



繋ぎ高める。変わり続ける。

A.D.Works Co., Ltd.
IR Briefing Materials:
The First Quarter of the Year Ending March 31, 2019

August 3, 2019
A.D.Works Co., Ltd.
TSE 1st Section: 3250 <http://www.re-adworks.com/>

I	Summary of the First Quarter of the Year Ending March 31, 2019	P.2	-	P.3
II	About the Extraordinary Loss	P.4	-	P.5
III	Overview of the First Quarter of the Year Ending March 31, 2019	P.6	-	P.12
IV	Business Plan and Progress	P.13	-	P.16
V	About the Equity Finance	P.17	-	P.21
VI	About the Launch of Our First Sub-divided Real Estate	P.22	-	P.25
VII	Reference Materials (Business Strategy)	P.26	-	P.28
VIII	Reference Materials (Company Profile, Shareholder Composition, Trends in Consolidated Results)	P.29	-	P.33
IX	Reference Materials (The Fifth Mid-Range Business Plan)	P.34	-	P.37
X	Reference Materials (Characteristics of the A.D.W. Group Business Model)	P.38	-	P.41

I - Summary of the First Quarter of the Year Ending March 31, 2019

Topic

1

Launch of ARISTO® Kyoto, our first sub-divided real estate investment product

- 1.22 billion yen in total solicitation, and 500 million yen minimum investment; Group's first product for high-end individual investors.

Topic

2

757 million yen extraordinary loss set aside to cover prior years' consumption taxes

- Although the Group is considering an appeal, an extraordinary loss was posted for accounting purposes.
- No changes were made to the earnings plan for the fiscal year ending on March 31, 2019 (released on May 10, 2018).

Topic

3

Maximum of about 2 billion yen raised in equity financing

- The goal of capital increase was to acquire growth funds (money to purchase income properties).

II - About the Extraordinary Loss

Amount and content

Reserves of a total of 757 million yen, equivalent to **prior years' consumption taxes** for the period from fiscal year ended on March 31, 2015 until fiscal year ended on March 31, 2018.

Background

A tax examination carried out from November 2017 led to a **difference of opinion between the Company and the Tokyo Regional Taxation Bureau** that could not be resolved. As a result, the Company was issued a notice of correction.

※ Please refer to the "Notice on Posting of Extraordinary Loss as Reserve for Prior Years' Consumption Taxes," dated July 31, 2018, for specific information.

Company's response

Given the substance of the law, as well as the fact that the Group has never been instructed to take corrective action during past tax examinations, during which time the Group has continued to use the same accounting approach, the Group believes that its previous tax treatment was appropriate. We are **considering filing an appeal with the Tokyo Regional Taxation Bureau** in this matter.

Full-year earnings plan

There is **no change** to the **full-year consolidated earnings plan** (released on May 10, 2018), which reflect our management targets.

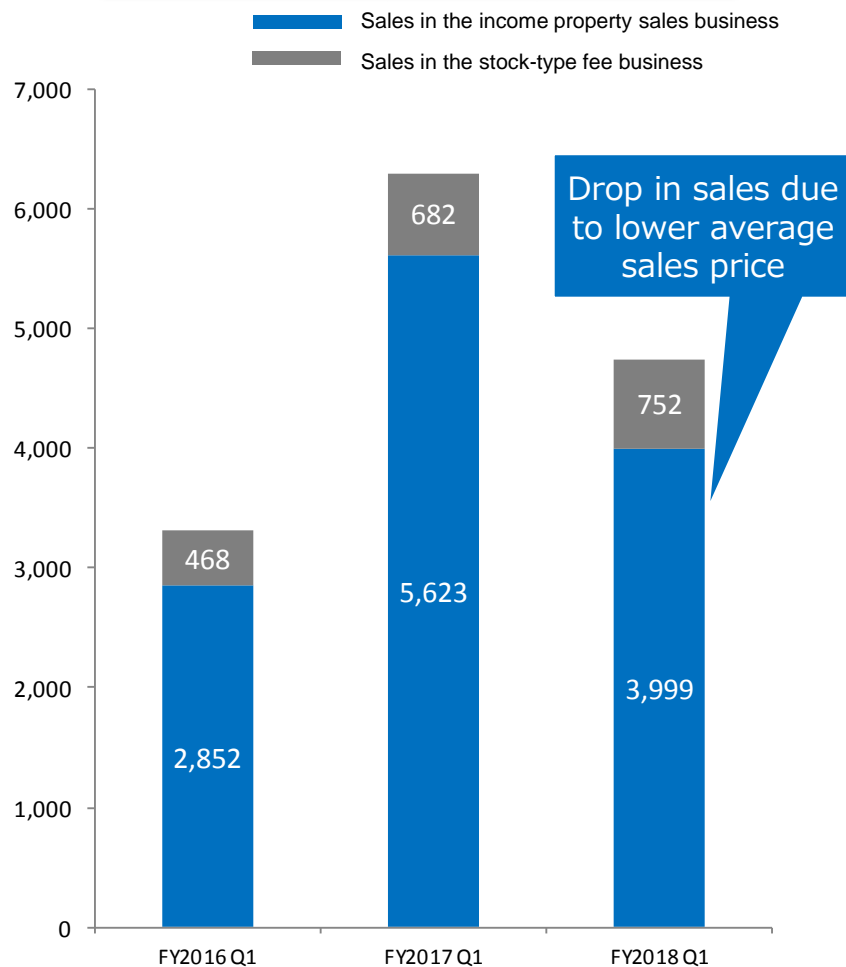
III - Overview of the First Quarter of the Year Ending March 31, 2019

(Units: million yen)	FY2017 1Q (ended June 30, 2017)		FY2018 1Q (ended June 30, 2018)		Change from previous year	Full-year plan progress
	Amount	% of sales	Amount	% of sales		
Sales	6,185	+100.0%	4,647	+100.0%	- 24.9%	19.4%
Gross profit	1,065	+17.2%	884	+19.0%	- 17.0%	—
SG & A	658	+10.6%	675	+14.5%	+2.7%	—
EBITDA	436	+7.1%	249	+5.4%	- 42.8%	15.6%
Ordinary income	347	+5.6%	120	+2.6%	- 65.0%	12.2%
Net income before taxes	347	+5.6%	- 635	- 13.7%	—	—
Net income	221	+3.6%	- 306	- 6.6%	—	—

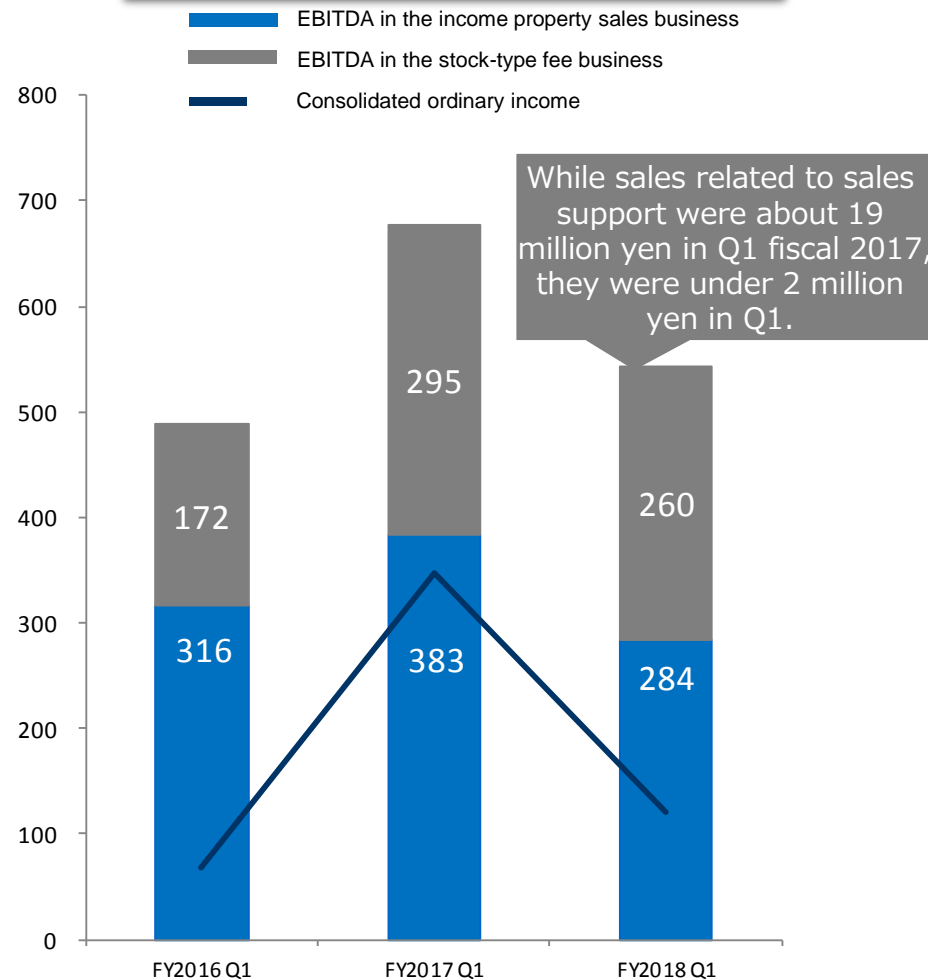
- Sales declined compared to the same period in the previous year, when sales of large-scale properties were recorded.
- A net loss of 306 million yen was posted due to the recording of a 757 million yen extraordinary loss.

(Unit: million yen)

Changes in segment sales

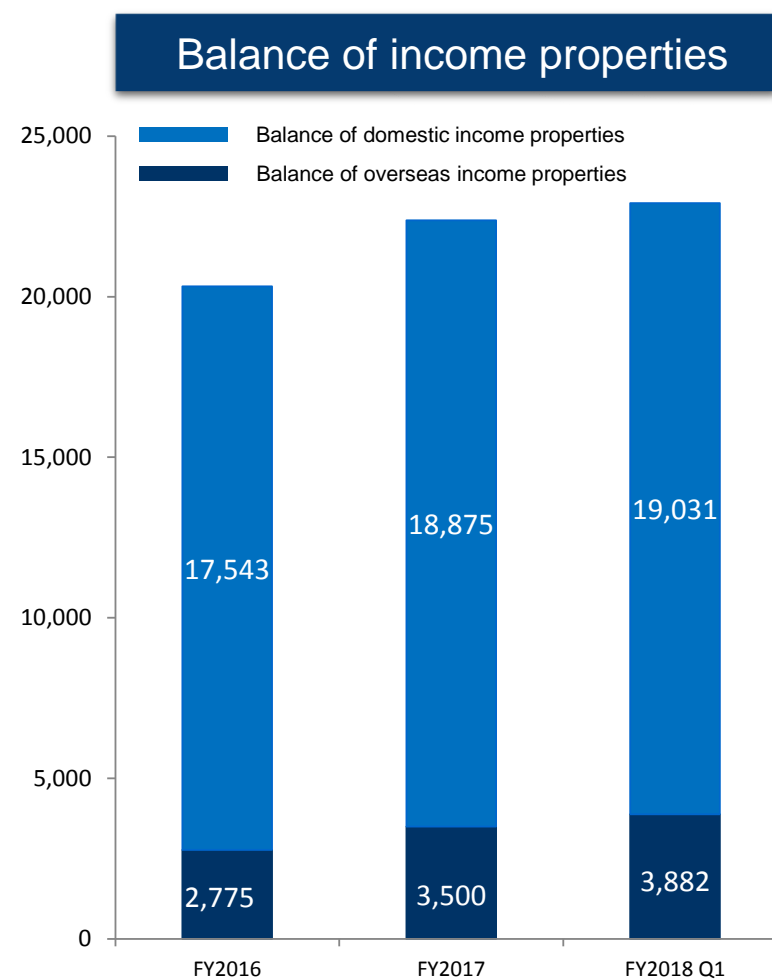
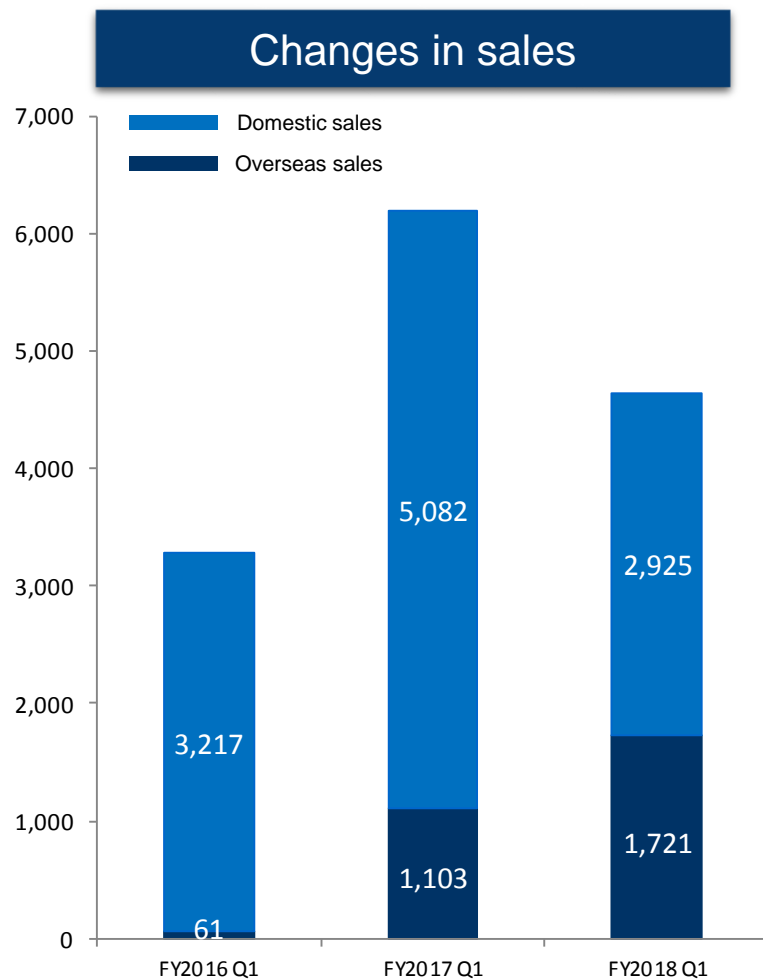


Changes in segment EBITDA



(Note) Because sales for each segment include intersegment sales, the totals for each segment and consolidated sales differ.

(Unit: million yen)

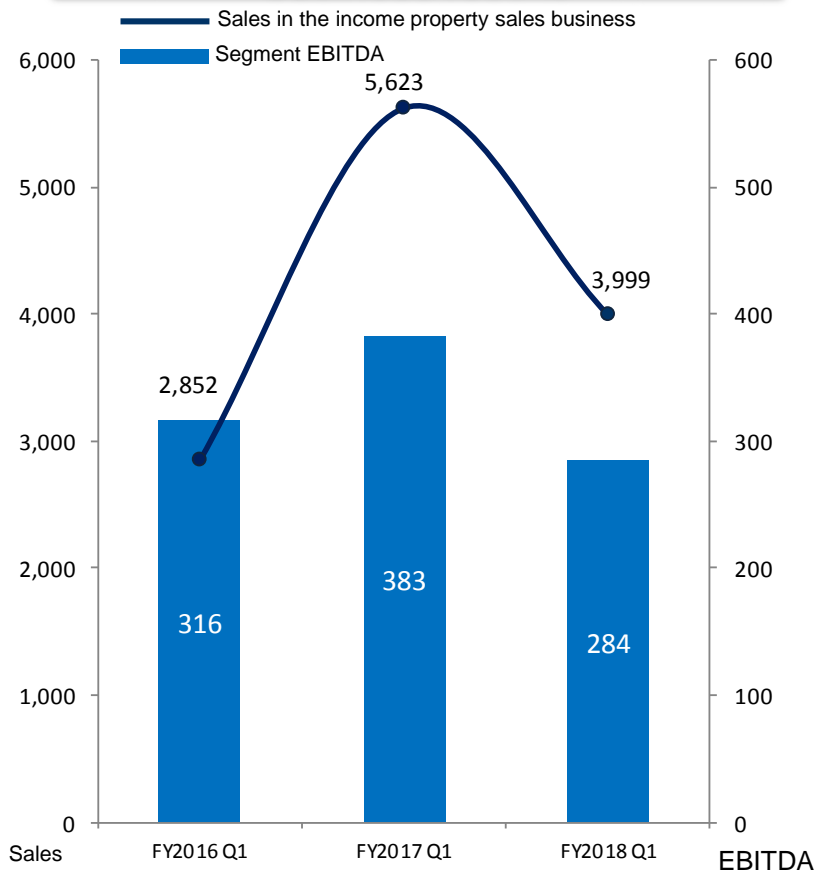


(Note) The income real estate balance does not include the reserves for the estimated consumer tax payment posted as an asset due to the notice of correction received from the Tokyo Regional Taxation Bureau regarding consumption tax payments for prior years.

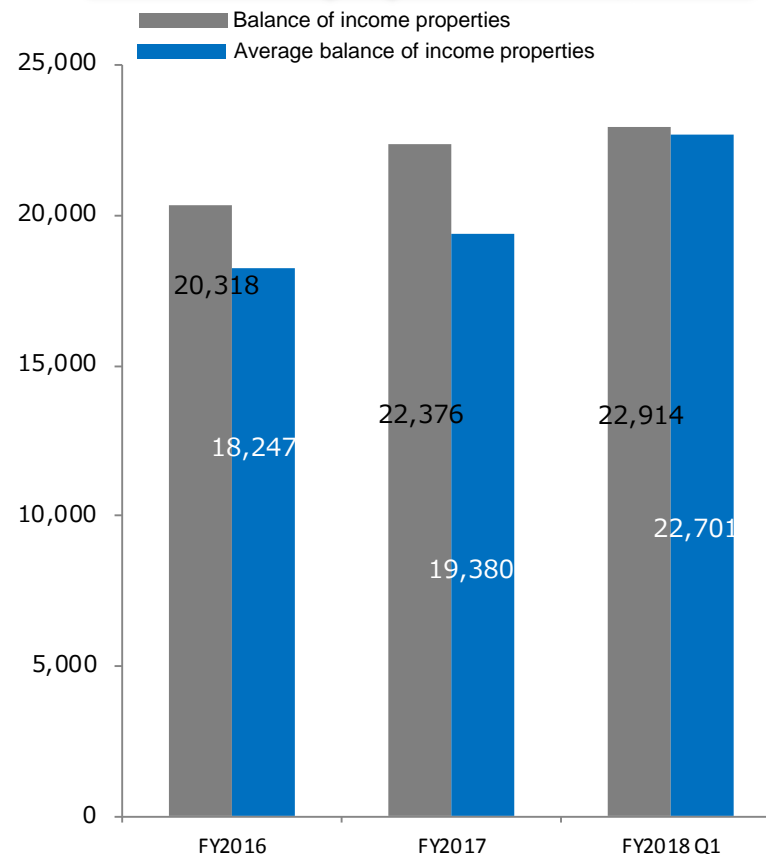
Steady growth for the overseas business based in Los Angeles

(Units: million yen)

Changes in income property sales business results



Changes in balance of income properties

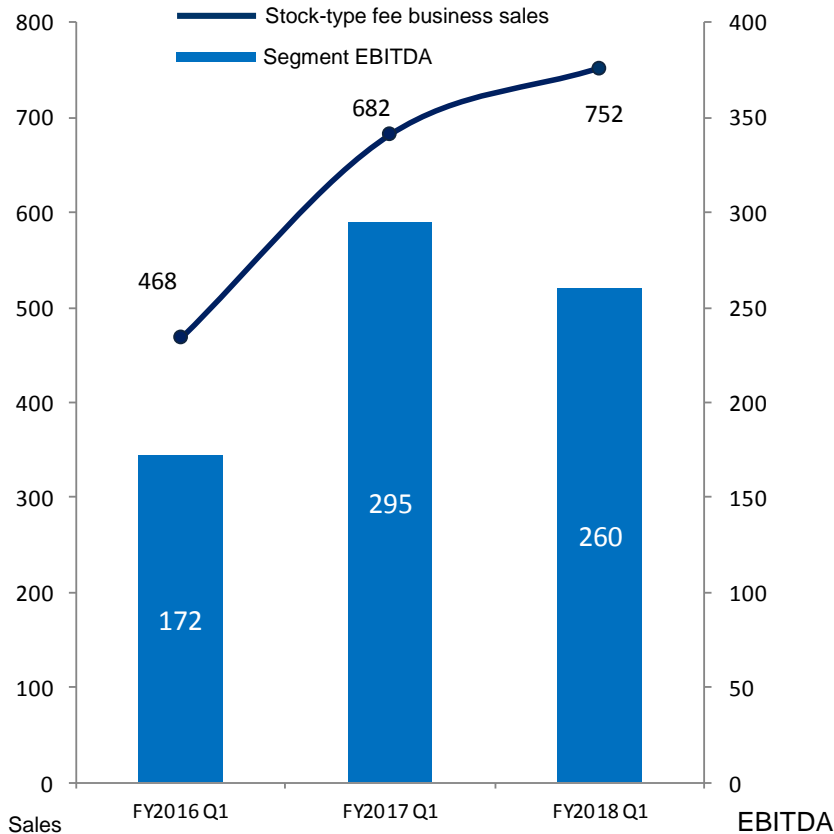


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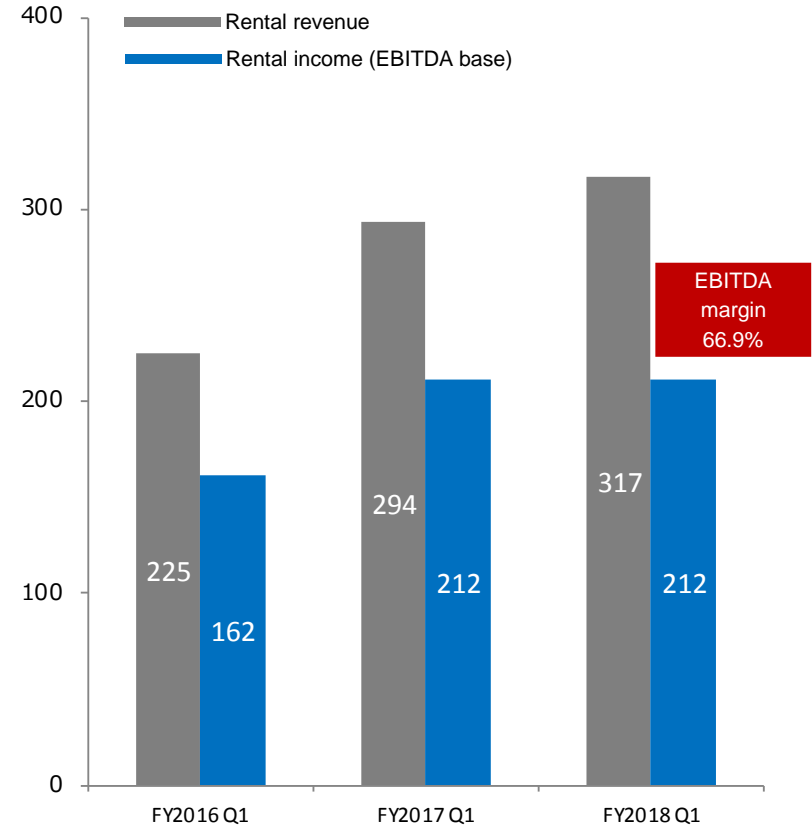
- **In the first quarter, sales income of real estate that is medium to small in scale accounted for the majority of sales; sales and EBITDA fell compared to the same period in the previous year.**

(Unit: million yen)

Changes in stock-type fee business results



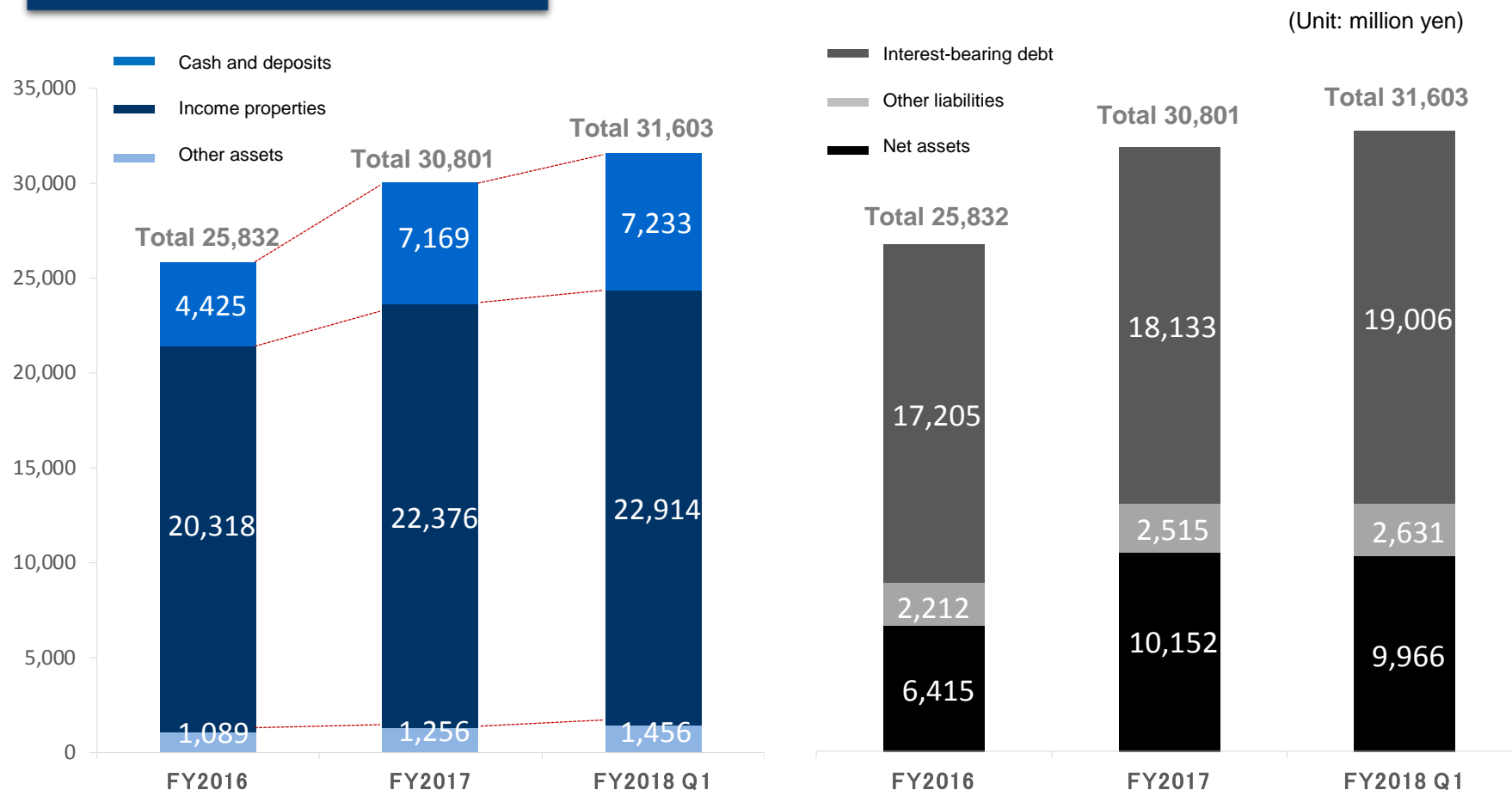
Changes in rental revenue and income



- Rental revenue and real estate management revenue, which is a stable revenue base, increased.
- • Sales support-related sales: from about 19 million yen in Q1 FY17 to below 2 million yen in Q1 FY18
- EBITDA margin: from 72.1% in Q1 FY17 to 66.9% in Q1 FY18

Income declined despite higher sales

Summary of main B/S items



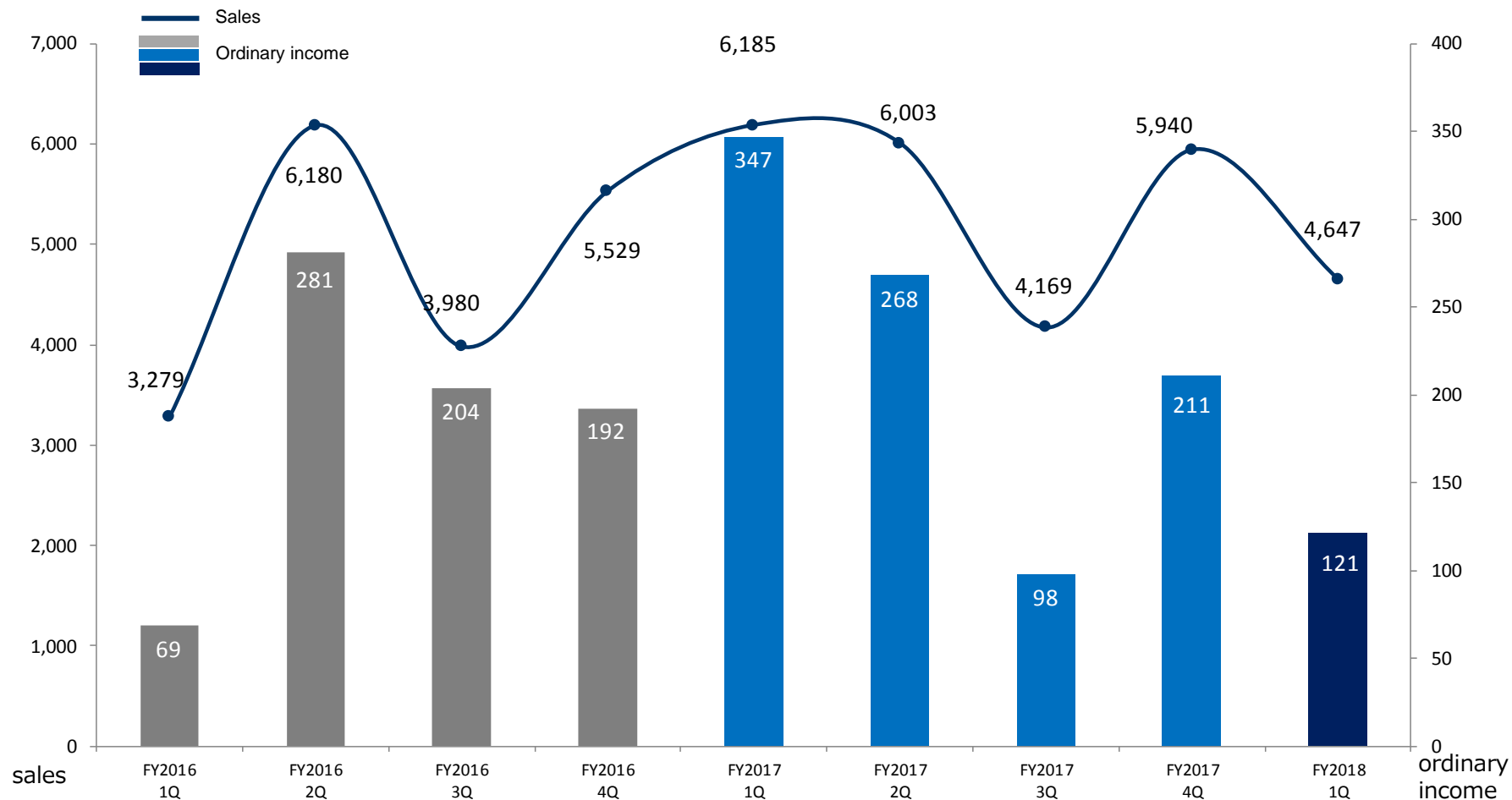
(Note) The income real estate balance does not include the reserves for the estimated consumer tax payment posted as an asset due to the notice of correction received from the Tokyo Regional Taxation Bureau regarding consumption tax payments for prior years.

➤ **The balance of income real estate properties and the balance of cash and deposits are both rising. With the asset scale expanding, the company secured ready liquidity.**

IV. Business Plan and Progress

IV-1. Changes in Consolidated Quarterly Results

(Units: million yen)



At present, the income property sales business accounts for about 90% of consolidated sales. As a result, there are large fluctuations in quarterly results.

(Units: million yen)

	Year ended March 31, 2017 (Results)	Year ended March 31, 2018 (Results)	Year ended March 31, 2019 (Plan) ※Announced May 10, 2018	Year ended March 31, 2019 (The Fifth Mid-range Business Plan) ※Announced May 12, 2016
Sales	18,969	22,299	24,000	18,000
EBITDA	1,216	1,348	1,600	1,600
Ordinary income	748	926	1,000	1,000
Net income	540	584	660	660
ROE (year-end)	8.5%	5.8%	6.2%	7.4%

Note 1: EBITDA (earnings before interest, taxes, depreciation and amortization): Operating income + depreciation and amortization + gain or loss on sales of income properties recorded in extraordinary gains or losses. Depreciation and amortization includes depreciation, software amortization, amortization of goodwill and other noncash expenses.

In addition, we include income properties held for long-term sale in fixed assets, and we have recorded part of the gain or loss on sales from the relevant income properties held for long-term sale in the section of extraordinary gains or losses. EBITDA is calculated by including the extraordinary income.

Note 2: ROE (at year-end): Net income / Shareholders' equity (at year-end)

Forecasts for fiscal year ending March 2019

① Net sales (the Fifth mid-range business plan: 18,000 million yen ⇒ 24,000 million yen)

This is because sales and cost of sales are trending at about the same high levels when compared to the forecasts made when devising the Fifth mid-range business plan.

Income is trending in line with the levels outlined in the fifth mid-range business plan.

② ROE (year-end) (the Fifth mid-range business plan 7.4% ⇒ 6.2%)

This change is due to a discrepancy in shareholders' equity from the forecast in the Fifth mid-range business plan due to a rights offering.

(Units: million yen)

Guidance	Year ended March 31, 2018 (Results)	End of 1Q ended June 30, 2018 (Results)	Year ended March 31, 2019 (Plan) ※Announced May 10, 2018
Balance of US income properties held for sale (average)	2,846	3,812	3,763
Balance of domestic income properties held for short- or medium-term sale (average)	10,176	10,323	11,921
Balance of domestic income properties held for long-term sale (average)	6,357	8,565	10,503
Total balance of income properties (end of year)	22,376	22,914	30,000
Rental income (EBITDA base)	716	848	935
ROA for income property sales	11.5%	8.1%	8.6%

(Note 1) Rental income and ROA for the income property sales is calculated by conversion to a full-year basis.

(Note 2) The income real estate balance does not include the reserves for the estimated consumer tax payment posted as an asset due to the notice of correction received from the Tokyo Regional Taxation Bureau regarding consumption tax payments for prior years.

V – About the Equity Finance

Overview of 21st Stock Acquisition Rights (third-party allocation)

Allotment date	August 20, 2018
Allotment recipient	Milestone Capital Management LLC
Total number of stock acquisition rights	530,000 units
Number of dilutive shares resulting from this issuance	53,000,000 shares (100 shares per stock acquisition right)
Amount raised	2.02 billion yen (net proceeds of 2.00 billion yen)
Exercise price	38 yen per share (fixed)

- **The exercise price for stock acquisition rights is set at the same amount as the closing price on the release date of August 2, 2018.**

- Augmenting our management resources is essential in achieving further growth.
- Strengthening our financial foundation is an important part of this.

Crucial to be able to choose from a range of capital procurement methods, including direct and indirect financing

Current capital procurement methods are limited (since we cannot obtain a valid rating, we do not have the option of issuing bonds).

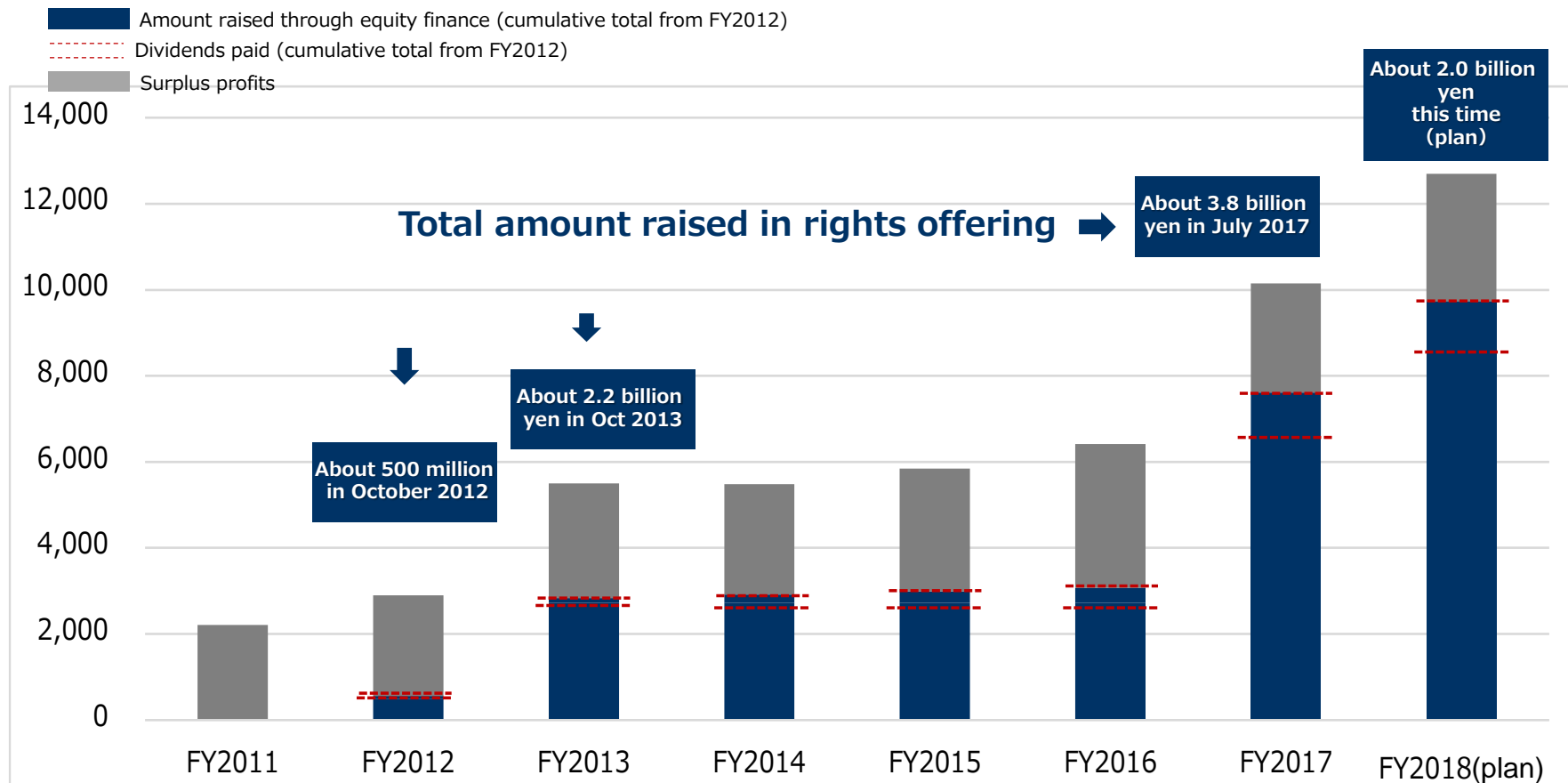
Our scale must be expanded

Scale that we are aiming for
(guidance)

※ Released in “Our Guidelines on Corporate Governance Codes (Policies and Programs)” dated September 30, 2016.

	Target
Consolidated net assets	25 billion yen
Number of consolidated employees	200 people
Total market capitalization	35-40 billion yen

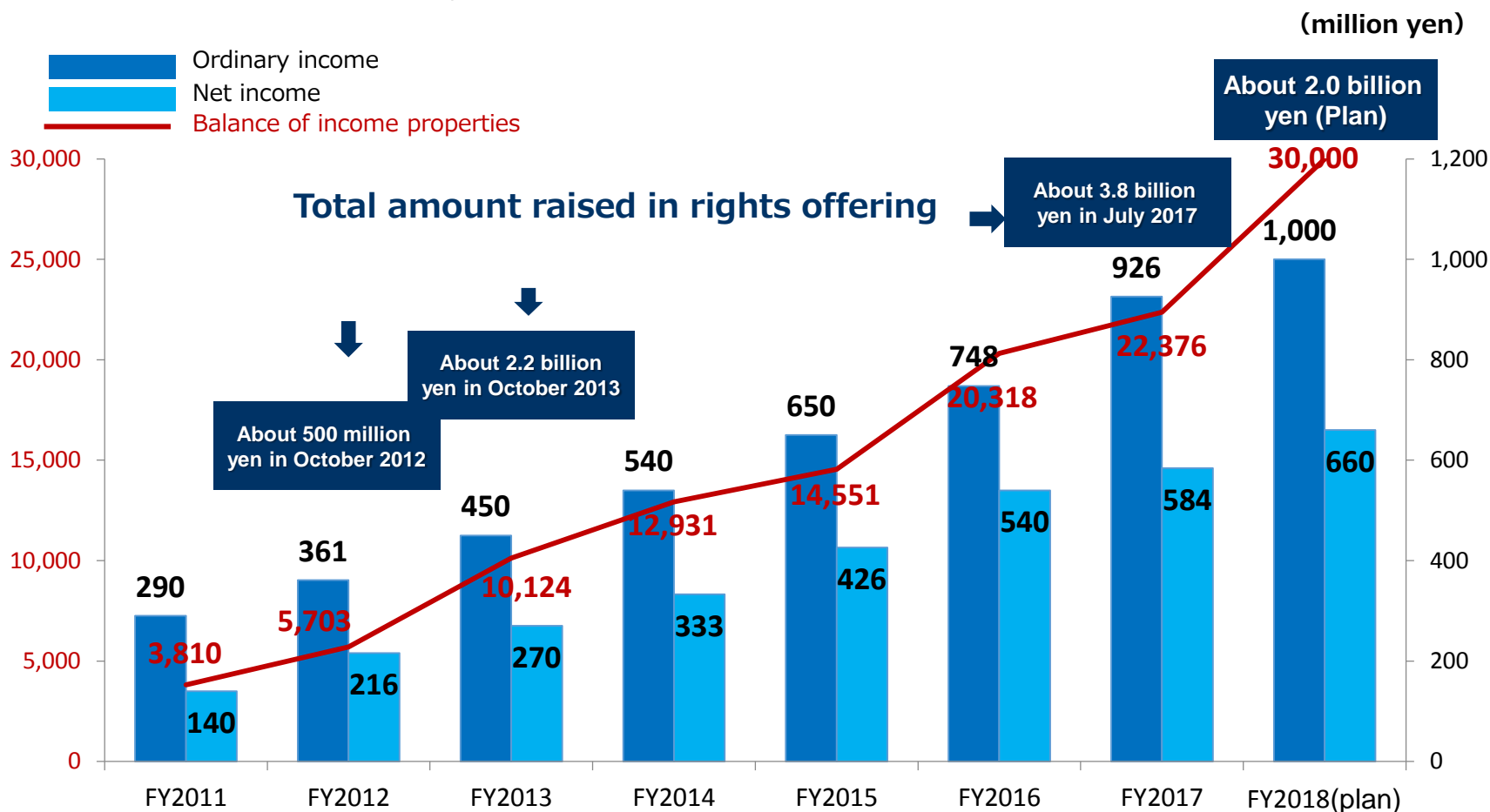
① Fluctuations in net assets (million yen)



- Consolidated net income: 660 million yen full-year earnings plan
- Dividends: In line with dividend forecasts released on May 10, 2018

➤ **Net assets increases significantly when equity financing is carried out.**

② Fluctuations in ordinary income, net income, and balance of income properties



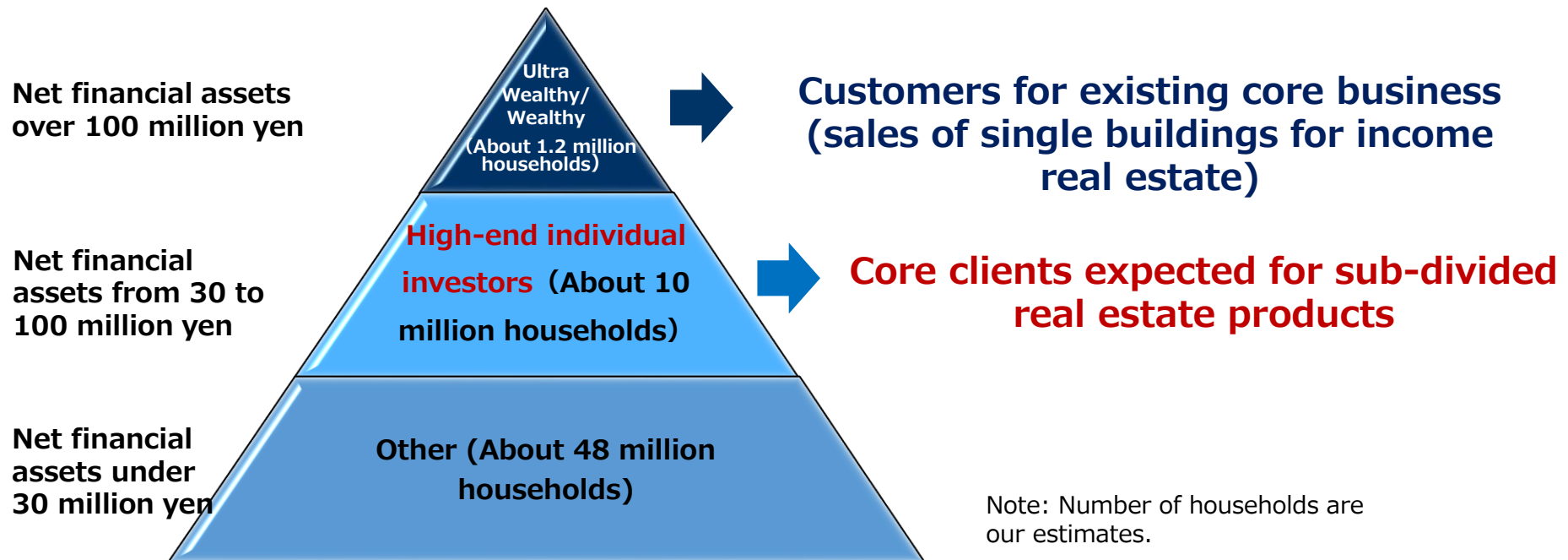
➤ The strategy to increase the balance of income properties was flexibly implemented, despite the changing market conditions.

VI - About the Launch of Our First Sub-divided Real Estate

Product introductions aimed at new customers

Providing about 10 million high-end individual investors with real estate investment opportunities

※ Minimum investment in first “ARISTO® Kyoto” is 5 million yen



What is the Act Concerning Designated Real Estate Joint Enterprises?

※ ARISTO® Kyoto is the company's first sub-divided real estate investment product based on the Act Concerning Designated Real Estate Joint Enterprises

- Businesses operating real estate joint enterprises must meet the following conditions: (Conditions for authorization)
 - 100 million yen in capital (No. 1 designated real estate joint enterprise businesses)
 - Solid financial foundation and structure, with a personnel structure ensuring that the business is appropriately run
 - Assignment of operational managers at each office (in particular business for three years or more, practical lectures, business with proof of registration)
- A.D.W. obtained authorization in 2015.
(Designated Real Estate Joint Enterprise Authorization Number, Designated Real Estate Joint Enterprise, Governor of Tokyo No. 96)

Use of the Act Concerning Designated Real Estate Joint Enterprises has made it possible to invest as little as 5 million yen in prime real estate on good sites.

- Real estate properties in good locations can be expected to generate stable rental revenue, and their asset value tends to be resistant to declines.
- There is a large gap between market prices and the assessed value for inheritance taxes, and when the property is inherited or gifted, the owner can, in some cases, benefit from the reduction effect on assets. ※ The extent of the effect can change as a result of changes in the tax system.

Overview of ARISTO® Kyoto, our first such product

Planned coupon yield
Planned dividend yield

4.46%
3.91%

Total amount solicited
(Total number of units solicited)

1.22 billion
(1220 units)

Subscription unit

1 million yen per unit
(Five or more units, 300 or fewer units)
Minimum investment: 5 million yen
Maximum investment: 300 million yen

Dividend distribution
(payment month)

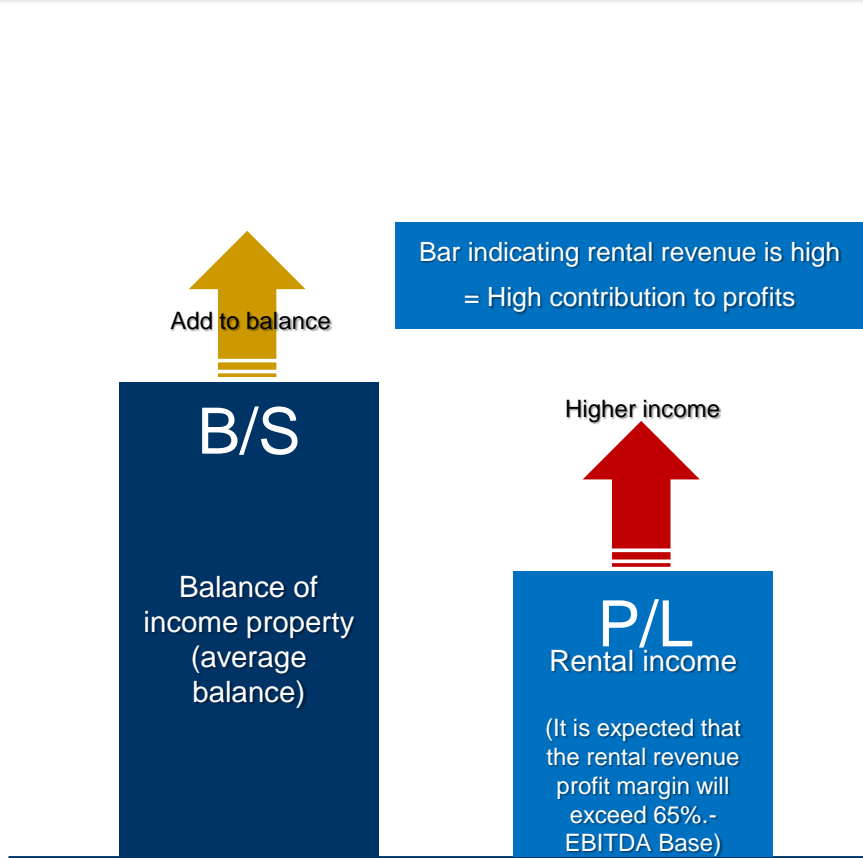
Once a year (February)

- ※ The planned coupon yield is rental revenue ÷ purchase price (including tax).
- ※ The planned dividend yield is the distributions ÷ total investment costs (including tax). (Distributions are the rental revenue less taxes and public dues, maintenance costs, and repair provisions, among other costs).
- ※ The yields noted are estimates only, and cannot be guaranteed due to fluctuations resulting from changes in real estate market conditions and the tax system.
- ※ If solicitations do not meet the number of units we are soliciting, a voluntary partnership will be formed based on the number of contracted units.



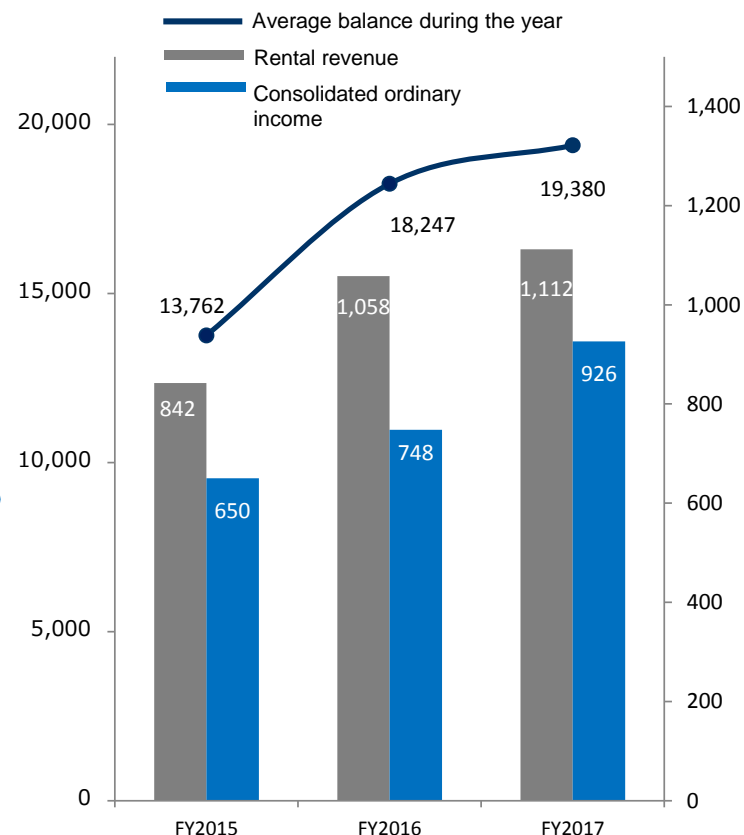
VII - Reference Materials (Business Strategy)

Relationship between balance of income properties and rental income



When **more properties are added to the balance of income properties**, rental income increases, **increasing the contribution to overall income.**

(Units: million yen)



The impact of rental revenue on profits is growing. **We are steadily transitioning to a stable profit model.**

2 benefits of increasing the A.D.Works property balance

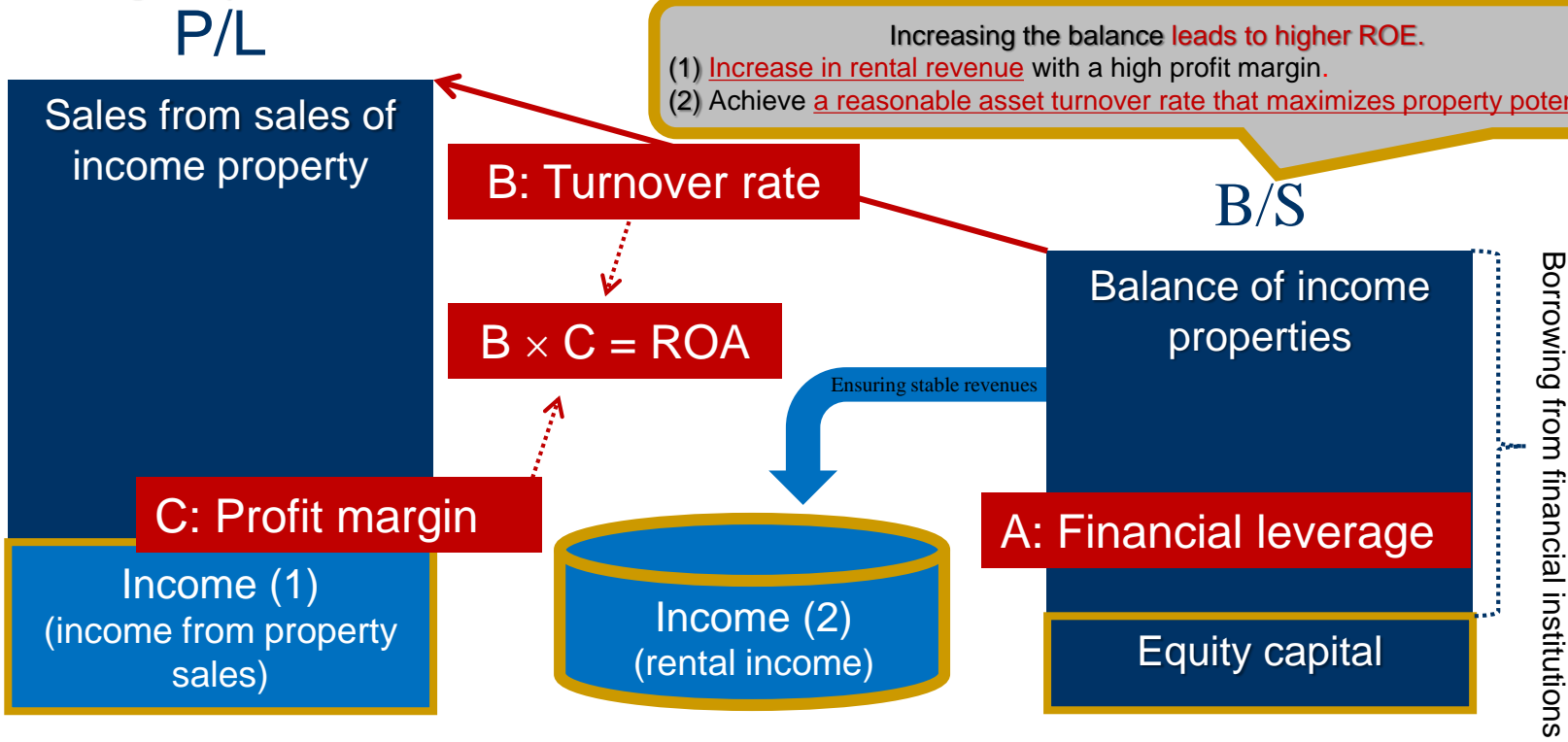
$$ROE = \text{Financial leverage (A)} \times \text{Asset turnover rate (B)} \times \text{Profit margin from sales of income properties (C)}$$

$\left\langle \frac{\text{Balance of income properties}}{\text{Equity capital}} \right\rangle \times \left\langle \frac{\text{Sales}}{\text{Balance of income properties}} \right\rangle \times \left\langle \frac{\text{Income from sales of income properties}}{\text{Sales}} \right\rangle$

(Image showing relationships of announced figures)

$$ROA (\%) = \frac{\text{Income from sales of income properties}}{\text{Balance of income properties}}$$

Increasing the balance leads to higher ROE.
 (1) Increase in rental revenue with a high profit margin.
 (2) Achieve a reasonable asset turnover rate that maximizes property potential.



VIII - Reference Materials

(Company Profile, Shareholder Composition, Trends in Consolidated Results)

- ❑ **Company name:** A.D.Works Co., Ltd.
- ❑ **Headquarters:** 13th Fl., U-1 Hibiya Bldg., 1-1-7, Uchisaiwai-cho, Chiyoda-ku, Tokyo
- ❑ **Establishment:** Founded February 1886. Incorporated May 1936.
- ❑ **Capital:** 3,891 million yen (as of the end of June 2018)
- ❑ **Listed:** Listed October 2007 on Tokyo Stock Exchange JASDAQ.
Changed October 2015 to the First Section of the Tokyo Stock Exchange.
- ❑ **Subsidiaries:**
 - A.D.Partners Co., Ltd. (property management)
 - A.D.Designbuild Corporation (construction)
 - A.D.Smartmoney Investment Co., Ltd. (sales of small-lot investment products)
 - A.D.Works USA, Inc. (management of USA subsidiaries)
 - ADW-No.1 LLC (income property business in USA)
 - ADW Management USA, Inc. (property management in USA)
- ❑ **Officials:**

Hideo Tanaka	President and CEO
Syogo Yonetsu	Executive Vice President
Katsutoshi Hosoya	Senior Managing Director and CFO
Mitsuo Kimura	Senior Managing Director
Nobuhiko Toji	Managing Director
Koji Kaneko	Managing Director
Toshiya Suzuki	Managing Director
Tamio Harakawa	Director, Audit & Supervisory Committee Member
Takemoto Ohto	Director, Audit & Supervisory Committee Member
Miwa Sutoh	Director, Audit & Supervisory Committee Member

Number of issued shares / Number of shareholders

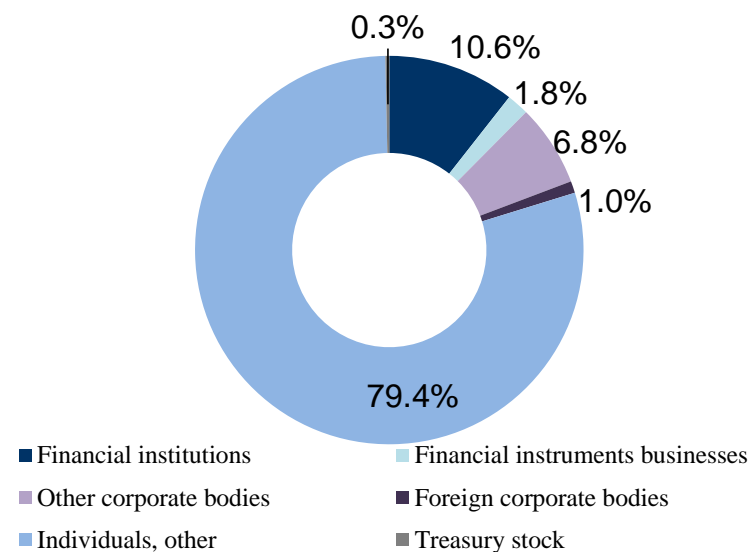
Number of issued shares: 323,987,693

Number of shareholders: 22,866

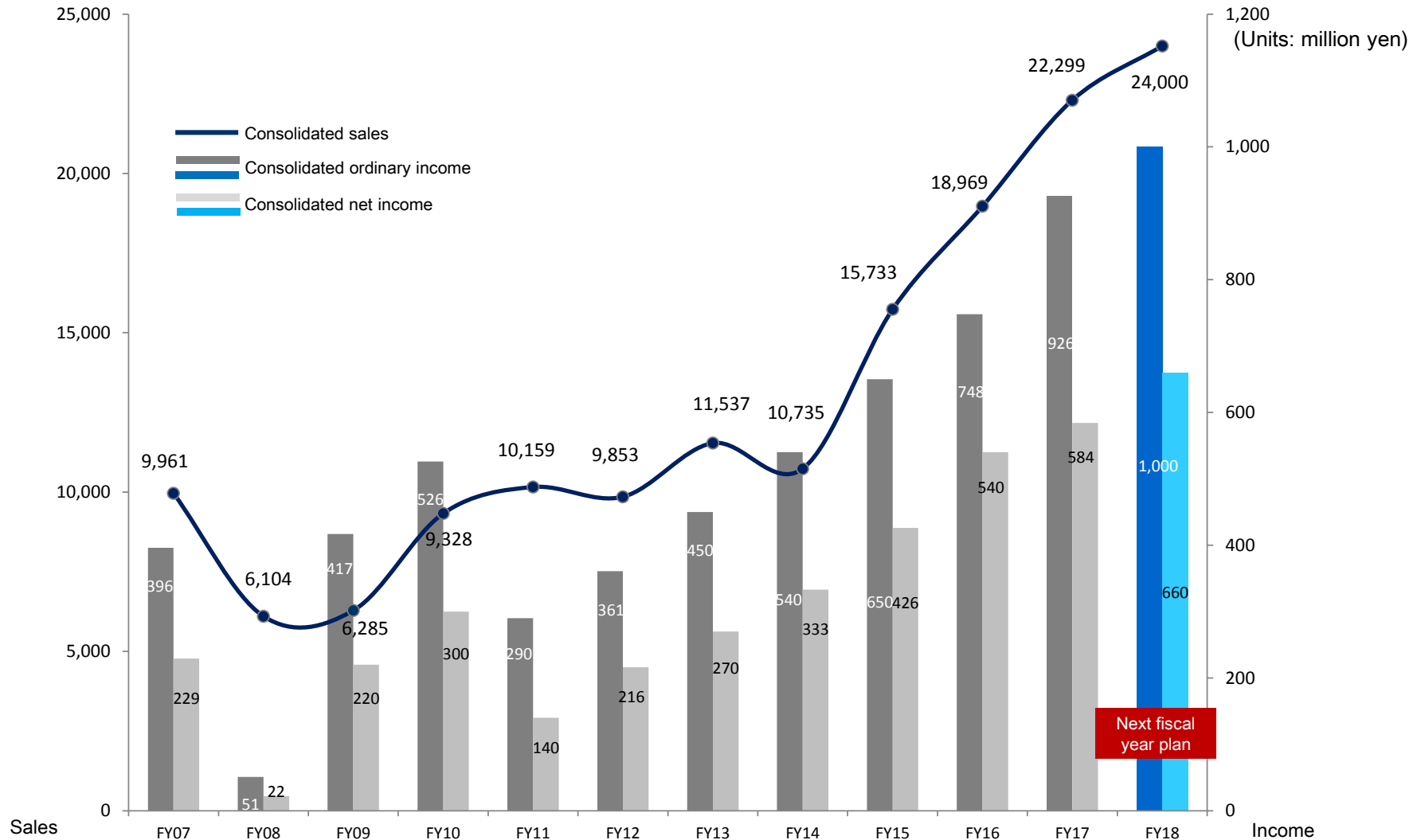
Major shareholders

		Number of shares	Share ratio %
1	Hideo Tanaka (President and CEO)	44,722,139	13.8%
2	Liberty House Co., Ltd.	16,216,000	5.0%
3	Japan Trustee Services Bank, Ltd. (Trust Account • 5)	5,029,300	1.6%
4	Japan Trustee Services Bank, Ltd. (Trust Account • 1)	4,693,300	1.4%
5	Japan Trustee Services Bank, Ltd. (Trust Account • 2)	4,611,000	1.4%
6	The Nomura Trust and Banking Co., Ltd. (Trust Account)	4,326,500	1.3%
7	The Master Trust Bank of Japan, Ltd. (Trust Account)	3,524,300	1.1%
8	The Master Trust Bank of Japan, Ltd. (BIP Trust Account • 75695)	2,856,151	0.9%
9	Japan Trustee Services Bank, Ltd. (Trust Account • 6)	2,697,000	0.8%
10	Japan Trustee Services Bank, Ltd. (Trust Account)	2,418,000	0.7%

Allocation by owner (share ratio)



VIII-3. Trends in Past and Current Results



Note: Because no consolidated financial statements were created for the years ended March 31, 2008 and March 31, 2009, the results shown here are non-consolidated results only.



VIII-4. Changes in Consolidated Results (Summary)

(Units: million yen)

	Year ended March 31, 2011 (Results)	Year ended March 31, 2012 (Results)	Year ended March 31, 2013 (Results)	Year ended March 31, 2014 (Results)	Year ended March 31, 2015 (Results)	Year ended March 31, 2016 (Results)	Year ended March 31, 2017 (Results)	Year ended March 31, 2018 (Results)
Consolidated sales	9,328	10,159	9,853	11,537	10,735	15,733	18,969	22,299
Consolidated ordinary income	526	290	361	450	540	650	748	926
Consolidated net income	300	140	216	270	333	426	540	584
Net assets	2,132	2,205	2,896	5,496	5,478	5,842	6,415	10,152
Total assets	8,537	6,258	9,117	14,274	16,681	17,925	25,832	30,801
Total income property balance (at year end)	6,114	3,810	5,703	10,124	12,931	14,551	20,318	22,376
Rental revenue (sales)	407	380	416	460	717	842	1,058	1,112
Rental revenue / Sales ratio (%)	4.4%	3.7%	4.2%	4.0%	6.7%	5.4%	5.6%	5.0%
Employees (persons)	44	53	59.5	68	99	115	136	146

IX – Reference Materials (The Fifth Mid-Range Business Plan)

	Opportunities (O)	Threats (T)
Politics (P)	<ul style="list-style-type: none"> - Bold financial policies (expanding the yield gap) (Growing real estate investment needs) - Increasing property taxation (Growing needs for tax liability reduction measures among high net-worth individuals) - Surge in demand prior to the consumption tax hike (10%) - Delay in implementation of the consumption tax hike (10%) - Success in temporarily boosting the economy with fiscal stimulus 	<ul style="list-style-type: none"> - Failure of reflation policies (Rising interest rates, falling rents and land values) - Rising trend in real estate prices (Soaring real estate prices diminish yields and reduce investment-grade real estate.) - Occurrence of an unexpected overseas event (Risk of an event in China, the Middle East, or Europe; results of the U.S. presidential election) - Risk of a domestic change in political administration (Slowdown of Bank of Japan monetary easing policies) - Rebound after surge in demand prior to the consumption tax hike (10%)
Economy (E)	<ul style="list-style-type: none"> - Expected rise in real estate prices and rents resulting from the 2020 Olympics (Awakening of potential needs for real estate investment) - Increasing real estate investment as a hedge against inflation (Growing real estate investment needs) - Active approach to lending by financial institutions (Boost to expanding the balance of income properties) 	<ul style="list-style-type: none"> - More cautious investment approach and stagnating real estate market in view of the post-Olympic period (Declining real estate liquidity, limited effect on high net-worth individuals) - Cooling of investment sentiment due to bond devaluation or rising interest rates (Limited effect on high net-worth individuals) - Intensifying competition for acquisitions due to more companies entering the market (More individuals and companies targeting smaller properties where economic risk is low) - Rising construction costs (Higher costs for new construction and large-scale renovations, insufficient construction personnel) - Slowing of the economic recovery and return of deflation
Society (S)	<ul style="list-style-type: none"> - Population growth in the Tokyo metropolitan area (continuing to 2020) (Essential for investment and also advantageous for leasing) - Inflow of overseas real estate investment money (Overseas valuation of Japan, prosperity of the domestic real estate market) - Increase in foreign residents in Japan (Growing need for rental properties) - Construction and redevelopment of city center infrastructure (Increasing hiring increases the need for rental properties among both corporations and individuals.) - Growing number of high net-worth households due to rising stock prices and IPOs (Growing number of high net-worth individuals increases the customer base.) 	<ul style="list-style-type: none"> - Long-term aging of the population and population decline (Effects on rental real estate due to population decline) - Rapid rise in real estate prices caused by inflow of overseas money (Lower yields, reduction of investment-grade real estate, intensifying competition for acquisitions) - Risk of an earthquake directly below the Tokyo metropolitan area (Severe reduction in attitude toward real estate investment) - Increase in numbers of large-scale IPOs (Downward pressure on stock prices due to negative effects on stock market demand)

We have concluded that advance preparation is necessary for potential changes in the real estate market.

	Opportunities (O)		Threats (T)	
Politics (P)	Japan	<ul style="list-style-type: none"> - Continuation of the BoJ large-scale monetary easing policy (Further advantages from the weak yen) - Revision of domestic taxation policy (Growing need for measures to reduce tax liability among high net-worth clients) 	Japan	<ul style="list-style-type: none"> - Stricter monitoring of overseas assets / Tax system revision (Possibility of an increase in taxes on overseas assets)
	U.S.	<ul style="list-style-type: none"> - Soft landing for monetary easing policy by the FRB (Stable forecast for the U.S. economy, growing real estate management needs in the U.S.) 	U.S.	<ul style="list-style-type: none"> - Rise in interest rates due to monetary tightening by the FRB (Risk of stagnation in the U.S. economy, concerns about a global economic slowdown) - Stricter regulation of U.S. real estate owners (Rising barriers to U.S. real estate investment)
Economy (E)	Japan	<ul style="list-style-type: none"> - Active approach to lending by Japanese financial institutions (Lower interest cost, advantageous loan terms) - Increase in real estate investment needs due to changes in the inheritance tax and gift tax (Investment by high net-worth individuals, increased use of real estate for asset formation) 	Japan	<ul style="list-style-type: none"> - Overseas entry by Japanese companies (Increased entry into the market by competitors)
	U.S.	<ul style="list-style-type: none"> - Continued economic growth in the United States (An investment environment with good future prospects, even compared to other advanced nations) 	U.S.	<ul style="list-style-type: none"> - Stagnation of the U.S. economy (Global deflationary crisis)
Society (S)	Japan	<ul style="list-style-type: none"> - Exhausting of suitable investment properties as a result of declining domestic population (Demand for overseas real estate investment, promotion of diversified investment) - Presence of persons who have lived in the U.S. (Persons with an affinity for the U.S., low barriers) 	Japan	<ul style="list-style-type: none"> - Sudden changes in exchange rates due to changes in the international situation (Search for risk hedge currencies, review of weaker yen policies)
	U.S.	<ul style="list-style-type: none"> - Continuing U.S. population growth / Insufficient supply of new properties (Stable and increasing rental income) 	U.S.	<ul style="list-style-type: none"> - Further inroads into the U.S. by Chinese high net-worth individuals (Rise in real estate prices) - Geopolitical risks (Safety concerns resulting from higher conflict risk) - Manifestation of U.S. earthquake risk (Diminished advantage to diversification of investment from Japan)

In addition to its own business potential, the U.S. business also functions as a risk hedge for the domestic business.

Evolving the AD business model

Increasing the balance of income properties

Shifting to a stable profit model

Meeting the needs of high net-worth individuals

- Expanding the range of income property types
U.S. income properties, property sizes, purposes
- Dedication to completely private consulting

Providing high added value to the owners (clients)

Creating long-term business relationships with the owners (clients)

Achieving lower owner (customer) costs based on long-term business relationships

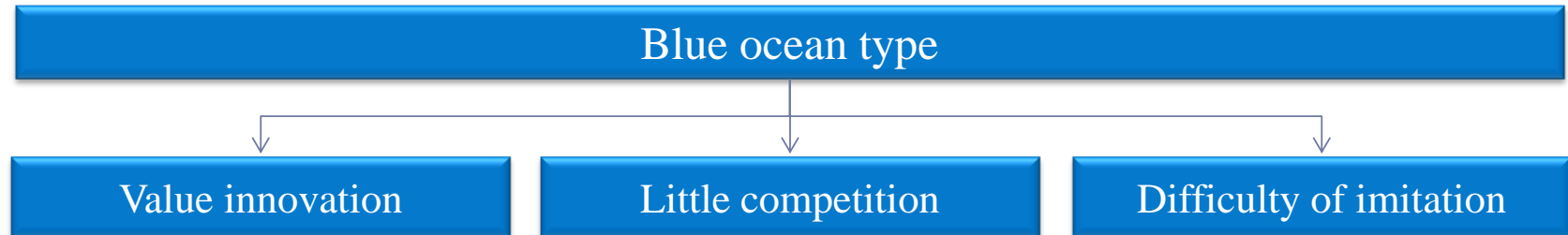
Good cycle results of the AD business model

We can establish a unique position in the real estate industry.

X – Reference Materials

(Characteristics of the A.D.W. Group Business Model)

Business model characteristics



Characteristics

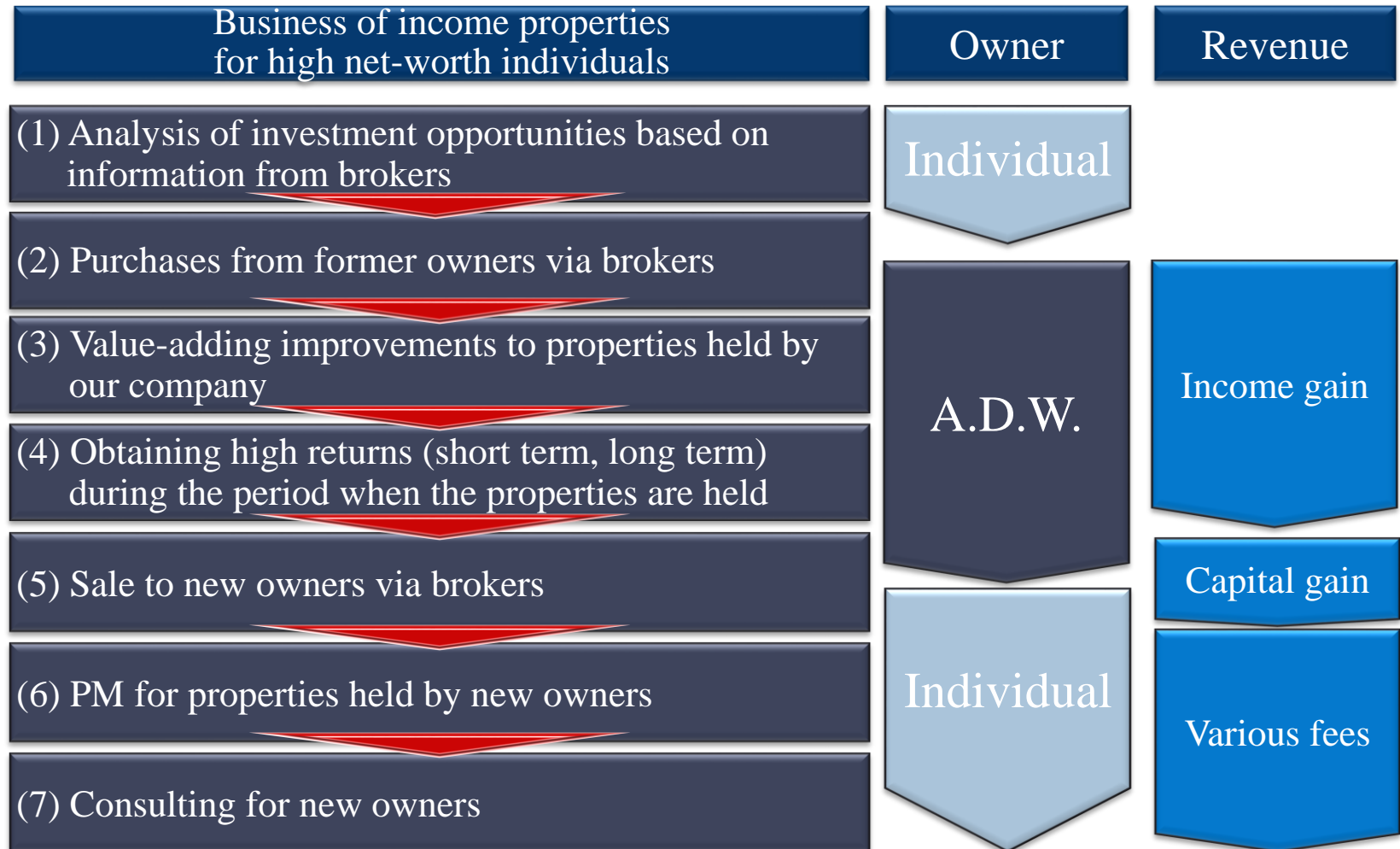
(1) One-stop solutions

(2) Broad-ranging competitive superiority and social significance

(3) Expected to pursuit of a stable profit structure

Aiming to create an **"only-one business model"** that is completely different from the conventional property-focused real estate concept.

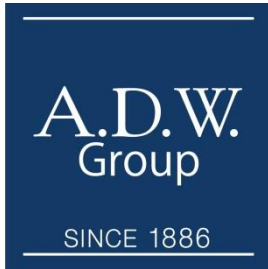
(1) One-stop solutions



(2) Broad-ranging competitive superiority and social significance

Information strength	<ul style="list-style-type: none">• Direct access to approximately 3,000 persons engaged in brokerage• Preferential supply of information from brokers due to the trustworthiness that comes from being a listed company
Dependable exit	<ul style="list-style-type: none">• Existence of a dependable exit provided by high net-worth individuals
Value-adding strength	<ul style="list-style-type: none">• Renovation strength for enhancing product value aimed at increasing rents and lowering vacancy rates• Improvement in property value through regeneration as legally compliant properties
Rapid decision-making	<ul style="list-style-type: none">• Quick decision-making for early monetization
High reliability	<ul style="list-style-type: none">• Eliminating the problem of asymmetrical information which is often an issue with secondhand properties
Strong relationships with owners	<ul style="list-style-type: none">• Because our company is involved as a one-stop service, new owners are able to buy with a high degree of trust. We provide PM and consulting after sales (CRM strategy).

Social significance



These materials were created in order to provide an understanding of the A.D.W. Group. They are not intended to solicit investment in our company. The future forecasts contained in these materials were determined based on the information available at the present time, and include many uncertain elements. Please understand that actual results may differ from the forecasts here due to changes in a wide variety of factors.

The overall business objectives of the Group are announced in the form of plans. The plans of our company are targets for our business, and are different from "forecasts and predictions" that are calculated rationally based on highly accurate information. A.D.W. announces predicted progress for each quarter in the form of "forecasts" that are updated as needed. These are based on highly accurate information concerning the group and information that we judge to be rational.

The data contained in these materials contains publically-available information that we judge to be trustworthy and accurate, however our company does not guarantee the accuracy and correctness of this information.

Please direct inquiries to: A.D.Works Business Planning Department
TEL: 03-4500-4208
E-mail: ir@re-adworks.com