

# TOWCO.,LTD.

**Report for the 37th Business Term**

**(July 1, 2012 to June 30, 2013)**

**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

On the occasion of TOW's 37th regular general meeting of shareholders and board of directors meeting held on September 25, I resigned from the position of the Chairman and CEO, and assumed the position of the Chairman.

I would like to extend my sincere gratitude to all shareholders for your support during my term.

I will continue to work with greater diligence for the further development of our business.

President and COO Kouji Egusa has been appointed as my successor as the CEO, and I hope that you provide him with the same level of cooperation and support you have graciously offered me.

September 2013



Chairman

On the occasion of TOW's 37th regular general meeting of shareholders and board of directors meeting held on September 25, I was appointed as the successor to Osamu Kawamura in his position as the CEO, and thus assumed responsibility as the president and CEO.

I will continue to give my all to this position as I work towards the further expansion of our business and the promotion industry, and for the development of our human resources. To this end, I hope for your continued instruction and support.

September 2013



President and Chief Executive Officer (CEO)



# Business Summary

## Business Progress and Results

The Japanese economy began the term under review on track for a mild recovery backed by demand related to reconstruction and other factors, and the second half of the term saw a trend toward mild recovery as the country began to pull out of deflation and move toward economic growth amid the monetary easing that followed the change in government administration.

In the advertising industry to which the Group belongs, the total domestic advertising expenditures in 2012 (from January to December) amounted to ¥5,891.3 billion (up 3.2% year-on-year; based on Advertising Expenditure in Japan, published by Dentsu Inc. in February 2013), registering an increase for the first time in five years. Sales of major advertising agencies in 2012 (from January to December) were robust compared to the previous year (based on Advertising and the Economy, published on February 21, 2013). However, sales for the period from January 2013 (from January to June) weakened, as sales at some advertising agencies fell year-on-year (based on Advertising and the Economy published on August 1, 2013).

In this business environment, the Group's consolidated performance in the first half of the term was relatively strong, with sales of ¥6,749 million (1.2% fall year-on-year) resulting from the Group's proactive efforts to engage in promotion and public relations projects for food and beverage manufacturers, mobile phone carriers (smart phones), and car manufacturers. However, the situation was severe in the second half of the term as sales slowed down due to regional stagnation and delays in hiring staff.

In light of this situation, the projection was revised on July 12, 2013. However, although a tax refund claim associated with the overstated amount due to irregular accounting last year was initially scheduled for the end of September, and preparations

had been underway since late July, we have decided not to pursue the tax refund claim. It is not our intention to cause further trouble for our customers and other related parties as a result of the verification and investigation of the matter by the tax authorities at our request. Furthermore, we judged this would potentially create major obstacles for our future business operations. Consequently, we reversed our deferred tax assets and posted income tax - deferred of ¥87 million. In addition, at the regular general meeting of shareholders held on September 25, 2013, there was a request from a retiring director to voluntarily abstain from receiving the directors' retirement allowances, which led to the posting of ¥46 million as extraordinary income. As a result, net income fell below the originally announced figures.

As a result, consolidated net sales for the term under review was ¥12,346 million (11.4% fall year-on-year), operating income was ¥850 million (12.6% fall year-on-year), recurring profit was ¥864 million (12.4% fall year-on-year), and net income was ¥428 million (15.6% fall year-on-year).

# Business Summary

## Business Summary by Sector

### Exhibitions & Shows

Consolidated sales for the term under review increased due to orders received from public offices for exhibitions.

### Culture- and Sport-related Projects

Consolidated sales for the term under review increased 118.3% year-on-year, due to orders received in connection with the London 2012 Olympics and a rehearsal project for the National Sports Festival of Japan.

### Public Relations

Consolidated sales for the term under review increased 8.0% year-on-year, due to comparatively strong orders from major car manufacturers for their various product presentations.

### Sales Promotion

Consolidated sales for the term under review decreased 22.5% year-on-year, due to a decrease in special demand from South Korean mobile phone manufacturers, and a drop in orders from domestic mobile phone manufacturers and toiletries companies, despite comparatively strong performance in promotion activities for major car manufacturers.

### Materials Production

Consolidated sales for the term under review increased 0.2% year-on-year, due to orders received for store promotions by major convenience stores and Christmas-related projects at commercial facilities.

### Event Planning

Consolidated sales increased 24.3% year-on-year.

## Consolidated Sales Breakdown

Years ended June 30

Event category		2012		2013		Year-on-year (%)
		Amount (¥ million)	Percentage of total (%)	Amount (¥ million)	Percentage of total (%)	
Event production	Exhibitions & shows	-	-	52	0.4	-
	Culture- and sport-related projects	42	0.3	92	0.7	118.3
	Public relations	3,496	25.1	3,776	30.6	8.0
	Sales promotions	8,863	63.6	6,867	55.6	(22.5)
	Materials production	1,448	10.4	1,451	11.8	0.2
Subtotal		13,850	99.4	12,240	99.1	(11.6)
Revenue from event planning		85	0.6	106	0.9	24.3
Total		13,935	100.0	12,346	100.0	(11.4)

# Business Summary

## Tasks Ahead

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, and advertising agencies are fully engaged in implementing relevant measures. In response to these trends, we in turn will focus on implementing the following initiatives with a view to being a real-world promotion company with strong digital capabilities.

### 1. Strengthening digital capabilities

We will strengthen our proposals tying the real-world promotion business with the digital promotion business that is showing particular growth in the promotions area. Beginning from this term, we will hold a new meeting of officers across divisions to advance digital promotions, in order to enhance our proposal structure company wide.

### 2. Strengthening creative capabilities

By transmitting skills through enhanced on-the-job training, reinforcing in-house training, and stepping up cost management, we will further enhance the capability to create real-world promotions that is TOW's starting point, as we seek to increase quality and earning power.

### 3. Strengthening customer-related capabilities

All sales staff apply management by objectives at the beginning of the term to step up their relationship value with important

customers, with the aim of enhancing customer-related capabilities which leads to increase in sales.

### 4. Strengthening Group capabilities

#### (1) T2 Creative

In order to respond to the changing needs of advertising agencies, we will strengthen our response capabilities towards a performance-oriented professional model.

#### (2) soil

We are engaged in developing original contents that will be an asset in advancing digital promotions.

### 5. Strengthening security capabilities

Through in-house training and other measures, we thoroughly implement on-site information management, safety management, and compliance, with a renewed commitment to be a "production company you can safely rely on."

# Consolidated Balance Sheets

As of June 30, 2012 and 2013

Thousands of yen

	2012	2013		2012	2013
<b>Assets</b>			<b>Liabilities</b>		
<b>Current assets:</b>	<b>7,950,775</b>	<b>7,399,675</b>	<b>Current liabilities:</b>	<b>3,847,134</b>	<b>3,149,273</b>
Cash and deposits	1,392,565	2,478,857	Accounts payable - trade	1,729,079	1,572,186
Notes and accounts receivable	2,350,008	2,053,300	Short-term loans	840,000	840,000
Prepaid expenses for ongoing projects	264,506	168,559	Income taxes payable	509,443	214,875
Accounts receivable - other	3,768,727	2,585,212	Reserve for employees' bonuses	16,690	15,120
Prepaid expenses	36,586	36,637	Other	751,921	507,089
Deferred tax assets	118,085	64,896	<b>Long-term liabilities:</b>	<b>348,629</b>	<b>321,677</b>
Other	20,295	12,211	Reserve for employees' retirement benefits	172,022	180,990
<b>Noncurrent assets:</b>	<b>1,438,909</b>	<b>1,357,001</b>	Reserve for directors' retirement allowances	174,306	138,386
<b>Tangible fixed assets:</b>	<b>75,875</b>	<b>66,170</b>	Other	2,300	2,300
Building	50,022	42,724	<b>Total liabilities</b>	<b>4,195,763</b>	<b>3,470,950</b>
Tools, furniture and fixtures	19,825	17,419	<b>Net assets</b>		
Land	6,027	6,027	<b>Shareholders' equity:</b>	<b>5,234,452</b>	<b>5,286,986</b>
<b>Intangible assets:</b>	<b>44,578</b>	<b>30,897</b>	Capital stock	948,994	948,994
<b>Investment and others:</b>	<b>1,318,455</b>	<b>1,259,933</b>	Capital surplus	1,027,376	1,027,376
Investments in securities	530,982	581,982	Retained earnings	3,728,359	3,781,259
Refundable insurance premium	313,307	328,894	Treasury stock	(470,279)	(470,644)
Deferred tax assets	237,679	125,049	<b>Accumulated other comprehensive income:</b>	<b>(42,114)</b>	<b>(7,253)</b>
Leasehold deposits	228,075	219,697	Net unrealized gains (losses) on other securities	4,500	39,360
Other	8,410	4,310	Revaluation reserve for land	(46,614)	(46,614)
<b>Total assets</b>	<b>9,389,684</b>	<b>8,756,677</b>	<b>Subscription rights to shares:</b>	<b>1,582</b>	<b>5,994</b>
			<b>Total net assets</b>	<b>5,193,920</b>	<b>5,285,727</b>
			<b>Total liabilities and net assets</b>	<b>9,389,684</b>	<b>8,756,677</b>

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

# Consolidated Statements of Income

Years ended June 30, 2012 and 2013

Thousands of yen

	2012	2013
<b>Net sales</b>	<b>13,935,339</b>	<b>12,346,178</b>
Cost of sales	12,144,454	10,753,419
<b>Gross profit</b>	<b>1,790,885</b>	<b>1,592,759</b>
Selling, general and administrative expenses	817,385	742,047
<b>Operating income</b>	<b>973,500</b>	<b>850,711</b>
Non-operating income	21,004	22,258
Non-operating expenses	6,674	8,030
<b>Recurring profit</b>	<b>987,829</b>	<b>864,939</b>
Extraordinary income	17,176	46,695
Extraordinary losses	1,031	4,100
<b>Income before income taxes</b>	<b>1,003,975</b>	<b>907,534</b>
Income taxes - current	599,756	328,861
Income taxes - deferred	(104,218)	149,680
<b>Income before minority interests</b>	<b>508,437</b>	<b>428,992</b>
<b>Net income</b>	<b>508,437</b>	<b>428,992</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, 2013

Thousands of yen

	Shareholders' equity					Accumulated other comprehensive income			Subscription rights to shares	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, 2012	948,994	1,027,376	3,728,359	(470,279)	5,234,452	4,500	(46,614)	(42,114)	1,582	5,193,920
Changes during the term										
Dividends			(376,093)		(376,093)					(376,093)
Net income			428,992		428,992					428,992
Acquisition of treasury stock				(365)	(365)					(365)
Net changes of items other than shareholders' equity						34,860		34,860	4,412	39,272
Total changes during the term	-	-	52,899	(365)	52,534	34,860	-	34,860	4,412	91,806
Balance as of June 30, 2013	948,994	1,027,376	3,781,259	(470,644)	5,286,986	39,360	(46,614)	(7,253)	5,994	5,285,727

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

# Consolidated Statements of Cash Flows

Years ended June 30, 2012 and 2013

Thousands of yen

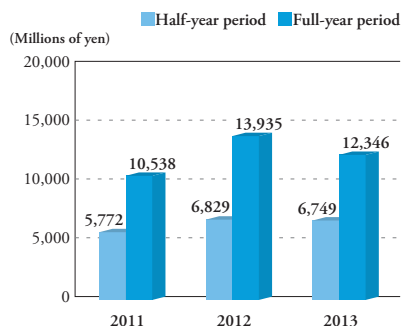
	2012	2013
Cash flows from operating activities	(229,656)	1,491,928
Cash flows from investing activities	(67,417)	(29,177)
Cash flows from financing activities	(205,192)	(376,458)
Net increase (decrease) in cash and cash equivalents	(502,266)	1,086,292
Cash and cash equivalents at beginning of year	1,894,832	1,392,565
Cash and cash equivalents at end of year	1,392,565	2,478,857

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

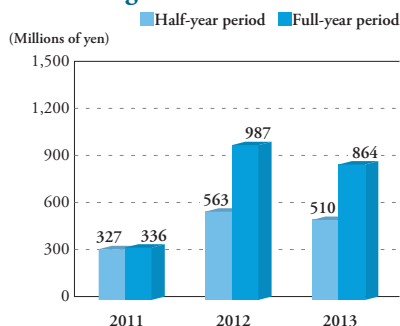
## Financial Highlights (consolidated)

Years ended June 30

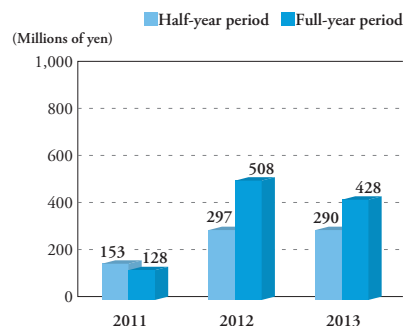
### Net Sales



### Recurring Profit



### Net Income



Millions of yen

	2011	2012	2013
Net sales	10,538	13,935	12,346
Operating income	337	973	850
Recurring profit	336	987	864
Net income	128	508	428
Total assets	7,392	9,389	8,756
Net assets	4,958	5,193	5,285



# Non-Consolidated Balance Sheets

As of June 30, 2012 and 2013

Thousands of yen

	2012	2013		2012	2013
<b>Assets</b>			<b>Liabilities</b>		
<b>Current assets:</b>	<b>7,554,046</b>	<b>7,031,348</b>	<b>Current liabilities:</b>	<b>3,754,417</b>	<b>3,095,761</b>
Cash and deposits	1,099,675	2,264,436	Accounts payable - trade	1,544,023	1,257,536
Notes receivable	495,222	311,044	Accounts payable to affiliated company	239,886	360,154
Accounts receivable - trade	1,799,574	1,673,906	Short-term loans	840,000	840,000
Prepaid expenses for ongoing projects	249,038	153,213	Accounts payable- other	307,209	205,284
Accounts receivable - other	3,752,909	2,529,600	Income taxes payable	411,254	164,258
Prepaid expenses	34,147	33,426	Consumption taxes payable	48,737	17,203
Deferred tax assets	103,260	55,040	Accrued expenses	208,311	130,102
Other	20,219	10,680	Advances payment for ongoing projects	77,881	46,152
<b>Noncurrent assets:</b>	<b>1,569,248</b>	<b>1,488,511</b>	Deposits received	22,714	22,901
<b>Tangible fixed assets:</b>	<b>67,689</b>	<b>59,232</b>	Suspense receipt	39,690	39,690
Building	45,068	38,607	Reserve for employees' bonuses	14,707	12,477
Tools, furniture and fixtures	16,593	14,597	<b>Long-term liabilities:</b>	<b>332,975</b>	<b>300,422</b>
Land	6,027	6,027	Reserve for employees' retirement benefits	158,768	163,336
<b>Intangible assets:</b>	<b>39,012</b>	<b>27,332</b>	Reserve for directors' retirement allowances	171,906	134,786
Telephone subscription rights	2,652	2,652	Other	2,300	2,300
Software	25,159	17,679	<b>Total liabilities</b>	<b>4,087,392</b>	<b>3,396,184</b>
Goodwill	11,200	7,000	<b>Net assets</b>		
<b>Investment and other assets:</b>	<b>1,462,546</b>	<b>1,401,945</b>	<b>Shareholders' equity:</b>	<b>5,076,434</b>	<b>5,124,934</b>
Investments in securities	530,982	581,982	Capital stock	948,994	948,994
Investments in stock of affiliated company	150,000	150,000	Capital surplus	1,027,376	1,027,376
Membership rights	8,410	4,310	Additional paid-in capital	1,027,376	1,027,376
Refundable insurance premium	313,307	328,894	Retained earnings	3,570,341	3,619,207
Deferred tax assets	231,870	117,161	Legal reserve	22,845	22,845
Leasehold deposits	227,975	219,597	Other retained earnings	3,547,496	3,596,362
			General reserve	3,100,000	3,200,000
			Retained earnings carried forward	447,496	396,362
			Treasury stock	(470,279)	(470,644)
			<b>Valuation and translation adjustments:</b>	<b>(42,114)</b>	<b>(7,253)</b>
			Net unrealized gains (losses) on other securities	4,500	39,360
			Revaluation reserve for land	(46,614)	(46,614)
			<b>Subscription rights to shares:</b>	<b>1,582</b>	<b>5,994</b>
<b>Total assets</b>	<b>9,123,294</b>	<b>8,519,859</b>	<b>Total net assets</b>	<b>5,035,902</b>	<b>5,123,674</b>
			<b>Total liabilities and net assets</b>	<b>9,123,294</b>	<b>8,519,859</b>

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

# Non-Consolidated Statements of Income

Years ended June 30, 2012 and 2013

Thousands of yen

	2012	2013
<b>Net sales</b>	<b>13,537,027</b>	<b>11,785,589</b>
Cost of sales	12,004,487	10,449,761
<b>Gross profit</b>	<b>1,532,540</b>	<b>1,335,828</b>
Selling, general and administrative expenses	791,741	715,734
<b>Operating income</b>	<b>740,799</b>	<b>620,093</b>
Non-operating income	61,939	151,588
Non-operating expenses	6,674	8,030
<b>Recurring profit</b>	<b>796,064</b>	<b>763,651</b>
Extraordinary income	-	46,695
Extraordinary losses	1,031	4,100
<b>Income before income taxes</b>	<b>795,033</b>	<b>806,246</b>
Income taxes - current	483,500	234,500
Income taxes - deferred	(101,591)	146,788
<b>Net income</b>	<b>413,124</b>	<b>424,958</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, 2013

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	Total capital surplus		General reserve	Retained earnings carried forward	Total retained earnings							
Balance as of July 1, 2012	948,994	1,027,376	1,027,376	22,845	3,100,000	447,496	3,570,341	(470,279)	5,076,434	4,500	(46,614)	(42,114)	1,582	5,035,902
Changes during the term														
Dividends						(376,093)	(376,093)		(376,093)					(376,093)
Net income						424,958	424,958		424,958					424,958
Provision for general reserve					100,000	(100,000)			-					-
Acquisition of treasury stock								(365)	(365)					(365)
Net changes of items other than shareholders' equity										34,860		34,860	4,412	39,272
Total changes during the term	-	-	-	-	100,000	(51,134)	48,865	(365)	48,500	34,860	-	34,860	4,412	87,772
Balance as of June 30, 2013	948,994	1,027,376	1,027,376	22,845	3,200,000	396,362	3,619,207	(470,644)	5,124,934	39,360	(46,614)	(7,253)	5,994	5,123,674

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

# Corporate Profile

As of June 30, 2013

**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:** 123

- 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, 2013)

Chairman

President and Chief Executive Officer (CEO)

Managing Director and Corporate Officer

Managing Director and Corporate Officer

Director and Corporate Officer

Director and Corporate Officer

Corporate Officer

Corporate Officer

Corporate Officer

Standing Corporate Auditor

Corporate Auditor

Corporate Auditor

**Osamu Kawamura**

**Kouji Egusa**

**Michihiro Akimoto**

**Hajime Kimura**

**Shigeo Shimamura**

**Takehito Masumori**

**Satoshi Suzuki**

**Isao Miyake**

**Kenichi Murazu**

**Haruo Kurami**

**Shintaro Hagiwara**

**Shigeo Yoshida**

# Stock Information

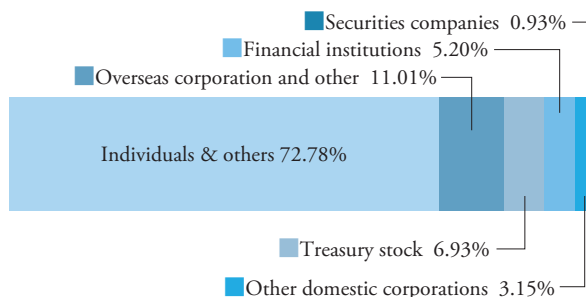
As of June 30, 2013

1. Number of shares authorized to be issued..... 48,000,000 shares

2. Number of shares issued..... 12,242,274 shares

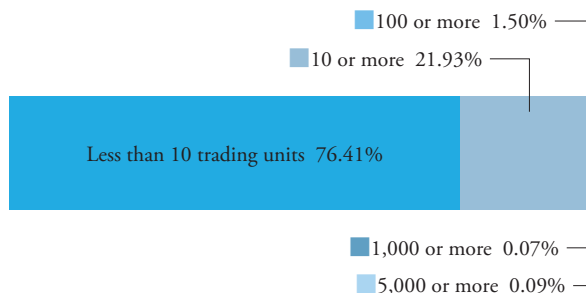
3. Number of shareholders .....5,786

## Shareholders by Type



## Shareholders by Number of Shares Held

(Breakdown of shareholders by number of shares held.)



This section presents excerpts from “future policies and measures” contained in the supplementary materials to the summary of financial statements for the fiscal year ended June 30, 2013.

### TOW NEWS

#### In-house slogan

## A small difference makes a big difference.

The position we hold today as the largest event production company is owed to a brand built on a record of providing services that give us a slight edge over other companies.

Amid deepening customer demand for results-driven planning capabilities, multiple promotion mix capabilities, digital tie-in promotion capabilities, and so on, as a service business TOW pursues a strategy of differentiation under the slogan “A small difference makes a big difference.”

The small differences that come from constantly thinking of the customer’s happiness accumulate to make a big difference.

To this end, we aim to know our customers and our clients well, to share their feelings and utilize our ingenuity, and to pursue planning capabilities and implementation capabilities that exceed expectations.

The small differences that accumulate from day to day make our customers happy, and make a big difference.

This company slogan is time-worn yet new.

### Future policies

To be a real-world promotion company with strong digital capabilities.

To refine the real-world event capabilities  
that are TOW’s strength and our mainstay business

&

To arm the real-world business with digital technology and ideas  
in order to secure a position as  
the only real-world promotion company  
with strong digital capabilities.

## Future Measures

To be a real-world promotion company with strong digital capabilities.

### Strengthening the core (fundamentals) of the Company

- 1) Digital capabilities
- 2) Creative capabilities
- 3) Customer-relating capabilities
- 4) Group capabilities
- 5) Security capabilities

#### 1) Digital capabilities

- We will implement practical training according to the digital literacy level of employees so that more than half of our employees will have the mastery to use both digital and real-world technologies as a matter of course.
- Digital projects will be promoted by teams made up of two members, consisting of one digital promotion office staff and one production sales staff.
- Beginning from July, new meetings to promote digital promotions will be held on a monthly basis for officers across divisions, in order to accelerate digital promotion capabilities company wide.

#### 2) Creative capabilities

- As a production company, production capabilities are themselves powerful marketing capabilities.
- As digital business evolves, the value of real-world business goes up.
- We will raise production capabilities by transmitting skills through enhanced on-the-job training and reinforcing in-house training.
- We will increase the number of money-earning employees by swiftly raising assistant directors, including new graduates, to the rank of director.

### 3) Customer-relating capabilities

- We will use management by objectives to increase TOW's mind share among important customers, which is the basis of P2P (person to person) business.
- With customer happiness as our goal, we will strive to get to know our customers and our clients well, and develop a relationship of trust by seeking to provide the desired results which leads to continued orders

### 4) Group capabilities

- T2 Creative  
We will expand external sales at T2 Creative by strengthening the performance-oriented professional-capability organization model in partnership with TOW.
- soil  
We will focus on developing original contents as an asset in advancing digital promotions.

### 5) Security capabilities

- We will renew our commitment to strengthening relationships of trust as a “production company you can safely rely on.”
- We will thoroughly implement on-site information management, safety management, and compliance.

## 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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