

Financial Results for the First Half of the Fiscal Year Ending March 31, 2017

TOKAI Holdings Corporation (Code: 3167)

November 2, 2016

Significantly higher profits led to record-high profits

- ◎ Progress exceeded initial forecasts (Operating profit: +30.4%; Net income: +112.9%)
- ◎ Profitability improved steadily in Hikari Collaboration and Aqua, areas of focus for the current fiscal year (the two businesses combined, improvement of 2.1 billion yen versus forecast of 1.6 billion yen), contributing to earnings. Aqua achieved profitability over the interim period
- ◎ Effect on sales of price revisions resulting from lower prices of raw materials for gas was minus 4.8 billion yen year-on-year

(Sales and profits: Millions of yen, EPS: Yen)

	1H FY03/17	1H FY03/16	Initial Forecasts	YoY		Vs. Initial Forecasts	
				Amount of Change	Percent Change (%)	Amount of Change	Percent Change (%)
Sales	82,201	84,773	85,300	-2,571	-3.0	-3,098	-3.6
Operating profit	4,406	1,856	3,380	+2,549	+137.4	+1,026	+30.4
Of which, Hikari Collaboration	-182	-1,512	-505	+1,330	-	+324	-
Of which, Aqua	201	-616	-65	+817	-	+267	-
Recurring profit	4,428	1,779	3,270	+2,649	+148.9	+1,159	+35.4
Net income	2,384	277	1,120	+2,107	+760.2	+1,264	+112.9
(EPS)	(21.0)	(2.39)	(9.89)	(+18.61)	(+777.6)	(+11.11)	(+112.3)

*Operating profit for Hikari Collaboration and Aqua are before elimination of indirect expenses

Market conditions for raw materials prices

- ⊙ Against a backdrop of oversupply in the global oil market, crude oil prices have continued to decline since 2014
- ⊙ In line with this, LPG and LNG prices are also trending downward
- ⊙ Prices of raw materials for LP gas are at 64% of those seen during 1H FY03/16, while LNG is at 57%; the effect of price revisions on the Company sales is minus 2.3 billion yen in LP gas and minus 2.5 billion yen in city gas

	1H FY03/17	1H FY03/16	Year-on-year	
LPG	CP average	309 \$/ton	426 \$/ton	-117 \$/ton
	Avg. exchange rate	107.9 yen/\$	121.5 yen/\$	-13.6 yen/\$
	CP x exchange rate	33,341 yen/ton	51,759 yen/ton	-18,418 yen/ton (64.4% vs. 1H FY03/16)
LNG	CIF average*	40,144 yen/ton	70,817 yen/ton	-30,673 yen/ton (56.7% vs. 1H FY03/16)

*Source: "Trade Statistics," Ministry of Finance

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Full-year results to outperform in light of 1H

- ⊙ 1H outperformed forecast by 1.0 billion yen due to the following factors
 - 1) LP gas (+200 million yen): Margins improved due to lower prices of raw materials for gas
 - 2) CATV (+300 million yen): Profits up due to steady net gains in customer numbers
 - 3) Hikari Collaboration (+400 million yen): Overall market lagged versus estimates and net increase in contracts was 53 thousand, about 30% lower (-19 thousand) than expected, leading to lower acquisition costs
- ⊙ Although the following costs will be added during 2H, results are projected to meet the initial forecasts
 - 1) Hikari Collaboration (-400 million yen): As a similar business environment will continue, negative effects arising from lower contract acquisitions in 1H are incorporated
 - 2) LP gas (-200 million yen): Costs to rise to recover customers lost to competitors during 1H
 - 3) CATV (-200 million yen): Upfront costs to expand customer base in FY03/18 onward

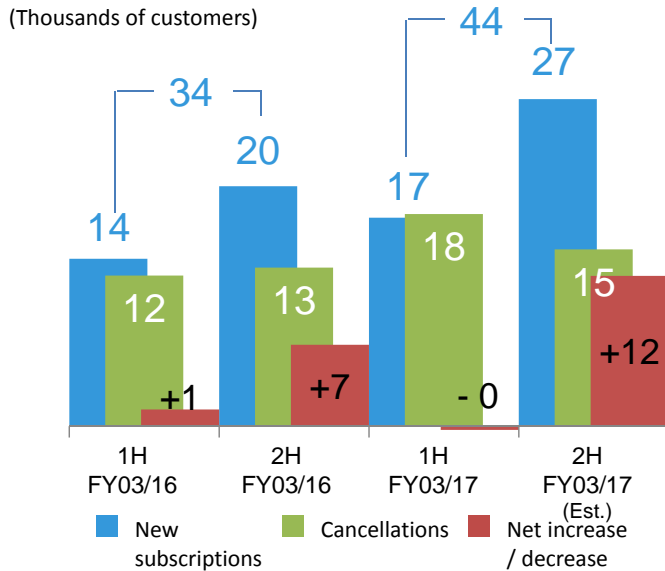
Operating profit	Vs. 1H Forecasts	Vs. 2H Forecasts	Vs. FY Forecasts
LP gas	+ 200 million yen	- 200 million yen	
Information and communications (Hikari Collaboration)	+ 400 million yen	- 400 million yen	
CATV	+ 300 million yen	- 200 million yen	
Other	+ 100 million yen		
Total	+ 1.0 billion yen	- 800 million yen	+ 200 million yen

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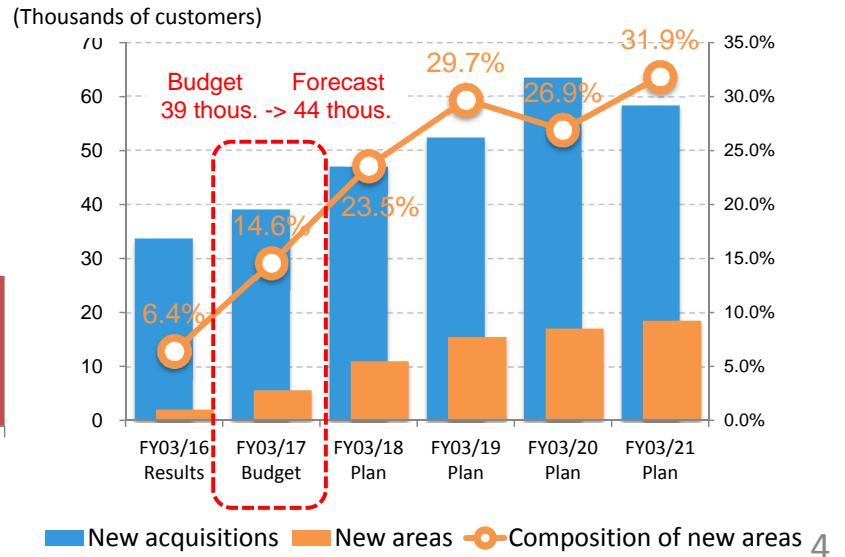
Expansion of gas business customer base

- ◎ New accounts were up 25% YoY during 1H (from 14 thousand to 17 thousand), with projections for a 30% gain over the full year (34 thousand to 44 thousand). Both existing and new areas are progressing ahead of plans
- ◎ Although cancellations increased in 1H due to competition with peer companies, momentum has slowed after countermeasures were put in place. As 1H results were favorable, costs (200 million yen) will be added during 2H to strengthen acquisition sales toward growth in FY03/18 onward

Customer Dynamics (YoY)



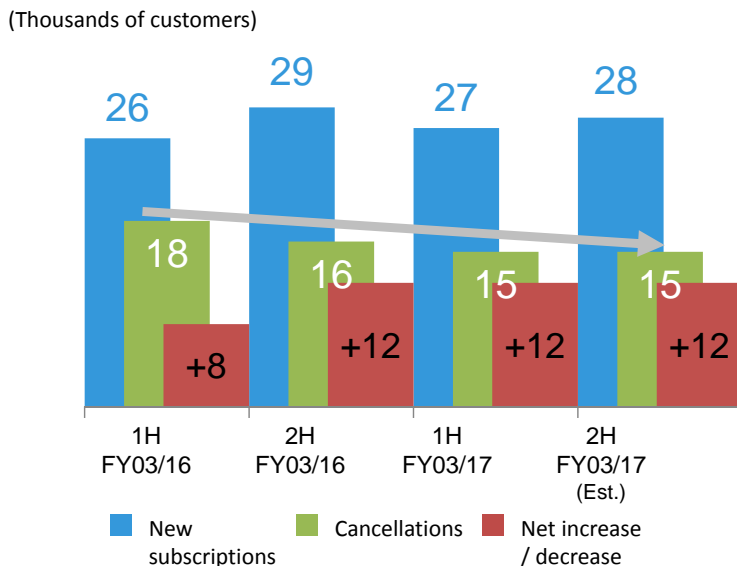
New Customer Acquisition Targets



Customer numbers up in CATV

- ◎ Versus the net increase of 20 thousand customers (6 thousand in broadcasting and 14 thousand in telecommunications) during FY03/16, customer numbers are increasing steadily by 24 thousand during FY03/17 (8 thousand in broadcasting and 16 thousand in telecommunications)
- ◎ In addition to the effects of limiting cancellations through individual visits that started during FY03/16, contracts for telecommunications, telephones, and other value-added services captured during visits are contributing to higher profits
- ◎ Aim for growth in FY03/18 onward by promoting sales activities to capture new customers in 2H through additional spending

Customer Dynamics (YoY)



New Customer Acquisition Strategy

Develop new detached home acquisition channels
(Home builders / construction companies route)

Begin sale of "Hikari TV Plus"
(Switching product for households watching television via antennas)

Full-year forecast (Revised)

- ◎ Full-year earnings forecasts announced in May called for record highs of 12.6 billion yen in operating profit and 6.2 billion yen in net income
- ◎ Based on full-year estimates in light of the interim period results, initial forecasts were revised to 12.8 billion yen in operating profit (+1.9 billion yen) and 6.5 billion yen in net income (+2.6 billion yen)

(Sales and profits: Millions of yen, EPS: Yen)

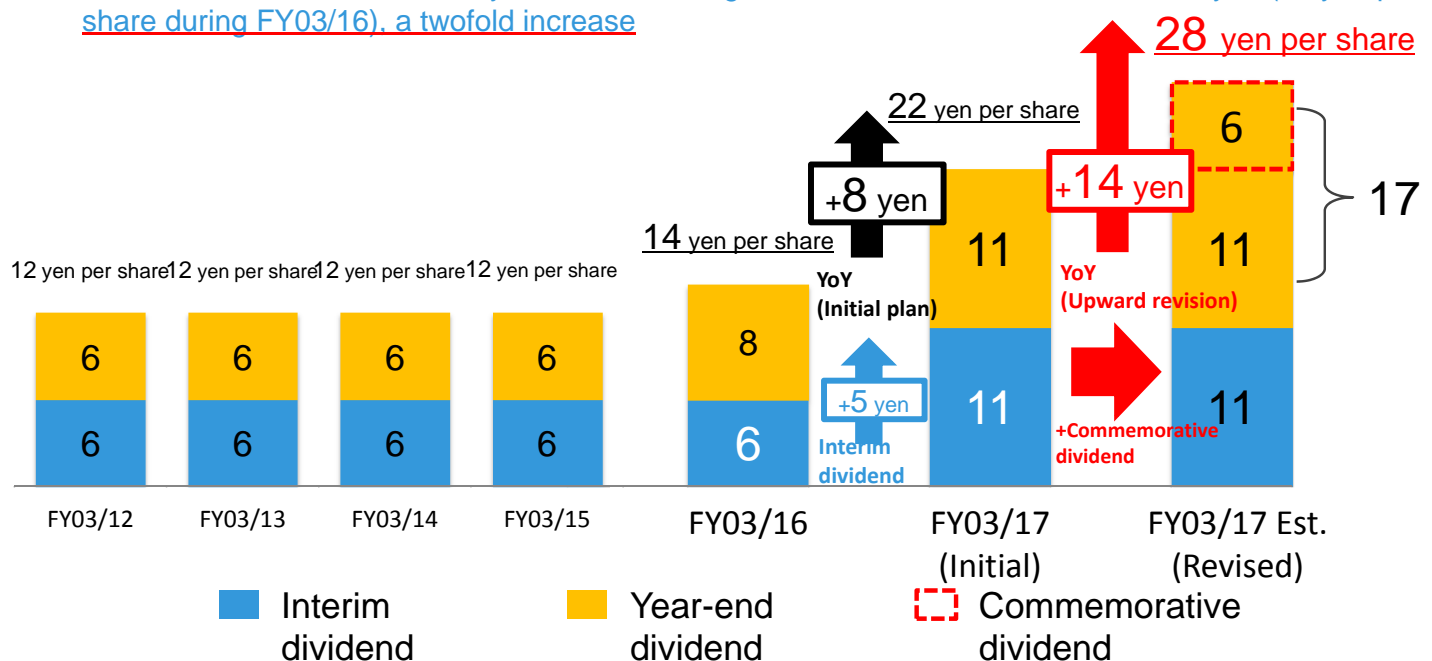
	Revised FY03/17 Forecasts	FY03/16	Initial Forecasts	YoY		Vs. Initial Forecasts	
				Amount of Change	Percent Change (%)	Amount of Change	Percent Change (%)
Sales	179,700	180,940	187,100	-1,240	-0.7	-7,400	-4.0
Operating profit	12,750	8,245	12,560	+4,505	+54.6	+190	+1.5
Of which, Hikari Collaboration	-442	-3,007	-728	+2,566	-	+286	-
Of which, Aqua	301	-1,119	12	+1,420	-	+289	+2,317.4
Recurring profit	12,360	8,150	11,830	+4,210	+51.7	+530	+4.5
Net income	6,500	3,458	6,240	+3,042	+88.0	+260	+4.2
(EPS)	(57.23)	(30.01)	(55.13)	(+27.22)	(+90.7)	(+2.10)	(+3.8)

*Operating profit for Hikari Collaboration and Aqua are before elimination of indirect expenses

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Revised dividend forecasts (Dividend increase)

- ◎ Interim dividends to be 11 yen per share, as planned (a dividend increase of 5 yen versus 6 yen per share in 1H FY03/16)
- ◎ As achievement of full-year earnings forecast is within sight, year-end dividends are planned to be 17 yen per share, including the originally planned dividend of 11 yen per share combined with an IP16 achievement commemorative dividend of 6 yen
- ◎ Plan for two consecutive fiscal years of dividend growth and an annual dividend of 28 yen (14 yen per share during FY03/16), a twofold increase



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Looking Back on IP16 Growing and Challenges for the Next Medium-Term Management Plan

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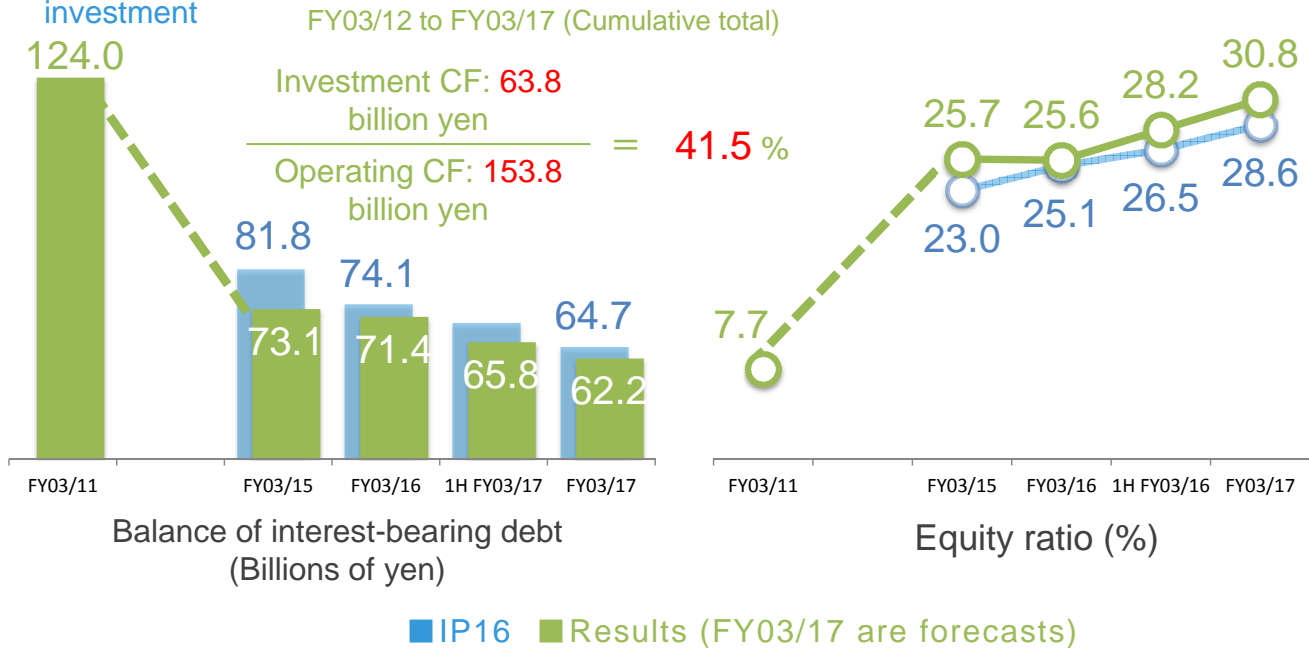
Key Topics

- Improving financial standing
- Wholesaling NTT Hikari
- Stagnation in Bottled Water
Delivery Market
- Sluggish Customer Count
Growth
- Promoting TLC

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From Improving Financial Standing to Investment in Growth

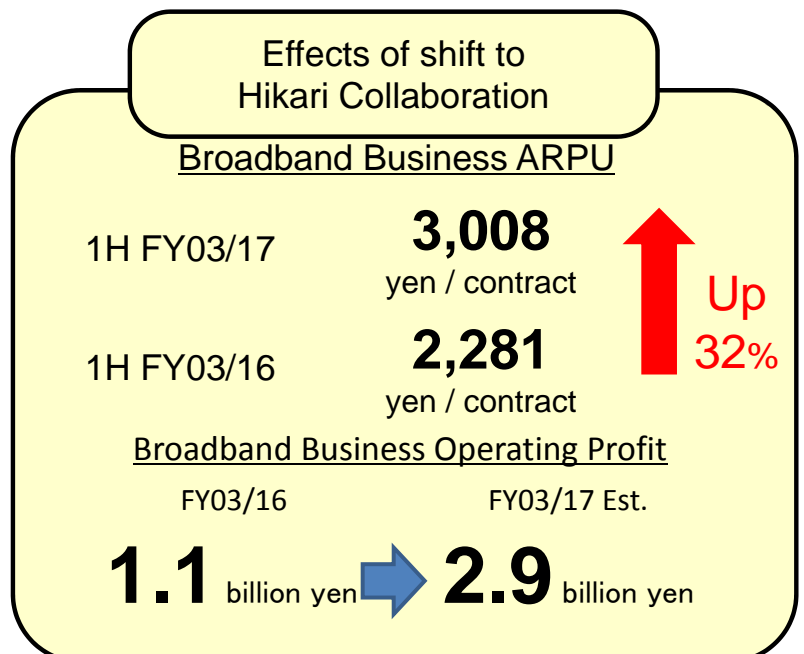
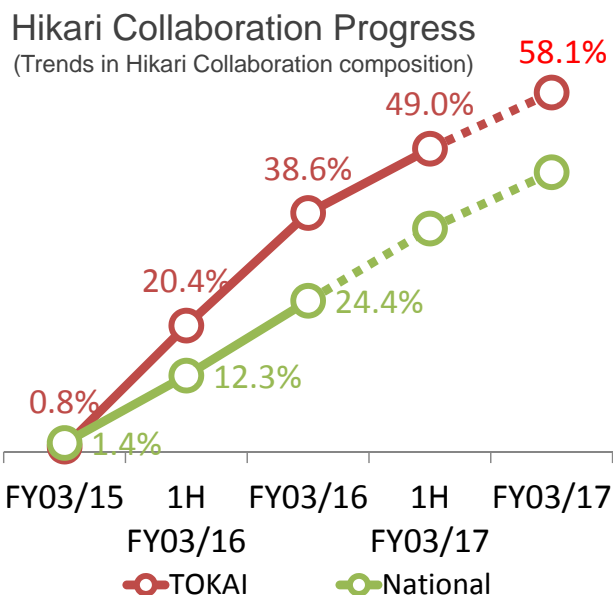
- At end-FY03/17, the final fiscal year of IP16, the balance of interest-bearing debt will be 62.2 billion yen, a half the level before the merger in April 2011. Similarly, the equity ratio will improve from 7.7% (pre-merger) to about 31%.
- From FY03/12 to FY03/17, 40% of operating cash flows was utilized in repayment of interest-bearing debt while about 40% was used in investment. However, in the next medium-term management plan, the Company is considering using the majority of operating cash flows in investment



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Profit Contribution from NTT Hikari Collaboration to Continue

- As fiber optic sales by NTT have shifted from direct sales to wholesaling, TOKAI entered Hikari Collaboration (packaged sales of the TOKAI ISP and fiber optic lines) in March 2015
- Progress is ahead of the national average, steadily achieving a shift to higher ARPU
- By aiming for a higher composition of Hikari Collaboration combined with capturing new customers, seek contribution to higher profits during the next medium-term management plan

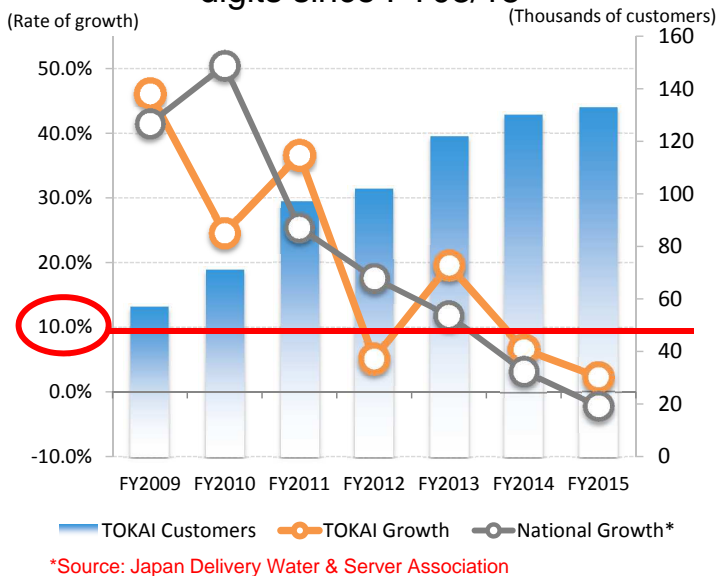


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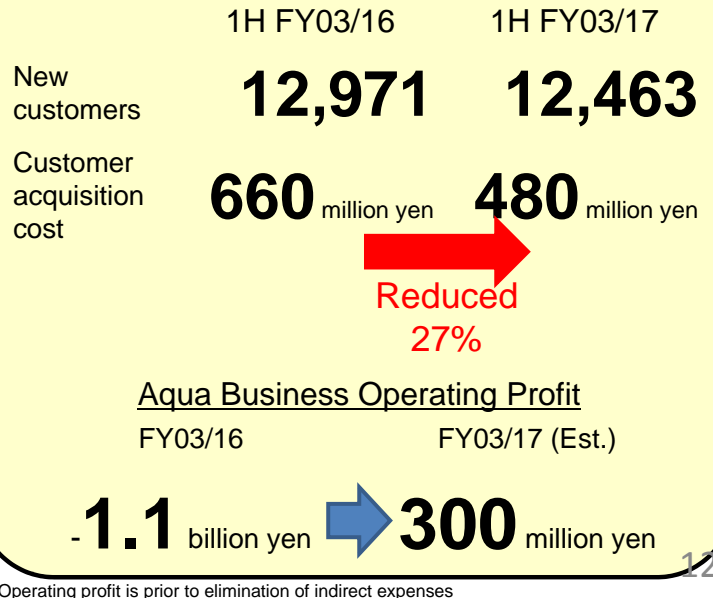
Profit Contribution from Bottled Water Delivery Business with Efficiency Model

- As market growth was in single digits from FY03/15 and flattened in FY03/16, a transition was made to efficient customer acquisition (emphasis on cost effectiveness) from FY03/17, resulting in profitability over the interim period
- While new customer count was largely maintained year-on-year, acquisition costs were reduced by 27%, and full-year forecasts are projected to be achieved
- Through a strategy to focus on efficient markets, gradual growth is hoped to result in a steady contribution to profits

Market customer count growth in single digits since FY03/15

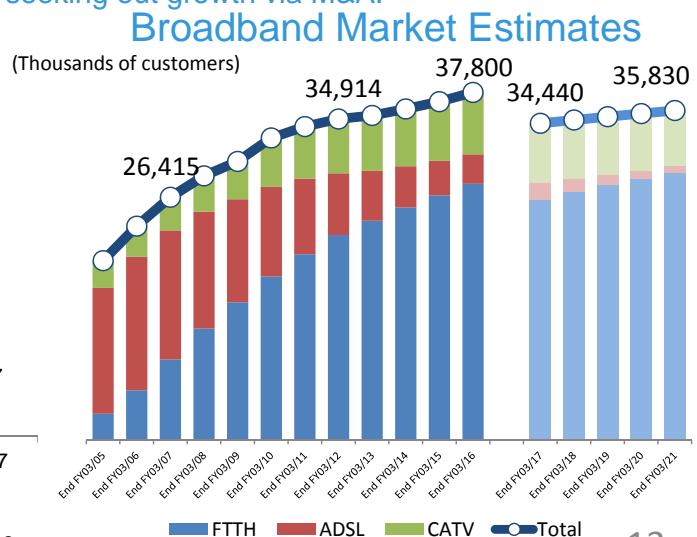
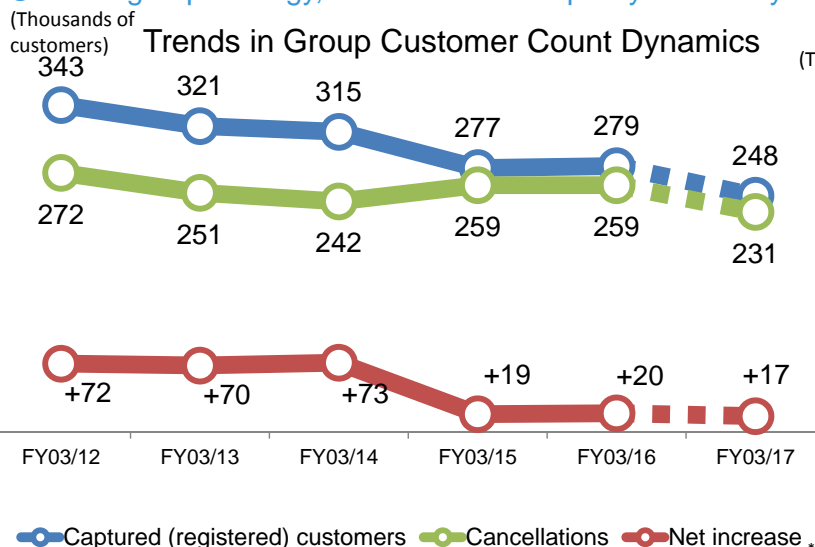


Shift to focus on sales efficiency



Stagnation in Customer Count Growth

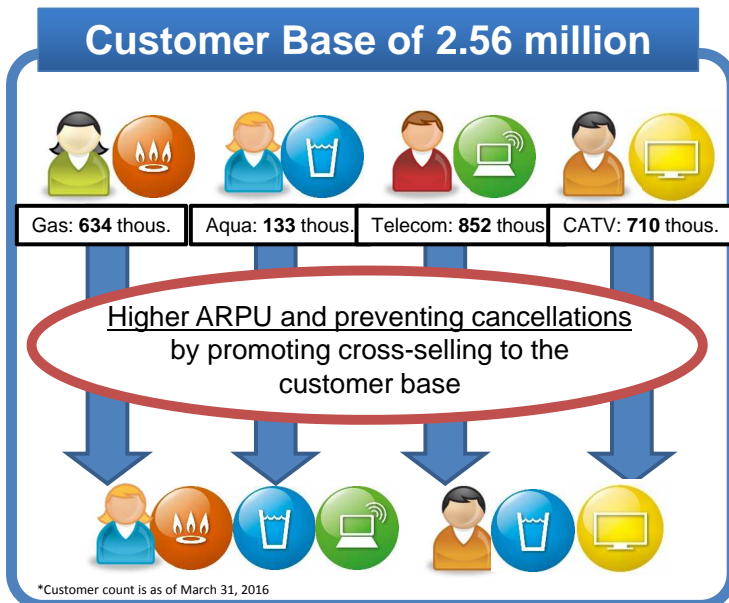
- From a net increase of 70 thousand customers per year from FY03/12 to FY03/14, growth has slowed to a net gain of 20 thousand customers per year during the past three years.
- The primary factor is saturation in the broadband market, which had led the way for customer growth (net increase of 43 thousand customers per year from FY03/12 to FY03/14; net decrease of 7 thousand customers per year from FY03/15 to FY03/17).
- The Gas and CATV businesses have already turned their numbers positive, and with two consecutive years of gains, growth will be actively pursued. Meanwhile, new services will be added for the telecommunications business.
- As a group strategy, TOKAI will hold a policy of actively seeking out growth via M&A.



*Figures until end-FY03/16 as announced by the Ministry of Internal Affairs and Communications
*End-FY03/17 onward as forecast by "IT Navigator FY2016," published by the Nomura Research Institute

Promoting TLC

- ◎ TLC Concept: Providing one-stop, one-contract lifestyle infrastructure services through groupwide promotion
- ◎ By promoting thorough cross-selling to the nationwide customer base of 2.56 million customers, work to increase ARPU and prevent cancellations through the benefits of TLC Membership Service loyalty points
- ◎ In groupwide cross-selling efforts, TOKAI launched the “Bundle Multiple TLC Services for Points Campaign” in October 2016. By increasing the benefits of loyalty points to new customers subscribing to multiple services, aim to improve recognition and use of the loyalty point service while expanding use of multiple services
- ◎ Since April 2016, promotion has been underway to improve branding and recognition via television commercials featuring TLC



Launch of Cross-selling Campaign

- Launched as a groupwide campaign in October 2016
- For additional service contracts during the contract period, provide 200 points per month for the duration of the contract

*For campaign details, please see the website, etc.

Serial Television Commercials

- The “Tamaranai” series of commercials (seven versions) have been aired since April 2016
- Promote the TLC Membership Service and improve its recognition
- Improve recognition of the variety of group services offered and advertise the “Bundle Multiple TLC Services for Points Campaign”

Views on General Framework for the Next Medium-Term Management Plan

●Period

The four years from 2017 to 2020

●Key challenges

- Expanding customer base in core businesses
- Promoting comprehensive strengths of TLC
- Promoting M&A

●Groupwide policy

Shift from strengthening financial standing to a focus on investment in growth

Appendix

- (1) Consolidated results
- (2) Sales by segment
- (3) Operating profit by segment
- (4) Consolidated financial indicators
- (5) Consolidated cash flows
- (6) Group customer count

(1) Consolidated results

(Millions of yen)

	1H FY03/12 Results	1H FY03/13 Results	1H FY03/14 Results	1H FY03/15 Results	1H FY03/16 Results	1H FY03/17 Results
Sales	82,586	83,610	84,315	87,274	84,773	82,201
Operating profit	2,200	2,573	411	1,816	1,856	4,406
Recurring profit	1,646	2,155	303	1,585	1,779	4,428
Quarterly net income	-39	331	-354	225	277	2,384
EPS (Yen)	-0.39	3.32	-3.10	1.96	2.39	21.00

(2) Sales by segment

(Millions of yen)

	1H FY03/12 Results	1H FY03/13 Results	1H FY03/14 Results	1H FY03/15 Results	1H FY03/16 Results	1H FY03/17 Results
Gas and Petroleum	41,844	42,600	41,846	42,754	37,958	32,496
Information and Communications	18,305	18,488	18,868	19,546	20,425	23,750
CATV	12,108	11,840	12,049	12,144	12,212	12,560
Building and Real Estate	6,216	6,541	7,250	8,197	9,301	8,040
Aqua	1,776	1,929	2,102	2,423	2,746	2,929
Others	2,334	2,211	2,196	2,207	2,128	2,423
Total	82,586	83,610	84,315	87,274	84,773	82,201

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(3) Operating profit by segment

(Millions of yen)

	1H FY03/12 Results	1H FY03/13 Results	1H FY03/14 Results	1H FY03/15 Results	1H FY03/16 Results	1H FY03/17 Results
Gas and Petroleum	1,298	1,812	1,173	2,028	2,661	2,838
Information and Communications	2,737	2,629	1,958	2,389	1,086	1,910
CATV	1,033	834	904	843	968	1,451
Building and Real Estate	126	69	249	143	347	324
Aqua	-531	-393	-1,318	-979	-616	201
Others, adjustments	-2,462	-2,379	-2,556	-2,608	-2,590	-2,318
Total	2,200	2,573	411	1,816	1,856	4,406

*Prior to elimination of indirect expenses

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(4) Consolidated financial indicators

(Millions of yen)

	1H FY03/12 Results	1H FY03/13 Results	1H FY03/14 Results	1H FY03/15 Results	1H FY03/16 Results	1H FY03/17 Results
Total assets	185,770	171,914	168,296	164,477	160,237	153,384
Total liabilities	161,352	144,911	134,983	125,521	117,722	109,380
Total net assets	24,418	27,002	33,313	38,956	42,514	44,004
Balance of interest-bearing debt	116,845	100,715	90,487	80,930	76,253	65,761
EBITDA	11,057	11,288	9,168	10,494	10,231	12,217
Equity ratio	12.7 %	15.2 %	19.3 %	23.1 %	25.9 %	28.2 %

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(5) Consolidated cash flows

(Millions of yen)

	1H FY03/12 Results	1H FY03/13 Results	1H FY03/14 Results	1H FY03/15 Results	1H FY03/16 Results	1H FY03/17 Results
Operating cash flow	11,493	12,533	10,043	11,476	4,412	12,039
Investment cash flow	-4,824	-4,657	-5,049	-4,515	-5,289	-4,668
Free cash flow	6,669	7,876	4,994	6,961	-876	7,370
Financing cash flow	-10,283	-7,717	-6,378	-8,021	236	-8,833

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(6) Group customer count

(Thousands of customers)

		1H FY03/12 Results	1H FY03/13 Results	1H FY03/14 Results	1H FY03/15 Results	1H FY03/16 Results	1H FY03/17 Results
Gas (LP and city gas)		668	635	629	626	627	634
Information and Communications	Previous ISP model, etc.	729	785	841	861	742	565
	Hikari Collaboration	—	—	—	—	117	272
	Mobile	180	202	221	231	234	234
	Subtotal	909	986	1,062	1,093	1,093	1,071
CATV		727	686	693	690	698	722
Aqua		95	102	120	132	132	135
Security		21	20	19	18	18	17
Total		2,398	2,405	2,498	2,535	2,543	2,554

*The number of customers under a thousand are rounded to the nearest thousand. Information and Communications and CATV both offer communications services, and so their numbers are excluded from total figures.

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The performance forecasts and forward-looking statements in these materials are based on information currently available to the company, and include potential risks and uncertainties. Please be aware that due to changes in a variety of factors, actual results may differ materially from the projections and other forward-looking statements in these materials.

Please contact us with any questions regarding these materials.

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