

TOWCO., LTD.

Report for the 41st Business Term

(July 1, 2016 to June 30, 2017)

English Translation – Reference Purpose Only

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No representation or warranty is made with respect to its accuracy, and it has no legally binding effect.

If there is any discrepancy between the Japanese original and this translation, the Japanese original will always prevail.

| To Our Shareholders

We would like to extend our sincere gratitude to all shareholders for your continued support for TOW Co., Ltd.

On June 30, 2017, the Company concluded its 41st business term (from July 1, 2016 to June 30, 2017) and it is our pleasure to present you with the report for the term.

During the term under review, the Japanese economy experienced a moderate recovery of the employment and income environment in line with the improvement of corporate earnings. In the advertising industry to which the Group belongs, total domestic advertising expenditures in 2016 (from January to December) amounted to ¥6,288 billion (an increase of 1.9% over the previous year*¹), a slight rise compared with the previous year.

In this business environment, in order to address the ongoing shift in client needs from mass advertising to comprehensive promotion (including digital promotion), we implemented company-wide initiatives to strengthen capabilities of Interactive Promotion*² (IP) by combining new fields such as “social media promotion,” “experience-based events utilizing digital technologies including augmented reality (AR), virtual reality (VR) and apps,” “video production and promotion,” and “data-based PR promotion” centered on our strength of real-world promotion. These initiatives have yielded results, leading to orders in wider fields and an increased price per project.

Moreover, we implemented measures to strengthen sales at T2 Creative Co., Ltd. (T2C), our production subsidiary, and cultivated more external clients. As a result, T2C’s external sales and operating income grew greatly and contributed to the Group’s sales and profit.

As a result, consolidated net sales for the term under review amounted to ¥16,251 million (up 6.7% year-on-year), operating income was ¥1,811 million (up 7.9% year-on-year), recurring profit was ¥1,823 million (up 8.4% year-on-year) and profit attributable to owners of parent was ¥1,206 million (up 11.4% year-on-year), resulting in record-high sales and profit for the second consecutive year.

The Company will continue to implement vigorous sales activities and measures to strengthen IP capabilities with the aim of achieving growth which exceeds the market growth.

We would appreciate your continuous cooperation and support to the Group.

September 2017

Notes:

1. According to “Advertising Expenditures in Japan” released by DENTSU INC. in February 2017
2. IP: Promotion that encourages people to share and disseminate information on realistic memorable experiences created with digital technology and ideas.



President and Chief Executive Officer (CEO)



Business Summary

Business Summary by Sector

Sales Promotion

Consolidated sales for the term under review decreased 8.1% year-on-year despite receiving orders for promotional activities from a major cosmetics manufacturer, a major automotive manufacturer, and a major beverage manufacturer.

Public Relations

Consolidated sales for the term under review increased 23.1% year-on-year, as orders were received for seminars and announcement events from a major automotive manufacturer and a major convenience store operator.

Culture- and Sports-related Projects

Consolidated sales for the term under review increased 149.0% year-on-year, as orders were received from public offices for PR events to spread the appeal of Japanese foods and for projects related to international sporting events.

Materials Production

Consolidated sales for the term under review increased 28.9% year-on-year, as orders were received for in-store promotions from a major convenience store operator and office administration work from public offices.

Event Planning

Consolidated sales for the term under review increased 23.8% year-on-year.

Consolidated Sales Breakdown

Years ended June 30

Event category		2016		2017		Year-on-year (%)
		Amount (¥ million)	Percentage of total (%)	Amount (¥ million)	Percentage of total (%)	
Event production	Sales promotions	8,845	58.1	8,133	50.0	(8.1)
	Public relations	4,443	29.2	5,472	33.7	23.1
	Culture- and sport-related projects	208	1.4	520	3.2	149.0
	Exhibitions & shows	80	0.5	-	-	-
	Materials production	1,562	10.2	2,014	12.4	28.9
Subtotal		15,142	99.4	16,141	99.3	6.6
Revenue from event planning		88	0.6	109	0.7	23.8
Total		15,230	100.0	16,251	100.0	6.7

| Business Summary

Tasks Ahead

In Japan, a recovery trend is seen in total domestic advertising expenditures, and above all, year by year, there is a growing tendency for customers (advertisers) to have strong expectation for their promotions to have an immediate impact on sales. As a result, with regard to advertising expenditures for the non-mass media (i.e. media other than the four forms of mass media such as television: event promotion, digital, creative, outdoors, and sports), the trend toward expansion continues in terms of amount and shares, and this trend is particularly significant for the share of major advertising agencies of sales.

In addition, there have been changes in the way consumers buy things, as the purpose of consumption is shifting “from product value to experience value (from things to experiences).” In response to these trends, we will focus on implementing the following initiatives.

1. Producing Japan's first “experience design”

In an age of abundance, we have an environment in which people buy things not only for “obtaining the physical object,” but also for “experience value” gained through the selection process of the product. Within such an environment, the design of the whole brand experience including the ways things are bought, made, and sold is what we mean by “experience design.” Up until now we have strengthened our IP capabilities by combining “social media promotion,” “experience-based events utilizing digital technologies including augmented reality (AR), virtual reality (VR) and apps,” “video production and promotion,” and “data-based PR promotion,” etc. centered on our strength of real-world promotion. Going forward, we will further evolve these capabilities to become Japan's first “experience design” production company that offers promotions that combine data analysis and the verification of effect.

To facilitate implementation of this initiative, the Company established an “Experience Design Headquarters” on July 1, 2017. Having reorganized the former Interactive Promotion Office and the former Planning Team, we have established an organizational structure specialized in designing brand experiences to further enhance our solutions capabilities.

2. Growth strategy

We will implement the following measures for medium- to long-term growth.

1) Strengthening of Group management

We integrated the Kansai Branch and the Nagoya Branch of the Company on July 1, 2017 and also strengthened management of rapidly growing T2C, our wholly owned consolidated subsidiary, with the aim of further enhancing financial performance.

2) Enhancing our ability to compete by continuing periodic hiring of new university graduates

We will continue periodic hiring of 20 or more new university graduates every term to strengthen earnings power while maintaining profitability.

3) Active pursuit of projects related to 2020 Tokyo Olympics

Projects related to 2020 Tokyo Olympics have become vitalized in the run-up to the milestone of 1,000 days prior to the opening ceremony. We will endeavor to secure orders for these projects so as to enhance financial performance.

4) M&A and alliances

We will actively seek M&A opportunities, capital and business alliances, and other tie-up opportunities with companies in various fields including “real-world promotion,” “digital,” “video,” “PR,” and “data.”

Consolidated Balance Sheets

As of June 30, 2016 and 2017

Thousands of yen

	2016	2017		2016	2017
Assets			Liabilities		
Current assets:	9,514,659	10,215,373	Current liabilities:	3,207,781	3,190,516
Cash and deposits	3,187,208	3,496,857	Electronically recorded obligations – operating	-	98,114
Notes and accounts receivable	2,014,424	2,731,405	Accounts payable - trade	1,399,827	1,480,540
Prepaid expenses for ongoing projects	228,361	212,466	Short-term loans	840,000	840,000
Accounts receivable - other	3,899,283	3,603,326	Income taxes payable	332,437	291,150
Prepaid expenses	33,581	31,454	Reserve for employees' bonuses	34,972	22,662
Deferred tax assets	88,016	78,744	Other	600,545	458,049
Other	63,986	61,396	Long-term liabilities:	392,104	484,201
Allowance for doubtful accounts	(202)	(280)	Net defined benefit liability	215,182	220,105
Noncurrent assets:	1,339,614	1,592,361	Reserve for directors' retirement allowances	166,547	166,127
Tangible fixed assets:	99,031	91,405	Deferred tax liabilities	-	88,567
Building	28,969	31,562	Other	10,374	9,400
Tools, furniture and fixtures	62,177	52,888	Total liabilities	3,599,886	3,674,717
Leased assets	1,855	927	Net assets		
Land	6,027	6,027	Shareholders' equity:	6,899,551	7,565,918
Intangible assets:	7,775	17,617	Capital stock	948,994	948,994
Investment and others:	1,232,807	1,483,337	Capital surplus	1,085,436	1,089,236
Investments in securities	800,728	1,098,907	Retained earnings	5,257,438	5,908,725
Refundable insurance premium	270,118	222,681	Treasury stock	(392,318)	(381,038)
Deferred tax assets	8,846	9,729	Accumulated other comprehensive income:	285,561	491,993
Leasehold deposits	148,804	147,708	Net unrealized gains (losses) on other securities	332,175	538,608
Other	4,310	4,310	Revaluation reserve for land	(46,614)	(46,614)
			Subscription rights to shares:	55,635	60,151
			Non-controlling interests	13,638	14,953
			Total net assets	7,254,387	8,133,016
Total assets	10,854,274	11,807,734	Total liabilities and net assets	10,854,274	11,807,734

Note: The amounts listed above are rounded down to the nearest thousand yen.

Consolidated Statements of Income

Years ended June 30, 2016 and 2017

Thousands of yen

	2016	2017
Net sales	15,230,760	16,251,013
Cost of sales	12,756,183	13,634,183
Gross profit	2,474,577	2,616,829
Selling, general and administrative expenses	795,783	805,227
Operating income	1,678,793	1,811,601
Non-operating income	14,472	22,050
Non-operating expenses	10,741	10,456
Recurring profit	1,682,524	1,823,195
Extraordinary income	-	1,751
Extraordinary losses	-	4,624
Income before income taxes	1,682,524	1,820,322
Income taxes - current	600,618	605,825
Income taxes - deferred	(586)	6,506
Income before minority interests	1,082,492	1,207,990
Profit (loss) attributable to non-controlling interests	(1,061)	1,314
Profit attributable to owners of parent	1,083,553	1,206,675

Note: The amounts listed above are rounded down to the nearest thousand yen.

Consolidated Statement of Changes in Net Assets

Year ended June 30, 2017

Thousands of yen

	Shareholders' equity					Accumulated other comprehensive income			Subscription rights to shares	Non-controlling interests	Total net assets
	Capital stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity	Net unrealized gains (losses) on other securities	Revaluation reserve for land	Total accumulated other comprehensive income			
Balance as of July 1, 2016	948,994	1,085,436	5,257,438	(392,318)	6,899,551	332,175	(46,614)	285,561	55,635	13,638	7,254,387
Changes during the term											
Dividends			(555,389)		(555,389)						(555,389)
Profit attributable to owners of parent			1,206,675		1,206,675						1,206,675
Disposal of treasury stock		3,800		11,280	15,080						15,080
Net changes of items other than shareholders' equity						206,432	-	206,432	4,515	1,314	212,262
Total changes during the term	-	3,800	651,286	11,280	666,366	206,432	-	206,432	4,515	1,314	878,628
Balance as of June 30, 2017	948,994	1,089,236	5,908,725	(381,038)	7,565,918	538,608	(46,614)	491,993	60,151	14,953	8,133,016

Note: The amounts listed above are rounded down to the nearest thousand yen.

Consolidated Statements of Cash Flows

Years ended June 30, 2016 and 2017

Thousands of yen

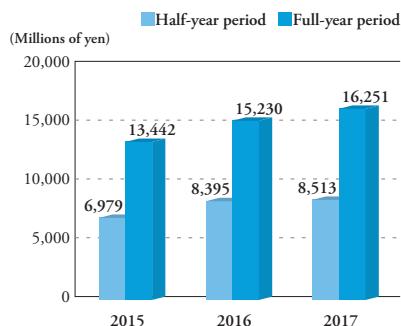
	2016	2017
Cash flows from operating activities	196,692	872,139
Cash flows from investing activities	174,921	(6,166)
Cash flows from financing activities	(412,093)	(556,323)
Net increase (decrease) in cash and cash equivalents	(40,479)	309,649
Cash and cash equivalents at beginning of year	3,227,688	3,187,208
Cash and cash equivalents at end of year	3,187,208	3,496,857

Note: The amounts listed above are rounded down to the nearest thousand yen.

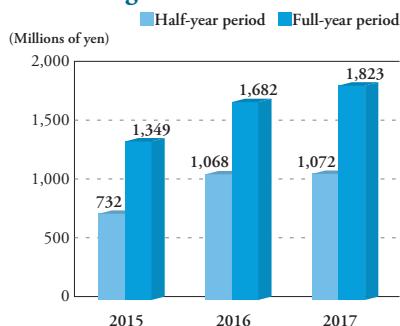
Financial Highlights (consolidated)

Years ended June 30

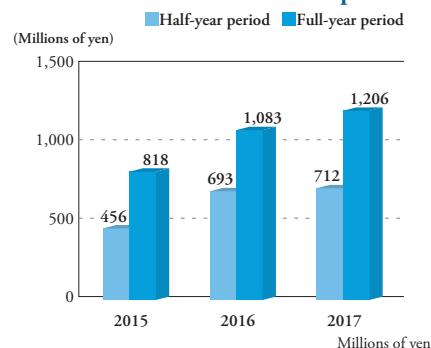
Net Sales



Recurring Profit



Profit attributable to owners of parent



	2015	2016	2017
Net sales	13,442	15,230	16,251
Operating income	1,335	1,678	1,811
Recurring profit	1,349	1,682	1,823
Profit attributable to owners of parent	818	1,083	1,206
Total assets	10,143	10,854	11,807
Net assets	6,335	7,254	8,133

Non-Consolidated Balance Sheets

As of June 30, 2016 and 2017

Thousands of yen

	2016	2017		2016	2017
Assets			Liabilities		
Current assets:	8,583,697	9,219,328	Current liabilities:	2,824,921	2,825,033
Cash and deposits	2,873,780	3,176,812	Electronically recorded obligations – operating	-	98,114
Notes receivable	615,789	723,043	Accounts payable - trade	1,043,656	1,207,884
Accounts receivable - trade	1,135,579	1,701,921	Accounts payable to affiliated company	167,394	118,881
Prepaid expenses for ongoing projects	184,281	178,196	Short-term loans	840,000	840,000
Accounts receivable - other	3,616,869	3,296,253	Lease obligations	974	974
Prepaid expenses	31,320	29,078	Accounts payable- other	245,192	130,704
Deferred tax assets	64,138	53,751	Income taxes payable	213,471	157,743
Other	62,139	60,552	Consumption taxes payable	50,156	35,375
Allowance for doubtful accounts	(202)	(280)	Accrued expenses	155,304	152,696
Noncurrent assets:	1,485,507	1,726,092	Advances payment for ongoing projects	64,325	47,215
Tangible fixed assets:	90,031	80,440	Deposits received	15,576	16,191
Building	26,607	29,598	Reserve for employees' bonuses	28,869	19,251
Tools, furniture and fixtures	55,540	43,887	Long-term liabilities:	365,207	456,079
Leased assets	1,855	927	Reserve for employees' retirement benefits	191,182	196,184
Land	6,027	6,027	Reserve for directors' retirement allowances	162,947	161,927
Intangible assets:	6,315	6,844	Lease obligations	974	-
Telephone subscription rights	2,652	2,652	Deferred tax liabilities	703	88,567
Software	3,662	4,191	Other	9,400	9,400
Investment and other assets:	1,389,161	1,638,807	Total liabilities	3,190,129	3,281,112
Investments in securities	800,728	1,098,907	Net assets		
Investments in stock of affiliated company	165,300	165,300	Shareholders' equity:	6,537,877	7,112,162
Membership rights	4,310	4,310	Capital stock	948,994	948,994
Refundable insurance premium	270,118	222,681	Capital surplus	1,085,436	1,089,236
Leasehold deposits	148,704	147,608	Additional paid-in capital	1,027,376	1,027,376
			Other capital surplus	58,059	61,859
			Gain on disposal of treasury stock	58,059	61,859
			Retained earnings	4,895,764	5,454,969
			Legal reserve	22,845	22,845
			Other retained earnings	4,872,919	5,432,124
			General reserve	3,800,000	4,200,000
			Retained earnings carried forward	1,072,919	1,232,124
			Treasury stock	(392,318)	(381,038)
			Valuation and translation adjustments:	285,561	491,993
			Net unrealized gains (losses) on other securities	332,175	538,608
			Revaluation reserve for land	(46,614)	(46,614)
			Subscription rights to shares:	55,635	60,151
Total assets	10,069,204	10,945,420	Total net assets	6,879,075	7,664,307
			Total liabilities and net assets	10,069,204	10,945,420

Note: The amounts listed above are rounded down to the nearest thousand yen.

Non-Consolidated Statements of Income

Years ended June 30, 2016 and 2017

Thousands of yen

	2016	2017
Net sales	13,586,805	14,309,118
Cost of sales	11,651,376	12,367,217
Gross profit	1,935,429	1,941,900
Selling, general and administrative expenses	765,097	776,913
Operating income	1,170,332	1,164,987
Non-operating income	248,749	350,508
Non-operating expenses	8,951	9,725
Recurring profit	1,410,130	1,505,769
Extraordinary income	-	1,751
Extraordinary losses	-	4,624
Income before income taxes	1,410,130	1,502,896
Income taxes - current	415,500	380,500
Income taxes - deferred	4,776	7,802
Net income	989,854	1,114,593

Note: The amounts listed above are rounded down to the nearest thousand yen.

Non-Consolidated Statement of Changes in Net Assets

Year ended June 30, 2017

Thousands of yen

	Shareholders' equity								Valuation and translation adjustments					Subscription rights to shares	Total net assets
	Capital stock	Capital surplus			Legal reserve	Retained earnings			Treasury stock	Total Shareholders' equity	Net unrealized gains (losses) on other securities	Revaluation reserve for land	Total valuation and translation adjustments		
Capital reserves	Other capital surplus	Gain on disposal of treasury stock	Total capital surplus	General reserve		Retained earnings carried forward	Total retained earnings								
Balance as of July 1, 2016	948,994	1,027,376	58,059	1,085,436	22,845	3,800,000	1,072,919	4,895,764	(392,318)	6,537,877	332,175	(46,614)	285,561	55,635	6,879,075
Changes during the term															
Provision of general reserve						400,000	(400,000)	-		-					-
Dividends							(555,389)	(555,389)		(555,389)					(555,389)
Net income							1,114,593	1,114,593		1,114,593					1,114,593
Disposal of treasury stock			3,800	3,800					11,280	15,080					15,080
Net changes of items other than shareholders' equity											206,432	-	206,432	4,515	210,948
Total changes during the term	-	-	3,800	3,800	-	400,000	159,204	559,204	11,280	574,284	206,432	-	206,432	4,515	785,232
Balance as of June 30, 2017	948,994	1,027,376	61,859	1,089,236	22,845	4,200,000	1,232,124	5,454,969	(381,038)	7,112,162	538,608	(46,614)	491,993	60,151	7,664,307

Note: The amounts listed above are rounded down to the nearest thousand yen.

Corporate Profile

As of June 30, 2017

Name: TOW Co., Ltd.

Head Office: Kamiyacho Central Place, 3-13, Toranomon 4-chome, Minato-ku, Tokyo 105-0001

Establishment: July 6, 1976

Paid-in Capital: ¥948,994 thousand

Number of Employees: 188

- Main Business Lines:**
1. Planning, production, construction, creation and management of events and seminars
 2. Construction of buildings and erection of other structures, interior decoration, and electrical installation work performed under contract for promotional and other events
 3. Planning and production of advertising and public relations events
 4. Planning and production of sales promotion campaigns, and planning and publishing of exhibitions and interior decoration
 5. Planning, production, sales, and import/export of advertisements, promotional goods and premiums related to sales promotion
 6. Planning, production and publishing of various printed matters

Directors and Corporate Auditors (As of September 26, 2017)

Chairman

President and Chief Executive Officer (CEO)

Managing Director and Corporate Officer

Director and Corporate Officer

Director and Corporate Officer

Outside Director

Corporate Officer

Corporate Officer

Corporate Officer

Outside Director, Audit and Supervisory Committee Member

Outside Director, Audit and Supervisory Committee Member

Outside Director, Audit and Supervisory Committee Member

Osamu Kawamura

Kouji Egusa

Kenichi Murazu

Hodaka Kosugi

Michihiro Akimoto

Daisuke Yanasawa

Takehito Masumori

Eiichi Ohtani

Kimihiko Ichikawa

Shintaro Hagiwara

Shigeo Yoshida

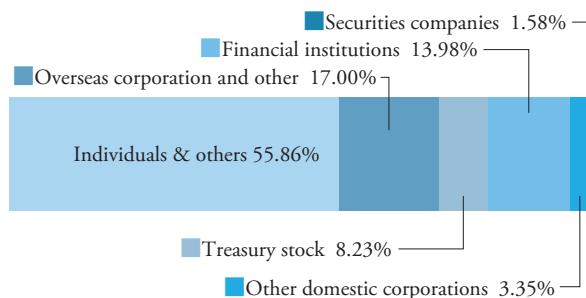
Toru Hirano

Stock Information

As of June 30, 2017

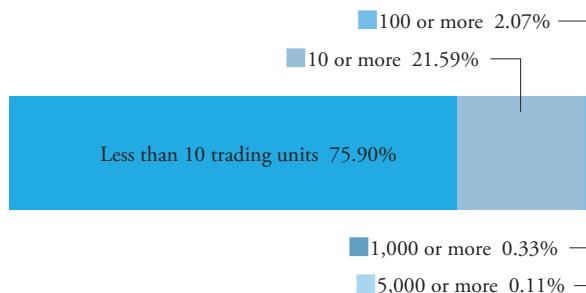
1. Number of shares authorized to be issued..... 60,000,000 shares
2. Number of shares issued..... 24,484,548 shares
3. Number of shareholders7,297

Shareholders by Type



Shareholders by Number of Shares Held

(Breakdown of shareholders by number of shares held.)



Shareholder Information

Business year: From July 1 to June 30 of the following year

Regular general meeting of shareholders: September every year

Administrator of stockholders' register and Mitsubishi UFJ Trust and Banking Corporation
special account management institution: 4-5, Marunouchi 1-chome, Chiyoda-ku, Tokyo

Contact: Corporate Agency Div., Mitsubishi UFJ Trust and Banking Corporation
7-10-11, Higashisuna, Koto-ku, Tokyo 137-8081, Japan

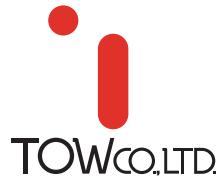
Tel (toll free number): 0120-232-711

Mailing address: Corporate Agency Div., Mitsubishi UFJ Trust and Banking Corporation
P.O. Box No. 29, Shin-Tokyo Post Office, 137-8081, Japan

One trading unit: 100 shares

Method of public notices: <http://www.tow.co.jp/>

(When electronic public notices are not possible due to accidents or other unavoidable reasons, they will be made available in the newspaper, the Nihon Keizai Shimbun.)



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<http://www.tow.co.jp/>