

# TOWCO.,LTD.

**Report for the 42nd Business Term**

**(July 1, 2017 to June 30, 2018)**

**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, 2018, the Company concluded its 42nd business term (from July 1, 2017 to June 30, 2018) and it is our pleasure to present you with the report for the term.

During the term under review, the Japanese economy remained on a moderate recovery track in line with the improvement of corporate earnings and the employment environment. In the advertising industry to which the Group belongs, total domestic advertising expenditures in 2017 (from January to December) amounted to ¥6,390.7 billion (an increase of 1.6% over the previous year\*<sup>1</sup>), a slight rise compared with the previous year.

In this business environment, continued from the previous year, in order to address the ongoing shift in client needs from mass advertising to comprehensive promotion (including digital promotion), we have been promoting initiatives to become “Japan’s first experience design\*<sup>2</sup> production company” 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, and profitability also improved.

As a result, consolidated net sales for the term under review amounted to ¥16,688 million (up 2.7% year-on-year), operating income was ¥1,825 million (up 0.8% year-on-year), recurring profit was ¥1,873 million (up 2.7% year-on-year) and profit attributable to owners of parent was ¥1,207 million (up 0.1% year-on-year).

Compared with the initial plan (announced on August 8, 2017), net sales of ¥16,688 million were ¥15 million or 0.1% higher, recurring profit of ¥1,873 million was ¥21 million or 1.2% higher, and profit attributable to owners of parent of ¥1,207 million was ¥32 million or 2.7% higher. Although net sales, recurring profit, and profit attributable to owners of parent exceeded the initial plan, operating income of ¥1,825 million was ¥25 million or 1.4% lower because of poor profitability of certain large projects.

Nevertheless, net sales, operating income, recurring profit, and profit attributable to owners of parent were the highest ever for the third consecutive year.

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

September 2018

Notes:

1. According to “Advertising Expenditures in Japan” released by DENTSU INC. in February 2018
2. To design a mechanism offering consumers a brand experience that captivates them and encourages them to become fans of the brand and maximizing the spread and sharing of the brand experience through diverse media, centering on social media



President and Chief Executive Officer (CEO)



# Business Summary

## Business Summary by Sector

### Sales Promotion

Consolidated sales for the term under review increased 13.4% year-on-year owing to the receiving of orders for nationwide touch & try events for new terminals from a major mobile phone manufacturer and for total promotional activities for public comprehensive leisure based on the fusion of the Internet and the real world.

### Public Relations

Consolidated sales for the term under review decreased 4.0% year-on-year, although orders were received for announcement events, award ceremonies, receptions, and other events from a major telecommunications company that operates a social networking service and from a major automotive manufacturer.

### Culture- and Sports-related Projects

Consolidated sales for the term under review increased 11.1% year-on-year, as orders were received for major events in the run-up to the Tokyo Olympics in 2020, from public offices for PR events to spread the appeal of Japanese foods, and for other events.

### Materials Production

Consolidated sales for the term under review decreased 23.5% year-on-year. Although orders were received for production of Web content from a major automotive manufacturer and for office administration work from public offices, this decrease was partly due to lower production of goods for sales promotion campaigns, following the surge in the previous year.

### Event Planning

Consolidated sales for the term under review decreased 14.0% year-on-year.

## Consolidated Sales Breakdown

Years ended June 30

Event category		2017		2018		Year-on-year (%)
		Amount (¥ million)	Percentage of total (%)	Amount (¥ million)	Percentage of total (%)	
Event production	Sales promotions	8,133	50.0	9,221	55.3	13.4
	Public relations	5,472	33.7	5,253	31.5	(4.0)
	Culture- and sport-related projects	520	3.2	578	3.5	11.1
	Exhibitions & shows	-	-	-	-	-
	Materials production	2,014	12.4	1,541	9.2	(23.5)
Subtotal		16,141	99.3	16,594	99.4	2.8
Revenue from event planning		109	0.7	94	0.6	(14.0)
Total		16,251	100.0	16,688	100.0	2.7

# | 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 in terms of the composition of the sales of major advertising agencies.

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. To become “Japan’s first experience design production company”

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 interactive promotion (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.

### 2. Growth strategy

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

#### 1) To become “Japan’s first experience design production company”

By utilizing the interactive promotion (IP) unit and equipping social media research functions throughout the Company, we will develop data utilization and menu according to issues in the pursuit of accuracy of experience design and yielding of results.

#### 2) Active pursuit of projects related to 2020 Tokyo Olympics

We will continue our efforts to actively secure orders for projects related to 2020 Tokyo Olympics so as to enhance financial performance.

#### 3) Maintaining high profitability and increasing the workforce to enhance financial performance

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

#### 4) Alliances and M&A

We will actively seek capital and business alliances, M&A opportunities, 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, 2017 and 2018

Thousands of yen

	2017	2018		2017	2018
<b>Assets</b>			<b>Liabilities</b>		
<b>Current assets:</b>	<b>10,215,373</b>	<b>11,357,739</b>	<b>Current liabilities:</b>	<b>3,190,516</b>	<b>3,702,687</b>
Cash and deposits	3,496,857	4,098,717	Electronically recorded obligations – operating	98,114	21,080
Electronically recorded monetary claims – operating	282,822	2,252,935	Accounts payable - trade	1,480,540	1,847,078
Notes and accounts receivable	2,448,582	3,420,460	Short-term loans	840,000	840,000
Prepaid expenses for ongoing projects	212,466	245,683	Income taxes payable	291,150	369,470
Accounts receivable - other	3,603,326	1,178,417	Reserve for employees' bonuses	22,662	28,682
Prepaid expenses	31,454	31,242	Other	458,049	596,377
Deferred tax assets	78,744	92,275	<b>Long-term liabilities:</b>	<b>484,201</b>	<b>520,615</b>
Other	61,396	38,524	Net defined benefit liability	220,105	229,802
Allowance for doubtful accounts	(280)	(516)	Reserve for directors' retirement allowances	166,127	175,051
<b>Noncurrent assets:</b>	<b>1,592,361</b>	<b>1,697,691</b>	Deferred tax liabilities	88,567	102,086
<b>Tangible fixed assets:</b>	<b>91,405</b>	<b>84,285</b>	Other	9,400	13,675
Building	31,562	32,178	<b>Total liabilities</b>	<b>3,674,717</b>	<b>4,223,302</b>
Tools, furniture and fixtures	52,888	46,079	<b>Net assets</b>		
Leased assets	927	0	<b>Shareholders' equity:</b>	<b>7,565,918</b>	<b>8,189,404</b>
Land	6,027	6,027	Capital stock	948,994	948,994
<b>Intangible assets:</b>	<b>17,617</b>	<b>21,218</b>	Capital surplus	1,089,236	1,089,236
<b>Investment and others:</b>	<b>1,483,337</b>	<b>1,592,186</b>	Retained earnings	5,908,725	6,532,211
Investments in securities	1,098,907	1,200,130	Treasury stock	(381,038)	(381,038)
Refundable insurance premium	222,681	224,085	<b>Accumulated other comprehensive income:</b>	<b>491,993</b>	<b>549,950</b>
Deferred tax assets	9,729	9,930	Net unrealized gains (losses) on other securities	538,608	596,564
Leasehold deposits	147,708	153,730	Revaluation reserve for land	(46,614)	(46,614)
Other	4,310	4,310	<b>Subscription rights to shares:</b>	<b>60,151</b>	<b>77,263</b>
			<b>Non-controlling interests</b>	<b>14,953</b>	<b>15,509</b>
			<b>Total net assets</b>	<b>8,133,016</b>	<b>8,832,128</b>
<b>Total assets</b>	<b>11,807,734</b>	<b>13,055,431</b>	<b>Total liabilities and net assets</b>	<b>11,807,734</b>	<b>13,055,431</b>

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

# Consolidated Statements of Income

Years ended June 30, 2017 and 2018

Thousands of yen

	2017	2018
<b>Net sales</b>	<b>16,251,013</b>	<b>16,688,881</b>
Cost of sales	13,634,183	13,997,040
<b>Gross profit</b>	<b>2,616,829</b>	<b>2,691,841</b>
Selling, general and administrative expenses	805,227	866,146
<b>Operating income</b>	<b>1,811,601</b>	<b>1,825,694</b>
Non-operating income	22,050	53,106
Non-operating expenses	10,456	5,548
<b>Recurring profit</b>	<b>1,823,195</b>	<b>1,873,251</b>
Extraordinary income	1,751	754
Extraordinary losses	4,624	-
<b>Income before income taxes</b>	<b>1,820,322</b>	<b>1,874,006</b>
Income taxes - current	605,825	691,575
Income taxes - deferred	6,506	(25,791)
<b>Income before minority interests</b>	<b>1,207,990</b>	<b>1,208,222</b>
<b>Profit (loss) attributable to non-controlling interests</b>	<b>1,314</b>	<b>556</b>
<b>Profit attributable to owners of parent</b>	<b>1,206,675</b>	<b>1,207,666</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, 2018

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, 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
Changes during the term											
Dividends			(584,179)		(584,179)						(584,179)
Profit attributable to owners of parent			1,207,666		1,207,666						1,207,666
Net changes of items other than shareholders' equity						57,956	-	57,956	17,112	556	75,625
Total changes during the term	-	-	623,486	-	623,486	57,956	-	57,956	17,112	556	699,111
Balance as of June 30, 2018	948,994	1,089,236	6,532,211	(381,038)	8,189,404	596,564	(46,614)	549,950	77,263	15,509	8,832,128

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

# Consolidated Statements of Cash Flows

Years ended June 30, 2017 and 2018

Thousands of yen

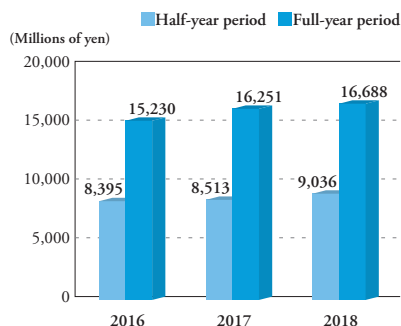
	2017	2018
Cash flows from operating activities	872,139	1,240,674
Cash flows from investing activities	(6,166)	(53,660)
Cash flows from financing activities	(556,323)	(585,153)
Net increase (decrease) in cash and cash equivalents	309,649	601,859
Cash and cash equivalents at beginning of year	3,187,208	3,496,857
Cash and cash equivalents at end of year	3,496,857	4,098,717

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

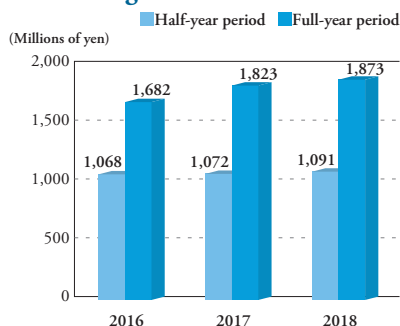
## Financial Highlights (consolidated)

Years ended June 30

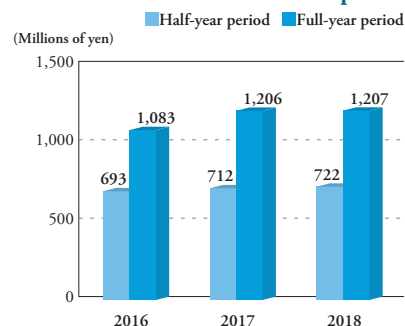
### Net Sales



### Recurring Profit



### Profit attributable to owners of parent



Millions of yen

	2016	2017	2018
Net sales	15,230	16,251	16,688
Operating income	1,678	1,811	1,825
Recurring profit	1,682	1,823	1,873
Profit attributable to owners of parent	1,083	1,206	1,207
Total assets	10,854	11,807	13,055
Net assets	7,254	8,133	8,832

# Non-Consolidated Balance Sheets

As of June 30, 2017 and 2018

Thousands of yen

	2017	2018		2017	2018
<b>Assets</b>			<b>Liabilities</b>		
<b>Current assets:</b>	<b>9,219,328</b>	<b>9,719,311</b>	<b>Current liabilities:</b>	<b>2,825,033</b>	<b>2,845,062</b>
Cash and deposits	3,176,812	3,878,854	Electronically recorded obligations – operating	98,114	21,080
Electronically recorded monetary claims – operating	234,141	2,004,014	Accounts payable - trade	1,207,884	1,274,001
Notes receivable	488,901	366,306	Accounts payable to affiliated company	118,881	318,844
Accounts receivable - trade	1,701,921	2,100,031	Short-term loans	840,000	540,000
Prepaid expenses for ongoing projects	178,196	174,510	Lease obligations	974	-
Accounts receivable - other	3,296,253	1,072,503	Accounts payable - other	130,704	230,385
Prepaid expenses	29,078	26,365	Income taxes payable	157,743	164,369
Deferred tax assets	53,751	59,235	Consumption taxes payable	35,375	33,635
Other	60,552	38,007	Accrued expenses	152,696	158,866
Allowance for doubtful accounts	(280)	(516)	Advances payment for ongoing projects	47,215	55,336
<b>Noncurrent assets:</b>	<b>1,726,092</b>	<b>1,806,122</b>	Deposits received	16,191	25,856
<b>Tangible fixed assets:</b>	<b>80,440</b>	<b>66,848</b>	Reserve for employees' bonuses	19,251	22,686
Building	29,598	25,080	<b>Long-term liabilities:</b>	<b>456,079</b>	<b>491,913</b>
Tools, furniture and fixtures	43,887	35,740	Reserve for employees' retirement benefits	196,184	206,780
Leased assets	927	0	Reserve for directors' retirement allowances	161,927	169,371
Land	6,027	6,027	Deferred tax liabilities	88,567	102,086
<b>Intangible assets:</b>	<b>6,844</b>	<b>9,821</b>	Other	9,400	13,675
Telephone subscription rights	2,652	2,652	<b>Total liabilities</b>	<b>3,281,112</b>	<b>3,336,976</b>
Software	4,191	7,168	<b>Net assets</b>		
<b>Investment and other assets:</b>	<b>1,638,807</b>	<b>1,729,452</b>	<b>Shareholders' equity:</b>	<b>7,112,162</b>	<b>7,561,244</b>
Investments in securities	1,098,907	1,200,130	Capital stock	948,994	948,994
Investments in stock of affiliated company	165,300	165,300	Capital surplus	1,089,236	1,055,958
Membership rights	4,310	4,310	Additional paid-in capital	1,027,376	1,027,376
Refundable insurance premium	222,681	224,085	Other capital surplus	61,859	28,581
Leasehold deposits	147,608	135,626	Gain on disposal of treasury stock	61,859	61,859
			Other capital surplus	-	(33,277)
			Retained earnings	5,454,969	5,937,329
			Legal reserve	22,845	22,845
			Other retained earnings	5,432,124	5,914,484
			General reserve	4,200,000	4,600,000
			Retained earnings carried forward	1,232,124	1,314,484
			Treasury stock	(381,038)	(381,038)
			<b>Valuation and translation adjustments:</b>	<b>491,993</b>	<b>549,950</b>
			Net unrealized gains (losses) on other securities	538,608	596,564
			Revaluation reserve for land	(46,614)	(46,614)
			<b>Subscription rights to shares:</b>	<b>60,151</b>	<b>77,263</b>
<b>Total assets</b>	<b>10,945,420</b>	<b>11,525,434</b>	<b>Total net assets</b>	<b>7,664,307</b>	<b>8,188,458</b>
			<b>Total liabilities and net assets</b>	<b>10,945,420</b>	<b>11,525,434</b>

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



# Non-Consolidated Statements of Income

Years ended June 30, 2017 and 2018

Thousands of yen

	2017	2018
<b>Net sales</b>	<b>14,309,118</b>	<b>12,897,392</b>
Cost of sales	12,367,217	11,129,792
<b>Gross profit</b>	<b>1,941,900</b>	<b>1,767,599</b>
Selling, general and administrative expenses	776,913	811,920
<b>Operating income</b>	<b>1,164,987</b>	<b>955,678</b>
Non-operating income	350,508	472,222
Non-operating expenses	9,725	4,154
<b>Recurring profit</b>	<b>1,505,769</b>	<b>1,423,747</b>
Extraordinary income	1,751	754
Extraordinary losses	4,624	-
<b>Income before income taxes</b>	<b>1,502,896</b>	<b>1,424,501</b>
Income taxes - current	380,500	375,506
Income taxes - deferred	7,802	(17,543)
<b>Net income</b>	<b>1,114,593</b>	<b>1,066,539</b>

Notes: 1. The amounts listed above are rounded down to the nearest thousand yen.

2. As of July 1, 2017, the Company's Kansai Branch and Nagoya Branch were merged into T2 Creative Co., Ltd., a wholly-owned subsidiary of the Company. Accordingly, the Company's non-consolidated financial results for the year ended June 30, 2018 resulted in decreased revenue and profit.

# Non-Consolidated Statement of Changes in Net Assets

Year ended June 30, 2018

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, 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
Changes during the term															
Dividends							(584,179)	(584,179)		(584,179)					(584,179)
Decrease by corporate division			(33,277)	(33,277)						(33,277)					(33,277)
Net income							1,066,539	1,066,539		1,066,539					1,066,539
Provision of general reserve						400,000	(400,000)	-		-					-
Net changes of items other than shareholders' equity										57,956		-	57,956	17,112	75,068
Total changes during the term	-	-	(33,277)	(33,277)	-	400,000	82,359	482,359	-	449,081	57,956	-	57,956	17,112	524,150
Balance as of June 30, 2018	948,994	1,027,376	28,581	1,055,958	22,845	4,600,000	1,314,484	5,937,329	(381,038)	7,561,244	596,564	(46,614)	549,950	77,263	8,188,458

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

# Corporate Profile

As of June 30, 2018

**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:** 210

- 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 25, 2018)

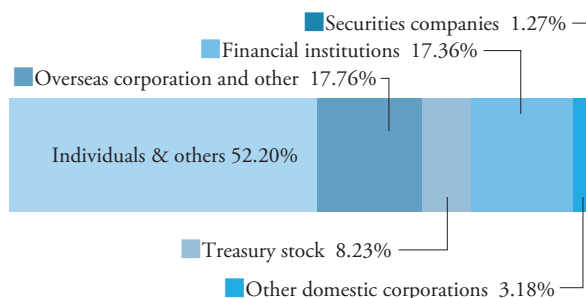
Chairman	<b>Osamu Kawamura</b>
President and Chief Executive Officer (CEO)	<b>Kouji Egusa</b>
Managing Director and Corporate Officer	<b>Kenichi Murazu</b>
Managing Director and Corporate Officer	<b>Michihiro Akimoto</b>
Director and Corporate Officer	<b>Jiro Kajioka</b>
Outside Director	<b>Daisuke Yanasawa</b>
Corporate Officer	<b>Takehito Masumori</b>
Corporate Officer	<b>Kimihiko Ichikawa</b>
Outside Director, Audit and Supervisory Committee Member	<b>Shintaro Hagiwara</b>
Outside Director, Audit and Supervisory Committee Member	<b>Shigeo Yoshida</b>
Outside Director, Audit and Supervisory Committee Member	<b>Toru Hirano</b>

# Stock Information

As of June 30, 2018

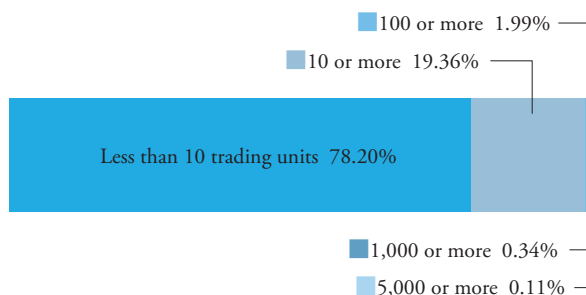
1. Number of shares authorized to be issued..... 60,000,000 shares
2. Number of shares issued..... 24,484,548 shares
3. Number of shareholders .....6,980

## 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:** 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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