

# TOWCO.,LTD.

**Report for the 40th Business Term**

**(July 1, 2015 to June 30, 2016)**

**English Translation – Reference Purpose Only**

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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, 2016, the Company concluded its 40th business term (from July 1, 2015 to June 30, 2016) and it is our pleasure to present you with the report for the term.

During the term under review, while the Japanese economy was on a gradual recovery track during the first half due to improvement in the employment and income environment, in the second half, the outlook for the Japanese economy became increasingly uncertain due to the appreciation of the yen and low stock prices triggered by factors including concerns over a slowdown in the global economy stemming from stagnant growth in China and other emerging countries in Asia.

In the advertising industry to which the Group belongs, total domestic advertising expenditures in 2015 (from January to December) amounted to ¥6,171 billion (an increase of 0.3% over the previous year, according to “Advertising Expenditures in Japan” released by DENTSU INC. in February 2016), a slight increase over the previous year.

In such a business environment, sales activities focused on important customers and initiatives to strengthen the management of orders carried out in this term, continuing from the previous term, have achieved some favorable results.

In addition, company-wide initiatives to strengthen capabilities of Interactive Promotion (IP) combined with new measures to strengthen integrated promotion capabilities through collaborations with other industries have served as a catalyst for improved business results and corporate value. Furthermore, an increase in the contribution of consolidated operating income from the Company’s subsidiary T2 Creative Co., Ltd. has resulted in increased profitability of the overall Group.

\*IP: Promotion which encourages people to share and disseminate information on memorable experiences created with digital technology and ideas.

As a result, consolidated net sales for the term under review was ¥15,230 million (up 13.3% year-on-year), operating income was ¥1,678 million (up 25.7% year-on-year), recurring profit was ¥1,682 million (up 24.6% year-on-year) and profit attributable to owners of parent was ¥1,083 million (up 32.4% year-on-year), resulting in record-high sales and profits.

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

September 2016



President and Chief Executive Officer (CEO)



# Business Summary

## Business Summary by Sector

### Sales Promotion

Consolidated sales for the term under review increased 18.6% year-on-year, as orders were received for Tokyo Motor Show and Tokyo Game Show-related projects, as well as a round-the-country promotional tour from a major beverage manufacturer.

### Public Relations

Consolidated sales for the term under review increased 3.0% year-on-year, as orders were received for internal training from a major convenience store, and announcement events and renewal projects for permanent exhibitions from public offices and organizations.

### Culture- and Sports-related Projects

Consolidated sales for the term under review decreased 6.1% year-on-year, despite orders were received from public offices for PR events to spread the appeal of Japanese foods overseas.

### Exhibitions & Shows

Consolidated sales for the term under review decreased 40.8% year-on-year, despite orders were received from public offices for Milan Expo-related projects.

### Materials Production

Consolidated sales for the term under review increased 28.0% year-on-year, as orders grew for novelty production for a major life insurance company and office administration work from public offices.

### Event Planning

Consolidated sales for the term under review increased 0.6% year-on-year.

## Consolidated Sales Breakdown

Years ended June 30

Event category		2015		2016		Year-on-year (%)
		Amount (¥ million)	Percentage of total (%)	Amount (¥ million)	Percentage of total (%)	
Event production	Sales promotions	7,461	55.5	8,845	58.1	18.6
	Public relations	4,312	32.1	4,443	29.2	3.0
	Culture- and sport-related projects	222	1.6	208	1.4	(6.1)
	Exhibitions & shows	136	1.0	80	0.5	(40.8)
	Materials production	1,220	9.1	1,562	10.2	28.0
Subtotal		13,354	99.3	15,142	99.4	13.4
Revenue from event planning		88	0.7	88	0.6	0.6
Total		13,442	100.0	15,230	100.0	13.3

# | Business Summary

## Tasks Ahead

In Japan, a recovery trend is seen in total domestic advertising expenditures, and among others, year by year, there is a growing tendency of 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.” 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 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 through collaborations with other industries 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.

### 2. Planning and producing new “sporting experiences”

In order to respond to the expansion of the market for business related to sports toward 2020, Sports is good. Inc. was established on June 1, 2016 through a three-way joint investment by the Company, 1-10HOLDINGS, Inc., and GEEK PICTURES INC. The three companies will work together to create “new sporting experiences” in an aim to solve the various issues of clients.

# Consolidated Balance Sheets

As of June 30, 2014 and 2015

Thousands of yen

	2015	2016		2015	2016
<b>Assets</b>			<b>Liabilities</b>		
<b>Current assets:</b>	<b>8,831,944</b>	<b>9,514,659</b>	<b>Current liabilities:</b>	<b>3,431,699</b>	<b>3,207,781</b>
Cash and deposits	3,227,688	3,187,208	Accounts payable - trade	1,600,568	1,399,827
Notes and accounts receivable	2,451,445	2,014,424	Short-term loans	840,000	840,000
Prepaid expenses for ongoing projects	216,931	228,361	Income taxes payable	312,365	332,437
Accounts receivable - other	2,765,350	3,899,283	Reserve for employees' bonuses	46,684	34,972
Prepaid expenses	64,008	33,581	Other	632,080	600,545
Deferred tax assets	92,965	88,016	<b>Long-term liabilities:</b>	<b>376,605</b>	<b>392,104</b>
Other	13,776	63,986	Net defined benefit liability	211,495	215,182
Allowance for doubtful accounts	(222)	(202)	Reserve for directors' retirement allowances	160,861	166,547
<b>Noncurrent assets:</b>	<b>1,311,716</b>	<b>1,339,614</b>	Other	4,248	10,374
<b>Tangible fixed assets:</b>	<b>90,579</b>	<b>99,031</b>	<b>Total liabilities</b>	<b>3,808,304</b>	<b>3,599,886</b>
Building	33,551	28,969	<b>Net assets</b>		
Tools, furniture and fixtures	48,216	62,177	<b>Shareholders' equity:</b>	<b>6,241,817</b>	<b>6,899,551</b>
Leased assets	2,783	1,855	Capital stock	948,994	948,994
Land	6,027	6,027	Capital surplus	1,085,436	1,085,436
<b>Intangible assets:</b>	<b>7,425</b>	<b>7,775</b>	Retained earnings	4,599,646	5,257,438
<b>Investment and others:</b>	<b>1,213,711</b>	<b>1,232,807</b>	Treasury stock	(392,260)	(392,318)
Investments in securities	683,384	800,728	<b>Accumulated other comprehensive income:</b>	<b>63,342</b>	<b>285,561</b>
Refundable insurance premium	266,464	270,118	Net unrealized gains (losses) on other securities	109,956	332,175
Deferred tax assets	98,436	8,846	Revaluation reserve for land	(46,614)	(46,614)
Leasehold deposits	161,116	148,804	<b>Subscription rights to shares:</b>	<b>30,196</b>	<b>55,635</b>
Other	4,310	4,310	<b>Non-controlling interests</b>	<b>-</b>	<b>13,638</b>
<b>Total assets</b>	<b>10,143,660</b>	<b>10,854,274</b>	<b>Total net assets</b>	<b>6,335,356</b>	<b>7,254,387</b>
			<b>Total liabilities and net assets</b>	<b>10,143,660</b>	<b>10,854,274</b>

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

# Consolidated Statements of Income

Years ended June 30, 2015 and 2016

Thousands of yen

	2015	2016
<b>Net sales</b>	<b>13,442,241</b>	<b>15,230,760</b>
Cost of sales	11,372,474	12,756,183
<b>Gross profit</b>	<b>2,069,766</b>	<b>2,474,577</b>
Selling, general and administrative expenses	734,694	795,783
<b>Operating income</b>	<b>1,335,071</b>	<b>1,678,793</b>
Non-operating income	25,070	14,472
Non-operating expenses	10,150	10,741
<b>Recurring profit</b>	<b>1,349,991</b>	<b>1,682,524</b>
Extraordinary income	2,348	-
<b>Income before income taxes</b>	<b>1,352,339</b>	<b>1,682,524</b>
Income taxes - current	548,703	600,618
Income taxes - deferred	(14,848)	(586)
<b>Income before minority interests</b>	<b>818,483</b>	<b>1,082,492</b>
<b>Profit (loss) attributable to non-controlling interests</b>	<b>-</b>	<b>(1,061)</b>
<b>Profit attributable to owners of parent</b>	<b>818,483</b>	<b>1,083,553</b>

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

# Consolidated Statement of Changes in Net Assets

Year ended June 30, 2016

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, 2015	948,994	1,085,436	4,599,646	(392,260)	6,241,817	109,956	(46,614)	63,342	30,196	-	6,335,356
Changes during the term											
Dividends			(425,761)		(425,761)						(425,761)
Profit attributable to owners of parent			1,083,553		1,083,553						1,083,553
Acquisition of treasury stock				(57)	(57)						(57)
Net changes of items other than shareholders' equity						222,219	-	222,219	25,439	13,638	261,297
Total changes during the term	-	-	657,791	(57)	657,734	222,219	-	222,219	25,439	13,638	919,031
Balance as of June 30, 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

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

# Consolidated Statements of Cash Flows

Years ended June 30, 2015 and 2016

Thousands of yen

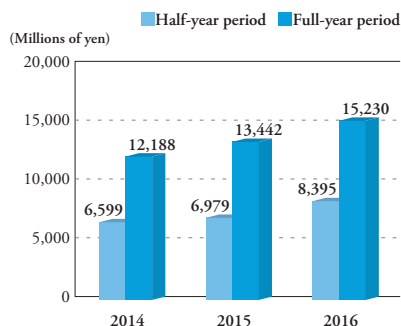
	2015	2016
Cash flows from operating activities	1,287,997	196,692
Cash flows from investing activities	(67,435)	174,921
Cash flows from financing activities	(189,467)	(412,093)
Net increase (decrease) in cash and cash equivalents	1,031,094	(40,479)
Cash and cash equivalents at beginning of year	2,196,593	3,227,688
Cash and cash equivalents at end of year	3,227,688	3,187,208

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

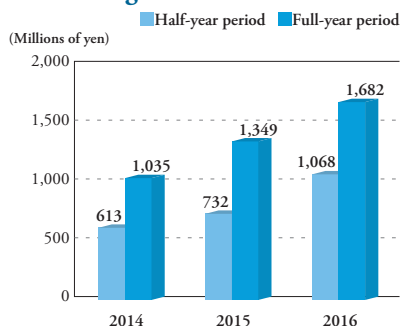
## Financial Highlights (consolidated)

Years ended June 30

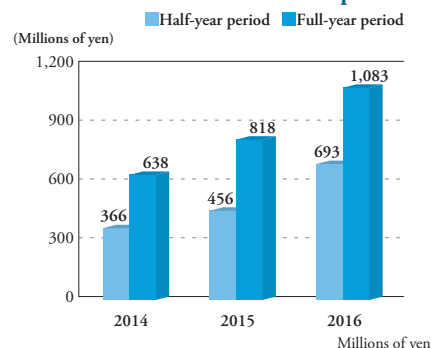
### Net Sales



### Recurring Profit



### Profit attributable to owners of parent



Millions of yen

	2014	2015	2016
Net sales	12,188	13,442	15,230
Operating income	1,026	1,335	1,678
Recurring profit	1,035	1,349	1,682
Profit attributable to owners of parent	638	818	1,083
Total assets	8,979	10,143	10,854
Net assets	5,644	6,335	7,254

# Non-Consolidated Balance Sheets

As of June 30, 2015 and 2016

Thousands of yen

	2015	2016		2015	2016
<b>Assets</b>			<b>Liabilities</b>		
<b>Current assets:</b>	<b>8,240,115</b>	<b>8,583,697</b>	<b>Current liabilities:</b>	<b>3,261,871</b>	<b>2,824,921</b>
Cash and deposits	2,981,267	2,873,780	Accounts payable - trade	1,224,447	1,043,656
Notes receivable	514,374	615,789	Accounts payable to affiliated company	384,649	167,394
Accounts receivable - trade	1,734,522	1,135,579	Short-term loans	840,000	840,000
Prepaid expenses for ongoing projects	169,026	184,281	Lease obligations	974	974
Accounts receivable - other	2,693,276	3,616,869	Accounts payable- other	238,226	245,192
Prepaid expenses	61,333	31,320	Income taxes payable	214,211	213,471
Deferred tax assets	73,957	64,138	Consumption taxes payable	100,714	50,156
Other	12,580	62,139	Accrued expenses	158,560	155,304
Allowance for doubtful accounts	(222)	(202)	Advances payment for ongoing projects	41,829	64,325
<b>Noncurrent assets:</b>	<b>1,440,127</b>	<b>1,485,507</b>	Deposits received	14,814	15,576
<b>Tangible fixed assets:</b>	<b>79,331</b>	<b>90,031</b>	Reserve for employees' bonuses	43,443	28,869
Building	30,709	26,607	<b>Long-term liabilities:</b>	<b>350,989</b>	<b>365,207</b>
Tools, furniture and fixtures	39,810	55,540	Reserve for employees' retirement benefits	192,579	191,182
Leased assets	2,783	1,855	Reserve for directors' retirement allowances	154,161	162,947
Land	6,027	6,027	Lease obligations	1,948	974
<b>Intangible assets:</b>	<b>6,242</b>	<b>6,315</b>	Deferred tax liabilities	-	703
Telephone subscription rights	2,652	2,652	Other	2,300	9,400
Software	3,589	3,662	<b>Total liabilities</b>	<b>3,612,860</b>	<b>3,190,129</b>
<b>Investment and other assets:</b>	<b>1,354,553</b>	<b>1,389,161</b>	<b>Net assets</b>		
Investments in securities	683,384	800,728	<b>Shareholders' equity:</b>	<b>5,973,842</b>	<b>6,537,877</b>
Investments in stock of affiliated company	150,000	165,300	Capital stock	948,994	948,994
Membership rights	4,310	4,310	Capital surplus	1,085,436	1,085,436
Refundable insurance premium	266,464	270,118	Additional paid-in capital	1,027,376	1,027,376
Deferred tax assets	89,378	-	Other capital surplus	58,059	58,059
Leasehold deposits	161,016	148,704	Gain on disposal of treasury stock	58,059	58,059
			Retained earnings	4,331,672	4,895,764
			Legal reserve	22,845	22,845
			Other retained earnings	4,308,827	4,872,919
			General reserve	3,500,000	3,800,000
			Retained earnings carried forward	808,827	1,072,919
			Treasury stock	(392,260)	(392,318)
			<b>Valuation and translation adjustments:</b>	<b>63,342</b>	<b>285,561</b>
			Net unrealized gains (losses) on other securities	109,956	332,175
			Revaluation reserve for land	(46,614)	(46,614)
			<b>Subscription rights to shares:</b>	<b>30,196</b>	<b>55,635</b>
			<b>Total net assets</b>	<b>6,067,381</b>	<b>6,879,075</b>
<b>Total assets</b>	<b>9,680,242</b>	<b>10,069,204</b>	<b>Total liabilities and net assets</b>	<b>9,680,242</b>	<b>10,069,204</b>

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



# Non-Consolidated Statements of Income

Years ended June 30, 2015 and 2016

Thousands of yen

	2015	2016
<b>Net sales</b>	<b>12,196,673</b>	<b>13,586,805</b>
Cost of sales	10,528,032	11,651,376
<b>Gross profit</b>	<b>1,668,641</b>	<b>1,935,429</b>
Selling, general and administrative expenses	706,878	765,097
<b>Operating income</b>	<b>961,762</b>	<b>1,170,332</b>
Non-operating income	166,262	248,749
Non-operating expenses	9,369	8,951
<b>Recurring profit</b>	<b>1,118,655</b>	<b>1,410,130</b>
Extraordinary income	2,348	-
<b>Income before income taxes</b>	<b>1,121,003</b>	<b>1,410,130</b>
Income taxes - current	403,000	415,500
Income taxes - deferred	(7,520)	4,776
<b>Net income</b>	<b>725,524</b>	<b>989,854</b>

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, 2016

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	Total capital surplus		General reserve	Retained earnings carried forward	Total retained earnings							
Balance as of July 1, 2015	948,994	1,027,376	58,059	1,085,436	22,845	3,500,000	808,827	4,331,672	(392,260)	5,973,842	109,956	(46,614)	63,342	30,196	6,067,381
Changes during the term															
Provision of general reserve						300,000	(300,000)	-		-					-
Dividends							(425,761)	(425,761)		(425,761)					(425,761)
Net income							989,854	989,854		989,854					989,854
Acquisition of treasury stock									(57)	(57)					(57)
Net changes of items other than shareholders' equity											222,219	-	222,219	25,439	247,658
Total changes during the term	-	-	-	-	-	300,000	264,092	564,092	(57)	564,034	222,219	-	222,219	25,439	811,693
Balance as of June 30, 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

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

# Corporate Profile

As of June 30, 2016

**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:** 169

- 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, 2016)

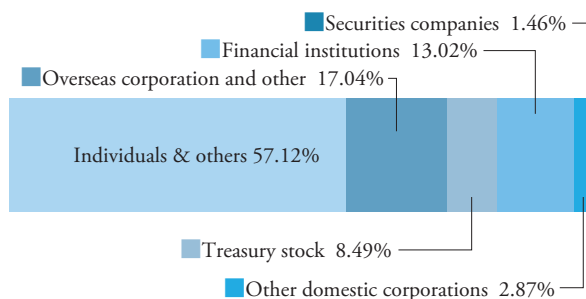
Chairman	<b>Osamu Kawamura</b>
President and Chief Executive Officer (CEO)	<b>Kouji Egusa</b>
Senior Managing Director and Corporate Officer	<b>Michihiro Akimoto</b>
Managing Director and Corporate Officer	<b>Takehito Masumori</b>
Managing Director and Corporate Officer	<b>Kenichi Murazu</b>
Outside Director	<b>Daisuke Yanasawa</b>
Corporate Officer	<b>Isao Miyake</b>
Corporate Officer	<b>Hodaka Kosugi</b>
Outside Director, Audit and Supervisory Committee Member	<b>Haruo Kurami</b>
Outside Director, Audit and Supervisory Committee Member	<b>Shintaro Hagiwara</b>
Outside Director, Audit and Supervisory Committee Member	<b>Shigeo Yoshida</b>

# Stock Information

As of June 30, 2016

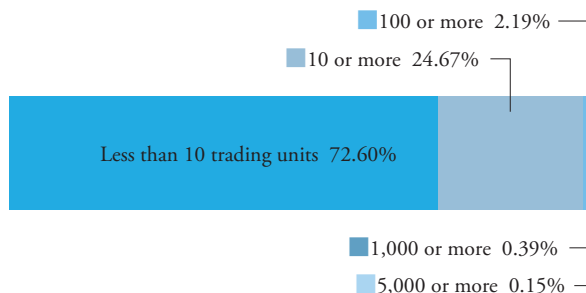
1. Number of shares authorized to be issued..... 60,000,000 shares
2. Number of shares issued..... 24,484,548 shares
3. Number of shareholders .....6,178

## Shareholders by Type



## Shareholders by Number of Shares Held

(Breakdown of shareholders by number of shares held.)



## Shareholder Information

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**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/Mailing address:** 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

**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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