

The image shows a building facade with a large, three-dimensional sign for Digital Garage. The sign features a stylized 'DG' logo on the left and the words 'Digital Garage' in a bold, sans-serif font to its right. The sign is mounted on a dark, recessed area of the building's exterior. In the background, there are large windows and a flagpole with a flag that also features the Digital Garage logo.

DG Digital Garage

IT/MT/FT × OPEN INNOVATION

Digital Garage, Inc.

2Q of FYE June 30, 2016 Financial Report

2016.2.12

 **Digital Garage**

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Mission & Business Model





As a

Context Company

Digital Garage creates innovative business *context* for the new Internet age and provides unique business solutions for new lifestyles, society, and industries by linking

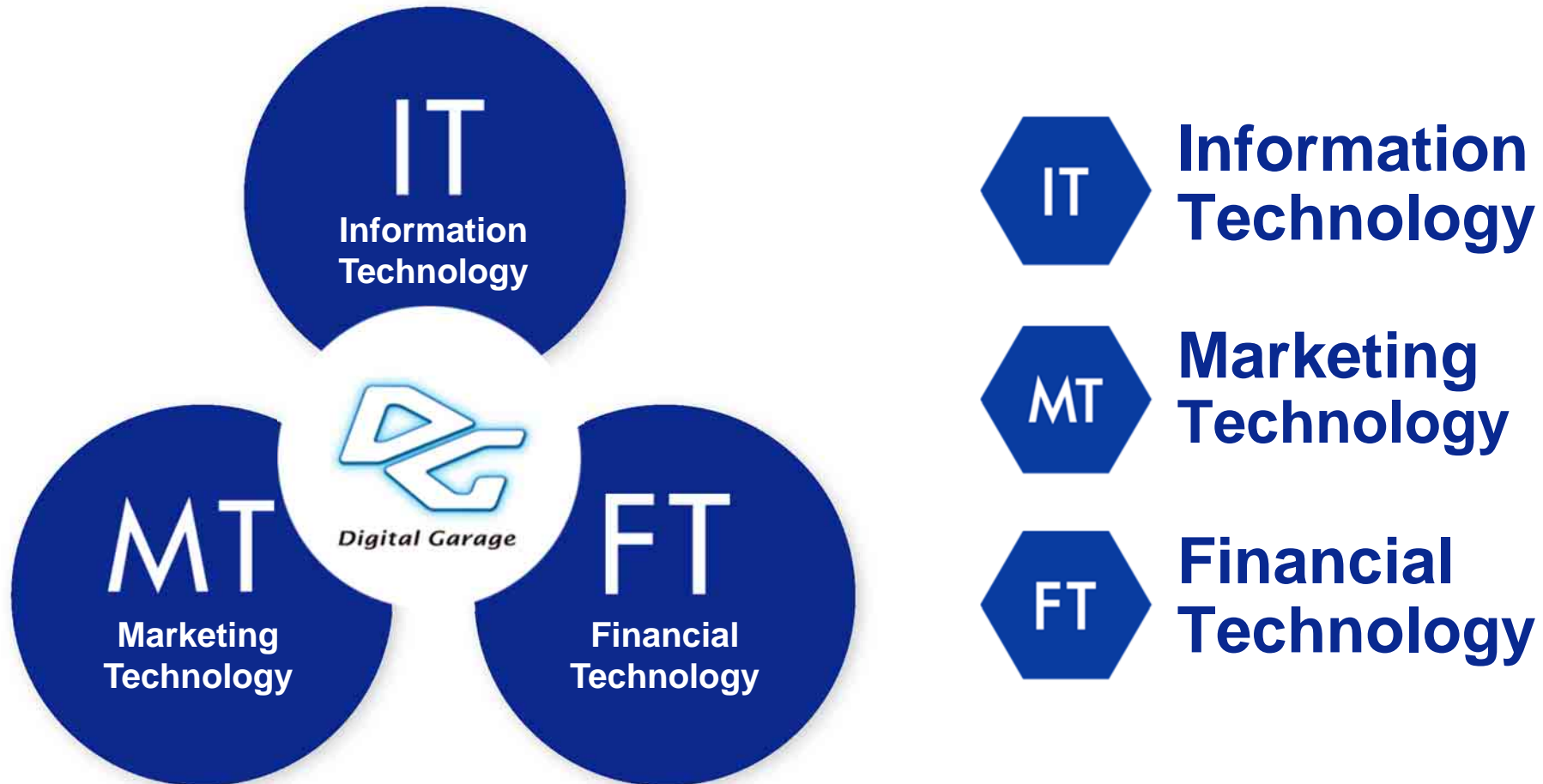
Real & Cyber

Local & International

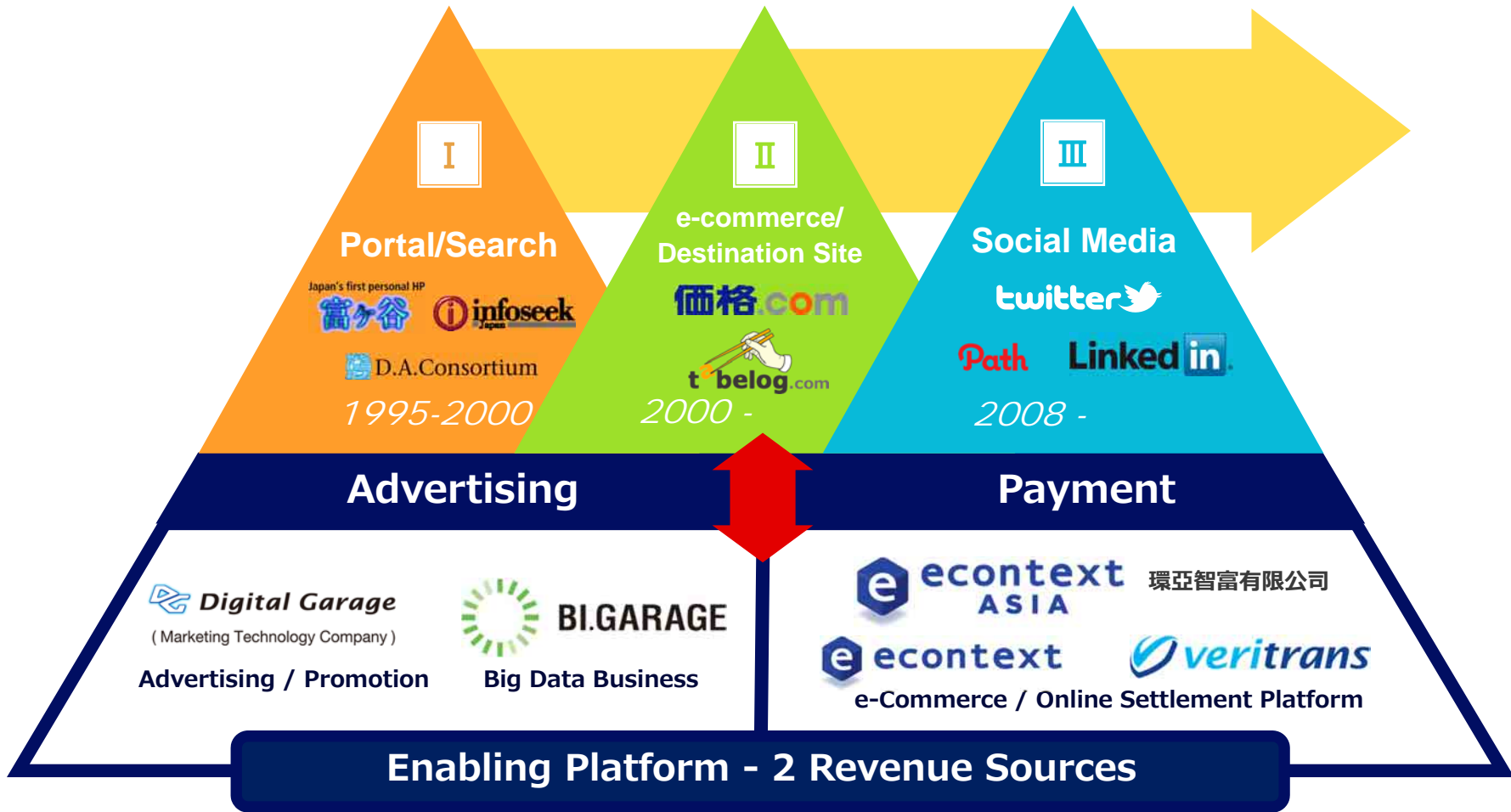
Marketing & Technology

Present & Future

Producing and incubating Internet businesses by optimizing our 3 core strengths: IT, MT, and FT

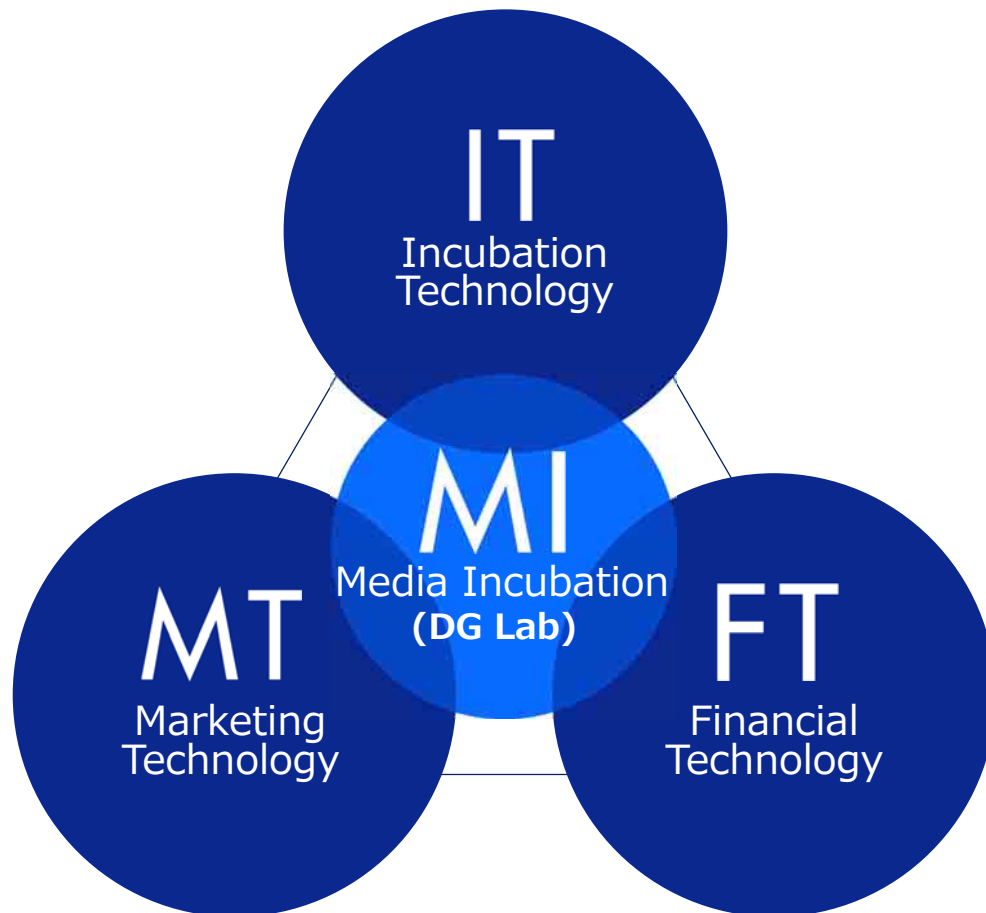


DG continues to incubate and develop unique Internet services through its *Enabling Platform* since the early days of the Internet



IT/MT/FT × Open Innovation

~ Creating New Contexts for a Better Society ~



I

Organic growth in each IT/MT/FT segment

II

Accelerating incubation through DG's original cross-sectional platforms of each segment

III

Created new segment MI to nurture next generation media in collaboration with each segment and Kakaku

	2015.6	2018.6
Income Before Income Taxes	9.2 B JPY	15 B JPY (CAGR +17%)
Consolidated ROE	17%	> 20%
Consolidated Dividend Payout Ratio	23%	> 20%
	Ordinary 4.6% Commemorative 18.5%	20%

Investment Highlights



Results for 1H of the first year of the new mid-term plan grew steadily, leaving full-year forecast unchanged

~ Executing new mid-term plan strategies, launching an open innovation ~

I Promoting global investment ecosystem

- iRidge, an O2O service provider, got IPOed, delivering Incubation results
- Invested in a leading blockchain developer, Blockstream, collaborating toward the verification testing of FinTech products in sync with “DG Lab” as a first step

II Enabling platform expanded, annual transaction volume exceeded 1 trillion yen

- Growth gaining traction in smartphone ads. Aggressively invested in data related business
- Expanding business in non-EC (food, real estate, etc). Enhancing “Payment OEM” to financial institutions
- Aiming to become a comprehensive FinTech company with a “next gen smart payment platform”

III Launching “DG Lab” to drive an open innovation

- Sold a US development subsidiary. Shifted resources to DG Lab to accelerate innovation
- Key focus : Blockchain, Security, AI, VR/AR, Biotechnology
- Collaborating with Bengo4.com, DG’s portfolio, to co-develop smart contract system as a first step

Group Financial Performance Review



Net sales —————

19.8 B Yen
YoY + 10 %

Op. income —————

1.6 B Yen
YoY Δ 6 %

Ordinary
income —————

2.6 B Yen
YoY Δ 22 %

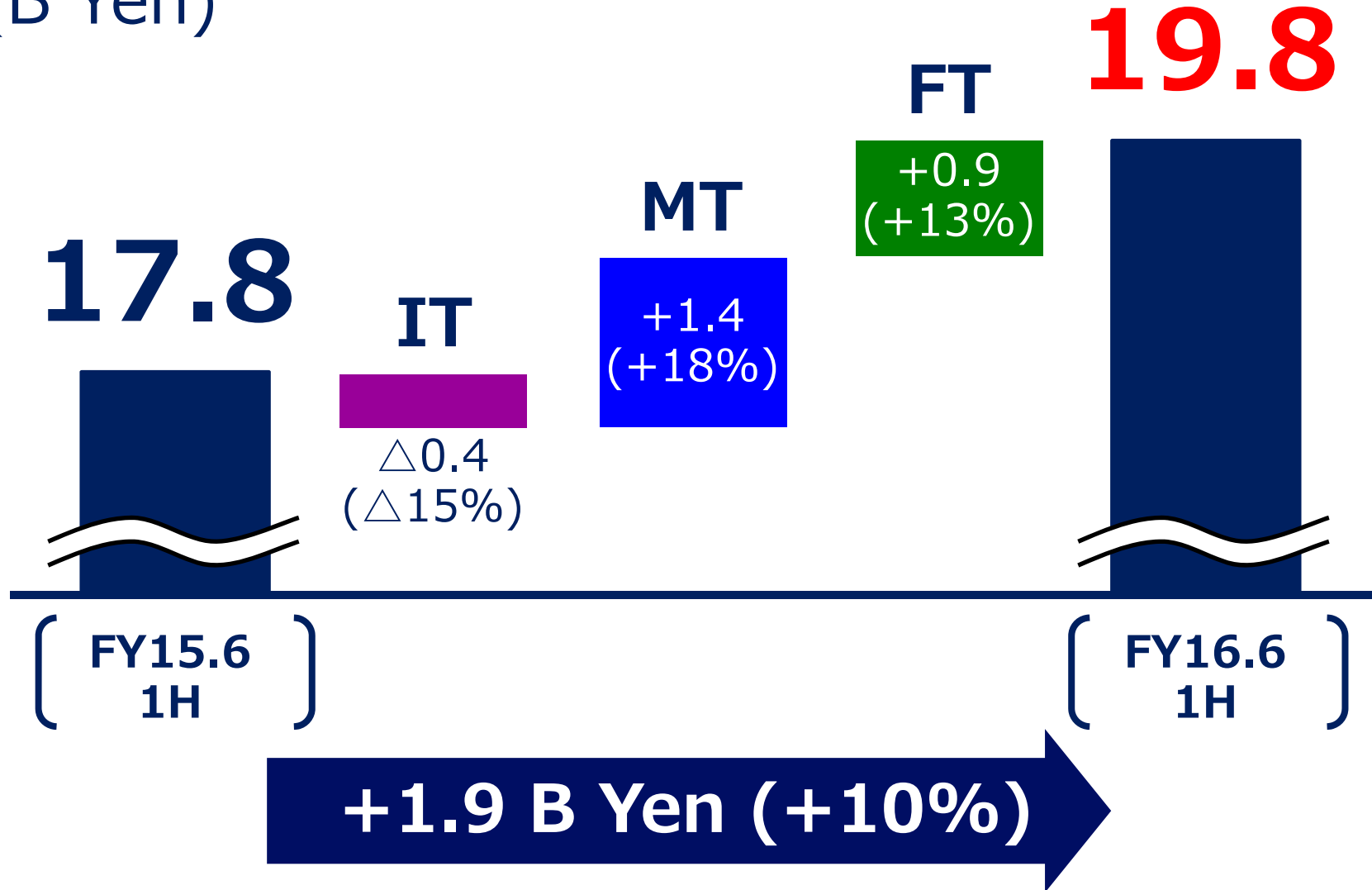
Income before
income taxes —

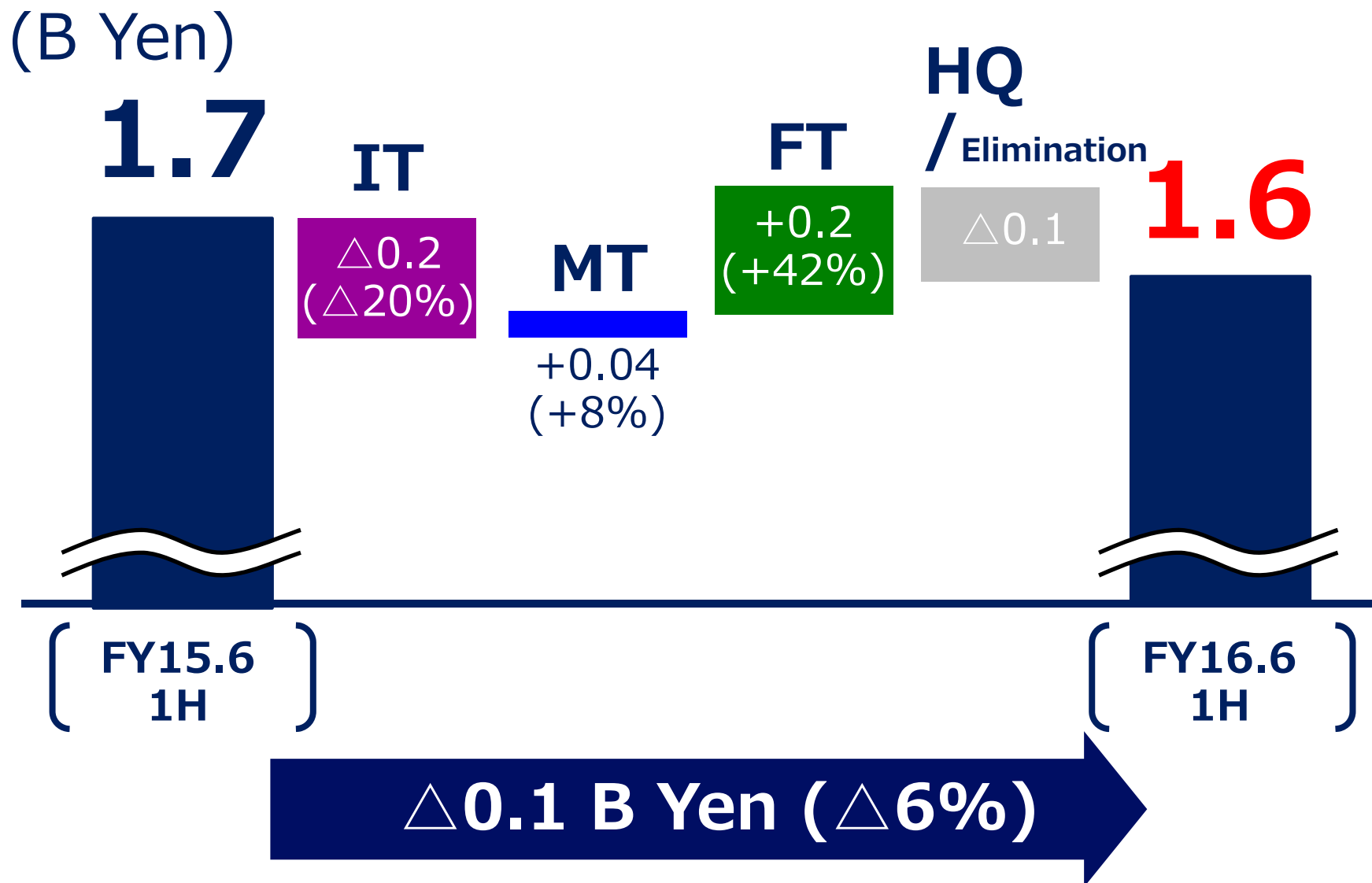
2.8 B Yen
YoY Δ 50 %

Results for 1H of the first year of the new mid-term plan grew steadily, leaving full-year forecast unchanged

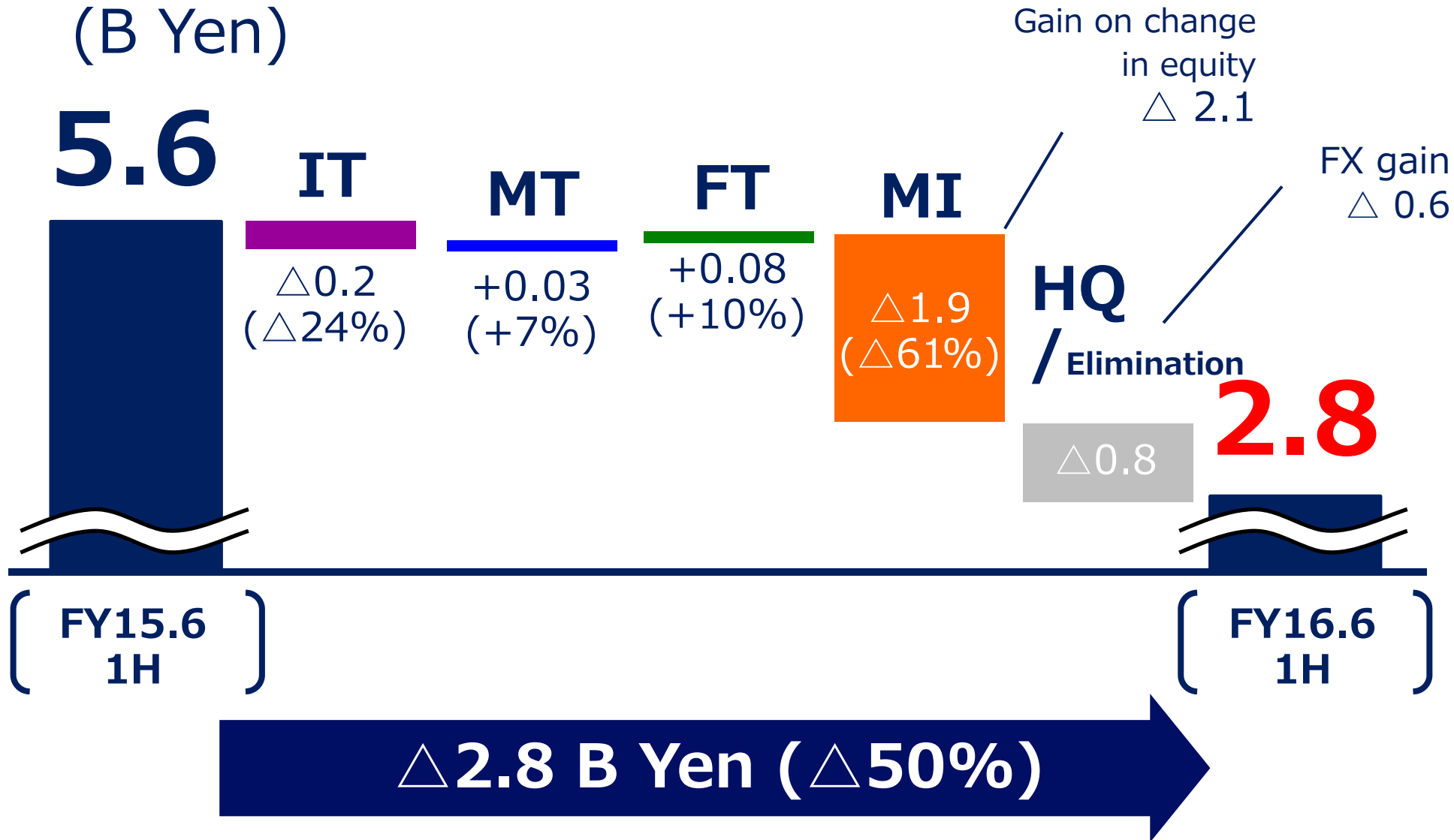
- Net sales grew +10% YoY to 19.8 B Yen to hit record high for 1H. Op income decreased - 6% YoY to 1.6 B Yen to exceed budget
- MT and FT had a double-digit sales growth, exceeding budget. Op income grew + 42 % YoY in FT, exceeding 1 trillion yen in annual transaction volume
- Although investment profit on equity method from Kakaku grew steadily, income before income taxes decreased YoY due to FX gain and extraordinary gain from the previous term
- **Full-year forecast remains unchanged** – IT to plan a big exit overseas and MT/FT to keep growth momentum in 2H

(B Yen)



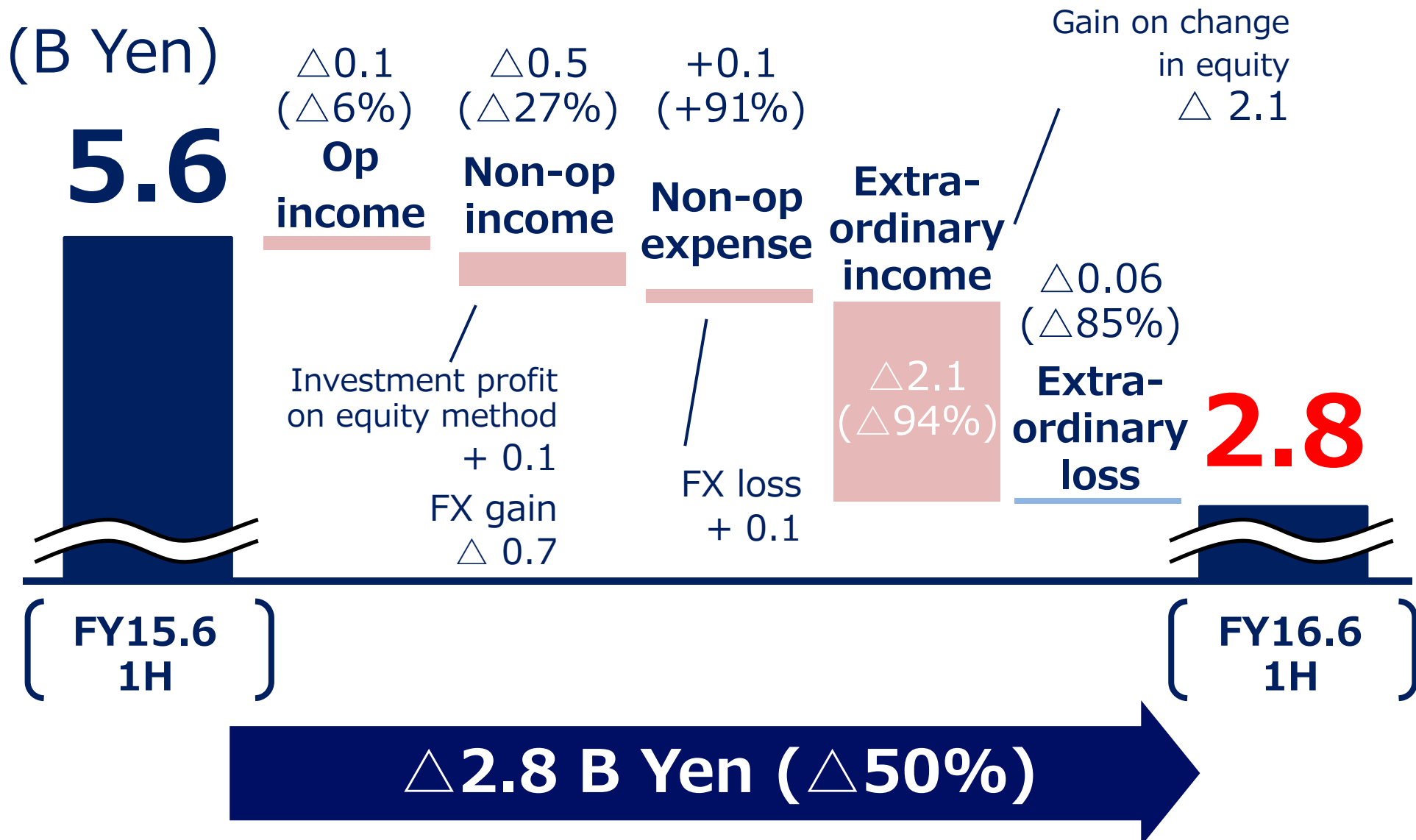


Contribution to Income before income taxes by Segment





Contribution to Income before income taxes by P/L



Segment Performance Review



IT

- Partially sold stocks as iRidge got listed
- Investment balance reached 13 B Yen globally

MT

- Smartphone ads grew steadily
- Driving alliances in big data related business

FT

- Annual transaction exceeded 1 T Yen in 2015
- Launched initiatives for FinTech (Blockchain)

MI

- Investment profit on equity method from Kakaku grew steadily
- Preparing a new business using social graph

I Incubation Technology Segment

		Net Sales	Income Before Income Taxes
FY15.6	2Q(7-12)Actual	3,023 M JPY	1,120 M JPY
FY16.6	2Q(7-12)Actual	2,557 M JPY	849 M JPY
FY16.6	Full Year Forecast	7,000 M JPY	4,100 M JPY

▶ **DG Incubation, Inc.**

Invests in and incubates cutting-edge Internet startups



▶ **Open Network Lab, Inc.**

Provides support to Internet-business entrepreneurs with global visions



▶ **Digital Garage US, Inc.**

The US-based global strategy headquarters



▶ **DK Gate, Inc.** (66% stake)

Invests in and incubates next generation content with Kodansha globally



▶ **Kodansha Advanced Media LLC** (19% stake/investment)

Marketing in digital distribution in US and English-speaking countries, film adaptation, event planning, etc

Segment sales –
2.5 B Yen

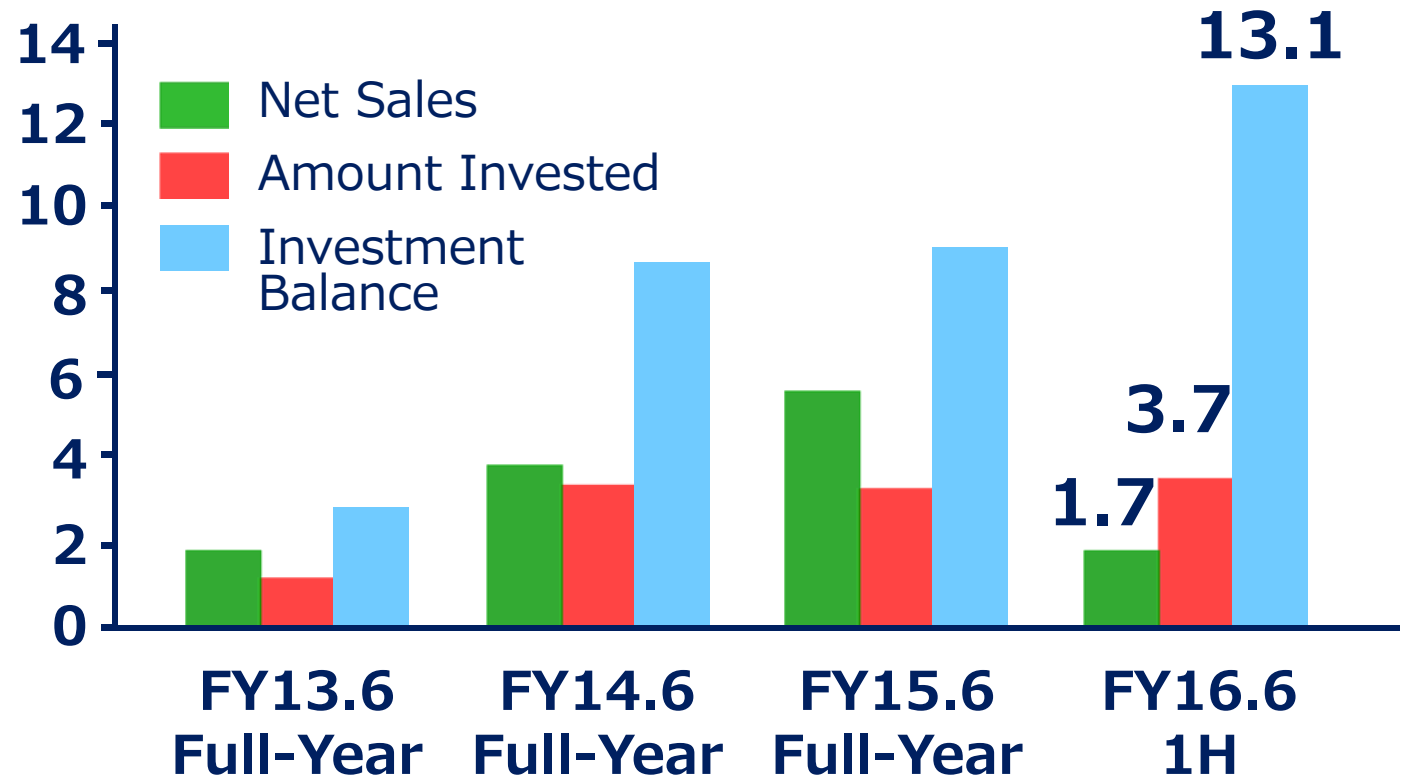
DGI sales ———
1.7 B Yen

Investment
balance ———
13 B Yen

Amount
invested ———
3.7 B Yen

**Portfolio achieved a successful exit.
Investment balance reached 13 B Yen**

(B Yen) 【DGI Investment Performance】



(Current Portfolio)

	# of companies	Book Value (B Yen)
Equity	106	12.3
Domestic	31	3.5
Overseas	75	8.7
Fund	6	0.7
Total	112	13.1

Note) DG Incubation's investment balance
Mark-to-market as of quarter end for listed stocks
Equity includes convertible note

Major Portfolio

New



Blockstream [Overseas]

Develops sidechain technologies, parallel blockchains that are interoperable

New



Emotion Intelligence [Domestic]

Provides ZenClerk, a consumer behavior and promotion service, using its AI engine that analyzes emotions

New



Digg [Overseas]

A news aggregator, selecting stories specifically for the Internet audience such as science, trending political issues, etc

New



Monstar Lab [Domestic]

Operates Sekai Lab, a global outsourcing platform that provides a network of over 10 k engineers in over 15 countries

New



Welby [Domestic]

Builds apps for patients with chronic malady, diabetes, cancers

New



Whomor [Domestic]

Gathers knowledge from its high quality creative production crowdsourcing service to develop new businesses

Goodpatch [Domestic]



Web development and consulting service firm

ContextLogic [Overseas]



Operates Wish, a mobile shopping app. One of the "unicorn" startups with \$ 1 B valuations or higher

With the sale of Neo, an agile development consolidated subsidiary, we will shift our development resource to DG Lab with the approach of open innovation

Past
< Software development business >

<ul style="list-style-type: none">● Variable utilization● Difficulty in finding talent due to cost increase



Future
< Strategic investment × Open Styled Lab >
 OPEN INNOVATION PLATFORM
<ul style="list-style-type: none">● Open platform● Collaborate w/ outside resources

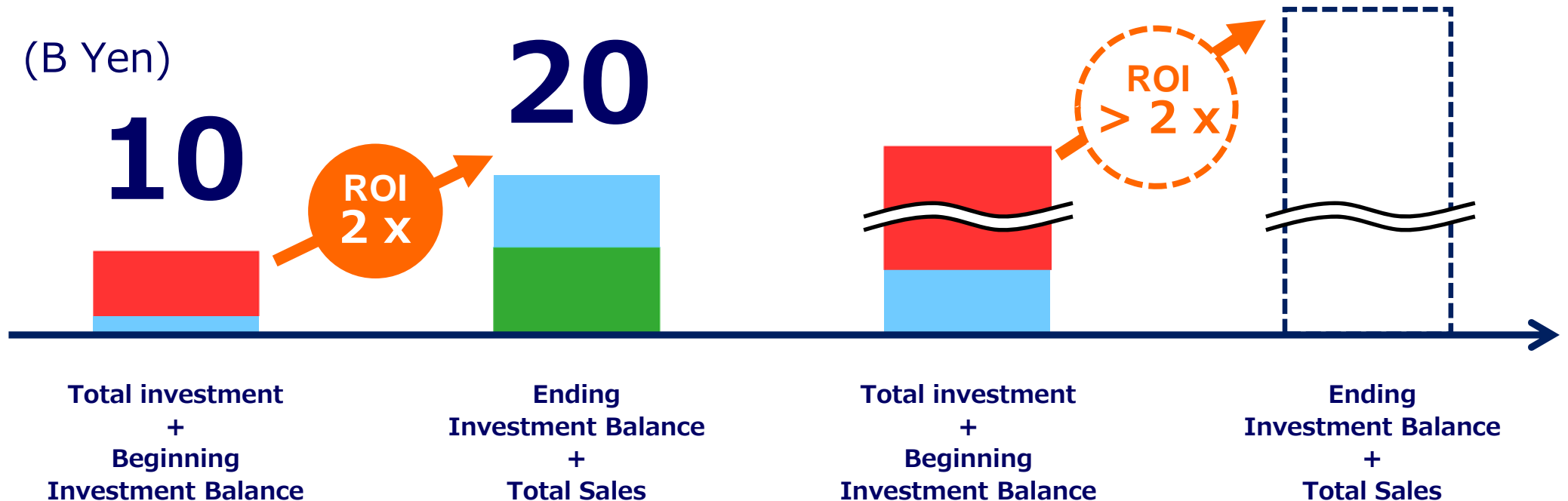
IT Segment – image of mid to long term growth

Achieved ROI of 2x in the previous mid-term plan. Aim for ROI of over 2x in the current mid-term plan

2013.6 - 2015.6

2016.6 - 2018.6

- ✓ Track record
- ✓ Investment, Growth opportunity
- ✓ DG's global network
- ✓ Seed accelerator



II Marketing Technology Segment

		Net Sales	Income Before Income Taxes
FY15.6	2Q(7-12)Actual	7,781 M JPY	524 M JPY
FY16.6	2Q(7-12)Actual	9,232 M JPY	560 M JPY
FY16.6	Full Year Forecast	18,500 M JPY	1,390 M JPY

▶ Marketing Technology Company

Supports client's business through performance-based ads, Online to Offline strategy and web marketing



▶ BI.Garage, Inc.

Develops and provides ad products incorporating data science, social marketing, and cutting edge ad technology



▶ NaviPlus Co., Ltd.

Offers website support tools including personalized recommendation engines



▶ Digital Science Lab. Inc (50%/Equity method affiliate)

Provides ad solutions for smartphone applications



▶ LCO-Creation Singapore Pte. Ltd. (33.4%/Equity method affiliate)

Develops and runs a platform for smartphone-based international travel apps



Segment sales –

9.2 B Yen
YoY **+19 %**

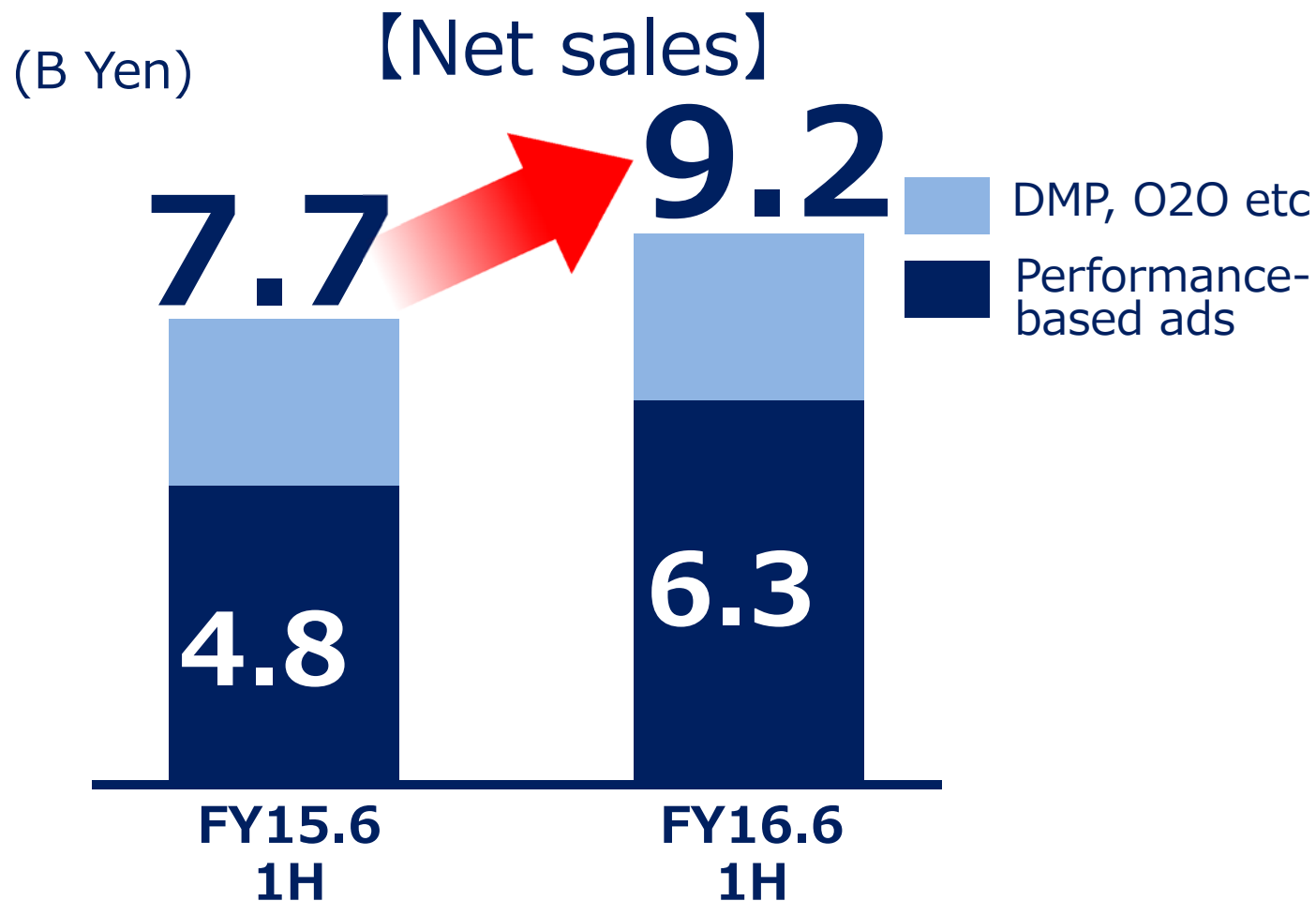
Performance-based ad sales –

6.3 B Yen
YoY **+31 %**

Smartphone Mix

26 %
YoY **+11 %pts**

**Growth gaining traction in app domain.
Performance ads sales increased + 31% YoY**



MT Segment Highlights

Growth gaining traction in smartphone / app domains

Net sales

1.7 B Yen

YoY

2.3 x

of clients

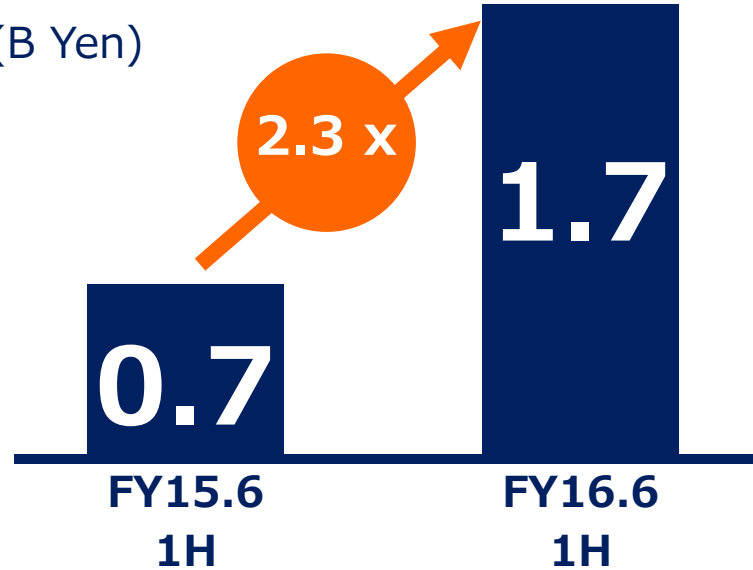
72 companies

YoY

3.0 x

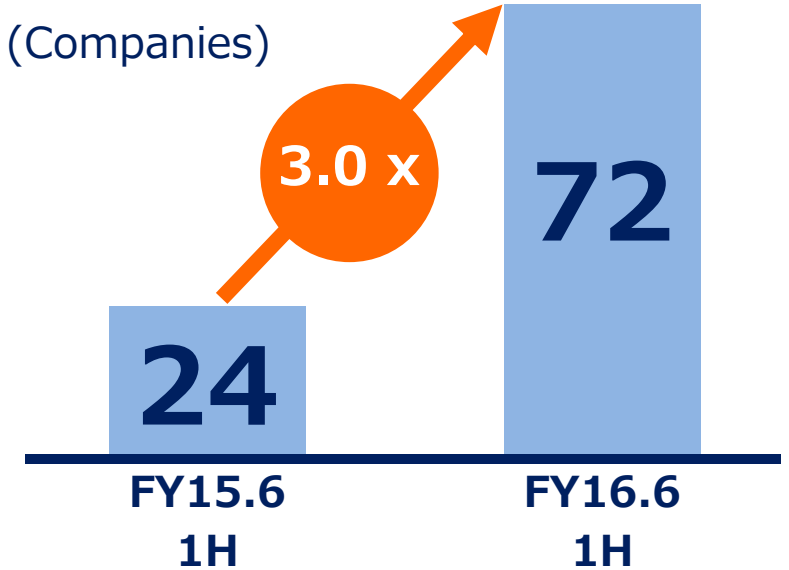
【Net sales】

(B Yen)



【# of clients】

(Companies)

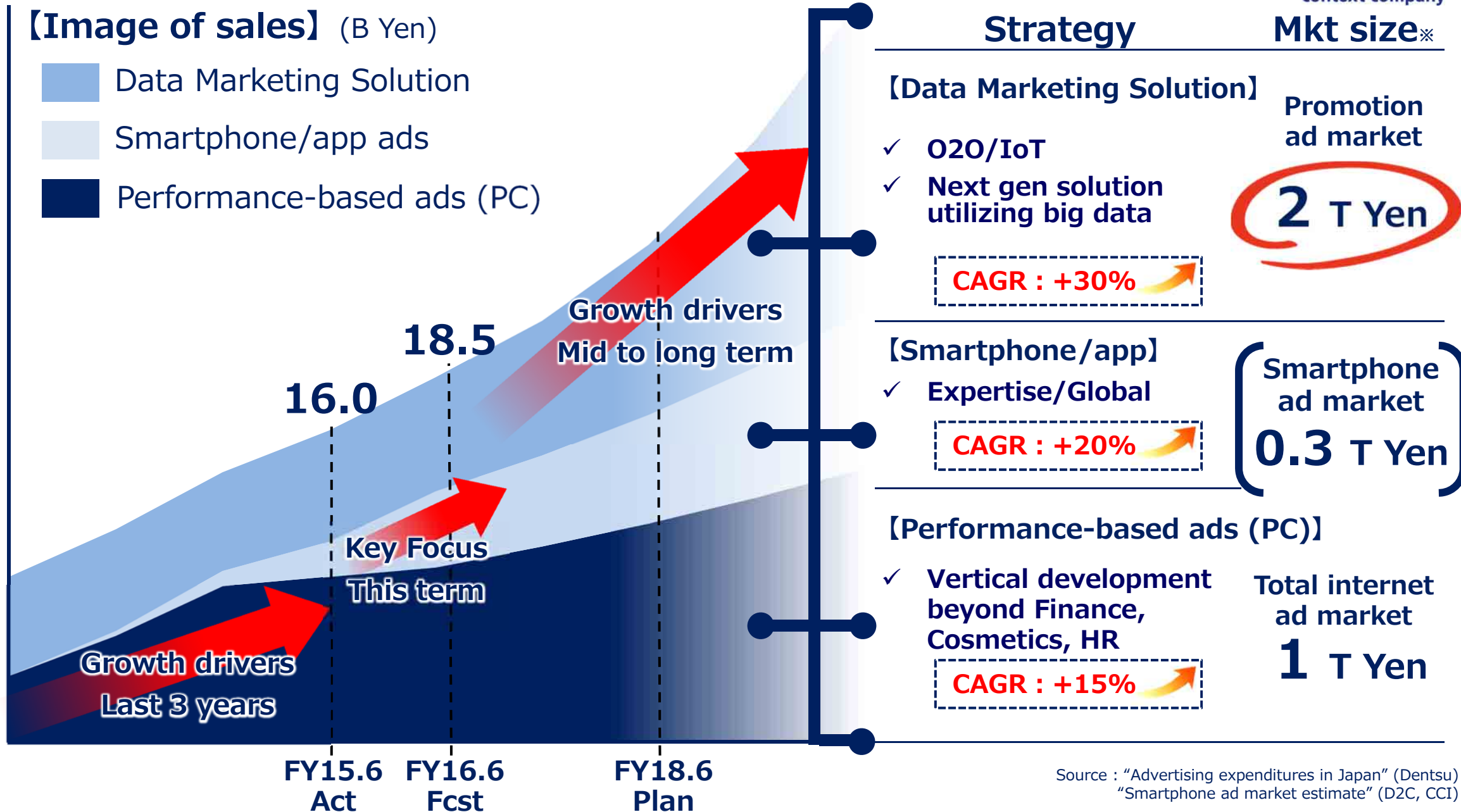


- ✓ Outperformed the market growth rate
- ✓ # of new clients increased as sales from app-based ads (Digital Science Lab) grew steadily
- ✓ Expect further growth in smartphone domains with DG's expertise

MT Segment – image of mid to long term growth



context company



Source : "Advertising expenditures in Japan" (Dentsu)
"Smartphone ad market estimate" (D2C, CCI)

III Financial Technology Segment

		Net Sales	Income Before Income Taxes
FY15.6	2Q(7-12)Actual	7,082 M JPY	783 M JPY
FY16.6	2Q(7-12)Actual	8,052 M JPY	867 M JPY
FY16.6	Full Year Forecast	15,500 M JPY	1,840 M JPY

▶ **econtext ASIA Ltd.**

Payment corporation to expand e-commerce platforms globally



▶ **econtext, Inc.**

Integrates online and offline business as the convenience store payment pioneer



▶ **Veritrans Inc.**

Provides leading e-commerce payment solutions



- ▶ **PT MIDTRANS** (Veritrans Indonesia) (23% owned by econtext ASIA/Non-consolidated)
Indonesian JV

PT. Midtrans

- ▶ **Citrus Payment Solutions Pte. Ltd** (15.59%/Investment)
The holding company for the Indian online payment solutions provider
(Citrus Payment Solutions Pvt. Ltd)



- ▶ **Sendo Technology JSC** (13.89%/Investment)
On-line marketplace for C2C and B2C in Vietnam



Amount of annual transactions —

1 T Yen

YoY +19 %

of annual transactions —

0.2 B

YoY +21 %

Market growth rate * —

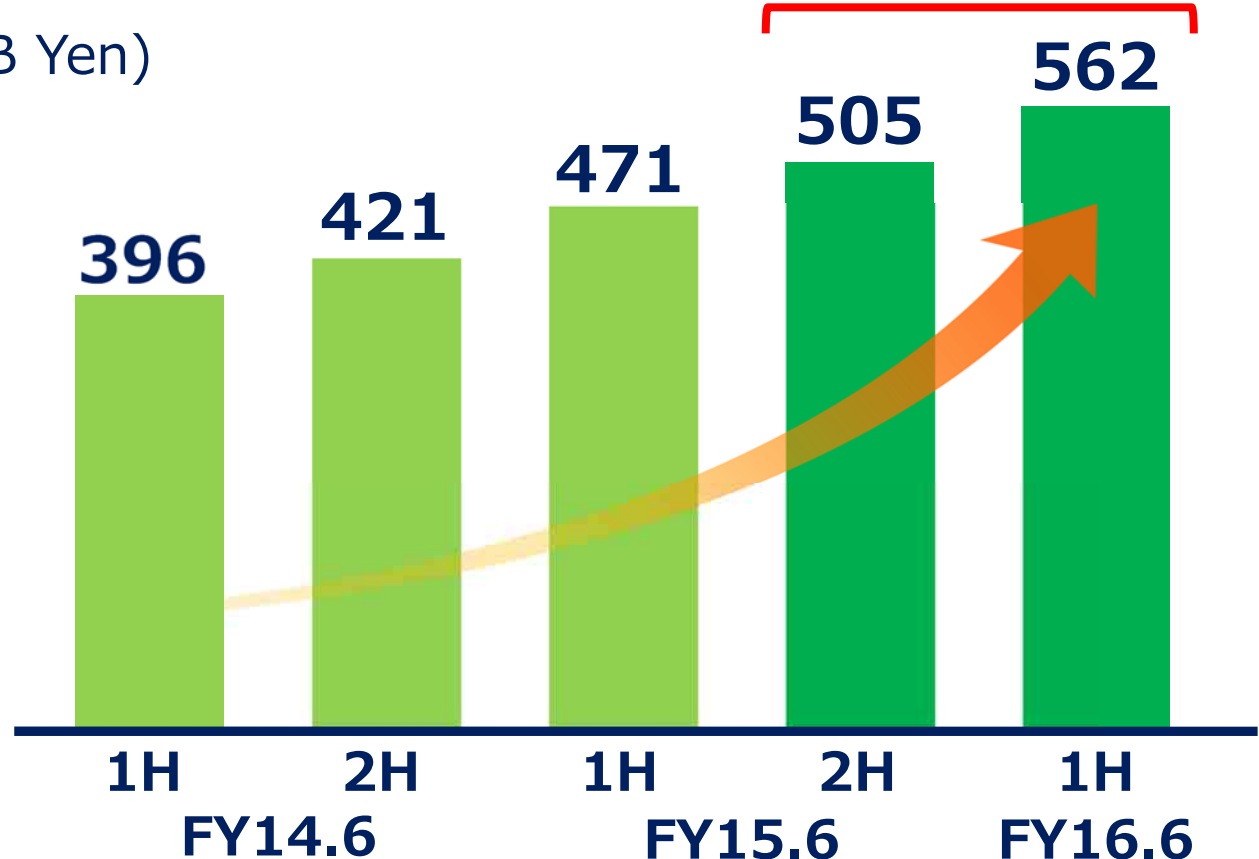
14 %

* METI "Domestic BtoC E-Commerce 2014"

Exceeded 1 trillion yen in annual transaction volume in 2015

【Amount of transactions】 **1** Trillion Yen

(B Yen)



Amount of transactions —
562 B Yen
 YoY **+19 %**

Segment sales —
8 B Yen
 YoY **+14 %**

Segment Op. income —
0.8 B Yen
 YoY **+42 %**

Cost reduction from reorganization helped boost op income. Managing group resources efficiently

(M Yen)	FY15.6 1H	FY16.6 1H	YoY
Transaction amount	471 (B Yen)	562 (B Yen)	+19.3%
Net sales	7,082	8,052	+13.7%
Op. income	591	842	+42.4%
Op. margin	8.4%	10.5%	
Income before income taxes	783	867	+10.7%

- Increased volume in digital content
- Growth in smartphone-based CtoC (auction, flea market)

- Reduced cost from reorg
- Managed group resources efficiently

- FX gain (depreciation of yen)
- Delivered incubation results in Asia

Growth Opportunities

- Next gen payment
- Alliance with major financial institutions
- Non-EC payment (new market)

EC payment 10 - 15% growth
(Organic growth in existing business)

Next gen payment

- Virtual currency payment including bitcoin
- Solution utilizing blockchain
- Financial smart contract

Alliance w/ major financial institutions

- Initiated OEM to customers including Resona bank and Orico card. Expand to financial business including lending business

Non-EC payment (new market)

- Current service lines w/ mkt size (T Yen)

Food (12)



Real estate (9)



Funeral (1.7)

セレモニーPAY

Driving school (0.4)



Global expansion (Asia)

FY15.6 Act FY16.6 Fcst

FY20.6

IV Media Incubation Segment

		Net Sales	Income Before Income Taxes
FY15.6	2Q(7-12)Actual	-	3,129 M JPY
FY16.6	2Q(7-12)Actual	-	1,194 M JPY
FY16.6	Full Year Forecast	-	2,500 M JPY

- ▶ **Kakaku.com, Inc.** (20%/Equity method affiliate)
Operates purchase support service, Kakaku.com and restaurant review and restaurant service, tabelog, etc.

kakaku.com

Investment profit on equity method

1.0 B Yen
YoY **+ 20 %**

Income before income taxes

1.1 B Yen
YoY **△ 62 %**

Special factor (Previous term)

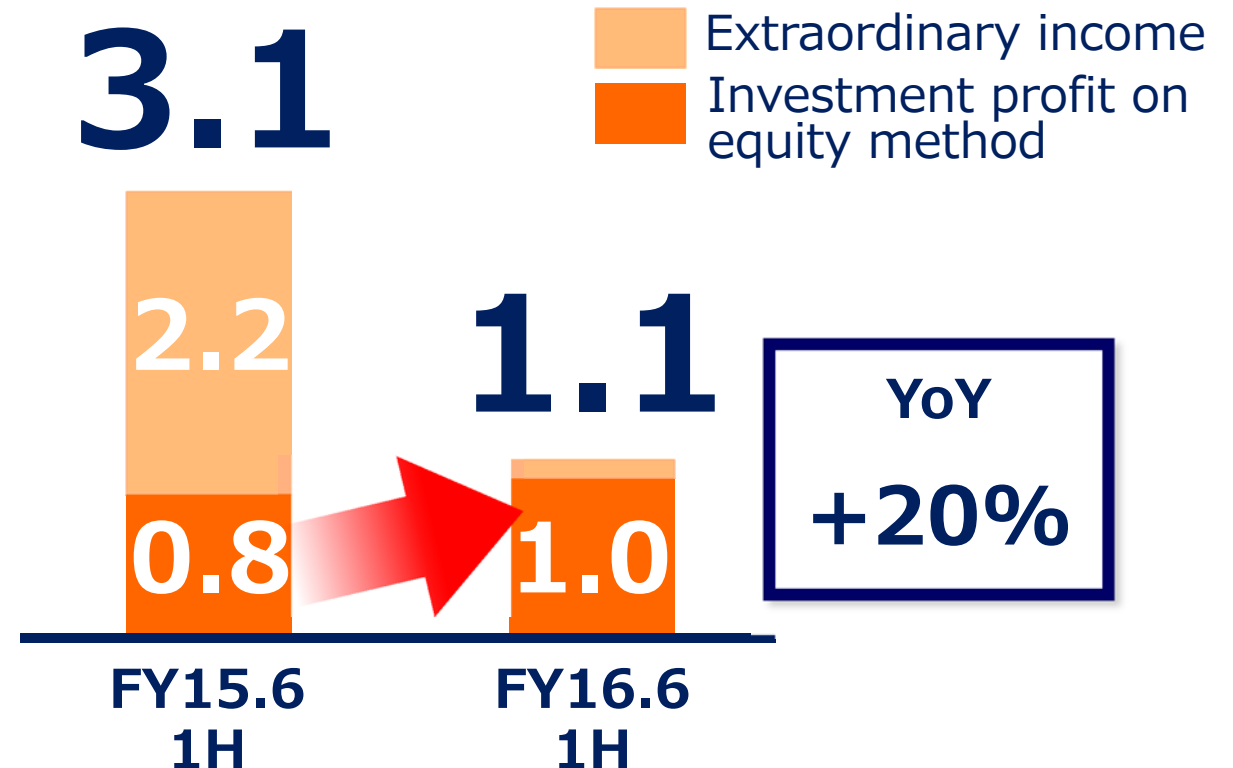
Extraordinary income as DG participated in share purchase by Kakaku via public tender offering

2.2 B Yen

Investment profit on equity method from Kakaku grew steadily

【Income before income taxes】

(B Yen)




Business Topics





OPEN INNOVATION
PLATFORM

Launching OPEN INNOVATION PLATFORM

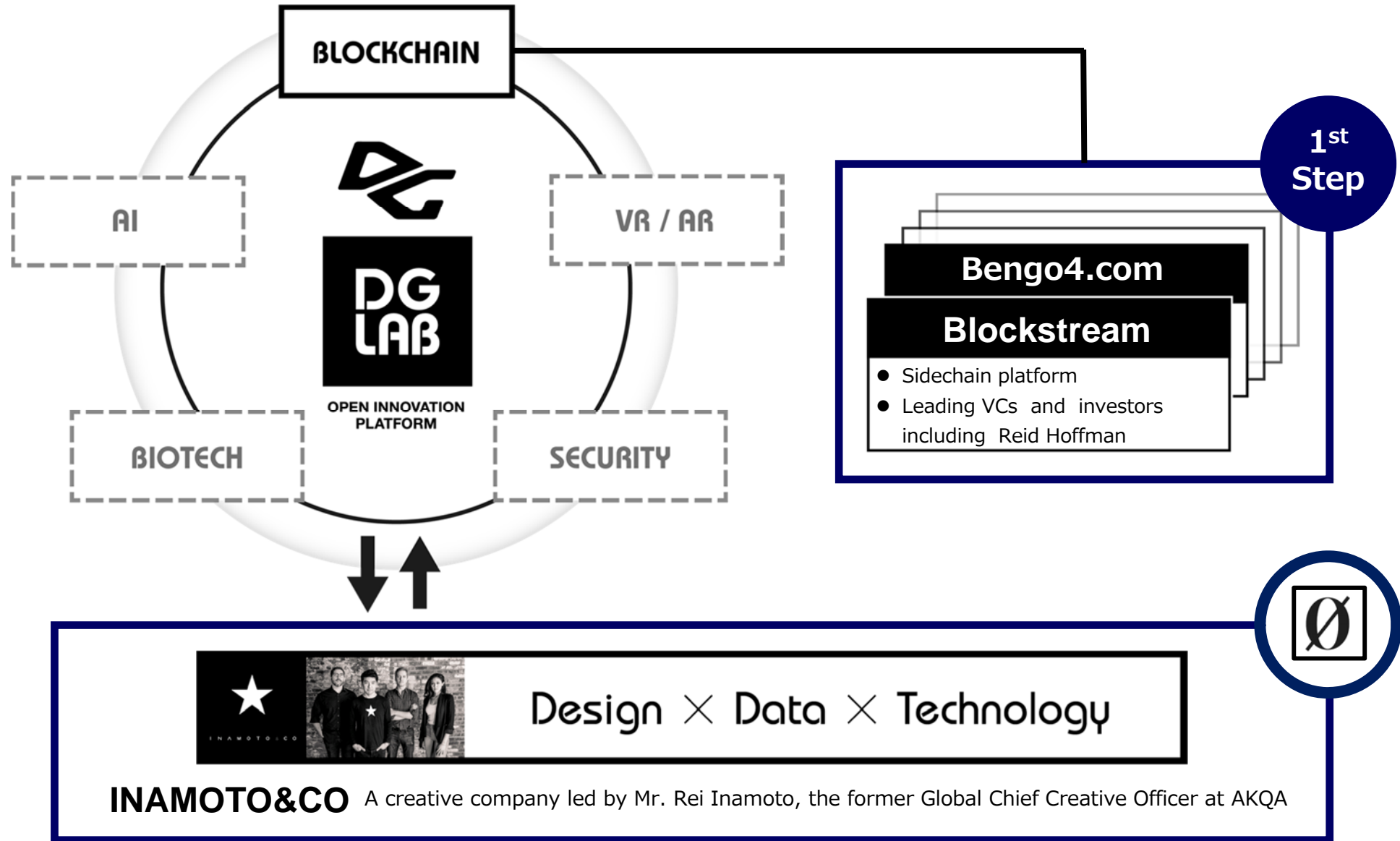
- ◆ Concept
- ◆ Grand design
- ◆  Capital alliance with global creative company / Branding and creative domains
- ◆ 1st step : Blockchain related projects / Initiatives in FinTech
⇒ Verification testing w/ Bengo4.com / Initiatives in LegalTech
- ◆ DG Lab and three factors



OPEN INNOVATION
PLATFORM

What is DG LAB ?

The wave of open innovation unleashed by the Internet swallows up not only the software but also the hardware industry and surges toward biotechnology. Technology is rapidly evolving in various fields. To flexibly respond to such technological changes, DG launches DG Lab as an R&D unit and will cultivate technology seeds that could become new businesses. DG Lab will engage in collaborative R&D with DG's portfolio companies globally to develop new products and services mainly in **Blockchain, VR/AR, AI, Security, and Biotech**. DG aims for becoming a **"Bauhaus of technology"** where leading engineers and designers gather and engage in development.



Aiming to integrate data science with creative beyond UX / UI with DG Lab

Invested as lead investor in renowned creator Rei Inamoto's
Business Invention Studio, Inamoto & Co.

【Inamoto & Co.】

- Mr. Rei Inamoto served as Global Chief Creative Officer at AKQA, a leading global digital agency
- DG invested \$ 2M (12.9%) as lead investor. Dispatch a director

【DG's initiatives】

- Drive Marketing and Incubation cross-functionally. Leverage DG network
- Give mentorship in creative field in collaboration with Open Network Lab



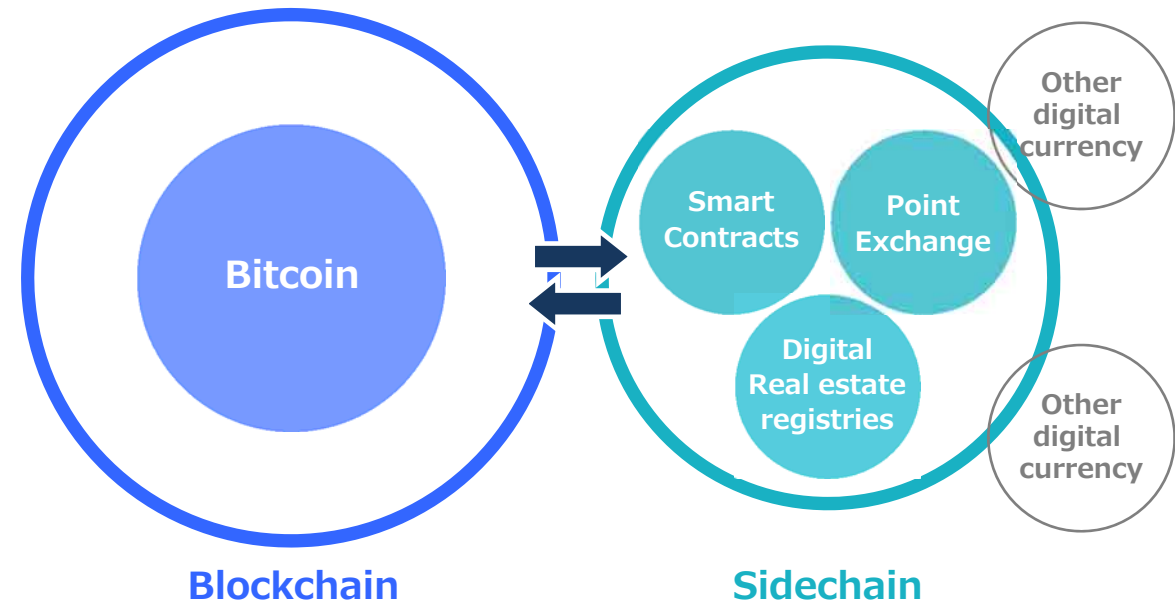
**Invested in blockchain developer Blockstream,
collaborating toward the verification testing of FinTech
related products**



Blockstream

- Founded in 2014. Members include **Bitcoin core developers and experts in security and encryption technology**
- Develops innovative **sidechains**, an open platform that enables cross-chain functionality
- **Raised \$ 76 M** from prominent investors / VCs including Reid Hoffman, the founder of LinkedIn

Sidechain has wide applications



**Applicable to a platform combining digital currencies,
smart contracts, point exchange, and digital real estate
registries**

Driving open innovation in collaboration with various companies utilizing blockchain technologies

Technology partners

FinTech

Collaborate with leading startups developing FinTech including Blockchain



Business partners

Legal, Financial

As a first step, to co-develop a smart contract system with Bengo4.com, a DG's portfolio



- Development and verification testing of FinTech related services
- Development of next gen payment platform, smart contract, etc

※ Plan to have an alliance with credit card companies, banks, and legal firms. To be officially announced once decided

DESIGN × DATA × TECHNOLOGY

DESIGN

World-class
Creative



DATA

Strategic stories &
Data science



TECHNOLOGY

New technologies that
enables an idea



**Driving a context design project that creates new values
as MT/FT frameworks change with O2O and IoT**

Appendix



FY16.6 2Q (Cumulative) Consolidated P/L Summary



JPY in Millions	FY15.6	FY16.6	YoY		FY16.6
	2Q (Act)	2Q (Act)	%	Amount	Full Year Forecast
Net sales	17,887	19,843	+10.9	+1,956	41,000
Operating income	1,737	1,626	-6.4	-111	5,200
Non-operating income	1,884	1,372	-27.1	-511	
Investment profit on equity method	905	1,060	+17.1	+155	
Foreign exchange gain	708	-	-	-708	
Non-operating expenses	159	304	1.9 x	+145	
Foreign exchange loss	-	112	-	+112	
Ordinary income	3,462	2,694	-22.2	-768	
Extraordinary income	2,302	117	-94.9	-2,184	
Gain on change in equity	2,234	99	-95.6	-2,134	
Gain on sales of investments in securities	68	-	-	-68	
Income before income taxes	5,693	2,802	-50.8	-2,891	8,200
Income taxes	1,988	1,004	-49.5	-983	
Net income attributable to owners of parent	3,506	1,796	-48.8	-1,709	5,500

FY16.6 2Q (Cumulative) Consolidated Segment P/L Summary



JPY in Millions	FY15.6	FY16.6	YoY		FY16.6
	2Q (Act)	2Q (Act)	%	Amount	Full Year Forecast
Net sales	17,887	19,843	+10.9	+1,956	41,000
IT Incubation Technology	3,023	2,557	-15.4	-465	7,000
MT Marketing Technology	7,781	9,232	+18.7	+1,451	18,500
FT Financial Technology	7,082	8,052	+13.7	+969	15,500
MI Media Incubation	-	-	-	-	-
Income before income taxes	5,693	2,802	-50.8	-2,891	8,200
IT Incubation Technology	1,120	849	-24.2	-270	4,100
MT Marketing Technology	524	560	+7.0	+36	1,390
FT Financial Technology	783	867	+10.7	+83	1,840
MI Media Incubation	3,129	1,194	-61.8	-1,935	2,500
(Gain on change in equity)	2,234	99	-95.6	-2,134	

Note: Income before income taxes per segment is based on figures prior to elimination or group deduction, etc

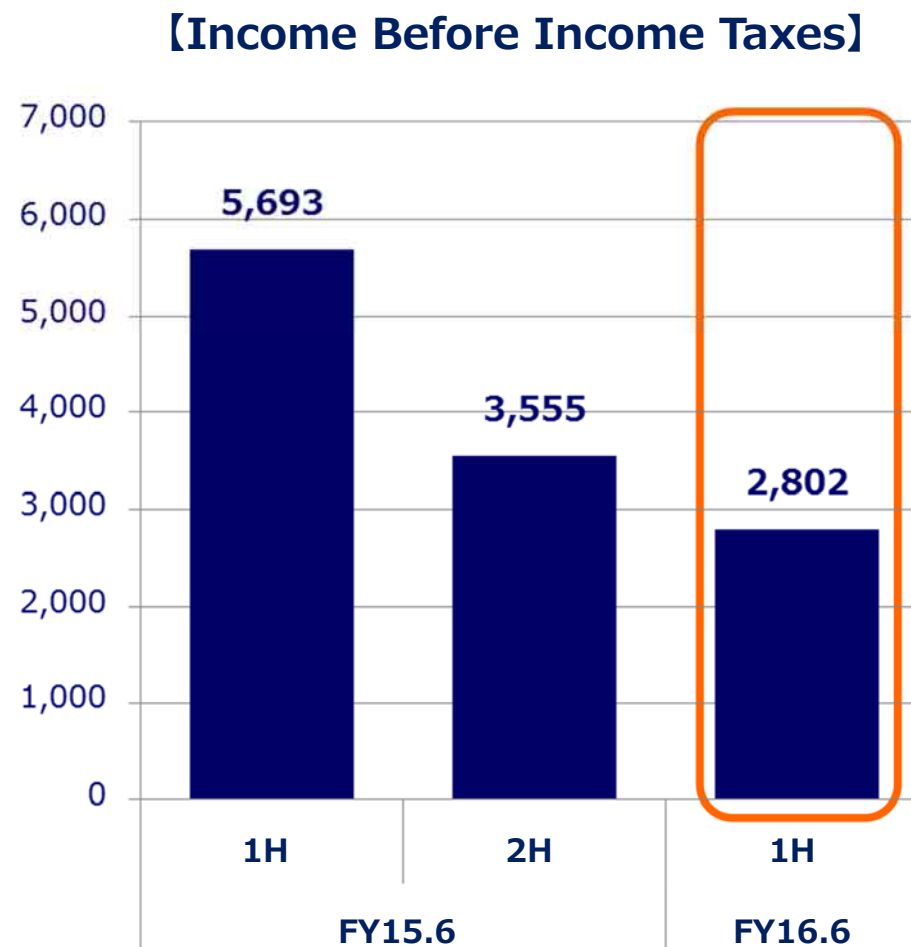
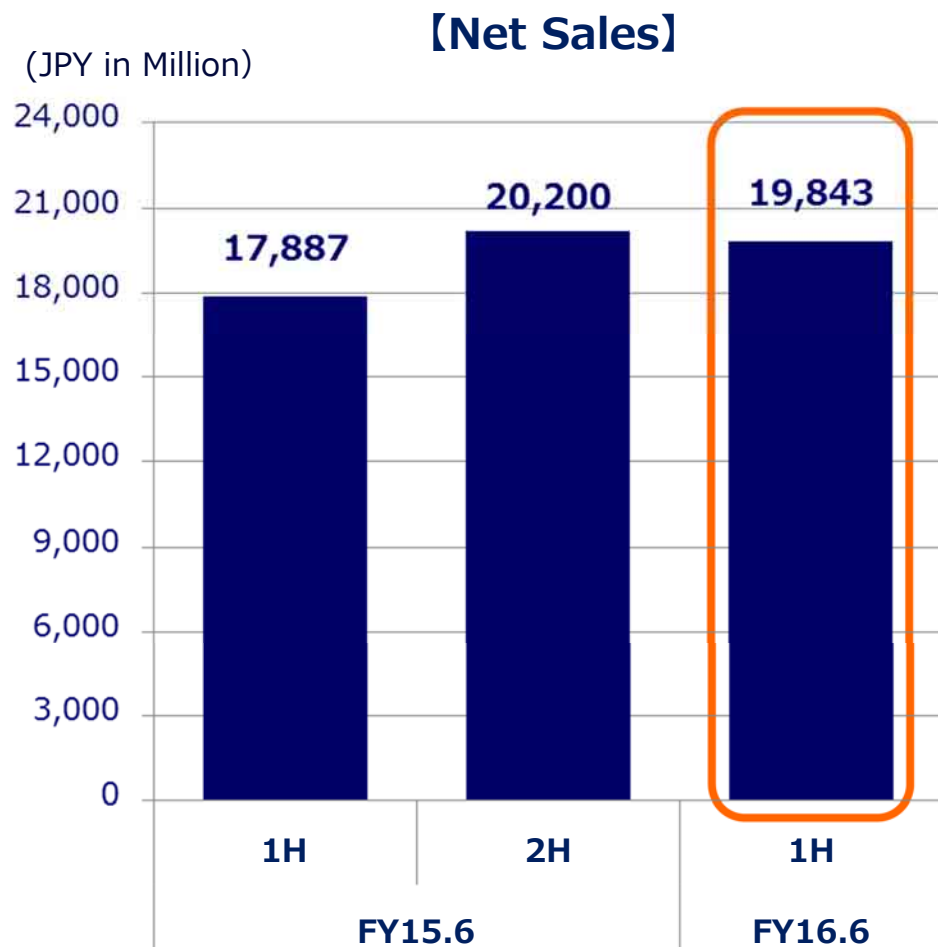
FY16.6 2Q Consolidated B/S Summary

JPY in Million	FY15.6	FY16.6 2Q	Difference	Reason for change / Remarks
Current assets	57,742	55,893	-1,849	
Cash and deposits	30,956	20,319	-10,636	Payout of corporate tax and dividends, repayment of borrowings, new investment, etc
Receivables	11,646	14,536	+2,890	Payment segment related items
Money held in trust	3,120	3,614	+494	Payment segment related items
Operational investment securities	8,208	13,217	+5,009	New investment, Mark-to-market for stock related to IPO, etc.
Fixed assets	28,752	28,155	-596	
Investment securities	14,220	13,685	-534	Partial reclassification to operating investment securities, increased investment profit on equity method, Mark-to-market for listed stocks, etc.
Goodwill	6,237	6,001	-235	
Total assets	86,495	84,048	-2,446	
Current liabilities	50,623	37,337	-13,286	
Deposits	20,998	27,055	+6,056	Payment segment related items
Short-term borrowing	23,533	5,207	-18,326	Partial repayment of borrowings of funds for share purchase of econtext ASIA
Fixed liabilities	6,805	17,601	+10,795	
Long-term borrowing	5,546	16,693	+11,146	Stable and long-term refinancing
Total liabilities	57,429	54,939	-2,490	
Net assets	29,065	29,109	+44	
Shareholders' equity	24,640	25,263	+622	
Common stock	7,426	7,435	+8	
Capital surplus	2,854	2,846	-7	
Retained earnings	14,429	15,050	+621	
Accumulated other comprehensive income	4,002	3,410	-591	
Unrealized gains on securities	2,585	2,110	-475	Unrealized gains after tax for securities with market value
Liabilities / Net assets	86,495	84,048	-2,446	



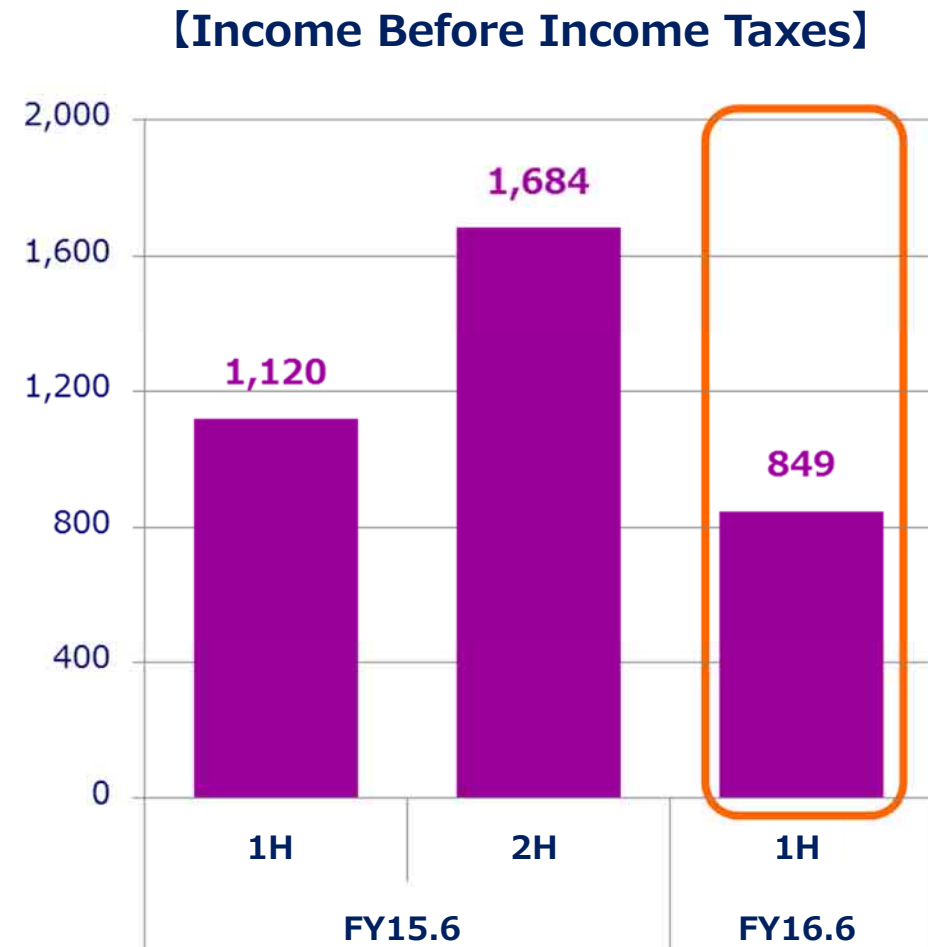
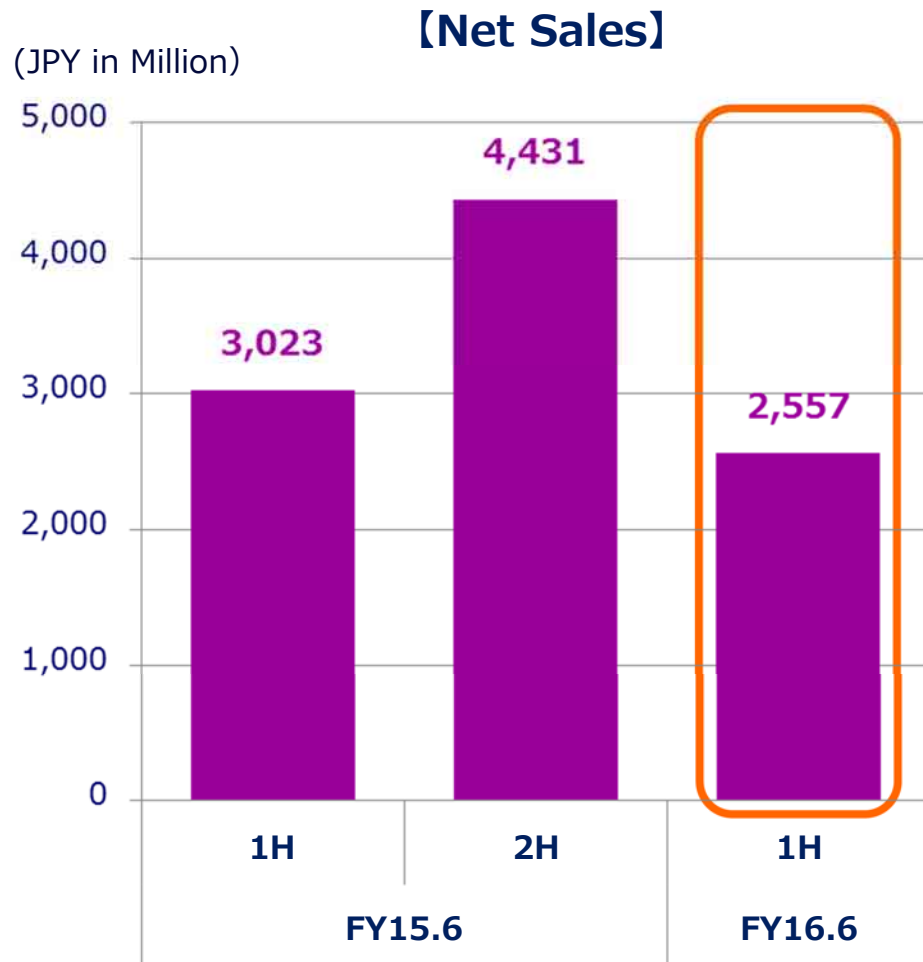
Achieved net sales +10% YoY in 1H FY16.6

~ Sales hit record high for 1H as MT/FT drove the growth ~

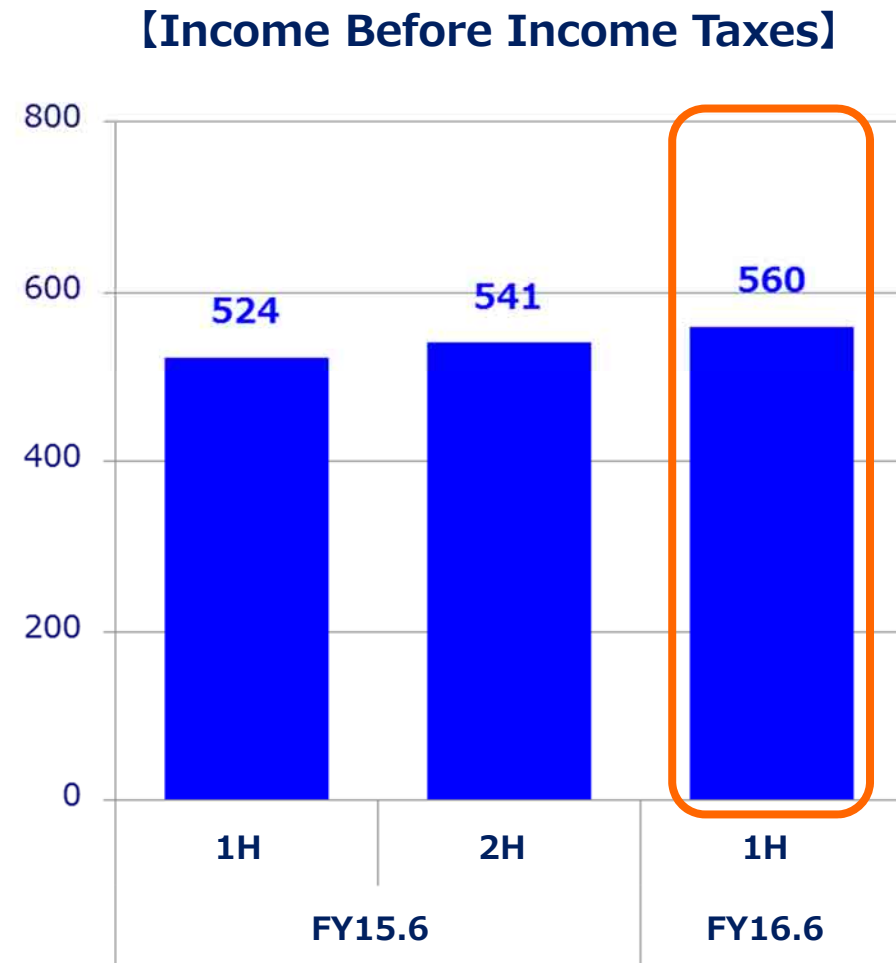
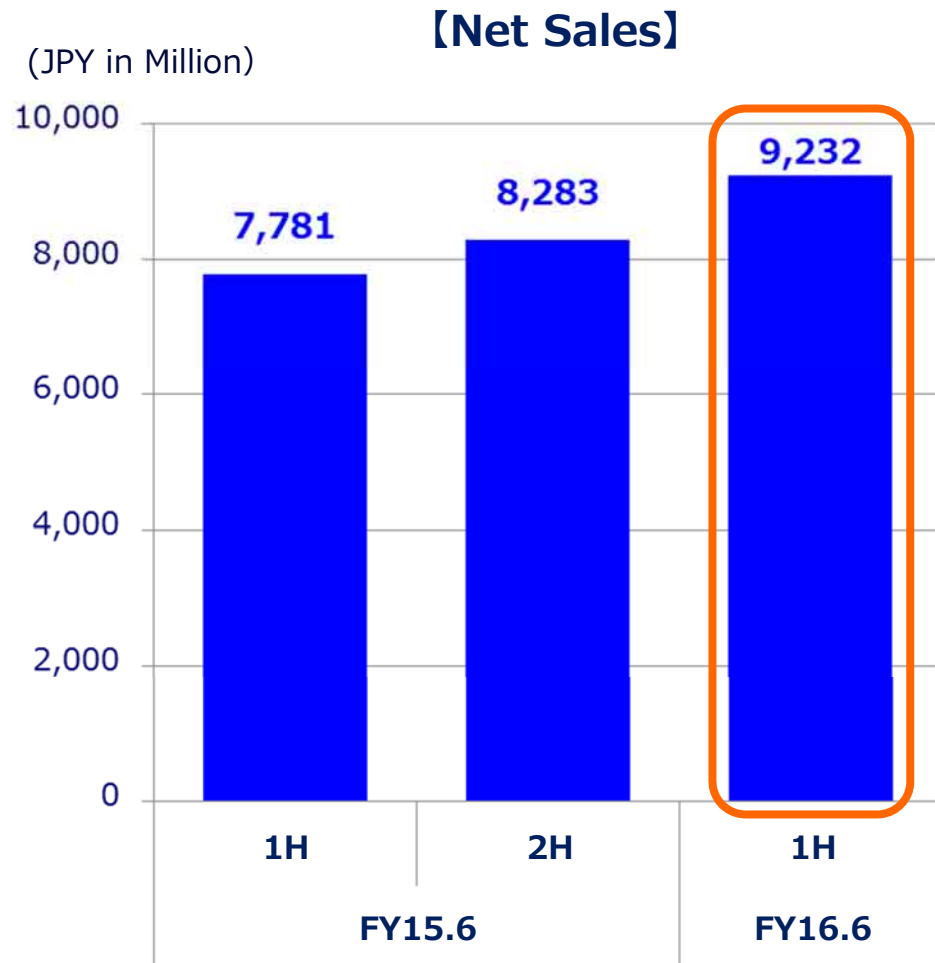


Partially sold stocks, delivering Incubation results

~ Enhanced domestic and global portfolio. Investment balance reached about 13 B Yen ~

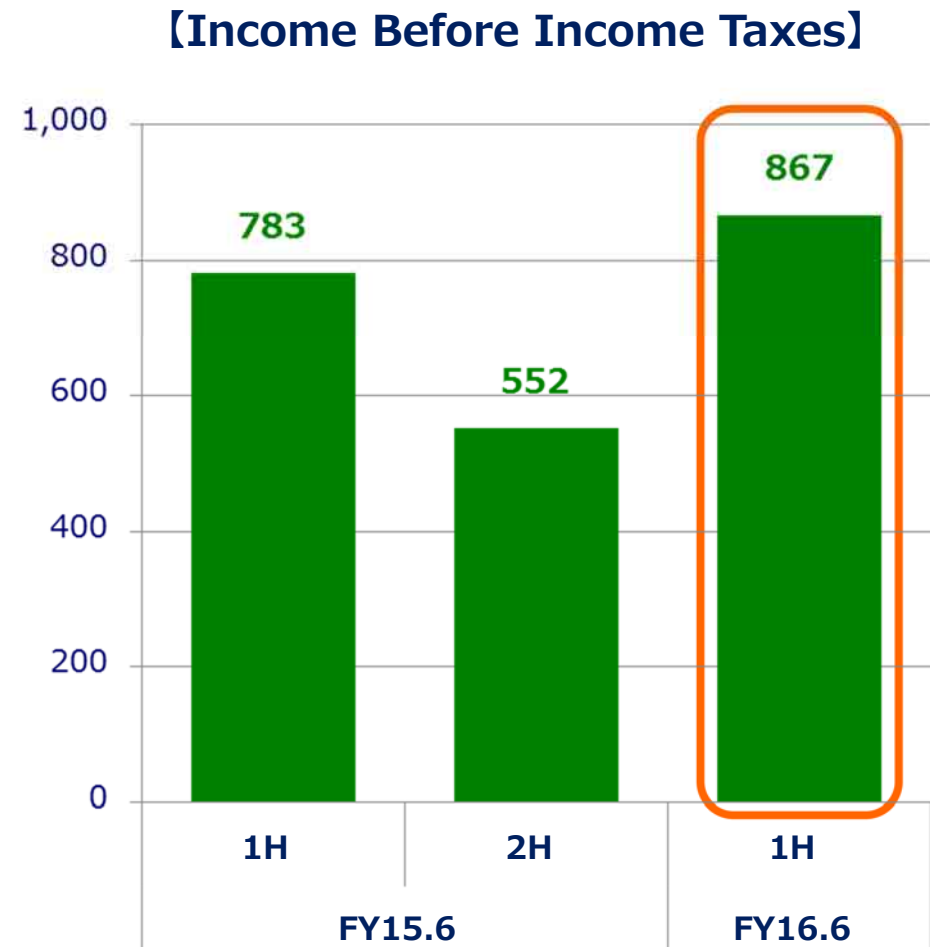
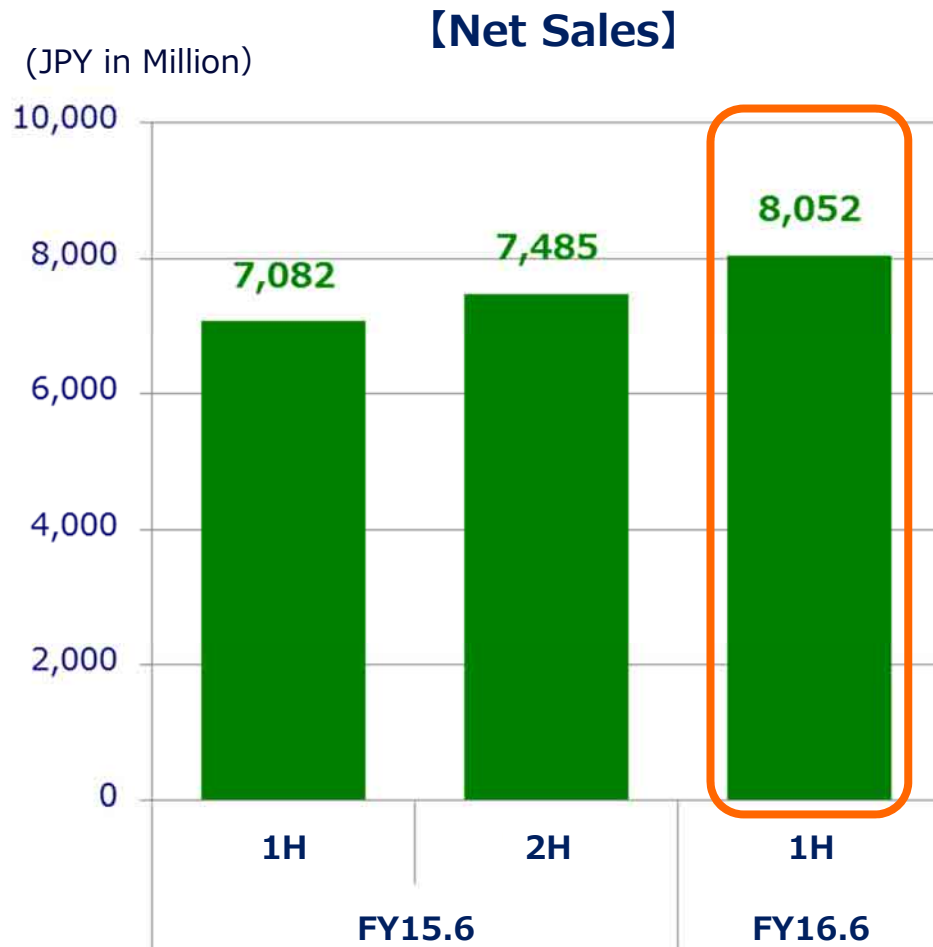


Smartphone ads for apps grew steadily along with performance-based ads
~ Aggressively initiated investment in data related business ~

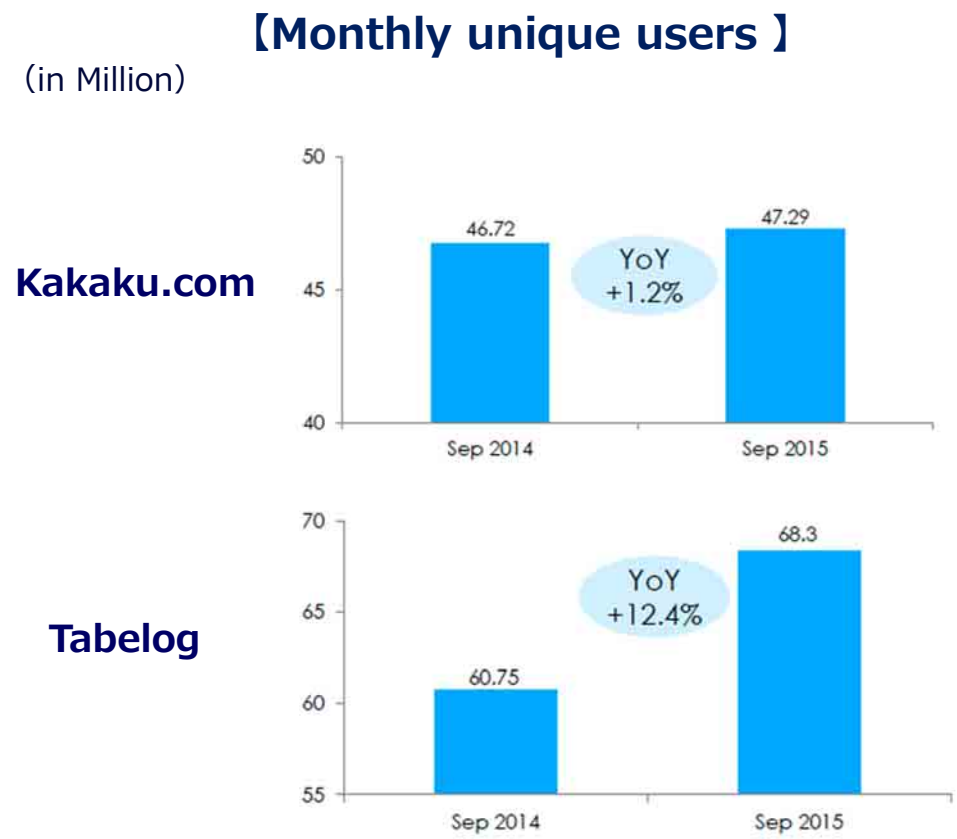
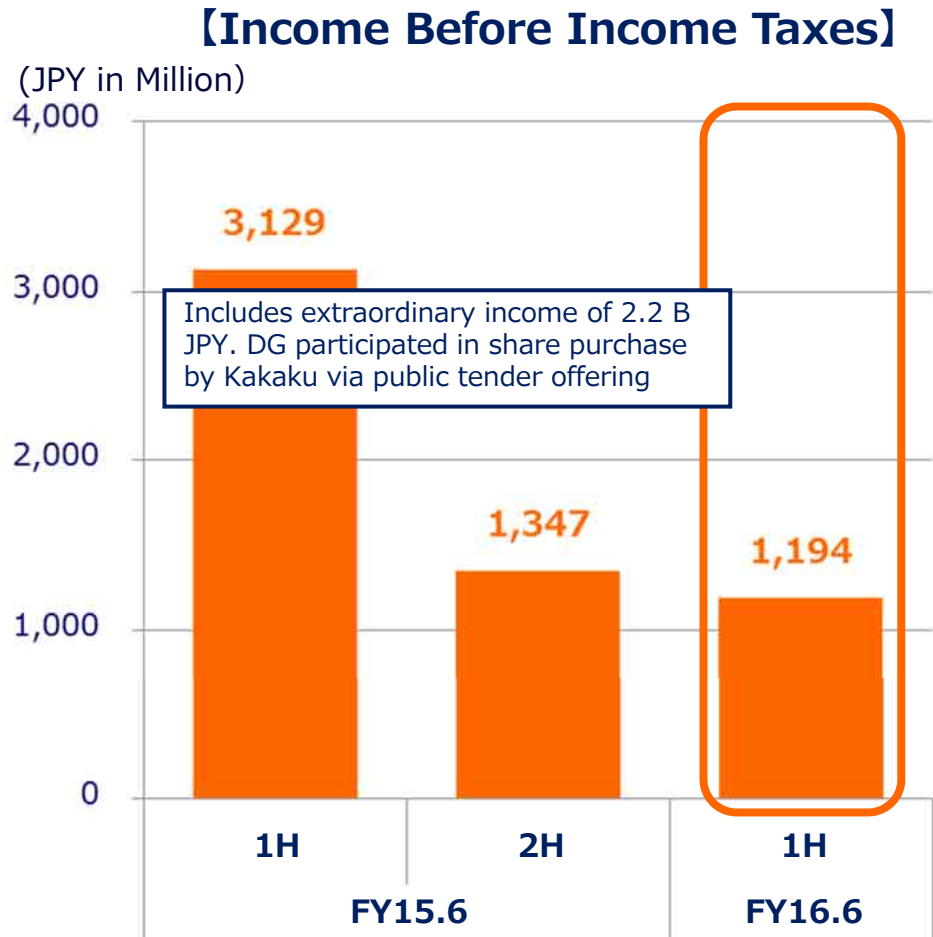


Transaction amount increased significantly with sales up +13 % YoY

~ Expanding business in non-EC (food, real estate, etc). Enhancing "Payment OEM" to financial institutions ~



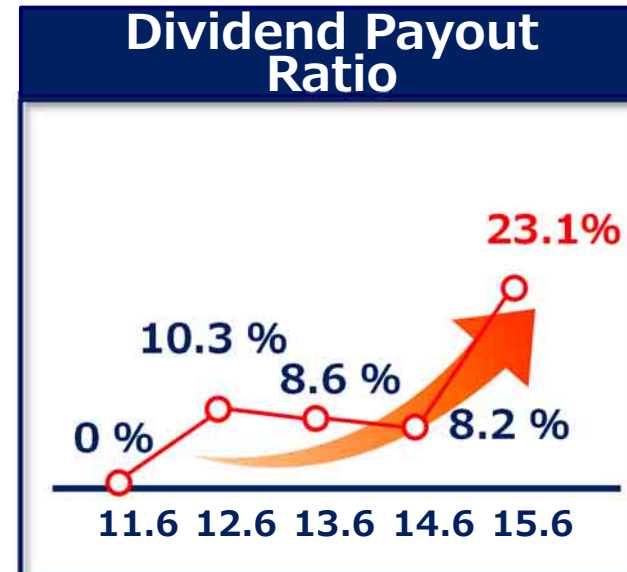
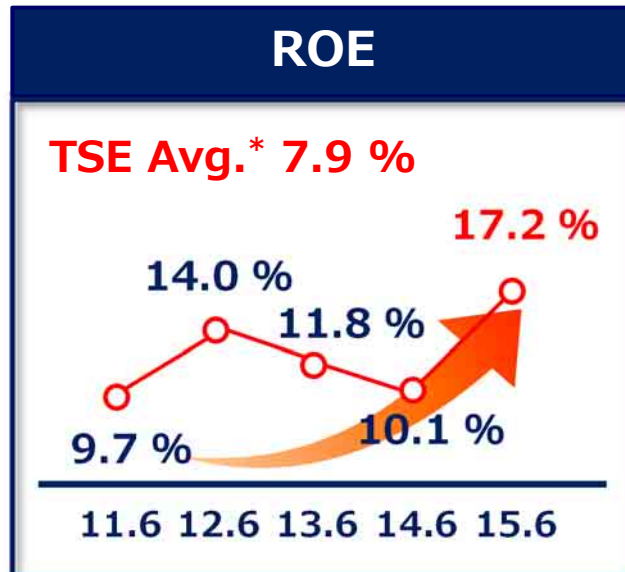
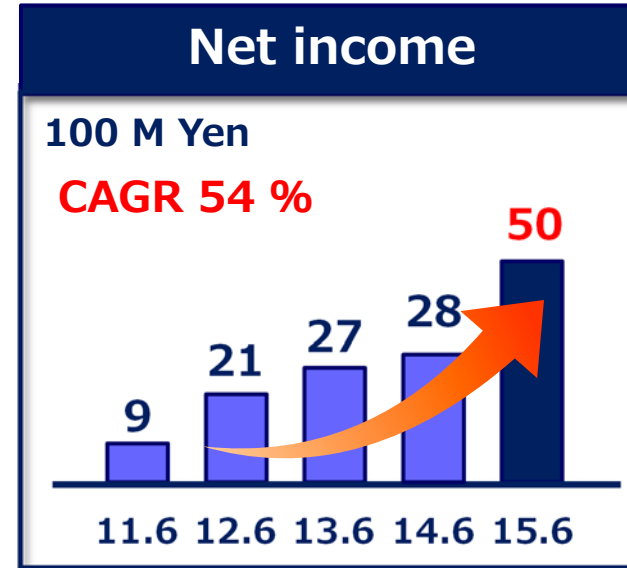
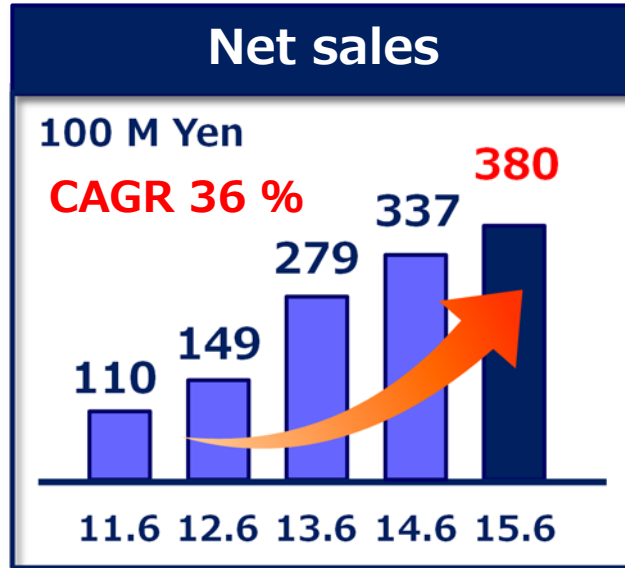
Investment profit on equity method from Kakaku grew steadily
 ~ Launching incubation business with media as a core ~



Note : The fiscal year for Kakaku.com, Inc ends in March while the one for DG ends in June.
 DG's 2Q earnings on a consolidated basis incur Kakaku's 2Q earnings (April - September).

Results Briefing for the Second Quarter of the Fiscal Year Ending March 31, 2016, Kakaku.com, Inc.

◆ Last 5 Year Financial Performance, Consolidated



Note) * Tokyo Stock Exchange, Summary of Earnings Digests by Listed Companies, Fiscal year ending Mar. 2015 (TSE 1st, 2nd, Mothers, and JASDAQ)

JPY in Million	FY15.6				FY16.6	
	1Q	2Q	3Q	4Q	1Q	2Q
Net sales	8,126	9,760	8,377	11,822	10,336	9,507
Operating income	390	1,347	461	2,610	1,425	201
Ordinary income	1,165	2,297	928	3,218	1,863	831
Income before income taxes	1,204	4,488	972	2,582	1,941	860
Net income attributable to owners of parent	772	2,733	571	1,004	1,196	599

Quarterly Segment Profit and Loss(Consolidated)

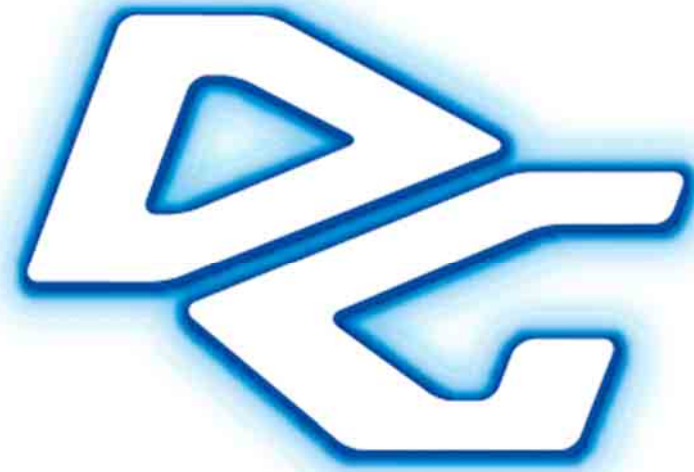


JPY in Million	FY15.6				FY16.6	
	1Q	2Q	3Q	4Q	1Q	2Q
Net sales	8,126	9,760	8,377	11,822	10,336	9,507
IT Incubation Technology	1,035	1,987	697	3,733	1,899	657
MT Marketing Technology	3,669	4,111	4,003	4,279	4,502	4,730
FT Financial Technology	3,421	3,661	3,675	3,810	3,934	4,118
MI Media Incubation	-	-	-	-	-	-
Income before income taxes	1,204	4,488	972	2,582	1,941	860
IT Incubation Technology	93	1,026	△ 8	1,692	1,064	△ 215
MT Marketing Technology	236	287	316	224	247	313
FT Financial Technology	391	391	377	174	413	453
MI Media Incubation	443	2,686	682	664	627	566

Note: Income before income taxes per segment is based on figures prior to elimination or group deduction, etc



Date		Title
2016.2.4	 Digital Garage	Digital Garage Invests in Blockchain Developer Blockstream, Collaborating Toward the Verification Testing of Financial Technology Products
2016.2.2	 DG INCUBATION	Digital Garage invests as lead investor in renowned creator Rei Inamoto's Business Invention Studio, Inamoto & Co.
2015.12.16	 Digital Garage	Digital Garage Invests in Illustration and 3DCG Service Whomor, Offers Cloud Sourcing Services to over 3000 Creators Internationally
2015.11.16	 Digital Garage	Digital Garage Invests in Curation Media Company "Digg" To Support its Japan Expansion
2015.11.5	 Digital Garage	Digital Garage's Open Network Lab to Deploy Full Scale Global Expansion between North America, Europe and Asia to Support Entrepreneurs Seeking to Expand Globally
2015.11.2	 Digital Garage	Digital Garage Invests in Monstar Lab, Inc, a Global Sourcing Business for IT Service Development
2015.10.23	 Digital Garage	Digital Garage hosts "THE NEW CONTEXT CONFERENCE 2015 San Francisco"
2015.10.2	 Open Network Lab	Open Network Lab Begins Accepting Applications for the 12th Batch of its Seed Accelerator Program
2015.9.15	 Digital Garage	In collaboration with Business France of the French Embassy Japan, Digital Garage will host "the 1st French Tech Tokyo" pitch session
2015.9.15	 Digital Garage	Digital Garage enters into exclusive business collaboration with Taiwan's HAPPY GO--the biggest point rewards card in Taiwan--to develop its business in Japan
2015.8.7	 Digital Garage	Kodansha and Digital Garage to Begin Full-Scale Expansion of Content Business in the U.S. Via Joint-Venture Kodansha Advanced Media Through Promoting Titles Including "Attack on Titan"



Digital Garage

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