



October 31, 2017

TOKAI Holdings Corporation
Katsuhiko Tokita, President & CEO
(Code No. 3167 Tokyo Stock Exchange First Section)

To whom it may concern

Financial Results for the First Half of the Fiscal Year Ending March 31, 2018

Lower Profits on Upfront Costs to Acquire Customers, but Steady Progress with Earnings Base Expansion

TOKAI Holdings Corporation (hereinafter, the “Company”) today announced its financial results for the first half of the fiscal year ending March 31, 2018 (April 1, 2017 to September 30, 2017).

1. Customer Numbers Up Sharply by More than 260 Thousand

In May 2017, the Company announced its third medium-term management plan Innovation Plan 2020 “JUMP” and growth strategies to attain plan targets. This entails investing a total of 100 billion yen over four years in M&A and pursuing an aggressive alliance strategy in addition to making progress with existing priorities such as increasing the number of continuing customers and multiple contracts based on the “Total Life Concierge” (TLC) concept and expanding service areas. The plan targets roughly double the number of customers, sales, and operating profit in the fiscal year ending March 31, 2021 versus the fiscal year ended March 31, 2017.

In the first half of the fiscal year ending March 31, 2018, the Company spent upfront costs to implement an aggressive sales program to increase the number of customers, which forms its earnings base, with a view to attaining medium-term management plan targets. As a result, the customer count was 2,827 thousand as of September 30, 2017, increasing by 263 thousand (10.3%) from March 31, 2017, to expand the Company’s earnings base.

The customer count exceeded the initial target due to bringing forward the M&A of Tokyo Bay Network Co., Ltd. In addition, the net increase in customer count at existing businesses (not including newly acquired companies) was more than double the net increase during the fiscal year ended March 2017.

The net increase in customer count broken down by main services is as follows: Gas (LP and city gas) 6,149 (versus a net decrease of 227 in the first half of the previous fiscal year); CATV 261,353 (versus a net increase of 11,682), due in part to the effect of acquiring Tokyo Bay Network; and Aqua 6,057 (versus a net increase of 1,503). The net decrease in customers of the Information and Communications business was limited to approximately 40% year-on-year thanks to the contribution of new customers of the LIBMO MVNO service launched in February 2017.

2. Upfront Spending to Expand Earnings Base by Aggressive Sales Program

In the first half of the fiscal year ending March 31, 2018, sales were up by 2.7 billion yen (3.3%) year-on-year to 84.9 billion yen due to an increase in customer numbers and Tokyo Bay Network M&A effect, although operating profit was down by 1.3 billion yen (29%) to 3.1 billion yen due to increased costs to acquire new customers and prevent service cancellations as expected.

Operating profit came in 400 million yen ahead of the initial consolidated earnings target because of stronger-than-expected performance of the CATV business and communications services to corporate customers.

(Millions of yen)

	1H FY03/18 (April 1, 2017 to September 30, 2017)	1H FY03/17 (April 1, 2016 to September 30, 2016)	Forecast (April 1, 2017 to September 30, 2017)	Year-on-year	Versus forecast
Sales	84,911	82,201	86,000	+2,709	-1,089
Operating profit	3,114	4,406	2,710	-1,291	+404
Recurring profit	3,143	4,428	2,650	-1,284	+493
Quarterly net income	1,246	2,384	1,080	-1,137	+166
EPS (Yen)	9.76	21.00	8.52	-11.24	+1.24

3. Ongoing Progress with Improvement of Financial Position

The Company improved its equity ratio by 1.5 percentage points from 34.5% at the end of the previous fiscal year to 36.0% as a result of booking quarterly net income and progress with the conversion of convertible bonds.

Free cash flow was down year-on-year, because of upfront spending to aggressively build up the customer base, but the balance of interest-bearing liabilities has only increased marginally since the start of the fiscal year ending March 31, 2018 owing to the conversion of convertible bonds. The Company has maintained an interest-bearing debt/EBITDA ratio at around 2.0x, the same level as the previous fiscal year.

4. Consolidated Earnings and Dividend Forecasts for the Fiscal Year Ending March 31, 2018

As announced on May 9, 2017, forecasts for the fiscal year ending March 31, 2018 anticipate operating profit of 11.4 billion yen (down 1.3 billion yen year-on-year) on investment to increase the earnings base for future growth, such as LP gas service area expansion, promotion of new services in the Information and Communications business, and measures to prevent retail customer cancellations. The Company has made no changes to the consolidated earnings and dividend forecasts for the fiscal year ending March 31, 2018.

The Company plans to maintain an annual dividend total of 28 yen per share (the annual dividend total in the fiscal year ended March 31, 2017 was 28 yen per share, including a commemorative dividend of six yen per share).

(Millions of yen)

	FY03/18 Forecast (April 1, 2017 to March 31, 2018)	FY03/17 Results (April 1, 2016 to March 31, 2017)	YoY	
			Change	Percent Change
Sales	189,400	178,631	+10,769	+6.0%
Operating profit	11,410	12,750	-1,340	-10.5%
Recurring profit	11,360	12,775	-1,415	-11.1%
Net income	6,450	7,337	-887	-12.1%
EPS (Yen)	50.88	64.46	-13.58	-21.1%

	FY03/18 (Forecast)	FY03/17
End of Q2 (Yen)	14.00	11.00
Year-end (Yen)	14.00	17.00
Annual dividend total (Yen)	28.00	28.00
Consolidated payout ratio	55.0%	43.4%

Note: The year-end dividend for FY03/17 was an ordinary dividend of 11.00 yen plus a commemorative dividend of 6.00 yen.

For details, please see the attached materials, entitled “Financial Results for the First Half of the Fiscal Year Ending March 31, 2018.”

Furthermore, for the Company’s first half earnings announcement for the year ending March 31, 2018, please see the following URL.

<http://tokaiholdings.co.jp/english/ir/library/earnings.html>

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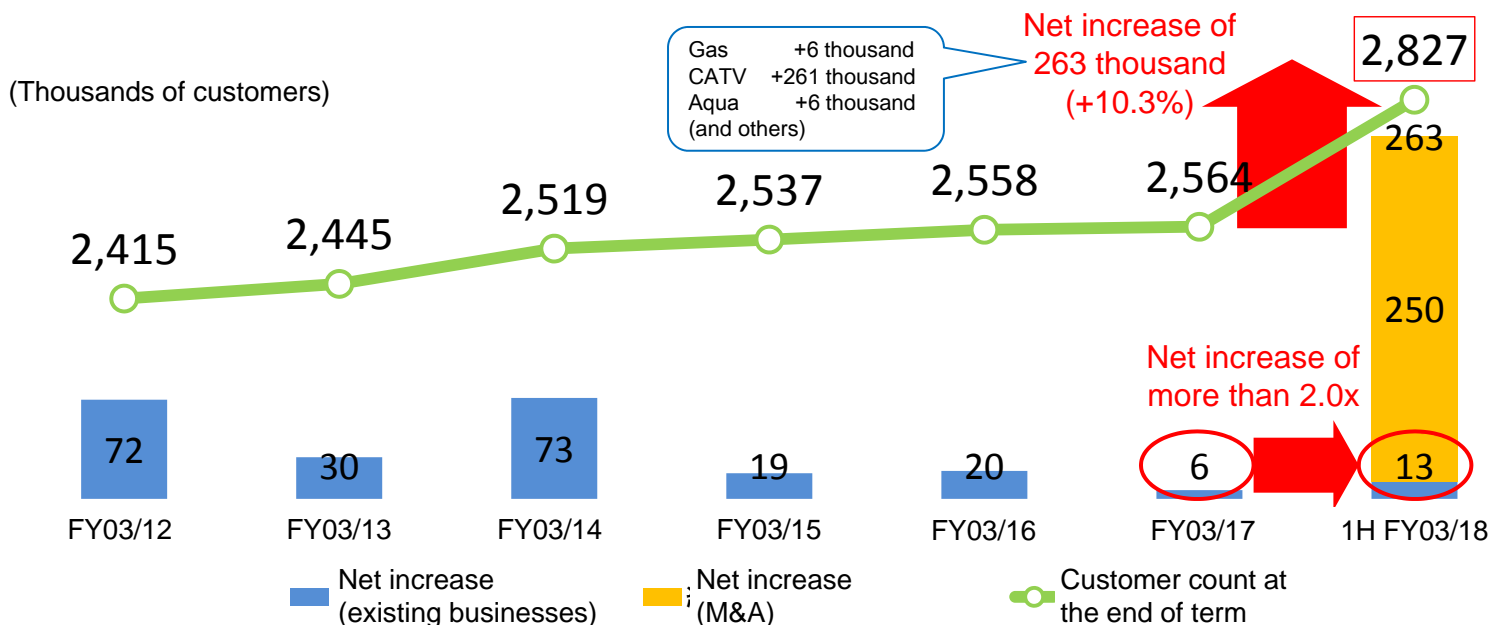
Financial Results for the First Half of the Fiscal Year Ending March 31, 2018

TOKAI Holdings Corporation
(Code: 3167)

October 31, 2017

Customer count up a sharp 260 thousand from start of FY03/18

- ◎ Net increase of customer count in existing businesses (excluding M&A) of more than 2.0x from 6 thousand in full-year FY03/17 to 13 thousand in 1H FY03/18
- ◎ Exceeded initial target on bringing forward M&A of Tokyo Bay Network
- ◎ Will lead to earnings growth due to increase in customer paying monthly fees from Q3 onward



Lower profits on higher sales as expected in 1H

- ◎ Sales up by 2.7 billion yen (+3.3%) YoY, due in part to Tokyo Bay Network M&A effect (700 million yen)
- ◎ Operating profit down due to 2.0 billion yen in upfront spending to acquire new customers and launch new services, but exceeded initial target by 400 million yen (14.9%) on stronger-than-expected growth of customer base and performance of CATV and communications services to corporate customers

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

	1H FY03/18 Results	1H FY03/17 Results	Initial forecasts	YoY change		Versus initial forecasts	
				Amount of change	Percent change (%)	Amount of change	Percent change (%)
Sales	84,911	82,201	86,000	+2,709	+3.3	-1,089	-1.3
Operating profit	3,114	4,406	2,710	-1,291	-29.3	+404	+14.9
Recurring profit	3,143	4,428	2,650	-1,284	-29.0	+493	+18.6
Net income	1,246	2,384	1,080	-1,137	-47.7	+166	+15.4
EPS (Yen)	9.76	21.00	8.52	-11.24	-53.5	+1.24	+14.6

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Taking advantage of strengthened equity capital to invest for growth

- ◎ Equity ratio up on progress with conversion of convertible bonds and sustained quarterly net profit growth
- ◎ FCF: 2.0 billion yen upfront spending to acquire new customers and launch new services, and aggressive investment in business expansion such as 1.2 billion on Tokyo Bay Network M&A
- ◎ Maintains interest-bearing debt/EBITDA ratio at 2.0x

Equity ratio	34.5 % As of March 31, 2017	➡	36.0 % As of September 30, 2017
Balance of interest-bearing debt	54.1 billion yen As of March 31, 2017	➡	55.0 billion yen As of September 30, 2017
Operating cash flow	12.0 billion yen 1H FY03/17	➡	7.9 billion yen 1H FY03/18
Investment cash flow	-4.7 billion yen 1H FY03/17	➡	-6.9 billion yen 1H FY03/18
Free cash flow	7.4 billion yen 1H FY03/17	➡	1.0 billion yen 1H FY03/18
Interest-bearing debt/EBITDA ratio	2.0 x FY03/17	➡	2.0 x 1H FY03/18

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Full-year forecast

- © Forecasts 1.3 billion yen year-on-year operating profit decline in FY03/18 due to upfront spending on expanding service areas, sales promotion of new information services, and preventing service cancellations by retail customers with a view to expanding earnings base for future growth
- © No change to full-year consolidated earnings forecast announced on May 9, 2017

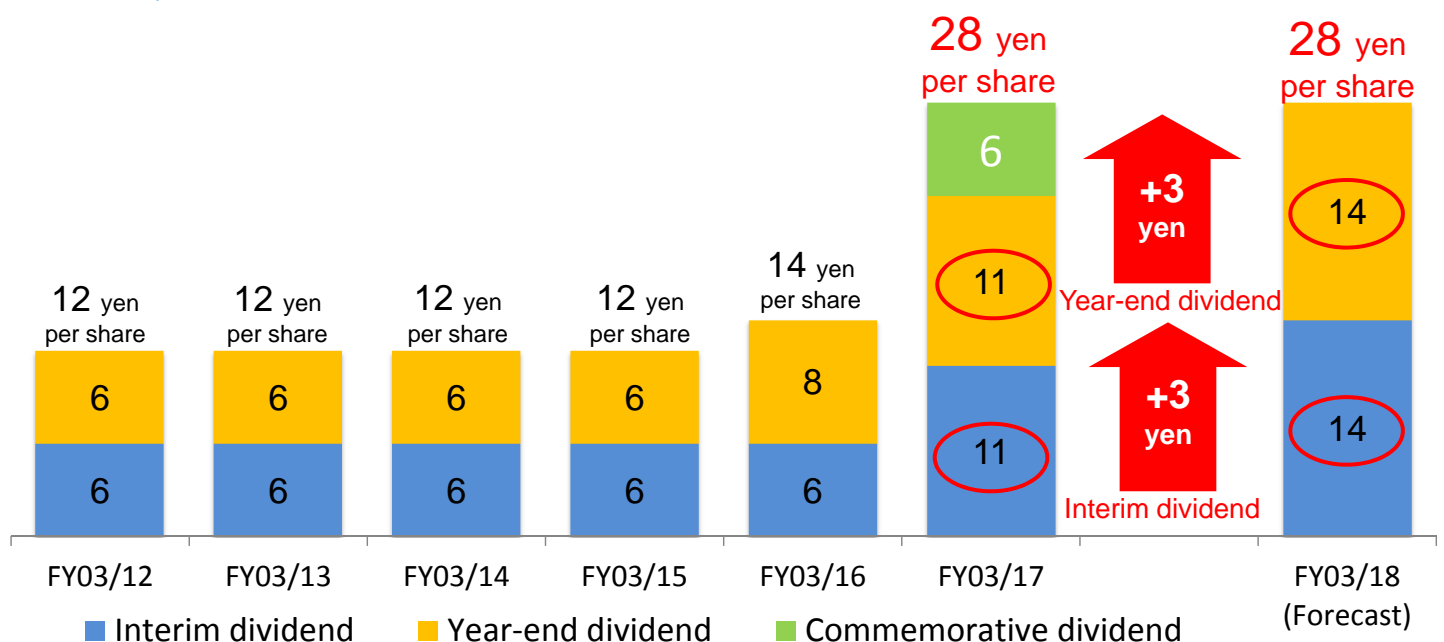
(Millions of yen)

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Recurring profit	11,360	12,775	-1,415	-11.1%
Net income	6,450	7,337	-887	-12.1%
EPS (Yen)	50.88	64.46	-13.58	-21.1%

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Dividend forecast

- © Interim dividend is 14 yen per share, up 3 yen from 11 yen per share in previous fiscal year
- © Year-end dividend unchanged from initial forecast of 14 yen per share to maintain previous fiscal year's annual dividend of 28 yen per share (previous fiscal year's year-end dividend of 17 yen per share was ordinary dividend of 11 yen per share + commemorative dividend of 6 yen per share)



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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 FY03/13 Results	1H FY03/14 Results	1H FY03/15 Results	1H FY03/16 Results	1H FY03/17 Results	1H FY03/18 Results
Sales	83,610	84,315	87,274	84,773	82,201	84,911
Operating profit	2,573	411	1,816	1,856	4,406	3,114
Recurring profit	2,155	303	1,585	1,779	4,428	3,143
Net income	331	-354	225	277	2,384	1,246
EPS (Yen)	3.32	-3.10	1.96	2.39	21.00	9.76

(2) Sales by segment

(Millions of yen)

	1H FY03/13 Results	1H FY03/14 Results	1H FY03/15 Results	1H FY03/16 Results	1H FY03/17 Results	1H FY03/18 Results
Gas and Petroleum	42,600	41,846	42,754	37,958	32,496	32,777
Information and Communications	18,488	18,868	19,546	20,425	23,750	24,906
CATV	11,840	12,049	12,144	12,212	12,560	13,607
Building and Real Estate	6,541	7,250	8,197	9,301	8,040	8,349
Aqua	1,929	2,102	2,423	2,746	2,929	3,055
Others	2,211	2,196	2,207	2,128	2,423	2,214
Total	83,610	84,315	87,274	84,773	82,201	84,911

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(3) Operating profit by segment

(Millions of yen)

	1H FY03/13 Results	1H FY03/14 Results	1H FY03/15 Results	1H FY03/16 Results	1H FY03/17 Results	1H FY03/18 Results
Gas and Petroleum	1,812	1,173	2,028	2,661	2,838	1,562
Information and Communications	2,629	1,958	2,389	1,086	1,910	1,541
CATV	834	904	843	968	1,451	1,769
Building and Real Estate	69	249	143	347	324	388
Aqua	-393	-1,318	-979	-616	201	135
Others, adjustments	-2,379	-2,556	-2,608	-2,590	-2,318	-2,282
Total	2,573	411	1,816	1,856	4,406	3,114

*Prior to elimination of indirect expenses

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(4) Consolidated financial indicators

(Millions of yen)

	1H FY03/13 Results	1H FY03/14 Results	1H FY03/15 Results	1H FY03/16 Results	1H FY03/17 Results	1H FY03/18 Results
Total assets	171,914	168,296	164,477	160,237	153,384	160,497
Total liabilities	144,911	134,983	125,521	117,722	109,380	101,674
Total net assets	27,002	33,313	38,956	42,514	44,004	58,822
Balance of interest-bearing debt	100,715	90,487	80,930	76,253	65,761	55,019
EBITDA	11,288	9,170	10,495	10,231	12,217	10,764
Equity ratio	15.2 %	19.3 %	23.1 %	25.9 %	28.2 %	36.0 %

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(5) Consolidated cash flows

(Millions of yen)

	1H FY03/13 Results	1H FY03/14 Results	1H FY03/15 Results	1H FY03/16 Results	1H FY03/17 Results	1H FY03/18 Results
Operating cash flow	12,533	10,043	11,476	4,412	12,039	7,888
Investment cash flow	-4,657	-5,049	-4,515	-5,289	-4,668	-6,931
Free cash flow	7,876	4,993	6,961	-876	7,370	957
Financing cash flow	-7,717	-6,378	-8,021	236	-8,833	-1,427

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(6) Group customer count

(Thousands of customers)

		1H FY03/13 Results	1H FY03/14 Results	1H FY03/15 Results	1H FY03/16 Results	1H FY03/17 Results	1H FY03/18 Results
Gas (LP and city gas)		635	629	626	627	634	648
Information and Communications	Previous ISP model, etc.	785	841	861	742	565	504
	Hikari Collaboration	—	—	—	117	272	315
	Mobile	202	221	231	234	234	231
	Subtotal	986	1,062	1,093	1,093	1,071	1,050
CATV		686	693	690	698	722	995
Aqua		102	120	132	132	135	141
Security		20	19	18	18	17	17
Total		2,405	2,498	2,535	2,543	2,554	2,827

*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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うれしいをつなぐ。ひろげる。

