality images and clear audio capabilities will be offered free of charge over cellular phones and other devices with television reception. However, the most prominent feature of the services is that they will enable users to watch television while also affording interactive access to the Internet anywhere and anytime.

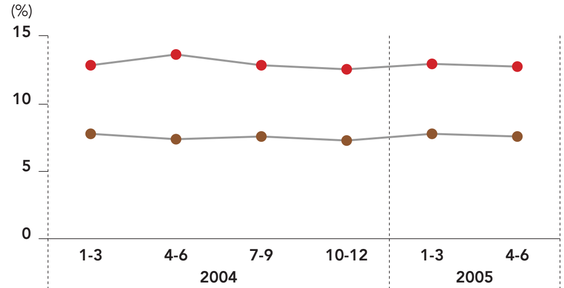
TBS is researching and developing new business models in conjunction with cellular phone carriers and electronic equipment manufacturers with a focus on successfully generating profits from one-segment services. In the near future, cellular phones with television reception could become the most important portal for access to the Internet.

Naturally, the Company remains actively focused on further reducing costs and bolstering earnings in broadcast satellite (BS) digital broadcasting and in fee-based communications satellite (CS) digital broadcasting to generate profits in these businesses.

Integrating television divisions, transferring them to TBS Television

After dividing **TBS RADIO & COMMUNICATIONS, INC.**, which has recorded top audience ratings for four straight years and posted an impressive track record, TBS merged three television production subsidiaries into a new television company, **TOKYO BROADCASTING**

Annual Average Viewer Ratings



	2004 1-3	2004 4-6	2004 7-9	2004 10-12	2005 1-3	2005 4-6
● Golden time	12.8	13.6	12.8	12.5	12.9	12.7
● All day	7.8	7.4	7.6	7.3	7.8	7.6

SYSTEM TELEVISION, INC. (TBS TELEVISION), a wholly owned subsidiary, in October 2004. Making effective use of a budget control system for TV programs based on the SAP integrated accounting system, TBS Television has integrated production divisions—formerly divided into separate entities for drama and variety, news and commentary shows, and sports program production—into a single unit. This has accelerated decision-making and improved flexibility in programming. These changes have reaped impressive rewards since April 2005. For example, *Mino Monta No Asa Zuba!*, a morning commentary show, has boosted its viewer ratings.

Moreover, TBS Television has merged with the sales division, movie production operations for theatrical works, the DVD sales division, and the events and show-business division. The aim was to further bolster television programming development, which is closely correlated with non-broadcasting revenues from motion pictures, concerts, musicals, and other sources. These divisions have already generated synergies among themselves in the form of sharp growth in movie revenues from theatrical works and in DVD sales.

Additionally, TBS, the parent company, has retained licensing rights for television broadcasting, assets and equipment, and copyrights following these moves.

Strengthening compliance

TBS newly established an **OFFICE OF COMPLIANCE** in April 2005. As such, the Company has consolidated its capabilities for abiding by legal ordinances and for managing crises as part of its organizational reform measures. All employees have now been instilled with a more thorough understanding of their requirements under the law. The Company believes that strengthening compliance in these ways will prevent inappropriate actions by managers and employees and consistently help increase enterprise value as risk is abated.

Reforming the pension system and personnel costs

TBS revised its retirement-allowance system in April 2005, adopting a new system centered on **DEFINED-CONTRIBUTION PENSIONS**, or 401k-type schemes. Under the Company's previous defined-benefit pension plan, pension resources had often been insufficient. This had been especially detrimental to profits each fiscal year. However, we think the new system will have only a limited impact on earnings and contribute substantially to profits and financial stability.

For personnel costs, TBS adopted a **NEW WAGE SYSTEM** for new employees several years ago, under which performance capabilities play a larger role in determining pay. In this way, the Company has worked to control total personnel costs even as it increases headcount, bolstering its prowess in producing new content and offering remuneration commensurate with employee skills. As a result, the Company intends to increase its workforce from around 1,200 currently to about 1,300 within several years.

Akasaka Redevelopment Project

In February 2005, construction began on the **AKASAKA REDEVELOPMENT PROJECT**, which carries a total cost of ¥77 billion. The project, covering approximately 33,000 square meters of land owned by the Company in Akasaka, Tokyo, will create a steady revenue stream to support the broadcasting business. Construction of the buildings and main facilities is scheduled for completion in January 2008.

The project includes a truly impressive 180-meter rental office tower with 39 floors and three

From left:
•*Mino Monta No Asa Zuba!*
•*Wataru Seken Wa Oni Bakari*
•*Zubari Iu Wayo*

underground levels that should become one of Japan's most prominent business centers. A rental housing tower with 21 floors will offer a tranquil home environment in a downtown urban setting. A playhouse for musicals and other productions and a music hall for live performances will serve as new beacons for hip culture and show business. Annual revenues from offices and residential units will depend on conditions in the rental market. However, we forecast that they will come to around ¥10 billion, generating operating cash flow of ¥5 billion to ¥6 billion each year.

Medium-term management objectives

For the fiscal year ending March 31, 2009, one year after the current redevelopment project is completed, TBS has set a goal for **CONSOLIDATED OPERATING CASH FLOW OF ¥30 BILLION** as part of its **MEDIUM-TERM MANAGEMENT OBJECTIVES**. The Company targets growth in its average viewer ratings to top levels in the industry, a higher share of advertising revenues in the broadcasting segment, and increasing revenues in non-broadcasting segments from motion pictures, DVD sales, and other sources.

Increasing returns to shareholders through dividends

The year 2005 marks the fiftieth year since TBS began television broadcasting in 1955. The Company has taken this opportunity to more actively provide returns to its shareholders by altering its dividend policy and **PAYING DIVIDENDS MORE IN LINE WITH PROFIT TRENDS**. We aim to pay out 20% of parent net income to investors starting in the fiscal year ending March 2006. Moreover, ¥10 per share is annually secured as a minimum dividend.

Consequently, TBS plans to pay dividends of ¥22 per share in the current fiscal year, an increase of ¥7 per share from the fiscal year under review.

Enhancing enterprise value and value for shareholders

TBS is making diligent efforts to enhance enterprise value and value to shareholders by **MAXIMIZING ITS CASH FLOW**. In order to boost cash flow, the Company will strengthen profits in the core broadcasting segment. It will also enact policies for generating synergies with non-broadcasting segments, including operations at consolidated Group companies, and for increasing revenues by reusing content in various ways and through other means. These initiatives will entail actively seeking alliances with companies in other industries.

Looking ahead, TBS is determined to find ways to further improve asset and capital efficiency. Toward these ends, the Company plans to consistently enhance its enterprise and shareholder value as it gains additional favor in capital markets.

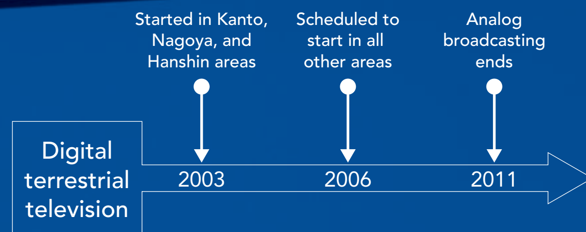
Through these comprehensive efforts, the TBS Group intends to fully meet the expectations of its shareholders as a leading company in the integrated media industry. We thank you for your ongoing support.

August 2005

Hiroshi Inoue

Hiroshi Inoue
President

Digitized TV Broadcasting



Kenichiro Kidokoro

Senior Managing Director, Tokyo Broadcasting System Television, Inc.

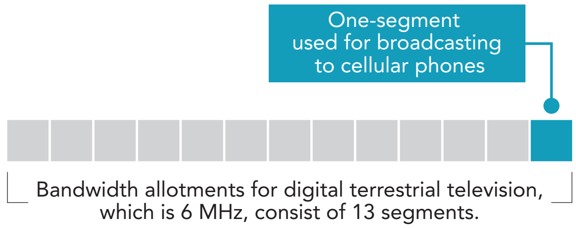
Digital terrestrial television started in Tokyo and its surrounding prefectures in December 2003. Full-power broadcasting at 10 kilowatts will begin in December 2005. This will enable 90% of residents in the coverage zone to view high-quality digital television.

The advantage of digital terrestrial television for stationary receivers is that it offers high-definition (HD) TV viewing with the same picture quality seen in movie theaters. Digital televisions do not require the bothersome settings needed for PCs. If they gain wider use through the widespread diffusion of broadband, they will become crucial, **NEXT-GENERATION INFORMATION TERMINALS IN THE HOME** that are capable of interactive communication services. TBS has earmarked about ¥14 billion for the capital investment needed to digitize transmission systems. Two-thirds of these funds have already been invested. Also, the Company plans to finish converting its 14 studios to HD broadcasting by summer 2006.

Moreover, digital television in Japan will be unique in offering one-segment services starting in spring 2006. The services will use some bandwidth allotments to beam broadcasts to cellular phones with television reception. They will enable TV viewing in moving automobiles and trains, on station platforms, and in other settings while also displaying program-related data just below the TV screen. In turn, viewers can be directed to communication services and advertising sites while they are watching television.

Cellular phones with television could become the most important portal for access to the Internet. We are confident that they will develop into the **LEADING MOBILE INFORMATION TERMINALS THROUGH A SYNERGISTIC FUSION OF TELEVISION, CELLULAR PHONES, AND INTERNET**. TBS intends to reap full rewards from the business opportunities provided by its expertise amassed in data broadcasting and interactive communication services through efforts in the BS digital broadcasting business.

TBS has been the most diligent among its peers in the broadcasting industry in developing a movie content distribution business over the Internet. In 2002, the Company, along with Fuji Television Network Inc. and TV Asahi Corporation, jointly founded TRESOLA Corporation, a planning company, to verify commercial prospects for content distribution businesses through broadband services. Having accumulated a range of distribution technologies, expertise in copyright handling, and data regarding distribution costs, TBS is earnestly working to build **A FULL-FLEDGED VIDEO-ON-DEMAND (VOD) BUSINESS THAT IS PROFITABLE**.



Interview with Mr. Oyoshi

One-Segment Services for Mobile DTV

Q: Please tell us about your preparations for one-segment services starting in spring 2006.

——Since meeting important technological requirements for digital terrestrial television in 1999, TBS has put priority on one-segment services for digital terrestrial television and conducted tests together with cellular phone carriers and other companies. One-segment services provide the best possible means for transmitting broadcasts over cellular phones and other mobile devices. The services are capable of furnishing users with personal TV and ubiquitous media that allows access to the Internet whenever and wherever they like. In November 2004, the Company first conducted electromagnetic testing, getting the jump on other broadcasters. The tests confirmed our capabilities for transmitting crisp images in Tokyo and outlying areas. We estimate that ¥500 million in capital investment is necessary to begin one-segment services and we are making preparations to inaugurate services in spring 2006.

Q: What sort of service content and business model do you envision?

——As a general rule, one-segment services with current broadcasting licenses require the same capability of full simulcast broadcasting as stationary television. While we anticipate having the ability to independently broadcast programs in the near future, our profit source for now will be fee-based communication services connecting users via one-segment services. Because data that is broadcast along with program content will automatically appear just below the TV screen, we believe viewers will have much greater connectivity than they would with normal, stationary PCs. Thus, as the Company controlling the data, we can display information about attractive products and other data, increase advertising and program value, and market merchandise associated with programs, such as character goods and DVDs. Moreover, through our transmission capabilities, users will be able to hook up to the Internet, which suggests that cellular phones with television will become leading portals for access to the Internet. While looking into other business models, we will work to boost earnings through communication services and other means and by building alliances with partner companies.

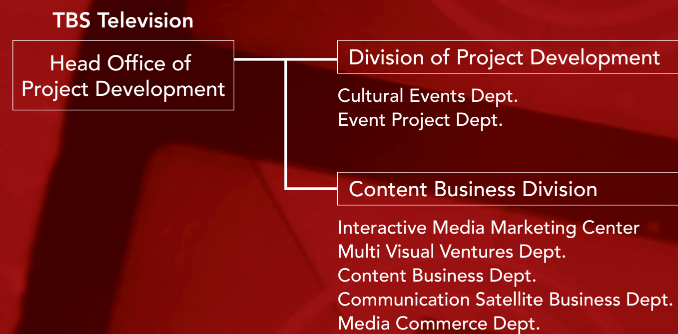
Q: How do you plan to cultivate and develop one-segment services?

——The Company thinks diffusion of at least around 10 million handsets will be needed for the services to have advertising value as a new media. For acquiring this level of support from users, high-quality images and sound are vital, naturally, as well as rich content for data broadcasting. Also, the price of the receivers should be less than ¥20,000 or ¥30,000. The Company is steadily resolving these issues. Being able to watch television programs tailored to the lifestyle of the individual anywhere one chooses underscores the potential for additional advertising benefits outside the normal foundations for generating advertising revenues. The benefits are even possible from outdoor viewing. As such, we are tremendously excited about the inauguration of actual one-segment services.

Nagisa Oyoshi
Strategic Planning of Mobile DTV
Division of Digital Media

Overview of the Head Office of Project Development

Morihiro Kodama
Managing Director, Tokyo Broadcasting System Television, Inc.



When Tokyo Broadcasting System Television, Inc. was founded in October 2004, the Head Office of Project Development was divided into two divisions (the Division of Project Development and the Content Business Division). In addition, non-advertising revenues in the Internet and mobile phone operations, which had belonged to the television segment, were placed under the new company. **THE STRATEGY FOR THESE BUSINESSES IS TO ACTIVELY PROMOTE GROWTH IN SURGING NON-ADVERTISING REVENUES**. The Division of Project Development is in charge of art exhibitions and other cultural businesses and the management of performances. The Content Business Division handles movie production operations for films, DVD sales, and consignment sales overseas, as well as television shopping, e-commerce through cellular phones and the Internet, and other content sales. Using this strategy, revenues in core businesses reached a record high in the year ended March 31, 2005.

The movie production business holds the most promise and is allocated considerable resources. In the year ended March 31, 2005, *Sekai No Chushin De Ai Wo Sakebu* and *Ima Ai Ni Yukimasu* were hugely successful movies. They were popular because a younger generation of managers who were put in charge of them in order to accelerate the decision-making process were highly motivated for success. Having witnessed the popularity of our movies in theaters, we aspired to create successful television dramas from these movies. Drama programs created through synergies with movie production have achieved high viewer ratings.

Related to the Media Commerce Department, which includes television shopping and e-commerce, Grand Marché, Inc., a subsidiary, has been expanding operations through a tie-up with Mitsui & Co., Ltd., Japan's leading trading company, which acquired a 30% stake in 2004. By taking advantage of Mitsui's considerable sales expertise, Grand Marché has been generating sales more than 10% higher than under TBS alone. We aim to accelerate growth by promoting the development of products in conjunction with television programs.

ONE OF OUR KEY STRATEGIC FOCUSES FOR THE FUTURE IS ON STRENGTHENING ANIMATION CONTENT. Animation programming is viable for sales in overseas markets. Programs that have been test-broadcast in late-night time slots have sold well on DVD and are quickly generating good results.

At the Head Office of Project Development, two separate plans call for completing Akasaka BLITZ, a music hall, and Akasaka ACT Theater, a playhouse for musicals, in spring 2008 as part of the Akasaka Redevelopment Project. TBS is the only key broadcaster that will have these types of facilities. We think building direct contact with viewers through live events and musicals geared toward the younger generation will further promote awareness of the TBS brand and play an important role both in the television segment and in the project development segment.

From left:

•*NANA*
©2005 "NANA" Production Committee

•*Ima Ai Ni Yukimasu*
©2004 "Ima Ai Ni Yukimasu" Production Committee

•*Sekai No Chushin De Ai Wo Sakebu*
©2004 "Sekai No Chushin De Ai Wo Sakebu" Production Committee

Interview with Mr. Hamana

Movie Production Business

Q: Please tell us about the growth and development of TBS's movie production business.

——Before I joined TBS, I was involved in the movie-making business. In 1991, when I entered the Company, few employees were responsible for making movies. About one movie was produced each year. The Company gradually built a track record and developed the means for full-fledged production. Today, we rigorously select more than 10 movies each month for production planning from inside and outside the Company, and cooperate with movie companies and other entities in creating movies that will be shown in theaters.

Q: What are your sales and other targets when producing movies?

——TBS sets profit goals each year, but it entrusts us with decisions on what sort of movies to produce, so we choose the projects that we sense will be favorable. After production is complete, we formulate a schedule for effectively promoting a movie through television programming. Thus, we make seven or eight movies per year and work to increase sales, while also clearly taking into account the risks. We also put priority on the bottom line rather than just the top line in the movie-making business.

Kazuya Hamana
Vice President,
Cinema Producer,
Multi Visual Ventures Dept., Content Business Division

Q: You have produced titles such as *Sekai No Chushin De Ai Wo Sakebu* that have been major hits. Why were they so successful?

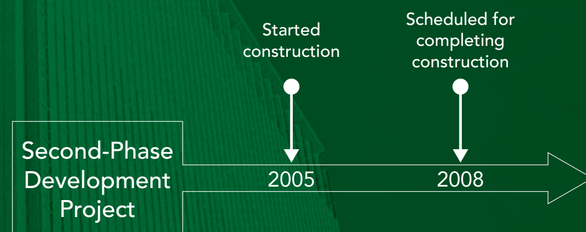
——First, from a business perspective, Japanese movies have been gaining in popularity compared with Hollywood movies and increasing the size of their audiences. Also, cinema complexes are being opened in various regions, and they have been attracting a younger generation of viewers into movie theaters. In addition, movie companies want to strengthen the connection with television broadcasters. As for movie content, since pure love and loving relationships between family members are popular themes with viewers, we have been able to tailor our products to contemporary needs. Music is also a leading factor, and major singers and hip-hop groups have been put in charge of music production. Nonetheless, a hit product stems from unforeseen chemistry in a number of different elements and is only the end result. The key questions are whether producers can create a good mix of all the different elements and how products are promoted with broadcasting stations.

Q: What sort of movies do you have in mind to produce in the future?

——I would like to continue creating entertainment that emotionally moves viewers. Next year, we will be remaking *Nihon Chinbotsu* (the story of an unprecedented earthquake that sinks the Japanese archipelago), which was a major hit in 1973. The total cost of production will be around ¥2 billion, an extraordinarily large investment for a Japanese movie. Also, the major Hollywood studios have shown interest in the vitality of Japanese movies and are interested in cooperating with us. One company has decided to film an American remake of *Ima Ai Ni Yukimasu*. We expect them to consider whether other productions are possible from a number of different angles.

Akasaka Second-Phase Development Project Under Way

Tadataka Mizuno
Managing Director



Akasaka, in the heart of Tokyo, has been pivotal to Japan's history for many years. In the Edo era, Akasaka was the residence of the *daimyo*, feudal lords and powerful *samurai* retainers for the *shogun*. In the Meiji era, it became the center of high-class, traditional Japanese restaurants, where politicians and financiers socialized and exchanged ideas. In the modern post-war period, TBS opened its broadcasting station in Akasaka, which has grown into one of Japan's most prominent business districts. Aside from its broadcasting center, TBS owns roughly 33,000 square meters of land in the area, where planning for second-phase development is now under way. Construction of a rental office tower, a rental housing tower, and cultural facilities housing two theaters began in February 2005 and is scheduled for completion in January 2008.

Joint ventures led by Obayashi Corporation for the office tower and the theaters and by Kajima Corporation for the rental housing tower are handling construction. In addition, taking into account the risks involved for a broadcasting company to engage in real estate business, TBS tapped Mitsui Fudosan Co., Ltd., a company with an excellent track record, to manage overall design and planning. TBS expects to sign a master lease contract with Mitsui Fudosan upon completion of construction. The terms of the agreement are in the final stages of negotiations.

The office tower will have 39 floors plus three underground levels and contain 187,194 square meters of office space and is expected to become an important landmark in Akasaka. We think the tower will be an extremely competitive high-rise building able to attract tenants from throughout Tokyo's downtown area. The rental housing tower, with 21 floors, will contain 23,463 square meters. It will be surrounded by planted cherry trees, creating a tranquil residential atmosphere despite the urban setting. Additionally, the Akasaka ACT Theater, a playhouse for major musicals, and Akasaka BLITZ, a music hall, will serve as new beacons for hip culture and show business in Tokyo.

After the four facilities outlined above are completed, they are expected to become stable profit generators for the TBS Group's real estate segment and other business segment. In particular, the Group forecasts that the office and rental housing towers will **RECORD REVENUES EXCEEDING ¥10 BILLION ANNUALLY**, translating into **OPERATING CASH FLOW OF AROUND ¥5 BILLION OR ¥6 BILLION** and **DEPRECIATION OF AROUND ¥2.5 BILLION**. These initiatives should effectively underpin performance in the broadcasting segment.

In addition, TBS expects **A TOTAL COST OF APPROXIMATELY ¥77 BILLION**. The basic plan is to use operating cash flow generated each year to provide investment cash flow. In September 2005, the Company plans to sell 3 million shares of Tokyo Electron, Ltd., which it lent to a securities company under a loan agreement in September 2004. TBS expects the sale of the shares to generate ¥17 billion in earnings, some of which is earmarked for the redevelopment project.

From left:
The 39 floors office tower
Commercial facilities, Annex
Akasaka BLITZ and Akasaka ACT Theater

Interview with Mr. Sato

Akasaka Redevelopment Project

Q: Please tell us about the Akasaka Redevelopment Project and how it is proceeding.

——TBS owns about 52,800 square meters of land in Akasaka. First-phase development, covering around 19,800 square meters, was completed in 1994 following the building of the Broadcasting Center. The remaining 33,000 square meters is targeted for second-phase construction. This comprises the Akasaka Redevelopment Project, which includes a high-rise office tower, a rental-housing tower, and cultural facilities housing a playhouse and a music hall for live performances. Construction of these facilities commenced in February 2005, and the project is slated for completion in January 2008.

Q: What is the selling point for the project?

——The buildings are conveniently situated next to the Akasaka Station metro subway line. The project is in a favorable location, near the Diet Building, important government offices, and commercial facilities. Cutting-edge office equipment will feature easy expandability, buildings will be fitted with layered security, and office space will be pleasant and roomy. Infrastructure is being built with an emphasis on safety, including earthquake resistance, private electric generators, and storage facilities for fuel and emergency supplies. Many financial institutions, foreign-affiliated companies, and other companies have already made inquiries about renting space. The buildings should be highly competitive despite the ongoing rush to build more office buildings in Tokyo.

Q: The project will fulfill an important role in invigorating the Akasaka area?

——The commercial district around TBS has a long history. It has traditionally been favored by older consumers but has not been especially popular with young people. Redevelopment will polish the overall image of the area, drawing a larger number of visitors to its shopping and commercial streets. As such, new office facilities with commercial space will bring individual shops selling attractive, unique merchandise into the area. The two theaters will be fronted by a large plaza, which will hold regularly scheduled events associated with television broadcasting to make the site a place where people visit a walk around, and linger.

Q: What about profits from the project?

——Profits will depend on conditions in the rental market. However, we estimate the internal rate of return (before tax) will be around 9%. The operating margin should significantly exceed the margin in the broadcasting segment and provide stable, long-term underpinnings to the broadcasting business. Consequently, we firmly believe that the project will generate significant profits for shareholders.

Moreover, the project will enable TBS to sponsor events that provide direct contact with viewers. Existing facilities have been limited in their ability to offer such venues. As a result, we think the project will prove an especially useful tool for branding, as it draws TBS closer to its viewers in the same way that ShopNBC and NBC Studio at the Rockefeller Center in New York have proved beneficial to the National Broadcasting Company.

Kenjiro Sato
Deputy Division President,
Office of Premises Development

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

1. Basic Bodies for Management Policy

In addition to the Shareholders' Meeting, the Board of Directors, the Statutory Board of Auditors, and the Executive Managing Directors are forums for implementing policy. The Board of Directors is composed of 16 directors, including four external directors, as stipulated by the Commercial Code of Japan. Corporate auditors include two standing auditors and three external auditors, as is stipulated by special provisions under the Commercial Code.

TBS has also established an Executive Officer System, consisting of 11 executive officers, to effectively execute and enforce policy decisions.

Executive Managing Directors: The full-time board meets to discuss decisions for the Company president. Meetings are held weekly for deliberation prior to the enactment of general policies for management and administration. The board is composed of 10 directors.

Board of Directors: Meetings are held monthly to report on important executive business decisions and crucial matters.

Council of Program Practice: Meetings are held monthly for deliberation on proper programs for broadcasting under the administration of the Broadcast Law. The council is composed of 10 members, including leading experts in the field.

Management Liaison Committee: The committee coordinates goals and shares information on crucial management and administrative policy in the TBS Group. It comprises the Executive Managing Directors and Executive Officers.

Moreover, the Long-Term Management Planning Committee formulates medium and long-term business plans and the Budgetary Committee formulates business plans and budgets for each fiscal year. These and other internal organizations respond to inquiries from the president or the Executive Managing Directors.

2. Internal Control System

Important topics undergo prior deliberation by the Executive Managing Directors. Additionally, decisions concerning investment, financing, and other issues undergo prior scrutiny by the Investment and Financial Judging Committee. The Management Liaison Committee convenes weekly and coordinates goals and disseminates information concerning matters related to internal control.

Auditors attend meetings of the Board of Directors, inspect important accounting documents, report on and scrutinize matters concerning the activities of directors in charge of pertinent affairs, and directly hold hearings and audit the activities of internal divisions when necessary. Auditors, accounting auditors, and the Business Auditing Office convene together at opportune times for mutual discussions and information exchange.

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: The committee was formed in June 1996. It gathers information, studies policies for the analysis of risk management, and compiles detailed reports to the Executive Managing Directors. The committee chairman oversees special affairs and the vice chairman handles day-to-day operations. The committee includes seven members ranked above division president, seven executive secretaries, and 20 special committee members from departments throughout the Company. In particular, for responding to problems with program broadcasting and production, the special committee members gather weekly, share information, and examine how to prevent reoccurrences.

Office of Internal Inspection of Business: The office, established in June 2001, conducts internal audits of all operations and engages in analysis and drafts proposals for improving businesses. It gathers information from throughout the Group on potential problems that could cause corporate economic stagnation or erode the community's confidence in the Company and then compiles detailed reports.

Office of Compliance: The office was founded in April 2005. Initiatives for abiding by laws and ordinances and managing crises are administered under its umbrella, and it builds and operates internal control systems.

4. Compliance

The Information Disclosure Committee confers monthly and when necessary with shareholders and investors in order to disclose important data in the best possible way. The Company established *the Insider Trading Regulations* and works to prevent unfair securities transactions by executives and employees. Additionally, The Privacy Management Committee enforces the *Company's Privacy Policy* with the aim of inhibiting the use of personal information by outside sources and data leaks.

Having established *the Regulations for IT Networks*, the IT Network Committee strives to prevent inappropriate access to network systems. It examines the misuse of email and other problems.

The Board of Directors has formulated *the Basic Policies for Managing Market Risk*. It takes a fresh look at market risks every six months and reports to the Executive Managing Directors on hedging and other factors.

The Disaster Prevention Committee conducts fire drills and updates the *Earthquake Safety Manual*.

The Broadcast Ethics Committee is run by a committee chairman who is a Managing Director and meets monthly. It reports on issues related to ethics in broadcasting, shares information, and works to thoroughly understand ethical issues.

The Special Committee for Broadcasting and Human Rights was formed in February 1997 to grapple with the many issues involving human rights in broadcasting. It welcomes proposals from lawyers and journalists outside the Company.

The Guidelines on News Ethics are revised each year by TBS News, which works to enhance ethical standards in broadcasting and prevent human rights violations. The Division of Program Review and Media Literacy examines programs for broadcasting before they are aired and monitors live programs everyday. Moreover, for some live programming, special staff check for errors in written subtitles and other mistakes.

5. Account Auditing

TBS promotes accounting audits based on the Commercial Code and accounting audits based on the Securities and Exchange Law through KPMG Azsa & Co.

6. Remuneration for Board Members and for Auditors

Remuneration for board members and auditors, as stipulated by the articles of incorporation and resolutions passed at the Shareholders' Meeting, will be ¥545 million (comprising ¥517 million for internal directors and ¥27 million for external directors), and profit distribution will be ¥90 million (comprising ¥84 million for internal directors and ¥6 million for external directors).

(As of July 1, 2005)

TBS Broadcasting Standards (Preface)

Established in October 1951; amended in April 1992

The mission of TBS shall be to recognize the social responsibility 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.

Issue of Stock Acquisition Rights through Third-Party Allotment and Countermeasures for Takeover Proposals

As of June 13, 2005

TBS is proceeding with some major projects based on its medium- and long-term business plans, including initiatives to digitalize broadcasting capabilities and complete the Akasaka Redevelopment Project. The Company believes it cannot rest on its laurels even temporarily if it is to achieve persistent growth and consistently safeguard profits for its shareholders. Moreover, TBS and the TBS Group have important duties to fulfill as core media companies and information providers.

Consequently, it is crucial to sustain and increase the Company's enterprise value and prevent hostile takeovers or other unwanted actions in order to preserve enterprise value. Given these urgent needs, two resolutions addressing these issues were passed at the Board of Directors meeting convened on May 18, 2005. First, the board resolved to issue stock acquisition rights to Nikko Principal Investments Japan Ltd. (NPI). Second, the board adopted policies for responding to takeover proposals for the Company's stock, including measures to split stocks before acquisitions can occur.

The issue of stock acquisition rights and policies for responding to takeover proposals are outlined as follows:

1. Issue of new stock acquisition rights through third-party allotment

TBS has issued 2,000 units of stock acquisition rights through a cooperative business agreement to NPI, a wholly owned subsidiary of Nikko Cordial Corporation. Prior to the issuance, TBS signed a comprehensive financial advisory agreement with NPI. TBS is receiving advice on ways to enhance its enterprise value, and the two companies are jointly advancing projects for developing and distributing content. The issue of stock acquisition rights will provide incentives for NPI to raise TBS's enterprise value while strengthening ties between the two companies. Another objective was to provide a flexible fund-raising source for TBS. In addition, the stock acquisition rights will serve as a countermeasure against unwanted takeover bids, which could damage the Company's enterprise value.

The issue price for the stock acquisition rights was determined fairly based on rational calculation methods. The total value of the stock acquisition rights paid by NPI is ¥600 million, and the number of shares to be issued upon exercise is 20 million shares of common stock. The exercise period covers about two years, from June 6, 2005 to June 30, 2007. If a takeover bid for TBS shares is publicly initiated, or ownership of TBS shares by a particular party exceeds 20%, stock acquisition rights may be exercised up to a value of ¥80 billion as directed by the Special Committee for Appraising Enterprise Value, which is discussed below, and TBS's Board of Directors. In such a case, the exercise price may be adjusted to 90% of the average closing market price over the six-month period ending on the date when one of the two conditions is fulfilled. However, during the one-month period beginning on June 1, 2007, NPI can exercise stock acquisition rights based on the average closing market price of the latest successive five trading days. TBS may totally or partially cancel the stock acquisition rights at its discretion.

2. Policies for responding to takeover proposals for the Company's stock

TBS fulfills an important public responsibility as a broadcaster entrusted with the use of finite and valuable electromagnetic waves. In the event of public calamities or emergencies, the Company would play a pivotal role as a vital lifeline to the community. Moreover, in broadcasting, while personnel are a crucial resource for the TBS Group, naturally, the keystone to the business is the trusting relationships maintained with contractors and customers. For TBS, these characteristics, which cannot be fully measured in quantitative terms, are what create enterprise value. Additionally, futile money games and speculative behavior not only threaten the Company's ability to generate healthy returns for investors and shareholders but can also prove destructive and dangerous for society as a whole.

Consequently, in the event of a takeover proposal, adequate time to conduct investigations and gather material on the takeover party before the bid would be required in order to guarantee opportunities for examining and judging the impact on enterprise value for shareholders and the Company itself.

If requests and procedures prior to any action are ignored and allowed to quickly proceed unilaterally, or if parties deciding to take hostile action as a result of prior dealings are allowed to proceed, the Company recognizes that the necessary and proper response to prevent damages and reductions to enterprise value is to enact (1) the stock acquisition rights plan, or (2) a stock-split plan. The stock acquisition rights plan and the mechanisms it puts in place have been described in the previous section. The stock-split plan applies only in the event that parties make bids or specific related parties publicly announce tender offer bids to obtain shareholdings exceeding one-third of outstanding shares. For these parties, if the scope for examining the impact on the Company's enterprise value is deemed to be inadequate, the Company will declare its intentions beforehand to initiate impartial stock splits that will apply to all shareholders.

In addition, in order to ensure that decisions concerning pre-emptive responses and policies toward takeover bids are impartial and fair, TBS has formed the Special Committee for Appraising Enterprise Value, which consists of two external directors, two external auditors, and three lawyers or knowledgeable personnel. The special committee has digested reports and determines separate guidelines beforehand on standards and procedures for a series of decisions concerning takeover actions. These mechanisms safeguard against arbitrary and partial decisions and actions by the Board of Directors and the special committee.

Moreover, when countermeasures for dealing with parties proposing takeover bids are implemented, the Company will disclose data at the most opportune and appropriate time. It will enact suitable policies for avoiding any disadvantages to shareholders that are not among the takeover party or to investors as it takes into account any unforeseen injury that may occur to shareholders, including those instigating the takeover, investors, and other associates.

The Company will continue to examine radical countermeasures for dealing with takeover bids and other actions that are inconsistent with initiatives to sustain and increase enterprise value. Our policies will be based on the opinions of our shareholders, the passage and implementation of the new Corporate Law, amendments to regulations by the Tokyo Stock Exchange, and the evolving social consensus and regulations. We will respond to the needs of our shareholders and work to attain their trust with the aim of increasing enterprise value and maximizing it in the future.

Board of Directors and Auditors

As of June 29, 2005

Chairman

Yukio Sunahara

President

Hiroshi Inoue

Executive Vice President

Kiyoshi Wakabayashi

Senior Managing Director

Keizo Zaitsu

Managing Directors

Tadataka Mizuno
Kazuo Hiramoto

Board Directors

Kenichiro Kidokoro
Morihiro Kodama
Toshichika Ishihara
Yoshitomo Mori
Toshishige Namai
Yoji Shimizu
Ken Moroi
Masahiro Yamamoto
Tateo Mataki
Masatou Kitamura

Standing Statutory Auditors

Kunio Ogawa
Masao Saito

Auditors

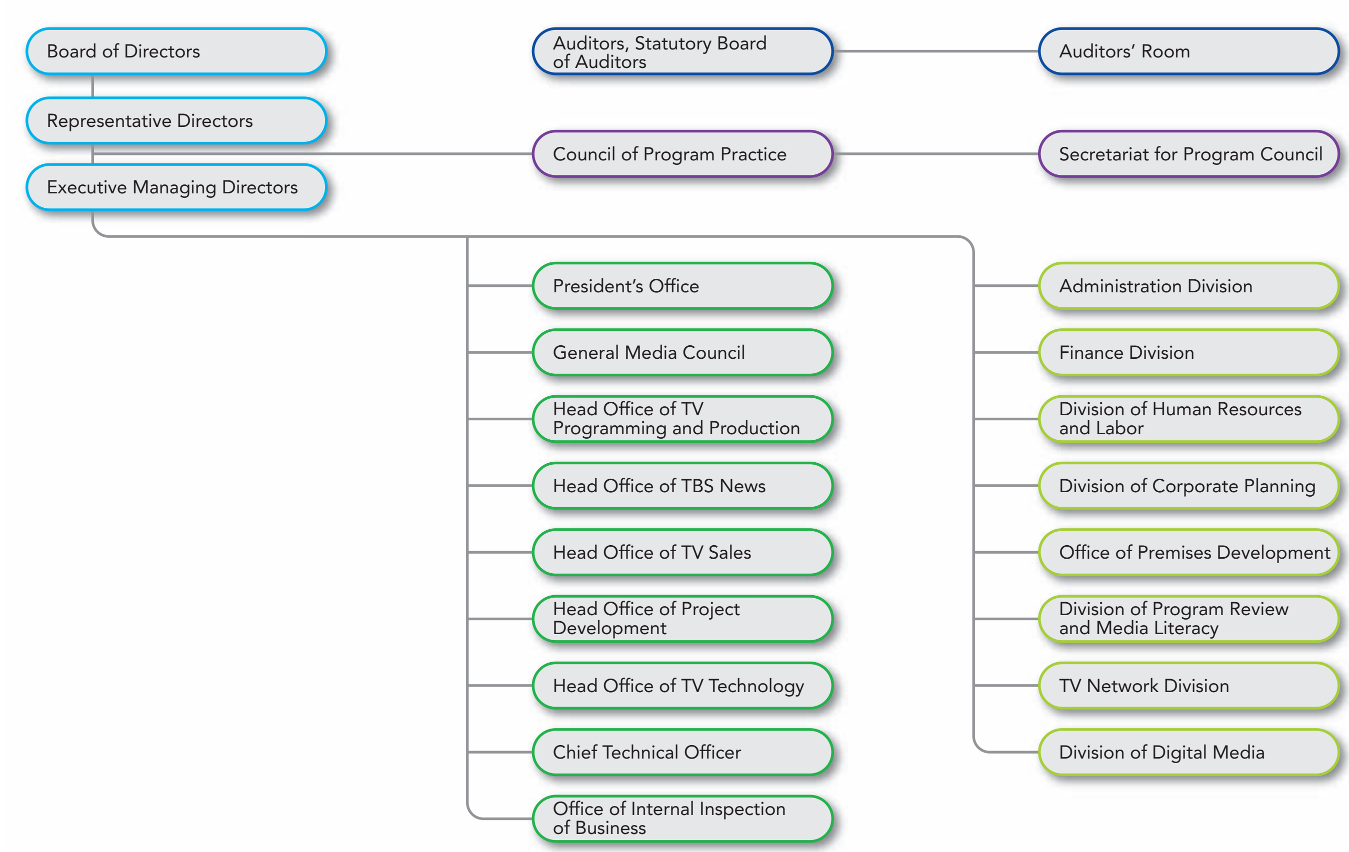
Keiichiro Okabe
Takeo Tanaka
Yoshifumi Nishikawa

Executive Officers

Hideki Maekawa
Tadashi Shoji
Kunikatsu Kondo
Kiyoshi Saito
Toshiaki Harada
Shinya Yamaguchi
Makoto Ishikawa
Shinichiro Kasugai
Yukio Kinugasa
Shinji Takeda
Naoki Ito

Organization Chart

As of March 31, 2005



Tokyo Broadcasting System, Inc.

Consolidated Subsidiaries

Broadcasting

17 Companies

TBS Radio & Communications, Inc.
Tokyo Broadcasting System Television, Inc.
TBS Service, Inc.
TBS-Vision, Inc.
Art Communication Systems Inc.
Tokyo Broadcasting System International, Inc.
Tohoseisaku, Inc.
TBS Trimedia, Inc.
Akasaka Video Center Co., Ltd.
Dreamax Television Inc.
Akasaka Graphics Art, Inc.
Pro Cam, Inc.
Sounds Art Co., Ltd.
F&F Inc.
Japan Artvideo Service Collaborative, Inc.
VuCast, Inc.
Telecom Sounds, 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, Inc.

Others

6 Companies

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

Companies under the Equity Method

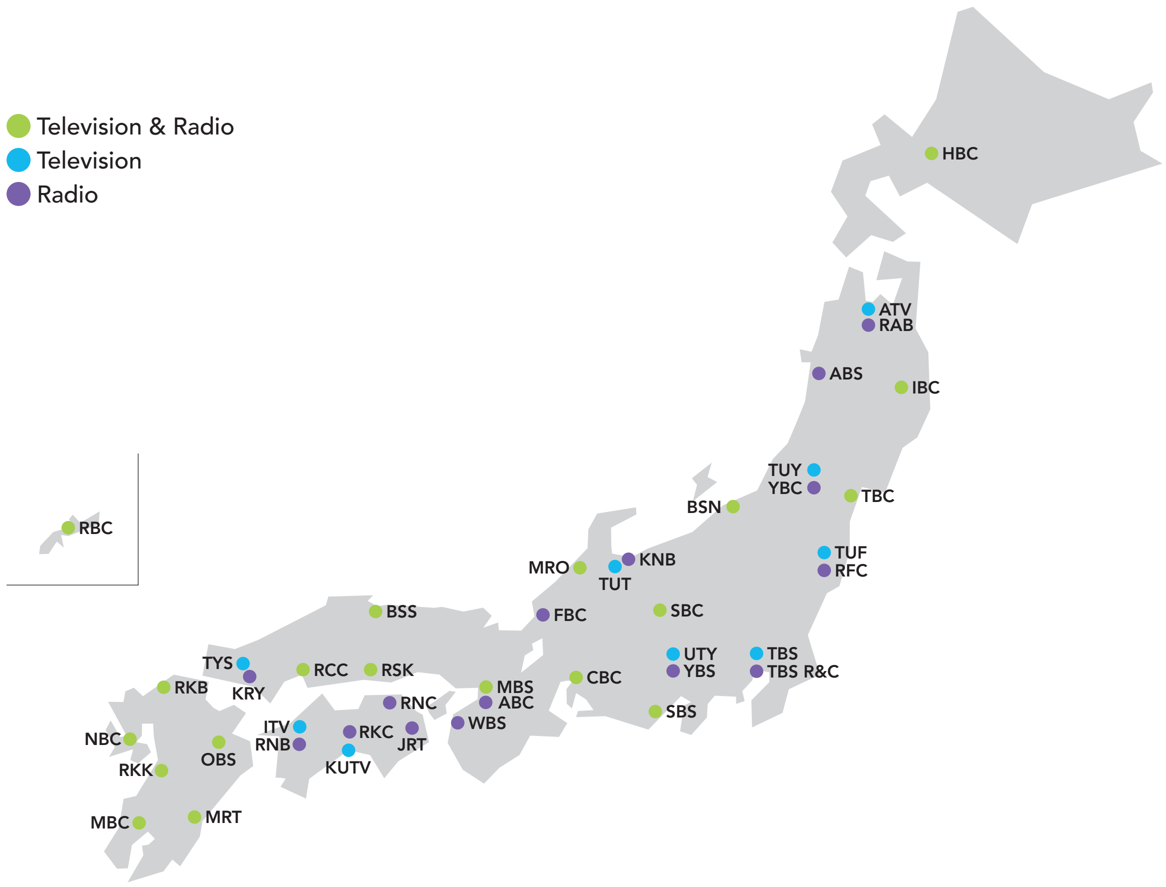
4 Companies

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

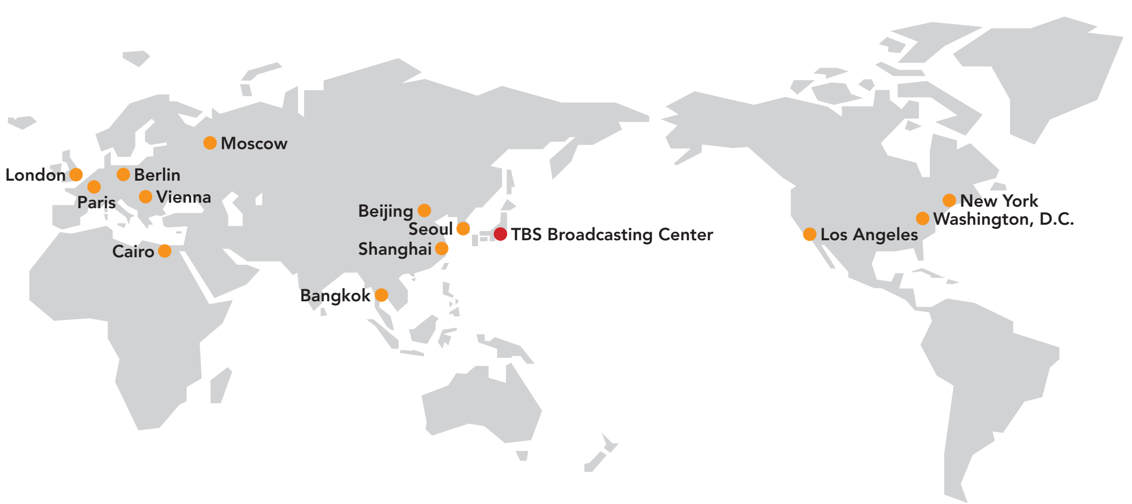
Network

As of March 31, 2005

JNN (Japan News Network) JRN (Japan Radio Network)



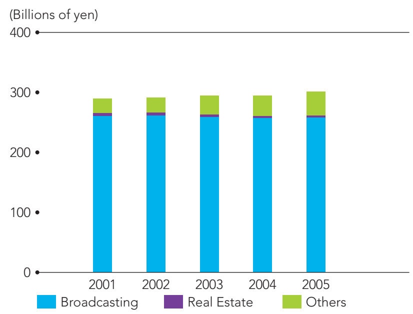
JNN Overseas Bureaus



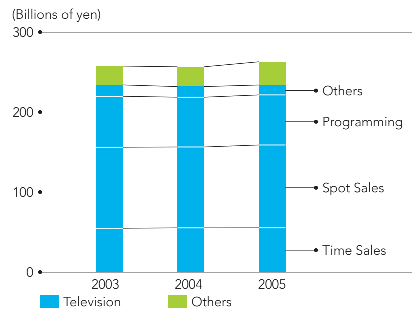
Fact Sheet

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

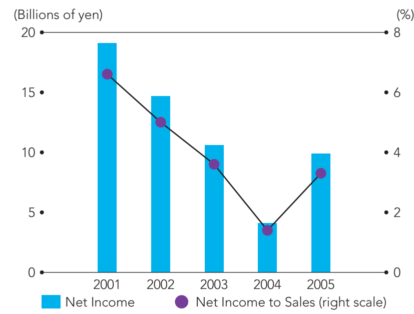
Net Sales by Segment



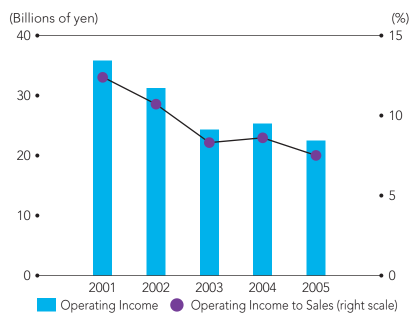
Non-Consolidated Net Sales by Segment



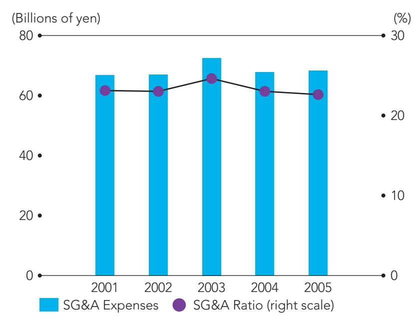
Net Income / Net Income to Sales



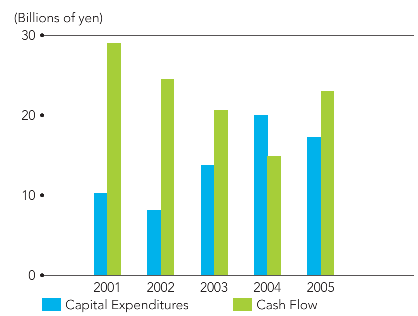
Operating Income / Operating Income to Sales



SG&A Expenses / SG&A Ratio

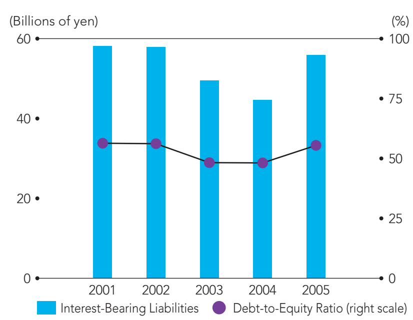


Capital Expenditures / Cash Flow*



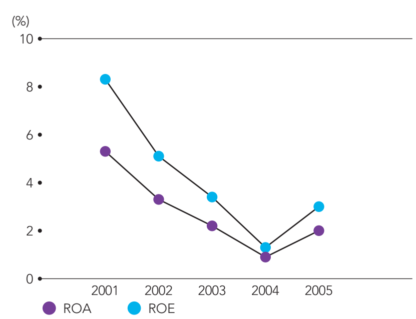
*Cash Flow = Net Income + Depreciation & Amortization

Interest-Bearing Liabilities / Debt-to-Equity Ratio*

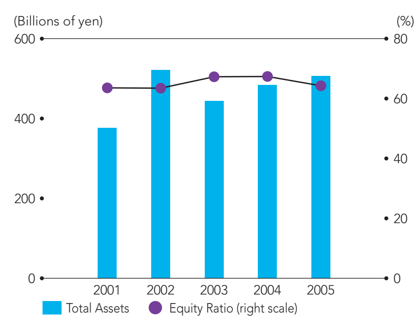


*Debt to Equity Ratio = Total Liabilities ÷ Total Shareholders' Equity x 100

ROA (Return on Assets) / ROE (Return on Equity)



Total Assets / Equity Ratio



Reference Information

Non-Consolidated Net Sales

Tokyo Broadcasting System, Inc.
Years ended March 31

	Millions of yen						Thousands of U.S. dollars
	2005	2004	2003	2002	2001	2000	**2005**
Television:	**¥233,919**	¥231,920	¥234,004	¥236,849	¥234,203	¥209,462	**$2,179,640**
Time sales	**55,379**	55,322	54,861	55,174	53,147	49,693	**516,018**
Spot sales	**103,556**	101,110	101,295	104,196	109,301	96,069	**964,927**
Programming	**62,587**	62,237	63,670	63,594	61,793	57,849	**583,181**
Others	**12,397**	13,251	14,178	13,885	9,962	5,851	**115,514**
Radio	**—**	—	—	8,679	15,812	15,361	**—**
Others	**28,994**	24,744	23,560	23,267	22,821	17,162	**270,164**

Note: The U.S. dollar amounts in this report are provided for convenience only and have been converted at the rate of ¥107.32 to $1.00, the approximate rate of exchange in effect as of March 31, 2005.

Six-Year Summary

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

	Millions of yen						Thousands of U.S. dollars
	2005	2004	2003	2002	2001	2000	**2005**
For the year:							
Net sales	**¥301,731**	¥295,016	¥294,840	¥291,256	¥289,561	¥260,676	**$2,811,508**
Broadcasting	**258,374**	257,387	258,817	262,005	260,988	236,191	**2,407,510**
Real estate	**2,512**	2,865	3,939	4,703	4,903	5,129	**23,407**
Others	**40,845**	34,764	32,084	24,548	23,670	19,356	**380,591**
Cost of sales	**210,957**	201,924	197,992	193,028	186,968	173,852	**1,965,682**
Gross profit	**90,774**	93,092	96,848	98,228	102,593	86,824	**845,826**
Selling, general and administrative expenses	**68,264**	67,821	72,521	66,986	66,766	62,358	**636,079**
Operating income	**22,510**	25,271	24,327	31,242	35,827	24,466	**209,747**
Income before income taxes and minority interests	**17,201**	10,305	23,730	28,249	35,011	24,801	**160,278**
Net income	**9,891**	4,077	10,599	14,652	19,143	13,682	**92,164**
Capital expenditures	**17,196**	20,018	13,805	8,051	10,204	7,573	**160,231**
Depreciation	**13,079**	10,811	10,023	9,875	9,869	11,021	**121,869**
At year-end:							
Total assets	**¥506,126**	¥484,606	¥443,779	¥522,130	¥376,271	¥348,915	**$4,716,045**
Interest-bearing liabilities	**55,944**	44,748	49,497	57,892	58,236	59,515	**521,282**
Total shareholders' equity	**324,724**	326,108	298,288	330,946	238,871	220,515	**3,025,755**
Per share data (in yen and U.S. dollars):							
Net income—basic	**¥ 54.59**	¥ 21.73	¥ 59.10	¥ 83.77	¥ 109.45	¥ 78.24	**$ 0.509**
Shareholders' equity	**1,842.34**	1,850.28	1,692.03	1,892.44	1,365.67	1,260.73	**17.167**
Ratios (%):							
Return on assets	**2.0%**	0.9%	2.2%	3.3%	5.3%	4.0%	
Return on equity	**3.0**	1.3	3.4	5.1	8.3	6.4	
Equity ratio	**64.2**	67.3	67.2	63.4	63.5	63.2	

Note: The U.S. dollar amounts in this report are provided for convenience only and have been converted at the rate of ¥107.32 to $1.00, the approximate rate of exchange in effect as of March 31, 2005.

Management's Discussion and Analysis

OVERVIEW

In the fiscal year under review, ended March 31, 2005, the Japanese economy followed a recovery course, as corporate profits improved, private-sector capital investment increased, and personal consumption grew modestly. However, the economy showed some weaknesses in the second half of the year, as evidenced by inventory adjustments for IT and digital products and higher crude oil prices, which boosted raw material costs. Economic growth nearly came to a halt and the recovery pace slowed.

In the broadcasting industry, growth in the television advertising market seen in the second half of the previous fiscal year was maintained. In the first half of the fiscal year under review, scorching summer weather and the Athens Olympics invigorated the spot advertising market, especially for products such as digital consumer electronics and beverages. Nonetheless, surging crude oil prices, sluggish exports, and other negatives raised concerns in the second half. As a result, business sentiment among companies in some sectors turned cautious, and conditions in the advertising market began to flag.

Against this backdrop, TBS and the TBS Group placed priority on further improving program quality for the age of digital broadcasting and the proliferation of media sources. Recognizing that the mission of the TBS brand is "delivering lasting impressions and reliable information while transcending generations," the Group worked to further its programming and expanded the scope of its business domain. Moreover, in marketing, the Company actively promoted flexible sales activities carefully geared toward the diversifying needs of its advertising clients.

Consolidated net sales in the fiscal year increased 2.3% year on year to ¥301,731 million. Sales surpassed ¥300 billion for the first time and increased for the sixth straight fiscal year, dating back to 1999. Sales were buoyed by a steep gain in revenues in non-broadcasting businesses, especially from software and program rights. On the profit side, operating income fell 10.9% to ¥22,510 million, owing to higher program production costs and depreciation. However, net income surged 142.6% to ¥9,891 million. The sharp increase was attributable to higher extraordinary income from the return of the allowance for retirement and severance benefits as well as sharply lower extraordinary losses due to the absence of the amortization of actuarial differences on retirement benefit obligations seen in the previous fiscal year.

SEGMENT ANALYSIS

Broadcasting

Broadcasting revenues increased 0.4% year on year to ¥258,374 million, and operating income from broadcasting fell 14.4% to ¥15,689 million.

Television

Time sales were firm and were able to reach the levels seen in the previous fiscal year, thanks to firm sales for one-time presentations such as *The Athens Olympics* and *Ancient Rome: Why Did the Phantom City of Pompeii Disappear in 19 Hours?*, along with *K-1 Dynamite!!* and other year-end programs. Better viewer ratings in the golden-time and prime-time slots compared with the previous fiscal year buoyed time sales.

Spot sales rose 2.4% year on year, as advertising demand recovered strongly along with the Company's performance, although sales failed to reach the initial target for 3.2% growth. By client segment, sales were brisk for alcoholic beverages and other beverages, cosmetics and toiletries, general electronic equipment, financial services, and some other products and services. Sales undershot the initial target because viewer ratings in the all-day time slot, which significantly impact spot sales, were down from the previous fiscal year. The Company has renovated its programs in the morning, afternoon, and evening slots since April 2005 and worked to increase its viewer ratings in the all-day time slot. These efforts are already proving effective. As evidence, *Mino Monta No Asa Zuba!* in the morning and *Kyohatsu Plus!* in the afternoon have already garnered higher ratings than previous programs in these time periods.

For programming, the average rating was 12.9% in golden time, up 0.3% from the previous fiscal year, and 12.9% in prime time, up 0.4%, as TBS retained its third-place ranking in these slots. By contrast, the average rating in the all-day slot dipped 0.2 percentage point to 7.5%.

Nonetheless, the Company broadcast many high-quality entertainment programs that were especially attractive to viewers. Of particular note, *K-1 Dynamite!!*, a popular program involving fighting contests that is broadcast each year on New Year's Eve, scored an average viewer rating exceeding 20%, marking the first time that any program competing directly against NHK's annual *New Year's Eve Grand Song Festival* achieved such a high rating. Among dramas, *Wataru Seken Wa Oni Bakari*, *Mito Komon*, and other key programs maintained steadily high viewer ratings. Programs created from movies such as *Sekai No Chushin De Ai Wo Sakebu* and *Orange Days* were especially popular among young people.

BS-i, Inc., a BS digital broadcasting company, posted revenue of ¥4,808 million in the fiscal year, up ¥169 million year on year and marking the second straight annual increase. Operating losses narrowed by ¥1,142 million to ¥3,974 million. As a result, equity-method losses from BS-i came to about ¥1,200 million, down by around ¥300 million.

The number of households capable of receiving BS digital broadcasts reached 8.3 million at the end of March 2005, and this number looks set to exceed 10 million in 2005. BS-i is offering content with attractive, high-quality images and sound, especially in the HD broadcasting area. It is making diligent efforts to further fortify its position as a leading company in digital broadcasting in the industry.

Radio

In the radio segment, TBS's radio license was transferred to TBS Radio & Communications, Inc. (TBS R&C), a subsidiary, on October 1, 2001.

TBS R&C recorded net sales of ¥15,834 million, up 0.4% year on year, and operating income of ¥935 million, down 7.1%. Despite severe operating conditions in the radio broadcasting business, time sales were robust, underpinned by strong audience ratings, and they eclipsed results from a year earlier. Spot sales increased in sectors such as food and beverages, communications, and life and damage insurance. In addition, contracts with major mail-order companies helped fuel sales. However, spot sales fell short of their level in the previous fiscal year. Operating income declined because of higher operating costs from networks, sales promotion, and other factors.

TBS R&C held the top slot in each of the six audience surveys conducted during the fiscal year. As such, the company has maintained the top ranking in the surveys since August 2001 and is solidifying its position as the leading radio broadcaster in the Tokyo metropolitan area.

Real Estate

Revenues from real estate declined 12.3% year on year to ¥2,512 million, and operating income rose 42.9% to ¥623 million. Declining tenant revenues as the Akasaka Redevelopment Project proceeded depressed overall real estate revenues. However, falling depreciation and improving profits at Midoriyama Studio City Inc. and other consolidated subsidiaries boosted profits.

Other Businesses

Revenues from other businesses climbed 17.5% year on year to ¥40,845 million, and operating income dipped 3.2% to ¥6,199 million.

Sales growth was driven by TBS's Division of Project Development and Content Business Division, which posted sales of ¥24,492 million, up 21.7% year on year. Sales breached ¥20,000 million for the second straight year and reached another record high. Moreover, in the second half of the fiscal year, ¥849 million in revenues from the mobile and Internet-related business, which had been transferred from the television segment due to organizational reform, were included in other business sales. Related expenditures were also transferred from the television segment, which pushed down profits.

In the cultural events business, the Toshodai-ji exhibit as well as productions by Tetsuya Kumakawa's K Ballet Company of *Don Quixote* and *Coppelia* were well received and contributed significantly to profits.

In the software business, sales of DVDs from drama productions such as *Sekai No Chushin De Ai Wo Sakebu*, *Suna No Utsuwa*, and *Orange Days* were robust, keeping sales at the year-earlier level.

In the program rights business, movies made from theatrical productions of *Sekai No Chushin De Ai Wo Sakebu* (spectators totaling 6.23 million; entertainment revenues of ¥8,351 million) and *Ima Ai Ni Yukimasu* (3.62 million; ¥4,798 million) were major hits and fueled income growth. As a result, the software and program rights businesses posted revenues of ¥8,334 million, up 8.6% year on year, and reached a historical high.

Program sales were healthy in Japan and overseas.

Business revenues generated by the Yokohama Bay Stars professional baseball team rose 4.5% year on year to ¥7,984 million in the fiscal year ended December 2004, and operating losses narrowed by ¥191 million to ¥385 million. In addition to cost-cutting initiatives, the Company aims to boost revenues from the team by increasing spectator numbers as it enhances contact between athletes and fans by lowering fences at Yokohama Stadium.

COST OF SALES AND OPERATING INCOME

Cost of sales increased 4.5% year on year to ¥210,957 million, and the cost of sales ratio rose 1.5 percentage points to 69.9%.

Selling, general and administrative (SG&A) expenses increased 0.7% to ¥68,264 million. The SG&A expense ratio was 22.6%, down 0.4 percentage point from the previous fiscal year. Higher advertising revenues pushed up agency commissions 1.8%, but personnel costs were down 4.4% and outsourcing costs and retirement benefit expenses decreased 8.1% and 11.3%, respectively.

Initiatives for structural cost reform were started with the introduction of the SAP integrated accounting system in October 2001. Since then, reform measures have made steady progress as the Company more quickly ascertains program costs and revises production processes.

Production costs for television programs totaled ¥120.9 billion in the fiscal year. The Athens Olympics and other major sporting programs as well as movie purchasing costs for broadcasting premier movies on Wednesdays boosted costs ¥1.9 billion, or 1.6%. TBS expects production costs to rise ¥3.1 billion, to ¥124 billion in the current fiscal year, reflecting policies for flexibly and aggressively investing in program production in order to spark a recovery in viewer ratings.

Capital expenditures totaled ¥17,196 million, and depreciation was ¥13,079 million in the year under review. Capital expenditures consisted mainly of ¥2.3 billion for reception and transmission facilities for digital terrestrial television; ¥5.8 billion for studio renovations, expenditures at Tokyo Tower, software, and other products for HD program production; ¥4 billion for general broadcasting equipment; and ¥2.5 billion for the Akasaka Redevelopment Project. Investment for digital broadcasting remains high but has passed its peak and should edge lower in the future.

In the current fiscal year, TBS anticipates capital expenditures of ¥25.1 billion, including about ¥10 billion in payments for retainer fees on the Akasaka Redevelopment Project that were delayed a year, into the current fiscal year. The Company expects depreciation to total ¥13.5 billion.

As a result of the aforementioned factors, operating income declined 10.9% year on year to ¥22,510 million, and the ratio of operating income to net sales decreased 1.1 percentage points to 7.5%. Net income rose 142.6% to ¥9,891 million; the Company registered a loss on the revision of retirement and severance benefits plan costs of ¥8,486 million, but extraordinary income of ¥5,027 million due to the amortization of actuarial gains on retirement and severance obligations, compared with a loss of ¥10,444 million in the previous fiscal year, boosted profits. The ratio of net income to sales increased 1.9 percentage points to 3.3%.

FINANCIAL POSITION

Consolidated total assets stood at ¥506,126 million at the end of the fiscal year, up ¥21,520 million, or 4.4%, from the previous fiscal year. Of total assets, current assets increased 20.1%, or ¥29,115 million, to ¥173,990 million. Other current assets increased ¥12,386 million, as bonds and other marketable securities provisionally used for ¥20,000 million in long-term debt recorded under long-term liabilities rose by about ¥19 billion, and the Company booked accounts receivable of ¥11.4 billion from severance pensions dissolved at the end of the fiscal year.

Property and equipment, net, rose ¥1,585 million, or 0.9%, to ¥180,447 million, owing to capital expenditures for digital terrestrial television and other factors. Investments and other assets fell ¥9,180 million, or 5.7%, to ¥151,689 million, as changes in the assessed market value of holdings in Tokyo Electron, Ltd., trimmed ¥10,865 million from the value of investment securities.

Total liabilities amounted to ¥179,762 million, up 14.7%, or ¥22,975 million from the previous fiscal year. The increase was attributable to a rise in long-term debt of ¥9,928 million due to new long-term fund-raising, a ¥5,732 million decline in the allowance for retirement and severance benefits, and a ¥9,086 million decrease in deferred tax liabilities. Interest-bearing liabilities at the year-end totaled ¥55,944 million, an increase of ¥11,196 million from the previous fiscal year.

Shareholders' equity fell ¥1,384 million, or 0.4% year on year to ¥324,724 million in the fiscal year under review. As was the case with total assets, changes in the market value of investments in securities depressed equity. Unrealized gains on available-for-sale securities fell by ¥9,333 million, and retained earnings rose ¥7,954 million as a result of profit distribution and net income in the period. The shareholders' equity ratio decreased 3.1 percentage points to 64.2%.

CASH FLOWS

Cash and cash equivalents declined ¥4,917 million year on year to ¥52,613 million. Income before income taxes and minority interests rose 66.9% to ¥17,201 million, but the Company raised new funds to continue its aggressive capital investment in facilities for digital terrestrial television from the previous fiscal year.

Cash Flows from Operating Activities

Net cash provided by operating activities totaled ¥26,179 million, compared with ¥19,075 million in the previous fiscal year. Net extraordinary income depressed net cash, mainly due to ¥5,099 million in retirement and severance benefit expenses. However, in addition to a sharp increase in income before income taxes and minority interests of

¥17,201 million, depreciation of ¥13,079 million, a decrease in notes and accounts receivable—trade of ¥1,293 million, and a decrease in inventories of ¥519 million pushed up capital inflows. A ¥4,439 million decrease in income taxes paid also contributed to the improvement in cash. As a result, net cash provided by operating activities was up ¥7,104 million.

Cash flows from operating activities reached 87.3% of the ¥30,000 million medium-term goal set for the fiscal year ending March 2009.

Cash Flows from Investing Activities

Net cash used in investing activities amounted to ¥40,467 million, marking a ¥20,055 million rise from ¥20,412 million in the previous fiscal year. The increase was attributable to the net payment for the purchase of marketable securities of ¥18,999 million to invest proceeds from long-term borrowings in government bonds and others.

Cash Flows from Financing Activities

Net cash provided by financing activities totaled ¥9,347 million, compared with net cash used of ¥6,564 million in the previous fiscal year, representing a ¥15,911 million improvement in cash. This reflected a ¥1,345 million rise in fund-raising by affiliates in cash management systems, which was implemented to effectively utilize funds dispersed throughout Group companies. Additionally, long-term borrowings through new fund-raising generated ¥20,000 million in cash. This was well above the ¥5,472 million for the repayment of long-term borrowings, which accounted for most of the increase in net cash.

OUTLOOK

Steep increases in crude oil prices, worries about an economic slowdown in the United States and China, and other concerns are cause for uncertainty. Nonetheless, TBS expects healthy conditions in the advertising market to fuel brisk revenues in the parent company's core television broadcasting business. In non-broadcasting businesses, the Company expects software and program rights businesses to lead to brisk results.

As for profits, in order to ensure a recovery in viewer ratings and revenue growth, TBS has enacted major changes to its program lineup, revising 49% of its programming since April 2005, mainly in the morning, afternoon, and evening slots. As such, the Company is spending more aggressively on the necessary production for strengthening its programs. In addition, the acquisition of facilities for digital terrestrial television and HD programming are causing depreciation to peak and putting pressure on profits. Nonetheless, the Company continues to work diligently to adequately control costs and maintain earnings.

TBS expects profits to rise substantially, as changes to the system for retirement allowances have little impact on profits and extraordinary income from profits on the sale of shares in Tokyo Electron will add ¥17 billion to earnings in the first half of the current fiscal year.

Given these factors, for the fiscal year ending March 2006, the Company forecasts consolidated net sales of ¥306,000 million, up 1.4% year on year, operating income of ¥18,300 million, down 18.7%, and net income of ¥19,500 million, up 97.1%.

Consolidated Balance Sheets

Tokyo Broadcasting System, Inc. and Consolidated Subsidiaries
As of March 31, 2005 and 2004

ASSETS	Millions of yen 2005	Millions of yen 2004	Thousands of U.S. dollars (Note 1) 2005
Current assets:			
Cash on hand and in banks (Note 3)	**¥ 52,725**	¥ 57,661	**$ 491,288**
Marketable securities (Notes 2 (c) and 15)	**19,999**	1,003	**186,349**
Notes and accounts receivable—trade	**61,873**	62,988	**576,528**
Allowance for doubtful accounts (Note 2 (h))	**(138)**	(217)	**(1,286)**
Inventories (Notes 2 (d) and 5)	**11,420**	11,930	**106,411**
Deferred tax assets (Note 8)	**5,696**	3,344	**53,075**
Prepaid expenses and other current assets	**22,415**	8,166	**208,861**
Total current assets	**173,990**	144,875	**1,621,226**
Property and equipment (Note 2 (e)):			
Land	**76,479**	76,157	**712,626**
Buildings	**117,926**	116,436	**1,098,826**
Machinery and equipment (Note 6)	**80,578**	78,938	**750,820**
Construction in progress	**11,000**	12,817	**102,497**
Total property and equipment	**285,983**	284,348	**2,664,769**
Less: Accumulated depreciation	**(105,536)**	(105,486)	**(983,377)**
Property and equipment, net	**180,447**	178,862	**1,681,392**
Investments and other assets:			
Investments in securities (Notes 2 (c), 15 and 17)	**131,645**	142,510	**1,226,659**
Long-term prepaid expenses (Note 2 (g))	**3,326**	4,683	**30,991**
Intangible and other assets (Notes 2 (f), 2 (l) and 11)	**15,956**	13,394	**148,677**
Allowance for doubtful accounts (Note 2 (h))	**(435)**	(578)	**(4,053)**
Deferred tax assets (Note 8)	**1,197**	860	**11,153**
Total investments and other assets	**151,689**	160,869	**1,413,427**
Total assets	**¥ 506,126**	¥ 484,606	**$4,716,045**

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

LIABILITIES, MINORITY INTERESTS AND SHAREHOLDERS' EQUITY	Millions of yen 2005	Millions of yen 2004	Thousands of U.S. dollars (Note 1) 2005
Current liabilities:			
Short-term borrowings (Notes 7 and 17)	**¥ 5,759**	¥ 9,091	**$ 53,662**
Current portion of long-term debt (Note 7)	**10,072**	5,472	**93,850**
Notes and accounts payable—trade	**26,290**	26,731	**244,968**
Accounts payable—other	**23,250**	17,962	**216,642**
Income taxes payable (Notes 2 (k) and 8)	**8,735**	4,181	**81,392**
Accrued expenses	**5,848**	4,673	**54,491**
Other current liabilities	**4,479**	3,132	**41,735**
Total current liabilities	**84,433**	71,242	**786,740**
Long-term liabilities:			
Long-term debt (Note 7)	**40,113**	30,185	**373,770**
Allowance for retirement and severance benefits (Notes 2 (i) and 10)	**8,802**	14,534	**82,017**
Deferred tax liabilities (Note 8)	**28,944**	38,030	**269,698**
Other long-term liabilities	**17,470**	2,796	**162,784**
Total long-term liabilities	**95,329**	85,545	**888,269**
Total liabilities	**179,762**	156,787	**1,675,009**
Minority interests	**1,640**	1,711	**15,281**
Contingent liabilities (Note 19)			
Shareholders' equity:			
Common stock (Note 9)	**44,163**	44,163	**411,508**
Authorized: 400,000,000 shares			
Issued and outstanding: 179,996,968 shares at March 31, 2005 and 2004			
Additional paid-in capital (Note 9)	**42,562**	42,562	**396,590**
Retained earnings (Note 9)	**182,924**	174,970	**1,704,473**
Accumulated other comprehensive income—			
Unrealized gain on available-for-sale securities (Note 2 (c))	**55,530**	64,863	**517,424**
Foreign currency translation adjustment (Note 2 (b))	**(33)**	(39)	**(308)**
Treasury stock at cost	**(422)**	(411)	**(3,932)**
Total shareholders' equity	**324,724**	326,108	**3,025,755**
Total liabilities, minority interests and shareholders' equity	**¥506,126**	¥484,606	**$4,716,045**

Consolidated Statements of Income

Tokyo Broadcasting System, Inc. and Consolidated Subsidiaries
For each of the three years in the period ended March 31, 2005

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2005	2004	2003	**2005**
Net sales (Notes 17 and 18)	**¥301,731**	¥295,016	¥294,840	**$2,811,508**
Cost of sales (Notes 16, 17 and 18)	**210,957**	201,924	197,992	**1,965,682**
Gross profit	**90,774**	93,092	96,848	**845,826**
Selling, general and administrative expenses (Notes 16, 17 and 18)	**68,264**	67,821	72,521	**636,079**
Operating income	**22,510**	25,271	24,327	**209,747**
Other income (expenses):				
Interest and dividend income	**1,135**	417	526	**10,576**
Interest expense (Note 17)	**(124)**	(200)	(470)	**(1,156)**
Equity in earnings of affiliates	**(1,460)**	(1,846)	(1,359)	**(13,604)**
Gain on sale of investment securities	**371**	905	360	**3,457**
Gain on deemed sale of subsidiary shares	**—**	—	915	**—**
Loss on devaluation of investment securities	**(517)**	(789)	(1,627)	**(4,817)**
Gain on contribution of securities to employee retirement benefit trust (Note 2 (i))	**—**	—	2,002	**—**
Amortization of actuarial gain (loss) on retirement and severance obligation (Notes 2 (i) and 10)	**5,027**	(10,444)	—	**46,841**
Loss on disposal of fixed assets (Note 12)	**(464)**	(2,666)	—	**(4,324)**
Gain on liquidation of affiliates	**81**	—	—	**755**
Loss on revision of retirement and severance benefits plan costs (Notes 2 (i) and 10)	**(8,486)**	—	—	**(79,072)**
Other, net (Note 13)	**(872)**	(343)	(944)	**(8,125)**
Total	**(5,309)**	(14,966)	(597)	**(49,469)**
Income before income taxes and minority interests	**17,201**	10,305	23,730	**160,278**
Income taxes (Note 8)**:**				
Current	**12,802**	10,527	14,021	**119,288**
Deferred	**(5,324)**	(4,205)	(1,068)	**(49,609)**
Total	**7,478**	6,322	12,953	**69,679**
Minority interest in income (loss) of consolidated subsidiaries	**(168)**	(94)	178	**(1,565)**
Net income	**¥ 9,891**	¥ 4,077	¥ 10,599	**$ 92,164**

	Yen			U.S. dollars (Note 1)
Per share of common stock (Note 2 (m))**:**				
Net income—basic	**¥54.59**	¥21.73	¥59.10	**$0.509**
Net income—diluted	**54.58**	21.72	58.23	**0.509**
Cash dividends	**15.00**	10.00	10.00	**0.140**

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, 2005

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2005	2004	2003	**2005**
Common stock:				
Balance at beginning of year	**¥ 44,163**	¥ 44,163	¥ 44,163	**$ 411,508**
Balance at end of year	**44,163**	44,163	44,163	**411,508**
Additional paid-in capital:				
Balance at beginning of year	**42,562**	42,562	41,429	**396,590**
Stock issued in a share exchange	**—**	—	1,133	**—**
Balance at end of year	**42,562**	42,562	42,562	**396,590**
Retained earnings:				
Balance at beginning of year	**174,970**	172,897	165,259	**1,630,358**
Increase from the expanded scope of consolidated subsidiaries	**74**	—	—	**689**
Net income	**9,891**	4,077	10,599	**92,164**
Cash dividends paid	**(1,765)**	(1,766)	(1,749)	**(16,446)**
Bonuses to directors and statutory auditors	**(246)**	(238)	(241)	**(2,292)**
Retirement of treasury stock	**—**	—	(971)	**—**
Balance at end of year	**182,924**	174,970	172,897	**1,704,473**
Accumulated other comprehensive income:				
Balance at beginning of year	**64,824**	39,090	80,149	**604,025**
Unrealized gain (loss) on available-for-sale securities (Note 2 (c))	**(9,333)**	25,798	(41,004)	**(86,964)**
Foreign currency translation adjustment (Note 2 (b))	**6**	(64)	(55)	**55**
Balance at end of year	**55,497**	64,824	39,090	**517,116**
Treasury stock, at cost:	**(422)**	(411)	(424)	**(3,932)**
2003: 3,852,152 shares				
2004: 3,884,698 shares				
2005: 3,891,106 shares				
Total shareholders' equity	**¥324,724**	¥326,108	¥298,288	**$3,025,755**

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, 2005

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2005	2004	2003	**2005**
Cash flows from operating activities:				
Income before income taxes and minority interests	**¥ 17,201**	¥ 10,305	¥ 23,730	**$ 160,278**
Adjustments to reconcile income before income taxes and minority interests to net cash provided by operating activities:				
Depreciation	**13,079**	10,811	10,023	**121,869**
Amortization of long-term prepaid expenses	**1,944**	2,064	1,964	**18,114**
Gain on deemed sale of subsidiary shares	**—**	—	(915)	**—**
Gain on contribution of securities to employees' retirement benefit trust	**—**	—	(2,002)	**—**
Loss on devaluation of investment securities	**517**	789	1,627	**4,817**
Retirement and severance benefit expenses	**(5,099)**	8,066	(782)	**(47,512)**
Increase (decrease) in allowance for doubtful accounts	**(222)**	149	142	**(2,069)**
Interest and dividend income	**(1,135)**	(417)	(526)	**(10,576)**
Interest expense	**124**	200	470	**1,156**
Equity in earnings of affiliates	**1,460**	1,846	1,359	**13,604**
Foreign exchange gains, net	**—**	—	(39)	**—**
Gain on sale of investment securities	**(371)**	(905)	(360)	**(3,457)**
Loss on disposal of fixed assets	**1,231**	2,929	—	**11,471**
Decrease (increase) in notes and accounts receivable—trade	**1,293**	(1,860)	(106)	**12,048**
(Increase) decrease in inventories	**519**	(2,749)	318	**4,836**
Decrease in notes and accounts payable—trade	**(484)**	(1,686)	(224)	**(4,510)**
Others, net	**3,835**	2,502	829	**35,734**
Subtotal	**33,892**	32,044	35,508	**315,803**
Interest and dividends received	**1,149**	416	525	**10,706**
Interest paid	**(146)**	(230)	(481)	**(1,360)**
Income taxes paid	**(8,716)**	(13,155)	(12,184)	**(81,215)**
Net cash provided by operating activities	**26,179**	19,075	23,368	**243,934**
Cash flows from investing activities:				
Proceeds from withdrawal of time deposits	**—**	—	1,220	**—**
Proceeds from sales (payment for purchase) of marketable securities, net	**(18,999)**	2,382	10,988	**(177,031)**
Payment for purchase of property and equipment	**(14,787)**	(15,196)	(12,340)	**(137,784)**
Proceeds from sales of property and equipment	**15**	30	1,050	**140**
Payment for purchase of intangible assets	**(3,203)**	(2,058)	(1,465)	**(29,846)**
Payment for purchase of investments in securities	**(4,815)**	(6,036)	(7,114)	**(44,866)**
Proceeds from sale of investments in securities	**704**	1,031	362	**6,560**
Others, net	**618**	(565)	106	**5,758**
Net cash used in investing activities	**(40,467)**	(20,412)	(7,193)	**(377,069)**
Cash flows from financing activities:				
Proceeds from short-term borrowings	**1,231**	472	13,768	**11,470**
Repayment of short-term borrowings	**(4,563)**	(5,149)	—	**(42,518)**
Proceeds from long-term borrowings	**20,000**	—	—	**186,359**
Repayment of long-term borrowings	**(5,472)**	(72)	(122)	**(50,988)**
Redemption of bonds	**—**	—	(22,039)	**—**
Payment for purchase of treasury stock	**(11)**	(5)	(56)	**(102)**
Dividends paid	**(1,765)**	(1,766)	(1,749)	**(16,446)**
Dividends paid to minority shareholders	**(17)**	(4)	(34)	**(158)**
Dividends to minority shareholders due to the retirement of treasury stock	**—**	—	(971)	**—**
Others, net	**(56)**	(40)	(422)	**(522)**
Net cash provided by (used in) financing activities	**9,347**	(6,564)	(11,625)	**87,095**
Effect of exchange rate change on cash and cash equivalents	**24**	(65)	(55)	**224**
Net increase (decrease) in cash and cash equivalents	**(4,917)**	(7,966)	4,495	**(45,816)**
Cash and cash equivalents at beginning of year	**57,530**	65,496	61,001	**536,060**
Cash and cash equivalents at end of year (Note 3)	**¥ 52,613**	¥ 57,530	¥ 65,496	**$ 490,244**

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, 2005, which was ¥107.32 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 2005, 2004 and 2003. The number of the unconsolidated subsidiaries for 2005, 2004 and 2003 was 16, 17 and 13, 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 a 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. TBS Sports, Inc. and TBS Live, Inc. were merged into TBS Entertainment, Inc., and TBS Entertainment, Inc. changed its corporate name to TBS TV, Inc. on October 1, 2004. The Company added Jasc Co., Ltd. and Viewcast Co., Ltd. to its subsidiaries based on materiality.

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. changed its closing date from January 31 to March 31, and the consolidated financial statements included 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 2005, 2004 and 2003.

(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. 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.

(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) 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.

(i) 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, 2005 and 2004, there were no executive officer covered by such benefits.

On April 1, 2005, the Company terminated tax-qualified pension plans, and transferred them to defined contribution pension plans, advanced retirement allowance plans and lump-sum severance indemnity plans. The Company applied "Accounting Treatment upon Transferring Retirement Remuneration Plans" (Financial Standards Implementation Guidance No. 1). As a result, in the year ended March 31, 2005, losses of ¥8,486 million ($79,072 thousand) was recognized in consolidated statement of income.

(2) Directors' retirement and severance benefits
The Company's subsidiaries provide 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 Company terminated the pension plans for directors upon closing of the annual general meeting of shareholders to be held on June 29, 2004. Accordingly, the allowance for directors' retirement and severance benefits in an amount of ¥535 million ($4,985 thousand) was recorded as other long-term liabilities as of March 31, 2005.

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

(k) 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.

(l) 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.

For the year ended March 31, 2005, the Company also entered into forward securities price exchange contracts to hedge securities price. 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.

(m) 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.

(n) 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.

(o) Reclassification
Certain prior period amounts in the consolidated financial statements have been reclassified to conform to the March 31, 2005 presentation. These reclassifications had no effect on the Company's consolidated net income or shareholders' equity.

(p) 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.

(q) New accounting standard
In the year ended March 31, 2005, the Company did not early-adopt 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 is currently in the process of determining the impact of the adoption.

3. CASH AND CASH EQUIVALENTS

Cash and cash equivalents at March 31, 2005, 2004 and 2003 were as follows:

	Millions of Yen			Thousands of U.S. Dollars
	2005	2004	2003	**2005**
Cash on hand and in banks	**¥52,725**	¥57,661	¥65,627	**$491,288**
Time deposits with the original maturity over three months	**(112)**	(131)	(131)	**(1,044)**
Cash and cash equivalents	**¥52,613**	¥57,530	¥65,496	**$490,244**

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 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, 2005 and 2004 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2005	2004	**2005**
Program rights	**¥11,309**	¥11,818	**$105,377**
Real property held for sale and other	**111**	112	**1,034**
Total	**¥11,420**	¥11,930	**$106,411**

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, 2005 and 2004 was as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2005	2004	**2005**
Machinery and equipment	**¥454**	¥549	**$4,230**
Total	**¥454**	¥549	**$4,230**

These assets listed above were pledged to secure long-term borrowings (¥185million ($1,724 thousand) and ¥257 million at March 31, 2005 and 2004, respectively) including current portion (¥72 million ($671 thousand) and ¥72 million at March 31, 2005 and 2004, 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 0.14% at March 31, 2005.

Long-term debt at March 31, 2005 and 2004 was as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2005	2004	**2005**
0.66% unsecured bonds due 2006	**¥ 10,000**	¥10,000	**$ 93,179**
0.89% unsecured bonds due 2007	**10,000**	10,000	**93,179**
Long-term borrowings from banks	**30,185**	15,657	**281,262**
	50,185	35,657	**467,620**
Less current portion	**(10,072)**	(5,472)	**(93,850)**
Total	**¥ 40,113**	¥30,185	**$373,770**

At March 31, 2005, maturity dates for long-term borrowings with the average interest rate of 0.440% per annum (excluding current portion) ranged from June 2005 to March 2010.

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
2006	¥10,072	$ 93,850
2007	10,072	93,850
2008	10,041	93,561
2009	—	—
2010	20,000	186,359
	¥50,185	$467,620

8. INCOME TAXES

The statutory tax rate used for calculation of the deferred tax assets and liabilities was 40.49% for the year ended March 31, 2003.

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 and 2005.

As a result, deferred income tax liabilities at March 31, 2004 increased by ¥183 million, deferred income tax assets decreased by ¥111 million and income taxes-deferred increased by ¥72 million 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, 2005 and 2004 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2005	2004	**2005**
Excess allowance for retirement and severance benefits for employees	**¥ 2,984**	¥ 5,191	**$ 27,805**
Accrued expense due to change in retirement benefit	**7,410**	—	**69,046**
Excess accrued bonuses	**1,645**	1,680	**15,328**
Enterprise taxes	**740**	370	**6,895**
Allowance for retirement and severance benefits for directors	**261**	496	**2,432**
Devaluation of investments in securities	**1,092**	1,220	**10,175**
Loss on program rights	**768**	432	**7,156**
Unrealized gain on available-for-sale securities	**(38,496)**	(44,912)	**(358,703)**
Amortization of long-term prepaid expenses	**1,470**	980	**13,697**
Other	**1,545**	1,697	**14,396**
Less valuation allowance	**(1,470)**	(980)	**(13,697)**
Deferred tax liabilities, net	**¥(22,051)**	¥(33,826)	**$(205,470)**

Reconciliation of the differences between the statutory tax rate and the effective tax rate for the years ended March 31, 2005 and 2004 was as follows:

	2005	2004
Statutory tax rate	**40.69%**	42.05%
Increase (reduction) in taxes resulting from:		
Non-deductible expenses and non-taxable income	**5.78**	11.59
Equity in (earnings) losses of affiliates	**3.45**	7.53
Change in statutory tax rate	**—**	2.22
Effect of tax credit	**(6.88)**	(2.23)
Other	**0.43**	0.19
Effective tax rate	**43.47%**	61.35%

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, 2005, the Company's shareholders approved (1) a payment of a year-end cash dividend of ¥10.00 ($0.093) per share aggregating ¥1,765 million ($16,446 thousand) to the shareholders of record as of March 31, 2005 and (2) a payment of bonuses to directors and statutory auditors aggregating ¥100 million ($932 thousand). In conformity with the Code, this declaration of cash dividends is not reflected in the consolidated financial statements as of March 31, 2005.

10. EMPLOYEES' RETIREMENT AND SEVERANCE BENEFITS

The liabilities for retirement and severance benefits included in the consolidated balance sheets as of March 31, 2005 and 2004 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2005	2004	**2005**
Projected benefit obligation	**¥12,354**	¥ 49,244	**$115,114**
Less: Fair value of plan assets	**(2,899)**	(41,012)	**(27,013)**
Unfunded obligation	**9,455**	8,232	**88,101**
Unrecognized actuarial differences	**(355)**	5,027	**(3,308)**
Unrecognized prior service costs	**(940)**	—	**(8,759)**
Liability for retirement and severance benefits	**¥ 8,160**	¥ 13,259	**$ 76,034**

The impact resulting from transfer of tax-qualified pension plans to defined contribution pension plans and advanced retirement allowance plans was as follows:

	Millions of Yen	Thousands of U.S. Dollars
Decreased in projected benefit obligation	¥ 41,985	$ 391,213
Plan assets	(35,252)	(328,476)
Unrecognized actuarial differences	(1,913)	(17,825)
Unrecognized prior service costs	(5,074)	(47,279)
Increase in liability for retirement and severance benefits	¥ 254	$ 2,367

Included in the consolidated statements of income for the years ended March 31, 2005 and 2004 were retirement and severance benefit expenses comprised of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2005	2004	**2005**
Service costs-benefits earned during the year	**¥ 1,585**	¥ 1,234	**$ 14,769**
Interest cost on projected benefit obligation	**1,007**	1,259	**9,383**
Expected return on plan assets	**(620)**	(536)	**(5,777)**
Amortization of actuarial differences	**(5,027)**	10,444	**(46,841)**
Retirement and severance benefit expenses	**¥(3,055)**	¥12,401	**$(28,466)**

As a result of transfer of tax-qualified pension plans to defined contribution plans and advanced retirement allowance plans, losses of ¥8,486 million ($79,072 thousand) was recognized in the consolidated statement of income.

The discount rate and the rate of expected return on plan assets used by the Company are 2.25% and 2.5%, respectively, for both 2005 and 2004. 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. Prior service costs and actuarial differences are to be charged to income in the following year of recognition.

11. DEFERRED HEDGE LOSS

Hedge losses deferred and included in other assets in the accompanying consolidated balance sheets as of March 31, 2005 and 2004 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2005	2004	**2005**
Deferred hedge loss	**¥(1,909)**	¥(1,685)	**$(17,788)**
Deferred hedge gain	**242**	412	**2,255**
Deferred hedge loss, net	**¥(1,667)**	¥(1,273)	**$(15,533)**

12. LOSS ON DISPOSAL OF FIXED ASSETS

Loss on disposal of fixed assets for the year ended March 31, 2005 and 2004 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2005	2004	**2005**
Disposal of buildings	**¥ —**	¥2,175	**$ —**
Disposal of machinery and equipment	**—**	88	**—**
Removal cost	**464**	402	**4,324**
Others	**—**	1	**—**
Total	**¥464**	¥2,666	**$4,324**

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
	2005	2004	2003	**2005**
Loss on regular disposal of property and equipment, net	**¥(767)**	¥(263)	¥(391)	**$(7,147)**
Refunds on consumption taxes	**—**	—	95	**—**
Gain on sale of business	**—**	—	506	**—**
Additional severance benefits	**(24)**	(126)	(302)	**(224)**
Amortization of advance payments	**—**	—	(340)	**—**
Insurance proceeds	**250**	160	263	**2,330**
Other, net	**(331)**	(114)	(775)	**(3,084)**
Total	**¥(872)**	¥(343)	¥(944)	**$(8,125)**

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, 2005 and 2004 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
	2005	2004	**2005**
Purchase price:			
Buildings	**¥ 67**	¥ 67	**$ 624**
Machinery	**10,764**	12,147	**100,298**
Equipment	**1,429**	1,760	**13,316**
	¥12,260	¥13,974	**$114,238**
Accumulated depreciation:			
Buildings	**¥ 27**	¥ 10	**$ 251**
Machinery	**7,431**	7,032	**69,242**
Equipment	**779**	961	**7,259**
	¥ 8,237	¥ 8,003	**$ 76,752**
Book value:			
Buildings	**¥ 40**	¥ 57	**$ 373**
Machinery	**3,333**	5,115	**31,056**
Equipment	**650**	799	**6,057**
	¥ 4,023	¥ 5,971	**$ 37,486**

(2) Lease commitments (including interest portion):

	Millions of Yen		Thousands of U.S. Dollars
	2005	2004	**2005**
Due within one year	**¥2,054**	¥2,502	**$19,139**
Due after one year	**1,969**	3,469	**18,347**
Total	**¥4,023**	¥5,971	**$37,486**

(3) Lease expenses and depreciation equivalents:

	Millions of Yen			Thousands of U.S. Dollars
	2005	2004	2003	**2005**
Lease expenses	**¥2,340**	¥2,845	¥2,791	**$21,804**
Depreciation equivalents	**2,340**	2,845	2,791	**21,804**

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, 2005:

(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	**¥23,340**	**¥117,986**	**¥94,646**	**$217,480**	**$1,099,385**	**$881,905**
Debt securities	**5,000**	**5,000**	**—**	**46,590**	**46,590**	**—**
Other securities	**—**	**—**	**—**	**—**	**—**	**—**
Total	**¥28,340**	**¥122,986**	**¥94,646**	**$264,070**	**$1,145,975**	**$881,905**

(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	**¥ 41**	**¥ 33**	**¥ (8)**	**$ 382**	**$ 307**	**$ (75)**
Debt securities	**6,000**	**6,000**	**—**	**55,908**	**55,908**	**—**
Other securities	**316**	**268**	**(48)**	**2,944**	**2,497**	**(447)**
Total	**¥6,357**	**¥6,301**	**¥(56)**	**$59,234**	**$58,712**	**$(522)**

The above figures include marketable securities temporarily lent based on a securities lending agreement in an amount of ¥18,330 million ($170,798 thousand) as of March 31, 2005.

Total sales of available-for-sale securities during the year ended March 31, 2005 amounted to ¥704 million ($6,560 thousand) and the related gains and losses amounted to ¥371 million ($3,457 thousand) and ¥6 million ($56 thousand), respectively.

The following table summarizes book values of securities with no available fair market values as of March 31, 2005:

	Millions of yen	Thousands of U.S. Dollars
Non-listed equity securities	¥ 8,759	$ 81,616
Available-for-sale securities	4,599	42,853
Commercial paper	8,999	83,852
Total	¥22,357	$208,321

Maturities of debt securities classified as available-for-sale at March 31, 2005 are as follows:

	Millions of yen				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	Within one year	Over one year but within five years	Over five years but within ten years	Over ten years
Government bonds	**¥11,000**	**¥—**	**¥—**	**¥—**	**$102,498**	**$—**	**$—**	**$—**
Others	**8,999**	**—**	**—**	**—**	**83,852**	**—**	**—**	**—**
Total	**¥19,999**	**¥—**	**¥—**	**¥—**	**$186,350**	**$—**	**$—**	**$—**

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		
Type	Acquisition cost	Book value	Difference
Available-for-sale securities with available fair market values:			
Equity securities	¥12,269	¥123,045	¥110,776
Debt securities	500	504	4
Other securities	—	—	—
Total	¥12,769	¥123,549	¥110,780

(2) Other securities

	Millions of yen		
Type	Acquisition cost	Book value	Difference
Available-for-sale securities with available fair market values:			
Equity securities	¥2,835	¥2,439	¥(396)
Debt securities	500	499	(1)
Other securities	—	—	—
Total	¥3,335	¥2,938	¥(397)

Total sales of available-for-sale securities during the year ended March 31, 2004 amounted to ¥1,031 million and the related gains and losses amounted to ¥905 million and ¥5 million, respectively.

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

	Millions of yen
Non-listed equity securities	¥10,510
Available-for-sale securities	6,516
Total	¥17,026

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	¥—	¥—	¥—

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, 2005, 2004 and 2003 were ¥322 million ($3,000 thousand), ¥429 million and ¥410 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 entered into 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, 2005 was as follows:

Description of transactions (Nature of related parties)

	Millions of Yen			Thousands of U.S. Dollars
	2005	2004	2003	**2005**
Revenues:				
a) Directors				
Sales of advertising time (from certain broadcasting stations, an advertising agency and a newspaper publishing company)	**¥32,264**	¥111,668	¥112,293	**$300,634**
Room rent (from some associations)	**3**	4	3	**28**
b) Affiliated company				
Production fee	**2,568**	3,575	—	**23,928**
Expenses:				
a) Directors				
Dealing commission (to an advertising agency)	**6,219**	21,561	22,202	**57,948**
Network compensation (to certain broadcasting stations)	**2,539**	2,924	2,739	**23,658**
Advertisement in the paper (to a certain newspaper publishing company)	**39**	85	62	**363**
Donation (to a certain entity)	**30**	30	30	**280**
Interest expense	**52**	—	—	**485**
Commission expense	**212**	—	—	**1,975**
b) Affiliated company				
Program purchase expense	**520**	457	—	**4,845**
Interest expense	**10**	14	6	**93**
Others				
Affiliated company				
Underwriting of new shares issued	**—**	—	5,033	**—**
Borrowings	**—**	—	13,768	**—**
Repayment of short-term borrowings, net	**3,505**	4,677	—	**32,659**

Description of receivables and payables (Nature of related parties)

	Millions of Yen		Thousands of U.S. Dollars
	2005	2004	**2005**
Receivable pertaining to:			
a) Directors			
Sales of advertising time (from certain broadcasting stations, an advertising agency and a newspaper publishing company)	**¥25,903**	¥23,204	**$241,362**
b) Affiliates			
Production fee (from a broadcasting station)	**189**	293	**1,761**
Payable pertaining to:			
a) Directors			
Dealing commission (to an advertising agency)	**208**	972	**1,938**
Network compensation (to certain broadcasting stations)	**442**	534	**4,119**
Advertisement in the paper (to a certain newspaper publishing company)	**2**	3	**19**
b) Affiliates			
Short-term borrowings	**5,586**	9,091	**52,050**
Program purchase expense (to a broadcasting station)	**69**	27	**643**

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, 2005, 2004 and 2003 are summarized as follows:

	Millions of yen					
Year ended March 31, 2005	Broadcasting	Real estate	Others	Total	Elimination/ Headquarters	Consolidated
1. Operating revenues and operating income						
Operating revenues						
(1) Outside customers	**¥258,374**	**¥ 2,512**	**¥40,845**	**¥301,731**	**¥ —**	**¥301,731**
(2) Inter-segment	**4,021**	**4,853**	**6,006**	**14,880**	**(14,880)**	**—**
Total	**262,395**	**7,365**	**46,851**	**316,611**	**(14,880)**	**301,731**
Operating expenses	**246,706**	**6,742**	**40,652**	**294,100**	**(14,879)**	**279,221**
Operating income	**¥ 15,689**	**¥ 623**	**¥ 6,199**	**¥ 22,511**	**¥ (1)**	**¥ 22,510**
2. Assets, depreciation and capital expenditures						
Assets	**¥214,857**	**¥94,811**	**¥29,553**	**¥339,221**	**¥166,905**	**¥506,126**
Depreciation	**¥ 10,320**	**¥ 1,591**	**¥ 1,168**	**¥ 13,079**	**¥ —**	**¥ 13,079**
Capital expenditures	**¥ 10,846**	**¥ 4,047**	**¥ 2,303**	**¥ 17,196**	**¥ —**	**¥ 17,196**

	Thousands of U.S. dollars					
Year ended March 31, 2005	Broadcasting	Real estate	Others	Total	Elimination/ Headquarters	Consolidated
1. Operating revenues and operating income						
Operating revenues						
(1) Outside customers	**$2,407,510**	**$ 23,407**	**$380,591**	**$2,811,508**	**$ —**	**$2,811,508**
(2) Inter-segment	**37,468**	**45,220**	**55,963**	**138,651**	**(138,651)**	**—**
Total	**2,444,978**	**68,627**	**436,554**	**2,950,159**	**(138,651)**	**2,811,508**
Operating expenses	**2,298,789**	**62,822**	**378,792**	**2,740,403**	**(138,642)**	**2,601,761**
Operating income	**$ 146,189**	**$ 5,805**	**$ 57,762**	**$ 209,756**	**$ (9)**	**$ 209,747**
2. Assets, depreciation and capital expenditures						
Assets	**$2,002,022**	**$883,442**	**$275,373**	**$3,160,837**	**$1,555,208**	**$4,716,045**
Depreciation	**$ 96,161**	**$ 14,825**	**$ 10,883**	**$ 121,869**	**$ —**	**$ 121,869**
Capital expenditures	**$ 101,062**	**$ 37,710**	**$ 21,459**	**$ 160,231**	**$ —**	**$ 160,231**

	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

	Millions of yen					
Year ended March 31, 2003	Broadcasting	Real estate	Others	Total	Elimination/ Headquarters	Consolidated
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

Headquarters assets, consisting primarily of the Company's cash, marketable securities and investments in securities, were included in elimination/headquarters and were ¥167,440 million ($1,560,194 thousand), ¥164,937 million and ¥135,077 million for the years ended March 31, 2005, 2004 and 2003, 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, 2005, 2004 and 2003, 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, 2005, 2004 and 2003 were omitted as such sales were less than 10% of the consolidated net sales.

19. CONTINGENT LIABILITIES

Contingent liabilities at March 31, 2005 were as follows:

	Millions of yen	Thousands of U.S. Dollars
Guarantee of bank loans for employees	¥6,898	$64,275
Guarantee of bank loans for other parties	1,975	18,403
Total	¥8,873	$82,678

20. SUBSEQUENT EVENT

The Company issued Stock Acquisition Rights by third party allotment in accordance with an approval at the Board of Directors' meeting held on May 18, 2005 as follows:

(1) Recipient of allotment
Nikko Principal Investments Ltd.

(2) Total number of Stock Acquisition Rights
2,000 units

(3) Class and number of shares to be issued upon exercise of Stock Acquisition Rights
20,000,000 shares of common stock of the Company
(10,000 shares per Stock Acquisition Rights)

(4) Issuance price of Stock Acquisition Rights
(¥300,000 ($2,795) per unit (¥30 ($0.280) per share)

(5) Total amount of the issue price of Stock Acquisition Rights
¥600 million ($5,591 thousand)

(6) Payment date
June 3, 2005

(7) Amount payable upon exercise of the Stock Acquisition Rights (hereafter, "Exercise Price")
¥4,000 ($37.27) per share (initially)
When a takeover bid (TOB) for the Company has been initiated (except when the Company declares agreement to the TOB) or when the Company becomes aware of or there is a public announcement that an individual or a group has acquired more than a 20% interest in the Company, the Exercise price will be adjusted to 90% of the average closing market price for the 6 months prior to the occurrence of such events. Also, after June 1, 2007, on the next dealings day of every Friday, the Exercise Price will be adjusted to the fair market price (average closing market price for five consecutive dealings days).

(8) Amount of equity to be capitalized upon the exercise of Stock Acquisition Rights
An amount arrived by multiplying the Exercise Price by 0.5 and rounding any fractional amounts generated by this formula up to the nearest yen.

(9) Exercise period
June 6, 2005 through June 30, 2007
However, through May 31, 2007 when the Exercise Price is adjusted, it is possible to exercise for 45 days from the effective date of the adjustment.

(10) Base date for dividend calculation
The payment of initial dividends payable or cash distribution payable under Article 293 No. 5 of Commercial Code (interim dividends) on newly issued shares of the Company is made assuming an exercise on April 1 for Stock Acquisition Rights exercised from April 1 through September 30 of the year, and an exercise on October 1 for Stock Acquisition Rights exercised from October 1 of the year through March 31 of the next year.

(11) Use of proceeds
Of the ¥80,570 million ($750,745 thousand) of estimated proceeds from Stock Acquisition Rights calculated based on the initial Exercise Price, it is expected that the estimated proceeds of ¥570 million ($5,311 thousand) will be used for expenditures such as program production to enhance the brand value. If the Stock Acquisition Rights are exercised, the use of the proceeds will depend on conditions at the time of the exercise, but it is expected that the proceeds would be used for expenditures such as investments in new business, capital investments, and repayments of borrowings.

(12) Events and conditions of cancellation of Stock Acquisition Rights
If the Board of Directors considers it is necessary, the Board is able to cancel all or a portion of the remaining Stock Acquisition Rights by reaching a Board resolution by the day before the Exercise Price is reset and notifying the public at least one month before the cancellation day determined in the Board resolution.

(13) Transfer restrictions on Stock Acquisition Rights
Any transfer of the Stock Acquisition Rights shall require the approval of the Board of Directors of the Company.

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, 2005 and 2004, and the related consolidated statements of income, shareholders' equity and cash flows for each of the three years in the period ended March 31, 2005, 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, 2005 and 2004, and the consolidated results of their operations and their cash flows for each of the three years in the period ended March 31, 2005, in conformity with accounting principles generally accepted in Japan.

As described in Note 20, Tokyo Broadcasting System, Inc. issued Stock Acquisition Rights by third party allotment in accordance with an approval at the Board of Directors' meeting held on May 18, 2005.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2005 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, 2005

Corporate Data

As of March 31, 2005

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 regulations; production and distribution of television programs and DVDs, videos, etc.; telecommunication services; TV broadcasting: JORX-TV

Number of Employees

1,226

Stock Exchange Listing

Tokyo Stock Exchange

Common Shares Issued

179,996,968

Paid-in Capital

¥44,163 million

Number of Shareholders

11,199

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

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 2005* and back numbers from 2000 to 2004 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

Editorial Supervision:
Eiichiro Inai
Masahiro Iijima
Mari Onuma
Office of Investor Relations

Major Shareholders

Shareholders	Number of shares held	Ratio to total shares issued (% ownership)
The Master Trust Bank of Japan, Ltd. (Trust Account)	21,232,900	11.79
Japan Trustee Service Bank, Ltd. (Trust Account)	10,408,000	5.78
Nippon Life Insurance Company	7,821,735	4.34
Sumitomo Mitsui Banking Corporation	5,745,267	3.19
The Master Trust Bank of Japan, Ltd. (Pension Account—Pension Trust Account held for Dentsu, Inc.)	4,505,000	2.50
Boston Safe Deposit BSDT Treaty Client Omnibus	4,076,200	2.26
Mainichi Broadcasting System, Inc.	3,440,000	1.91
State Street Bank & Trust Co.	3,352,400	1.86
The Dai-ichi Mutual Life Insurance Company	2,560,000	1.42
Mitsui Fudosan Co., Ltd.	2,375,328	1.31

Notes: 1. TBS holds 3,500,434 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. TBS acquired 1,656,000 additional shares (0.20% stake) of Mitsui Fudosan at March 31, 2005. However, as they are non-voting stocks for the fiscal year-end, it has been excluded from the above list.
4. The 4,505,000 shares in The Master Trust Bank of Japan, Ltd. (MTBJ) (pension trust account/Dentsu account) are trust assets designated to be transferred from Dentsu to MTBJ. As stipulated by the trust, the rights to exercise voting rights and dispose of these shares are held by Dentsu. The Company owns 10,000 shares in Dentsu (0.35% stake).
5. TBS owns 2,247.81 shares (0.03% stake) of Sumitomo Mitsui Financial Group, Inc., a holding company of Sumitomo Mitsui Banking Corporation.

TBS

TOKYO BROADCASTING SYSTEM, INC.

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

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