

A.D.W.  
Group

SINCE 1886

A.D.Works Co., Ltd.  
IR Briefing Materials: Half Year  
Ended September 30, 2013

November 5, 2013

A.D.Works Co., Ltd.

TSE JASDAQ: 3250 <http://www.re-adworks.com/>

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# I - Overview of Half Year Ended Sept. 30, 2013

## 1. Summary of Half Year Ended Sept. 30, 2013

Topic  
1

As a result of strong sales during the first half of the year, **there was large growth** YoY in consolidated sales and in each income category.

Topic  
2

Although **sales increased during the first half of the year**, we are working to add to our balance of revenue-generating real estate and the **acquisition of new real estate is proceeding smoothly**.

Topic  
3

We have begun preparations aimed at allowing us to respond flexibly to changes in the environment surrounding our company. → **Accelerated property acquisition, increasing rental revenue, strengthening financial resources**

## 2. Consolidated PL summary (year-on-year comparison)

(Units: Millions yen)	Half year ended Sept. 30, 2012		Half year ended Sept. 30, 2013		Change from previous year
	Amount	% of sales	Amount	% of sales	
Sales	3,380	100.0%	6,620	100.0%	+95.9%
Net gross profit	585	17.3%	1,167	17.6%	+99.2%
SG&A	413	12.2%	680	10.3%	+64.6%
Operating income	172	5.1%	486	7.3%	+182.3%
Ordinary income	102	3.0%	400	6.1%	+291.1%
Net income	59	1.8%	241	3.7%	+305.2%

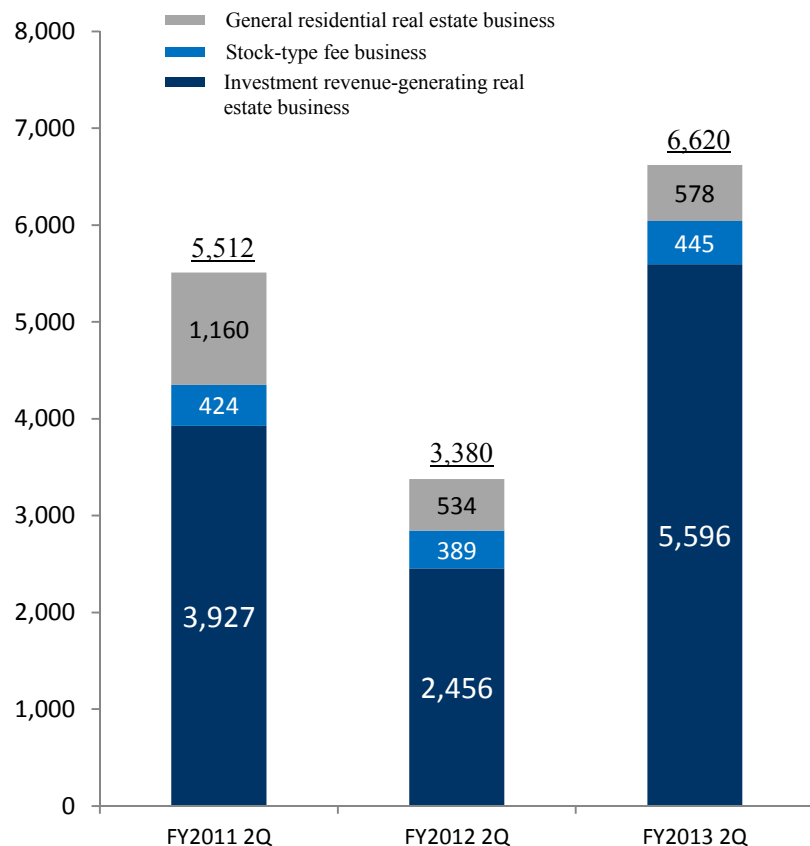
### Points :

- There was a large 95% year-on-year increase in sales.
- As a result of higher sales, there was also large growth in each income category. Ordinary income grew approximately 400% year-on-year.
- The profit margin also showed a large increase. Operating income margin increased by 3 points year-on-year.

### 3. Consolidated results

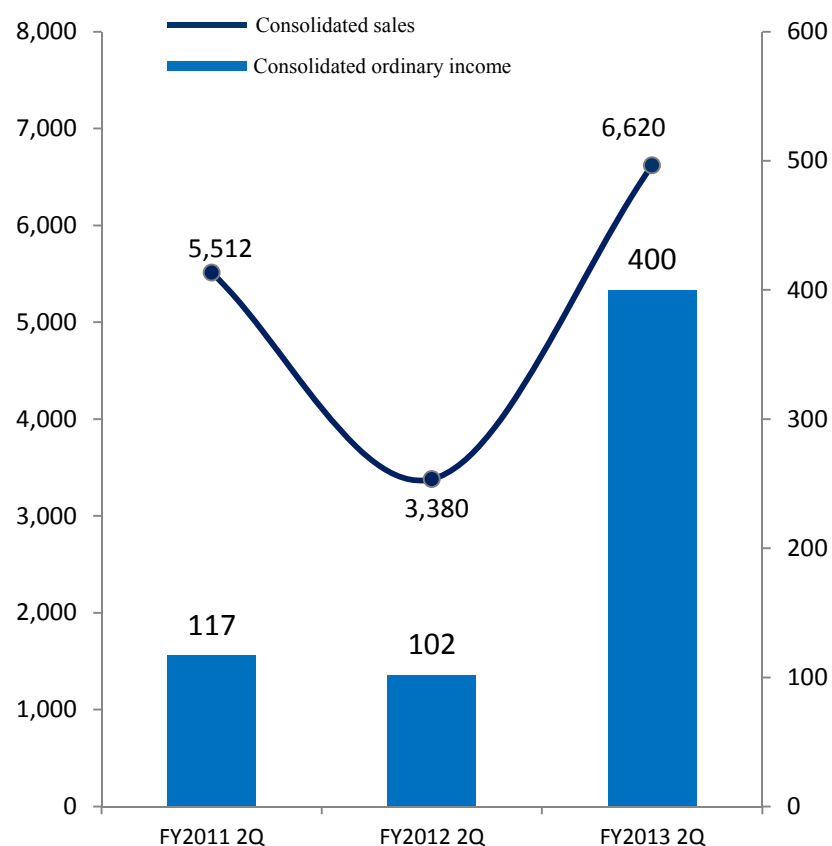
#### Changes in consolidated sales (by business area)

(Units: Millions yen)



#### Changes in consolidated sales and ordinary income

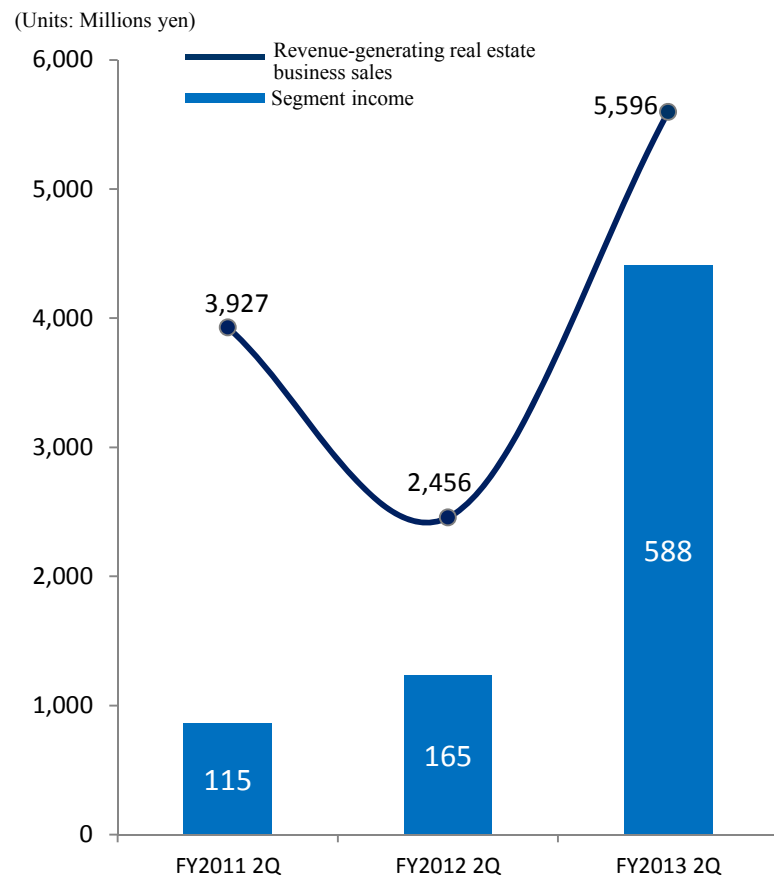
(Units: Millions yen)



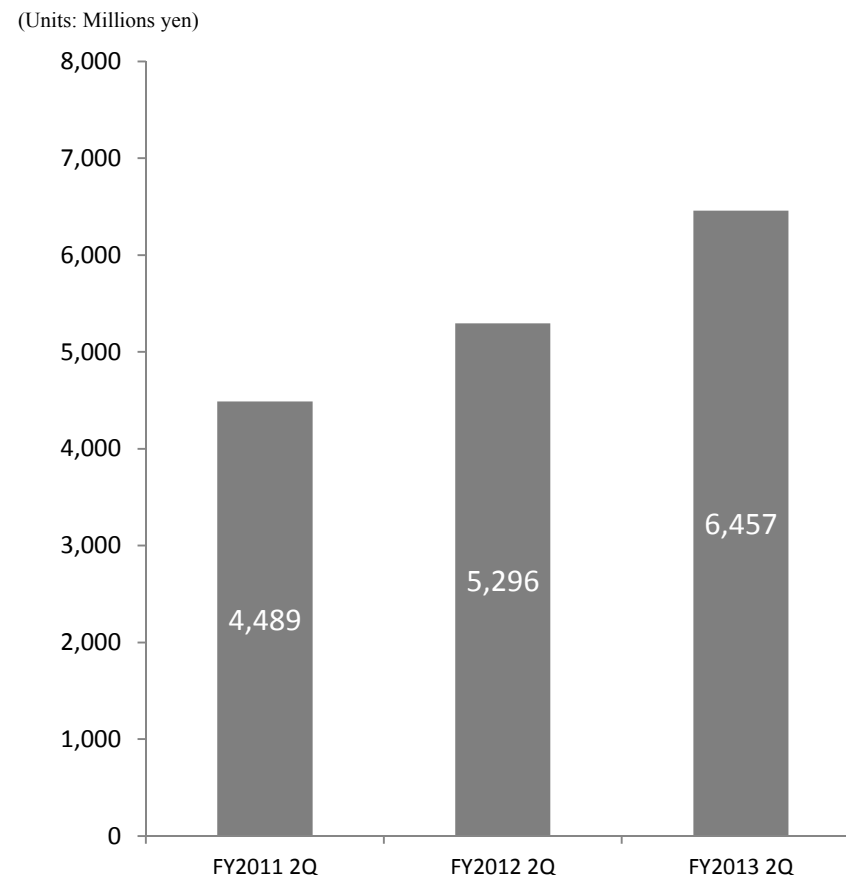
**Income grew in both of our main business areas (Investment revenue-generating real estate business, Stock-type fee business), showing a clear trend towards recovery in the business results.**

## 4. Main business areas (1): Overview of the revenue-generating real estate business

### Changes in revenue-generating real estate business results



### Changes in balance of revenue-generating real estate

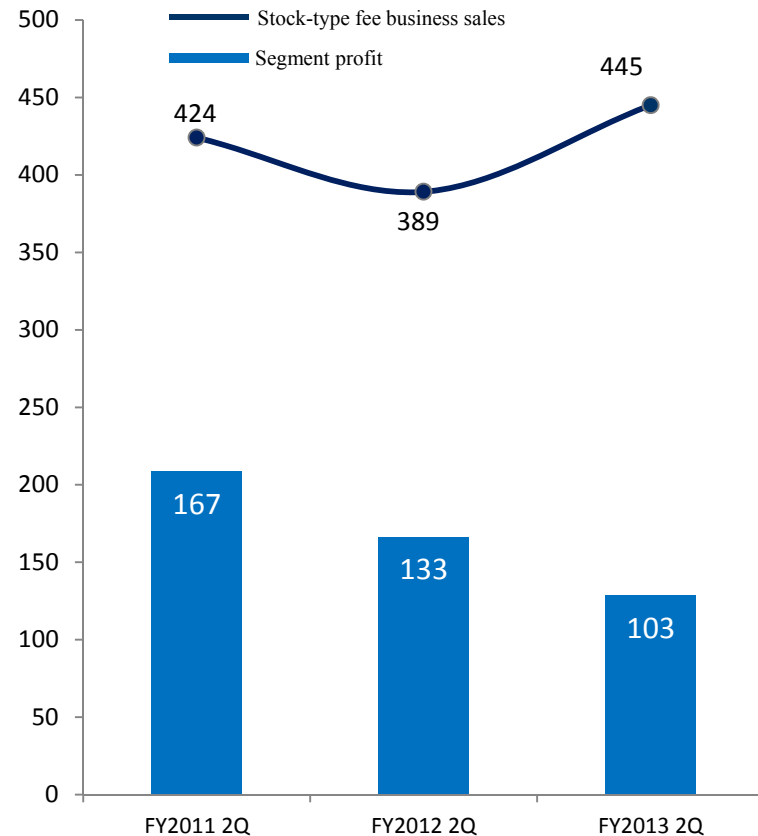


**Sales increased during the first half of the year, for a large increase in income.  
New property acquisitions are proceeding smoothly as we aim for a planned year-end balance of 8.0 billion yen.**

## 5. Main business areas (2): Overview of the stock-type fee business

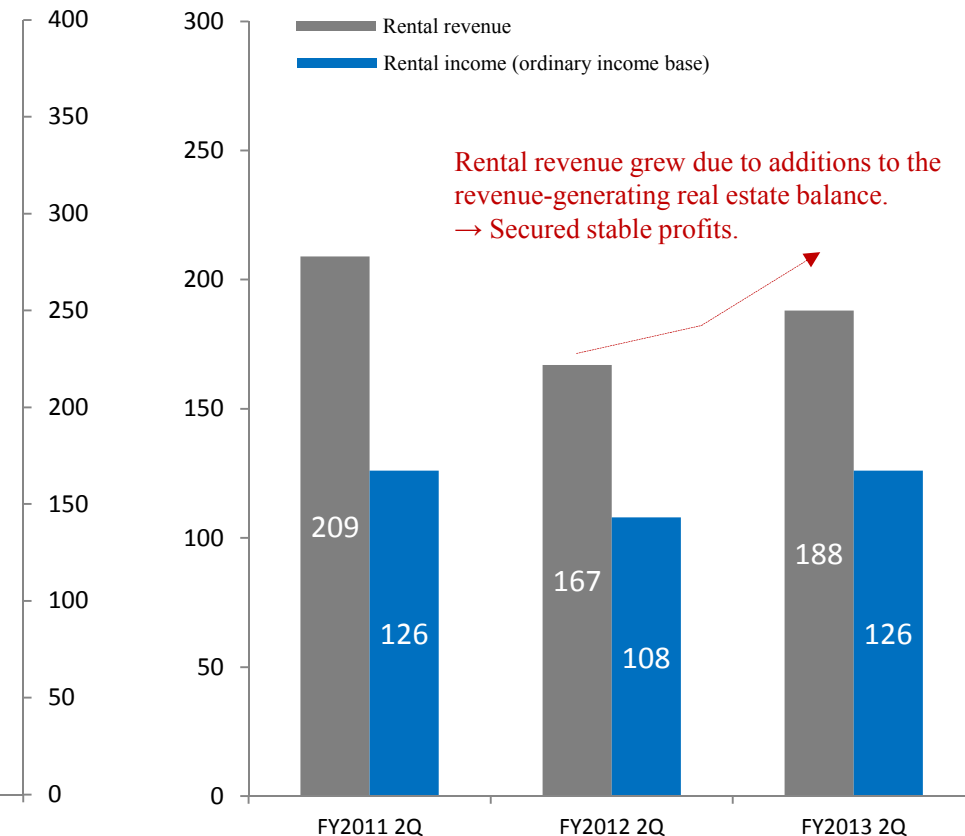
### Changes in stock-type fee business results

(Units: Millions yen)



### Changes in rental revenue and income

(Units: Millions yen)



**Fee business sales also grew due to the growth in rental revenue.  
The contribution to profits will also increase in the future.**



## 6. Consolidated B/S summary

### Summary of main B/S item

	End of half year ended Sept. 30, 2012	End of fiscal year ended March 31, 2013	End of half year ended Sept. 30, 2013
Revenue-generating real estate held for sale	5,296	5,536	6,457
Interest-bearing liabilities	5,165	5,006	5,540
Net assets	2,238	2,896	2,959
Total assets	8,082	9,117	9,656

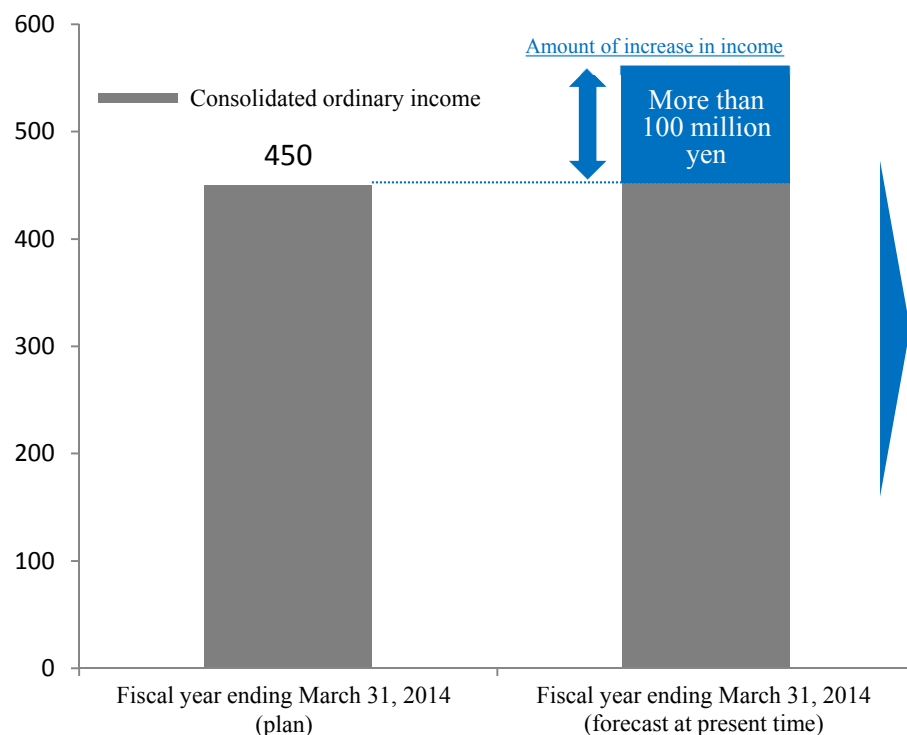
Note: The above value for revenue-generating real estate held for sale includes properties that are calculated as fixed assets in the B/S. The B/S does not include revenue-generating real estate for sale in process.

## II – Results Forecast for Fiscal Year Ending March 31, 2014

## 7. Forecast for the current year and expenses for the capital increase announced on October 16, 2013

### Full year consolidated ordinary income forecast and expenses for capital increase

(Units: Millions yen)



- The amount of increase in income this year will be used to cover expenses for the capital increase, and we will procure approximately 2.0 billion yen in funds.

- We expect that the expenses for capital increase will be absorbed over the full year.

- The consolidated plan for this year (year ending March 31, 2014) remains unchanged.

Sales 10.7 billion yen  
Ordinary income 450 million yen

Due to the strong results during the first half of the year, progress relative to the annual ordinary income plan was **89.0%** at the end of the half year.

The 3Q forecast will be announced on November 29, 2013.

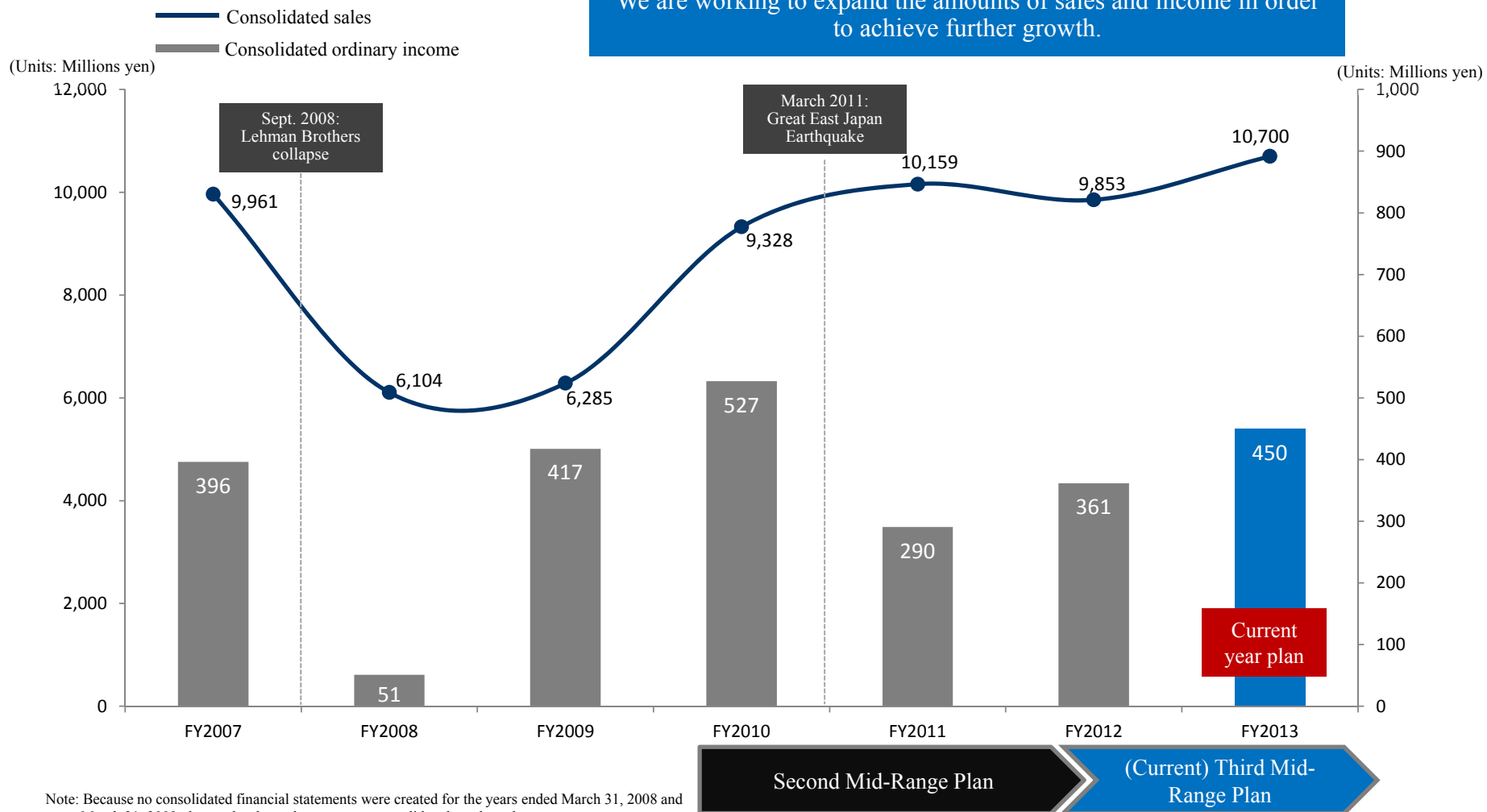
## III –Past Results and Business Issues

## 8. Past Results

### Changes in past results

Implementation of the Third Mid-Range Plan has produced both stable sales and income.

We are working to expand the amounts of sales and income in order to achieve further growth.



## 9. Business Issues and Specific Strategies

Current business issues and specific strategies

Issue  
1

Expanding the  
scale of business

Specific strategy

- Further **increase the balance of revenue-generating real estate held for sale.**

→ This will expand the scale of business based on revenue-generating real estate.

issues  
2

Stabilizing the profit  
base

Specific strategy

- Extend the amount of time properties are held by the company and **increase rental revenue.**

→ This will increase the contribution of rental revenue to profits, for a more stable profit base.

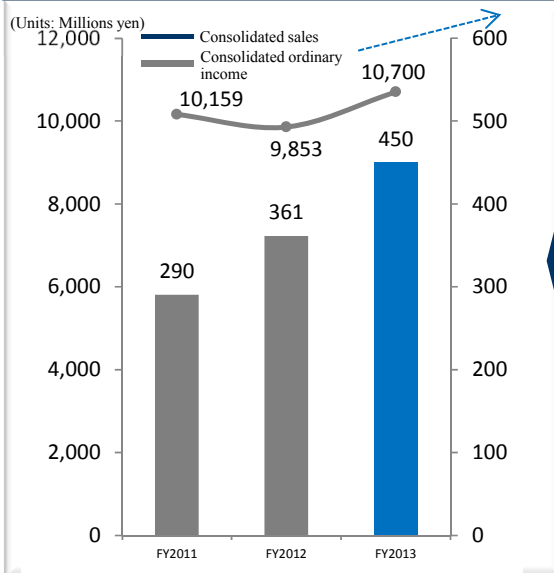
## 10. Business issues (1): Expanding the scale of business

Because the planned balance of revenue-generating real estate at the end of the fiscal year ending March 31, 2014 is **8.0 billion yen**, we are planning for a large increase in both sales and income as a result of our policy of **further increasing the balance beginning from next fiscal year.**

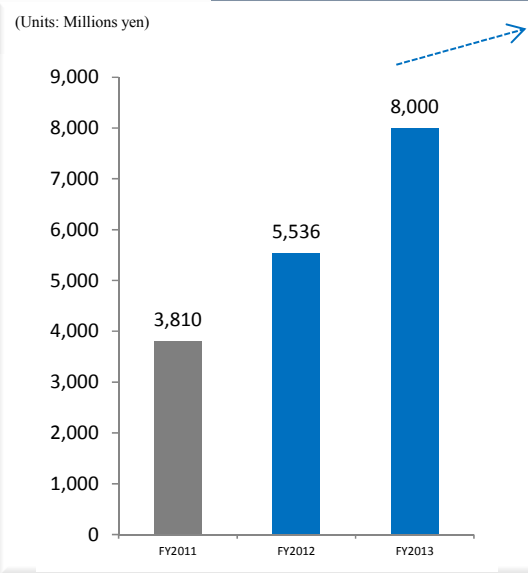
(Plan is now being formulated. Explained on p. 29 of this material.)

### Expanding the scale of business

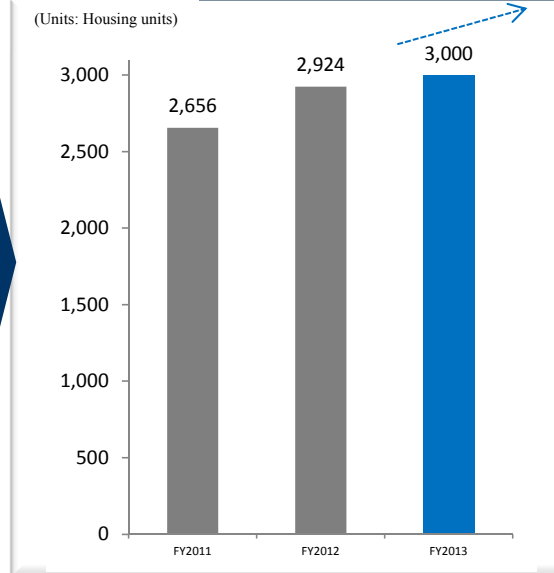
#### Expanding the amounts of sales and ordinary income



#### Increasing the revenue-generating real estate balance



#### Increase in the number of managed units



(Values up to the fiscal year ended March 31, 2013 are actual results. Values for the year ending March 31, 2014 are plan values.)

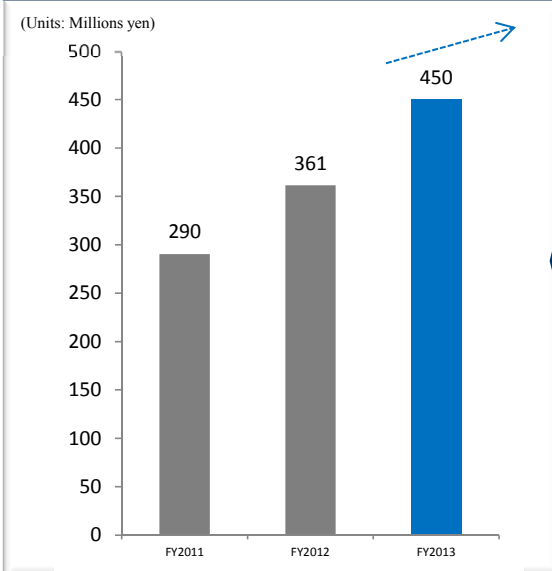
## 11. Business issues (2): Stabilizing the profit base

Due to the increase in the balance of revenue-generating real estate, **rental revenue will increase** during the period before properties are sold.

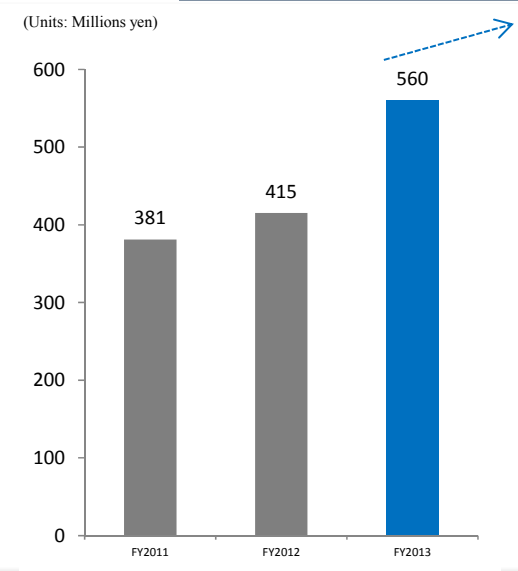
Increasing rental revenue (rental revenue profit margin is 65%\*) will **contribute to improved profitability**.

### Stable profit base

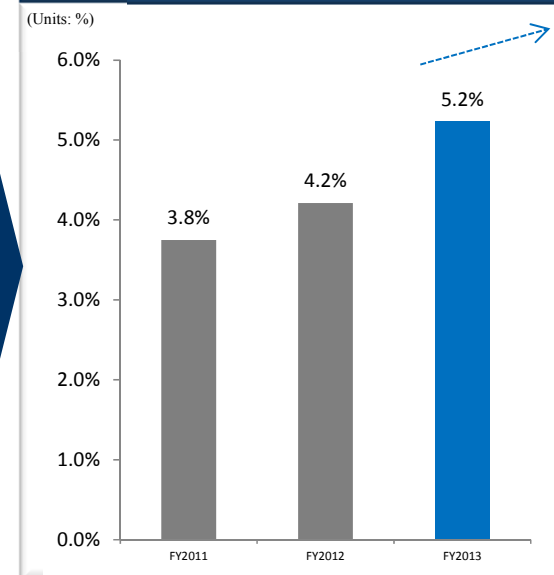
#### Increase in ordinary income



#### Increase in rental revenue (sales)



#### Increase in the percentage of rental revenue/sales



(Values up to the fiscal year ended March 31, 2013 are actual results. Values for the year ending March 31, 2014 are plan values. \*: Result from previous year)



## IV – Funds Procurement

## 12. Decision for capital increase

1	Securities issued and issue method	Commitment-type rights offering (allotment of listed share options without contribution)
2	Total procurement amount	Approximately 2.2 billion yen (Net amount: Approximately 2.0 billion yen)
3	Date of issue decision	October 16, 2013 meeting of the Board of Directors (announced on same date)
4	Share option allotment ratio	1 share option for each ordinary share
5	Share option issue price	Allotment without contribution
6	Type and quantity of subject shares	1 ordinary share for each share option
7	Share option exercise price	20 yen
8	Acquisition terms	All share options not exercised at end of the exercise period
9	Acquisition price	$(\text{VWAP price} - \text{Exercise price } 20 \text{ yen}) \times 50\%$
10	Share option listing period	October 28 – December 9, 2013 (Final transaction date: December 6, 2013)
11	Share option exercise period	December 2 – December 12, 2013 <small>* Because depending on the brokering securities company, exercise brokerage may be completed at a time earlier than the above period in some cases, we request that the shareholders confirm this themselves.</small>
12	Commitment securities company	Mitsubishi UFJ Morgan Stanley Securities Co., Ltd. (Exercise date: December 20, 2013)

Note: For details concerning this rights offering, refer to "Notice of Commitment-type Rights Offering (Allotment of Listed Share Options Without Contribution)" announced on October 16, 2013.

## 13. Reasons for the selection of a commitment-type rights offering

Reasons for rights offering	Equal selection opportunities for existing shareholders	Unlike a capital increase through public offering, existing shareholders can decide whether to additionally invest by exercising the right or to sell the share option.
	Relatively small dilution effects	Existing shareholders may exercise the allotted share option to maintain their position and avoid dilution.
Reasons for commitment type	Reliability of funds procurement	The underwriter has committed to exercising the share options which are not exercised by its holders within the exercise period, for highly reliable funds procurement.
	Improving trust	Unlike a non-commitment type, because it is necessary to pass the underwriting examination of the securities company, this contributes to improving the trust of shareholders and investors.

We have decided that this is the optimal financing method for our company as we aim for further growth.

V – Group Mid-Range Business Plan,  
Status of Programs in this Fiscal Year

## 14. Characteristics of the A.D.W. Group business model (summary)

### Summary of A.D.W. Group business model characteristics



**It is possible to aim for an "only-one" business model.**

## 15. Background of value innovation

### 4-direction starting points for value innovation

#### (1) Starting from the needs of high net-worth clients

- Other companies: Priority on properties
- A.D.W.: Priority on needs of high net-worth clients

#### (2) One-stop service

- Other companies: De-integrated and specialized business, intensive specialization, aiming primarily for business scale
- A.D.W.: One-stop service for everything including purchases, management, leasing, renovation, rebuilding, design, tax consultations, and inheritance consultations

#### (3) Long-term client relationships

- Other companies: One-time engagement
- A.D.W.: Lifetime engagement

#### (4) Stable growth unaffected by economic changes

- Other companies: Highly sensitive to economic conditions
- A.D.W.: By expanding our stock of properties targeting high net-worth individuals, we can meet the needs for financial asset management. (There are business opportunities in both good and bad times. ⇒ As a result, we achieve stable income growth.)

**Aiming for extremely unique value positions**

## 16. The A.D.W. business environment and threats (PES analysis)

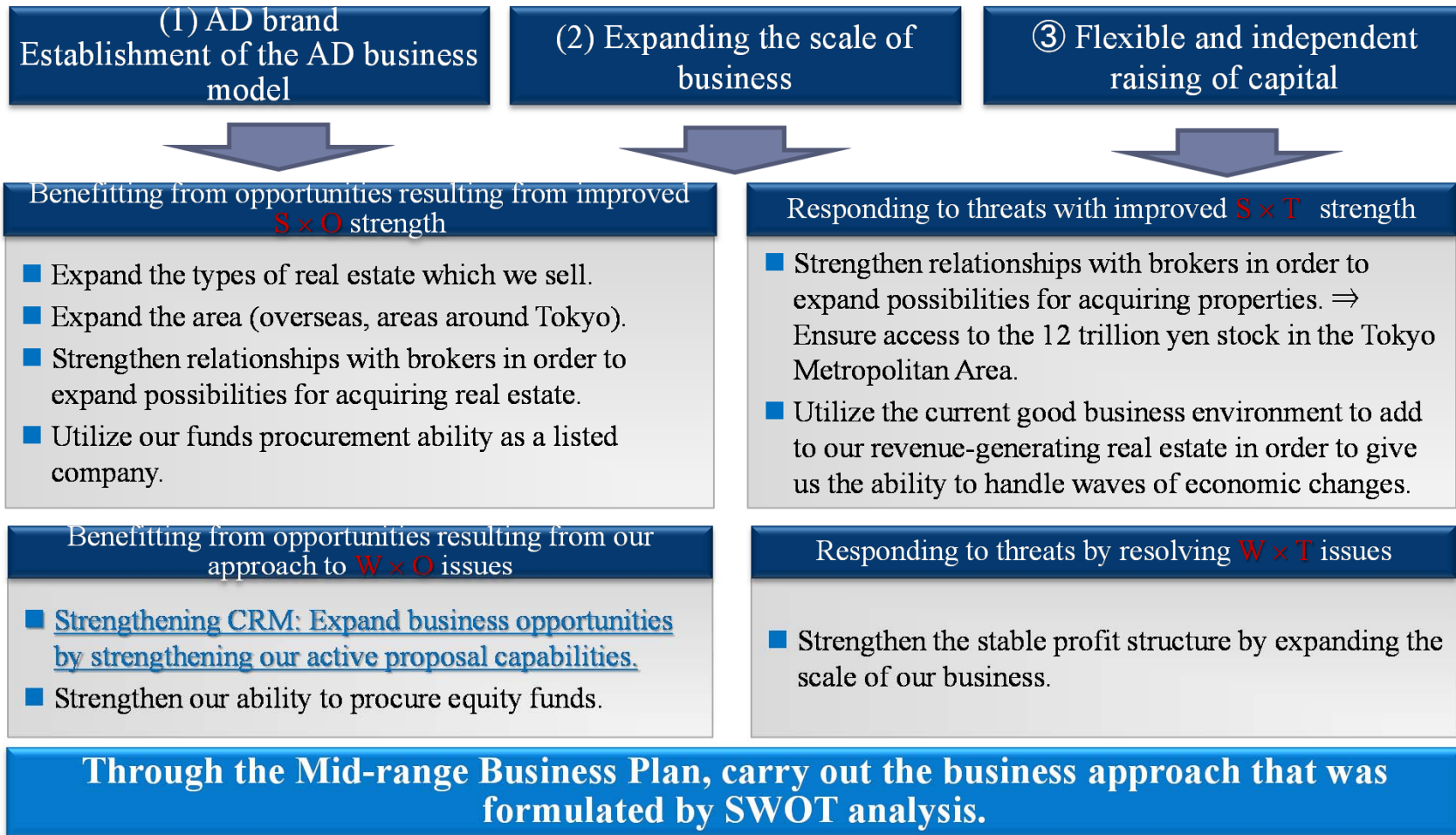
### Analysis of the external business environment (PES)

	Opportunities (O)	Threats (T)
Politics (P)	<ul style="list-style-type: none"> <li>■ Bold financial measures (lowering of borrowing interest rates)</li> <li>■ Last-minute investment demand prior to hike in consumption tax</li> <li>■ Tax-reduction strategies</li> <li>■ End of the SME Finance Facilitation Act (increased disposition of collateralized real estate)</li> </ul>	<ul style="list-style-type: none"> <li>■ Rebound from last-minute investment demand prior to hike in consumption tax</li> <li>■ Failure of inflationary policies (rising interest rates, falling rents and land prices)</li> <li>■ Risk of revenue-generating properties drying up</li> </ul>
Economy (E)	<ul style="list-style-type: none"> <li>■ Increase in real estate investment as a hedge against inflation</li> <li>■ Rising rents due to economic recovery</li> <li>■ Rise in real estate prices due to economic recovery</li> </ul>	<ul style="list-style-type: none"> <li>■ Intensifying competition for purchases from high net-worth clients and small and medium real estate companies</li> </ul>
Society (S)	<ul style="list-style-type: none"> <li>■ Increase in Tokyo Metropolitan Area population (up to 2020)</li> <li>■ Global monetary easing (opportunities for investment in overseas real estate)</li> </ul>	<ul style="list-style-type: none"> <li>■ Long-term graying of society and declining population</li> </ul>
	<b>Growing business opportunities in the short term</b>	<b>Address from a long-term perspective.</b>

\*Source: Populations trends in the Tokyo Metropolitan Area are excerpted from "Tokyo of 2020" prepared by the Planning and Coordination Dept., Headquarters of the Governor of Tokyo.

## 17. Third Mid-Range Business Plan (Current)

### Basic policies of the Third Mid-Range Business Plan



\* Source: Size of the revenue-generating properties market in the Tokyo Metropolitan Area was calculated by our company based on the "Overview of the Japan Real Estate Investment Market 2012" from Nomura Research Institute, "Land Assets by Prefecture (FY 2011)" from the Economic and Social Research Institute (Cabinet Office, Government of Japan), and "Urban Area Price Indexes" from the Japan Real Estate Institute.



## 18. Status of current year programs based on the Third Mid-range Business Plan

### Key programs for the current year

**I. Increasing the balance of revenue-generating real estate**  
- Current year target for balance of revenue-generating real estate: 8.0 billion yen

**II. Expanding the areas where we do business**  
- Establish the Yokohama Sales Office, and expand from central Tokyo into the broader Tokyo Metropolitan Area.  
- Acquire overseas real estate (California, USA).

Increasing the balance of revenue-generating real estate and extending the time before sale  
**Increase rental revenue.**

Shift to a profit structure that rental income (rental revenue profit margin 65%\*) can cover fixed cost.  
Ensure stable profits. Stabilize and strengthen the profit base.

(\* Result from previous fiscal year)

## 19. Expansion of domestic properties (1)

### 1. Expanding the areas where we do business

Central Tokyo Metropolitan Area

Expand into the greater Tokyo Metropolitan Area (Tokyo+3 prefectures), beginning with Kanagawa.

Point 1:

The size of the rental housing market, which occupies the greatest part of the revenue-generating property market in the Tokyo Metropolitan Area, is estimated to be **approximately 12 trillion yen. Our company's share of this market is less than 0.1%.**

There remains ample room to find properties that meet client needs in the potential stock of revenue-bearing properties in the Tokyo Metropolitan Area.

Point 2:

In order to focus on acquiring new properties in the Kanagawa area, centered on Yokohama, **we established the Yokohama Sales Office on Sept. 1, 2013.**

### 2. Expanding the types of real estate which we sell

Centered on residential properties

Begin selling commercial buildings.

Price range of 200 – 300 million yen per building

Expand the price range (to 500 million yen per building or more)

## 20. Expansion of domestic properties (2)

### Properties acquired by A.D.W. (examples)

When acquired



After value-adding renovation



*Kanagawa  
property:*  
**Oguchi**  
Friend Heights

Office building



*Property in  
Tokyo:*  
**Jingu-  
mae**  
JIK Bldg.

*Property in  
Tokyo:*  
**Mejiro**  
Trendy Takada

Large-size property



## 21. Start of business in the U.S. (1)

### Reason for selecting the U.S. as a new area for business

*A step in expanding the services we provide*

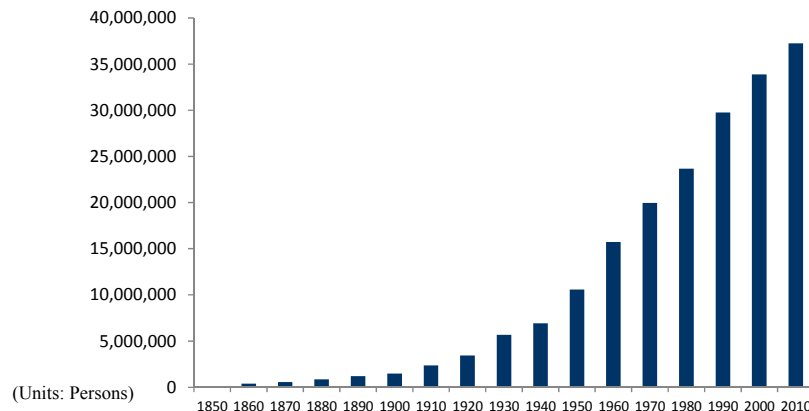
The purpose is to **meet the needs of high net-worth individuals in Japan** and increase our menu of real-estate investment services. We will **apply the characteristics and expertise of the original A.D.W. business model** to sell overseas revenue-generating real estate.

*Satisfies all the necessary conditions for an investment area*

We selected California, which is the region with both the largest population growth and GDP growth in the U.S.. In addition, there are many apartment transactions, the transparency of property information is ensured, the legal system conditions are good, and it satisfies all the necessary conditions for an investment area.

#### ● California, USA: Changes in population

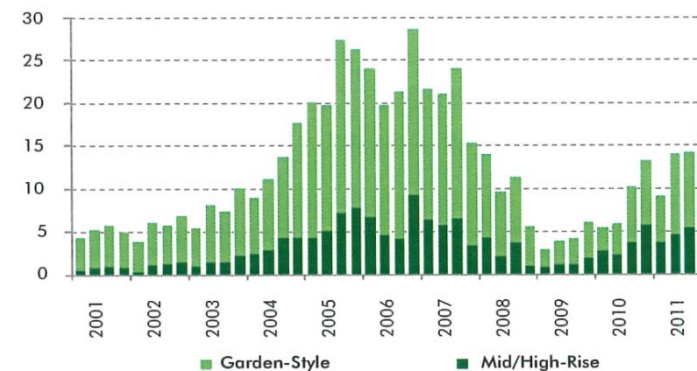
Source: Resident Population Data - 2010 Census



#### ● Changes in amounts of U.S. apartment transactions

Source: CAPITAL MARKETS MULTI-HOUSING 2013 Annual Market Report (CBRE)

QUARTERLY SALES VOLUME, \$BIL



## 22. Start of business in the U.S. (2)

From this fiscal year, we began acquiring properties in the U.S. (California). We established a subsidiary in California and have completed the acquisition of 2 properties to serve as test cases.

We are gathering knowledge about operations and tax systems, and have started preparation aimed at selling the properties.

### LA properties

In order to acquire local properties, we established the subsidiary ADW-No1 LLC. Through this subsidiary, we acquired 2 properties in Los Angeles in August and September of 2013.



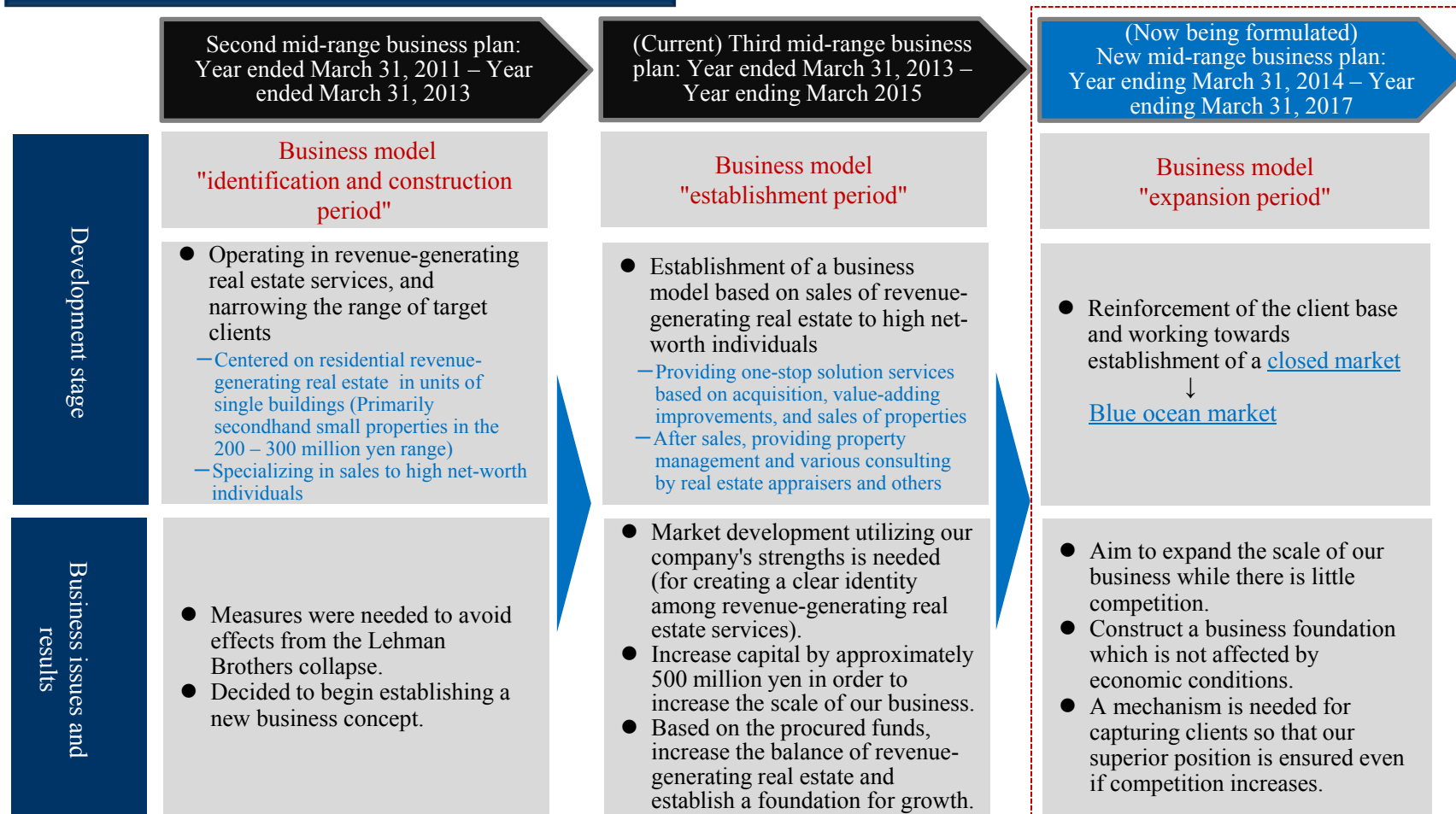
↑ Our first overseas real estate

### Future plans

- Plan for establishment of a management entity business model so that our clients in Japan can invest with confidence.
  - ⇒ Establish a PM (Property Management) company in Los Angeles in Sept. We are now applying for the necessary licenses.
- We expect to begin sales during this fiscal year.
  - ⇒ Contributions to profits are expected to begin from next fiscal year.

## 23. Changes to the mid-range business plan

### Changes from the second plan (summary)



As we continue to monitor the progress of the current results plan, we will create a new 3-year mid-range business plan beginning next fiscal year in accordance with the intended purpose of the procured funds. [\(We expect to announce the plan at the end of this fiscal year.\)](#)

## 24. Major objectives of the new mid-range business plan

Objectives to be achieved through the new mid-range business plan

*Main  
objective*

### Establishment of a blue ocean market through the AD business model

Definition of "blue ocean market" as conceived by our company

- ① Growing market ② Large barriers to future entry

Specific strategy

- **Expand solution services** to meet client needs.  
→ Peripheral services based on revenue-generating real estate
- **Expand the areas for investment.**  
→ In addition to the areas surrounding Tokyo, also actively expand overseas (primarily the U.S.).
- **Strengthen the client base** through use of CRM.

\*CRM: Customer Relationship Management. Method of building long-term relationships between corporations and customers.

## VI – Reference Materials (Company Profile, Shareholder Composition, Changes in Consolidated Results)



# 1. Company Profile

- ❑ Company name: A.D.Works Co., Ltd.
- ❑ Headquarters: 13th Fl., NBF Hibiya Bldg., 1-1-7, Uchisaiwai-cho, Chiyoda-ku, Tokyo
- ❑ Establishment: Founded February 1886. Incorporated May 1936.
- ❑ Capital: 818,120,000 yen (as of October 2013)
- ❑ Listed: October 2007 (Tokyo Stock Exchange JASDAQ: 3250)
- ❑ Subsidiaries: A.D.Partners Co., Ltd. (property management)  
A.D.Estate Co., Ltd. (property development, etc.)
- ❑ Employees: 61 consolidated (as of the end of September 2013)
- ❑ Officials
 

Hideo Tanaka	President CEO
Syogo Yonetsu	Senior Executive Managing Director
Katsutoshi Hosoya	Managing Director
Masanori Honda	Managing Director (outside)
Tamio Harakawa	Statutory Auditor (full-time, outside)
Takashi Ebina	Statutory Auditor (part-time, outside)
Hiroshi Katsumata	Statutory Auditor (part-time, outside)
Ryosuke Suzuki	Statutory Auditor (part-time, outside)

## 2. Shareholder Composition (based on preliminary information as of October 25, 2013)

### Number of issued shares / Number of shareholders

Number of issued shares: 112,557,900

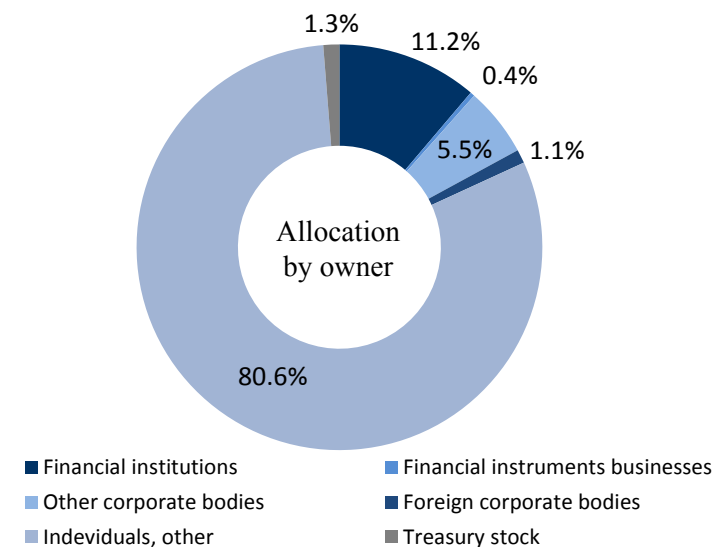
Number of shareholders: 9,938

### Major shareholders

		Number of shares	Share ratio (%)
1	Hideo Tanaka (Our company President CEO)	22,409,600	19.90%
2	Japan Securities Finance Co., Ltd.	9,574,700	8.50%
3	Liberty House Co., Ltd.	4,708,000	4.18%
4	The Master Trust Bank of Japan, Ltd. (Stock grants ESOP Trust Account • 75595)	1,813,400	1.61%
5	Individual shareholder	1,671,200	1.48%
6	Individual shareholder	1,600,000	1.42%
7	A.D.Works Co., Ltd.(Treasury stock)	1,439,200	1.27%
8	Individual shareholder	1,300,000	1.15%
9	Mizuho Trust & Banking Co., Ltd.(Trust Account)	1,228,400	1.09%
10	Individual shareholder	1,000,000	0.88%

Note: The shares owned by Mizuho Trust & Banking Co., Ltd. (shareholder rank 9) are shares of our company that were entrusted based on a securities disposition trust agreement that was concluded by A.D.W. president Hideo Tanaka on May 21, 2013, and Hideo Tanaka possesses the right to give directions for exercise of the voting rights.

### Allocation by owner (share ratio)



### 3. Changes in Consolidated Results (Summary)

(Units: Millions yen)

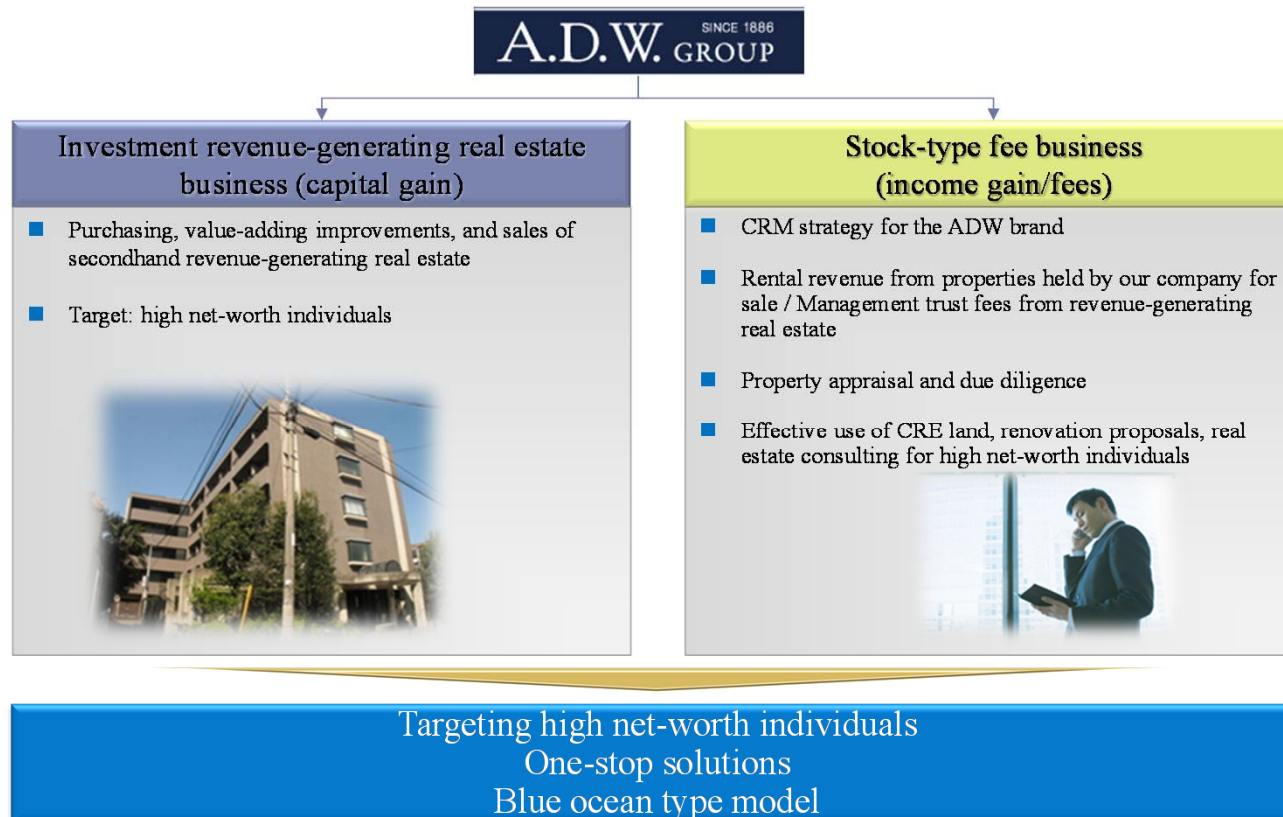
	Year ended March 31, 2010 (Results)	Year ended March 31, 2011 (Results)	Year ended March 31, 2012 (Results)	Year ended March 31, 2013 (Results)	Year ending March 31, 2014 (Planned)
Consolidated sales	6,285	9,328	10,159	9,853	10,700
Consolidated ordinary income	417	526	290	361	450
Consolidated net income	220	300	140	216	—
Net assets	1,835	2,132	2,205	2,896	—
Total assets	6,666	8,537	6,258	9,117	—
Total revenue-generating real estate balance (at year end)	4,416	6,114	3,810	5,536	8,000
Rental revenue (sales)	235	407	381	415	560
Rental revenue / sales ratio (%)	3.8	4.4	3.8	4.2	5.2
Employees (person)	38	44	53	59.5	—

## VII – Characteristics of the A.D.W. Group Business Model

# 1. Business Segments

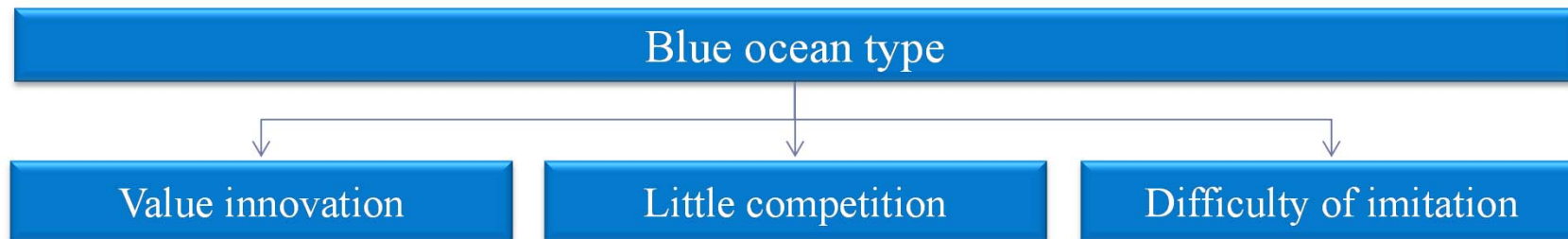
Main business foundation of the A.D.W. Group

Business related to **investment revenue-generating real estate for high net-worth individuals** – an area of high liquidity, stable rental revenue, and relatively low risk of a decline in value



## 2. Organization 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 concept based on conventional real properties

### 3. Business Model Characteristics (1)

#### (1) One-stop solutions



## 4. Business Model Characteristics (2)

### (2) Broad-ranging competitive superiority and social significance

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

Social significance



## 5. Target Clients: High Net-Worth Individuals

From before the Lehman Brothers collapse to the present

### Before Lehman Brothers collapse

- Business for high net-worth individuals
- Business for funds and other professionals

### After Lehman Brothers collapse

- Focus on business for high net-worth individuals

### Reasons why A.D.W. is focusing on business aimed at high net-worth individuals

- Existence of demand for buying revenue-generating real estate that are not affected by changes in economic conditions
- Banks' financing approach for high net-worth individuals is relatively unaffected even under poor economic conditions
- Because rents from residential revenue-generating real estate are stable, price collapse is unlikely.
- Small (approx. 300 million yen or less) residential revenue-generating real estate can be easily converted to cash even under poor economic conditions.

The stability of our business is high because A.D.W. specializes in business targeting high net-worth individuals – a market where a certain level of transaction demand exists even in difficult business environments and regardless of the economic conditions.

## 6. Business Model Characteristics (3)

### (3) Pursuit of a stable profit structure

#### Acquisition

Due to the 12 trillion yen stock of revenue-generating real estate in the Tokyo Metropolitan Area, the potential of the market is not being fully utilized and there are many opportunities for acquiring properties.

\*Source: Size of the revenue-generating properties market in the Tokyo Metropolitan Area was calculated by our company based on the "Overview of the Japan Real Estate Investment Market 2012" from Nomura Research Institute, "Land Assets by Prefecture (FY 2011)" from the Economic and Social Research Institute (Cabinet Office, Government of Japan), and "Urban Area Price Indexes" from the Japan Real Estate Institute.

#### Holding

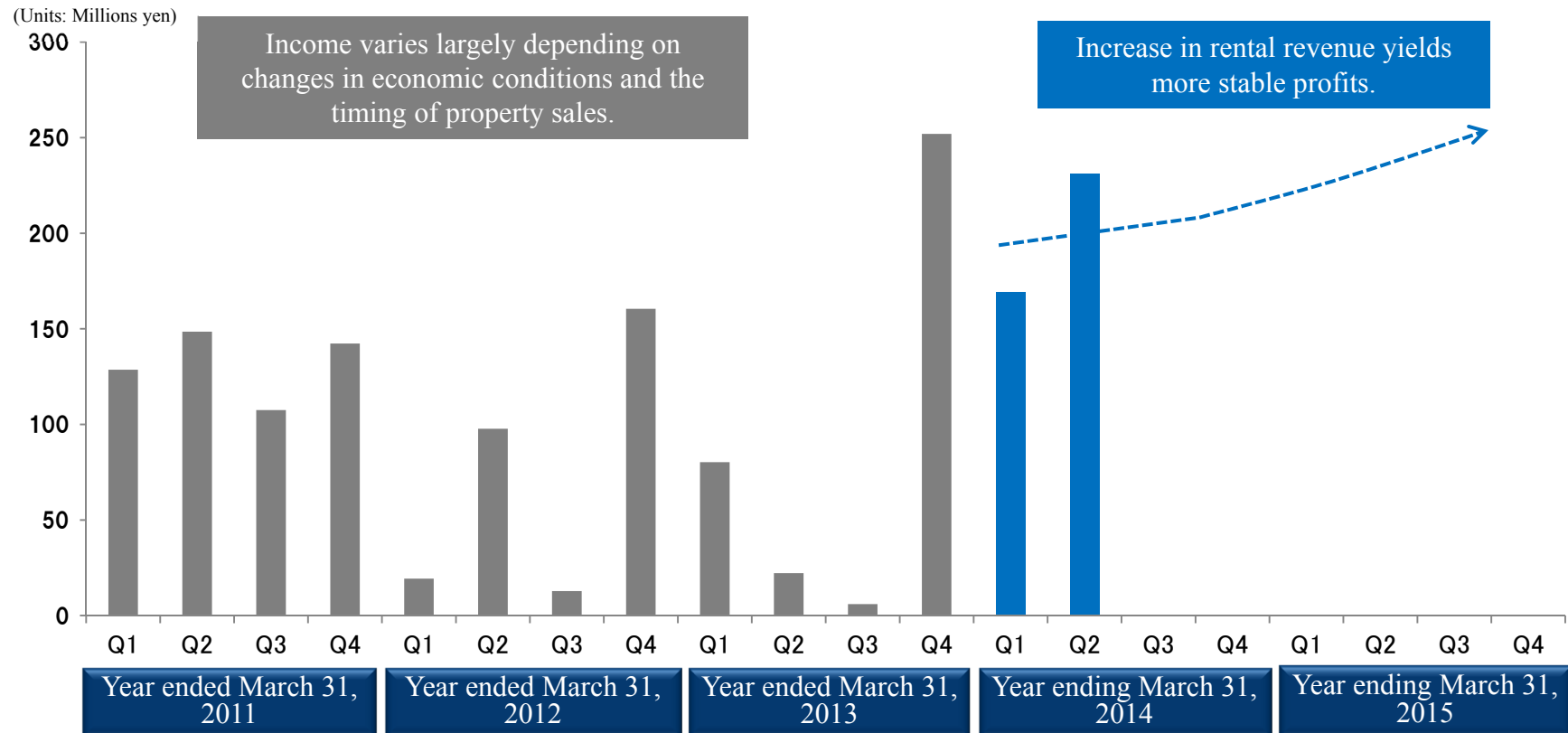
We can establish a stable profit base by increasing our balance of revenue-generating real estate.

#### Sale

The nature of revenue-generating real estate ensures liquidity even under poor economic conditions, allowing assets to be quickly monetized.

## 7. Changes in A.D.W. Group Profits

### Changes in consolidated ordinary income and image of future trends



The establishment of a stable profit base that is not affected by changes in the economic conditions is a key issue.

The logo for A.D.W. Group is a dark blue square with white text. The text "A.D.W." is in a large, serif font, with "Group" in a smaller, sans-serif font below it. The text "SINCE 1886" is in a small, sans-serif font at the bottom of the square.

A.D.W.  
Group

SINCE 1886

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](mailto:ir@re-adworks.com)**