

IR Discussion Material

About the TOKAI Group



Energy (LP gas or city gas)

- Number of LP Gas Direct Sales Consumers: No. 3 in Industry (*1)



Communication (Fixed broadband) (ISP)

- Internet Service Provider Sales: No. 4 in Industry (*2)



Communication (Mobile)



Communication (Information and communication services for companies)



CATV

- CATV Sales in Urban Areas: No. 3 in Industry (*3)



Aqua

- No. of Customers in the Water Delivery Business: No. 6 in Industry (*4)



Housing construction and renovation



Security

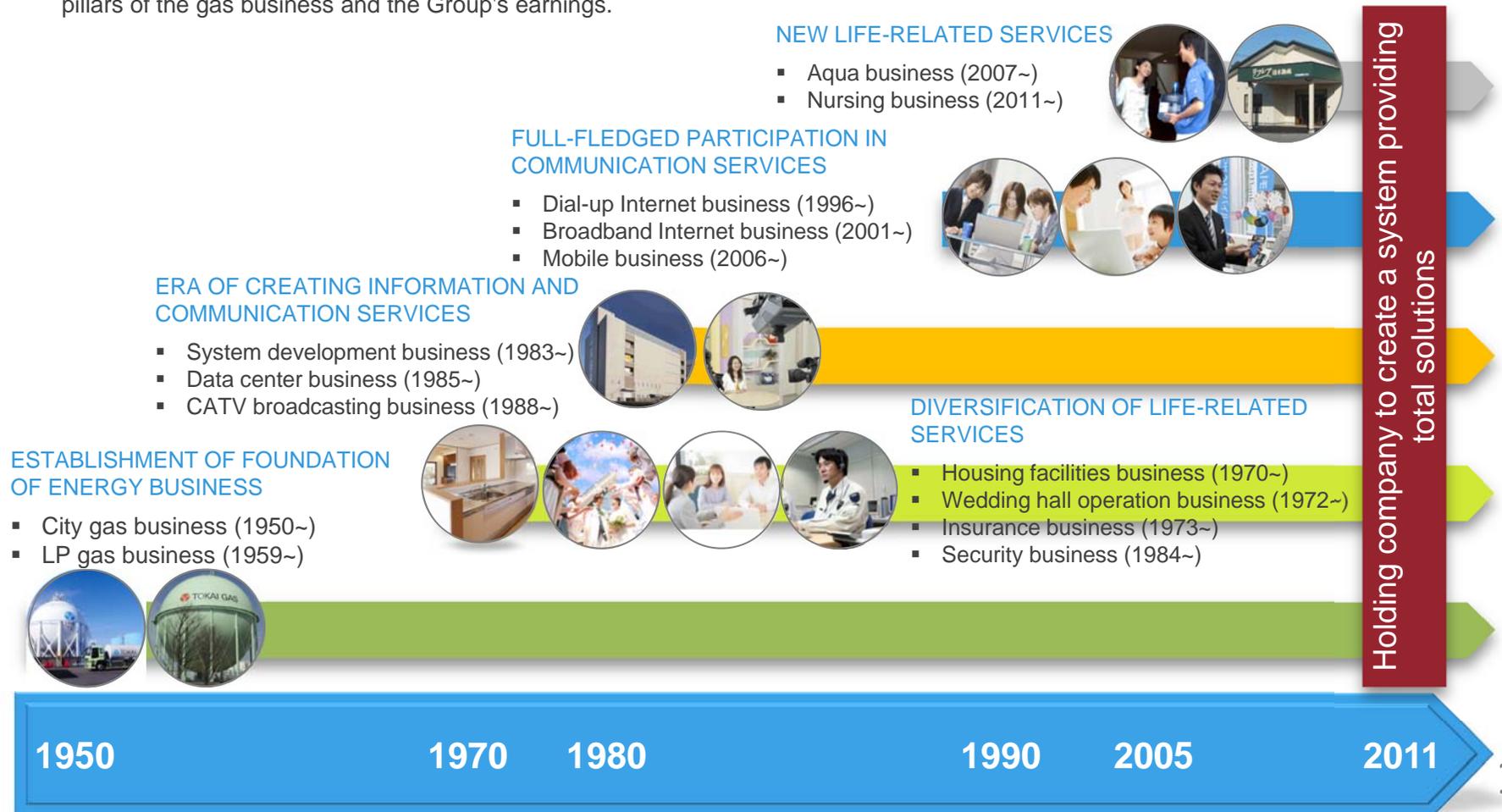


Nursing, bridal and other businesses

A Group Providing People with Lifelines

A history of our continuous expansion of energy and other services indispensable for people's lives

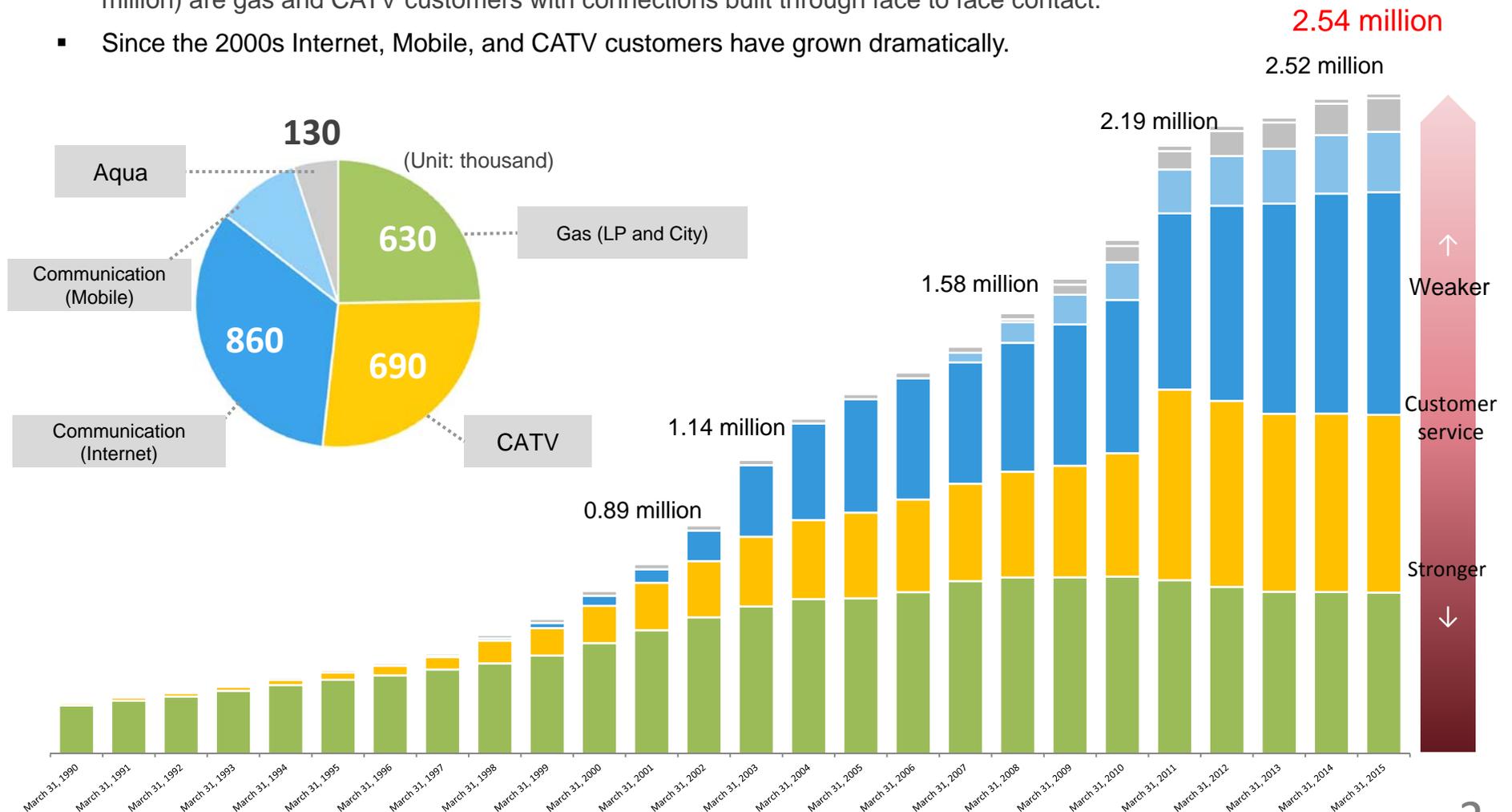
- TOKAI was founded in 1950. Engaged in a range of services from city gas to LP gas, we expanded our business area from Shizuoka Prefecture to the entire Kanto region. Moreover, we diversified into offering a wide variety of life-related services in the era of advanced growth. We are now vigorously developing our Aqua and nursing services in new fields.
- Information and communication services, in which we have engaged in a full-fledged manner since the 1980s, have now grown into pillars of the gas business and the Group's earnings.



Number of Retail Customers of the Group

Robust earnings base of Group derived from monthly fee income from ongoing customer transactions

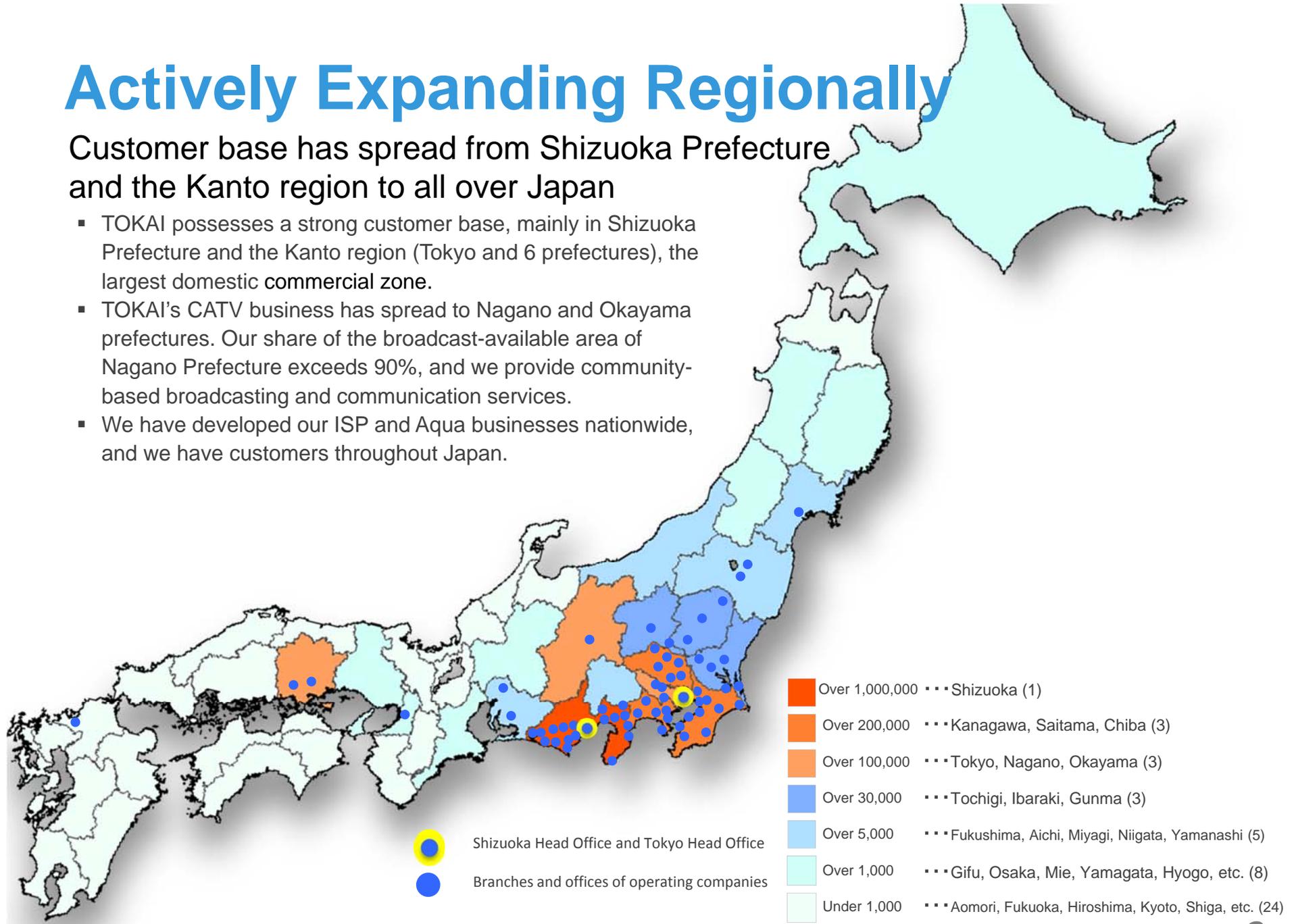
- As of March 31, 2015, the number of retail customers was 2.54 million. Of these, over 50% (1.32 million) are gas and CATV customers with connections built through face to face contact.
- Since the 2000s Internet, Mobile, and CATV customers have grown dramatically.



Actively Expanding Regionally

Customer base has spread from Shizuoka Prefecture and the Kanto region to all over Japan

- TOKAI possesses a strong customer base, mainly in Shizuoka Prefecture and the Kanto region (Tokyo and 6 prefectures), the largest domestic commercial zone.
- TOKAI's CATV business has spread to Nagano and Okayama prefectures. Our share of the broadcast-available area of Nagano Prefecture exceeds 90%, and we provide community-based broadcasting and communication services.
- We have developed our ISP and Aqua businesses nationwide, and we have customers throughout Japan.



Operating Income by Segment

Earnings created by the gas business stabilizes Group earnings and generates cash for growth businesses

- As regards information and communication services, in this fiscal year (FY2015) TOKAI started the full-scale Hikari collaboration*1 and has made upfront expenses (¥3 billion) to strongly uncover and win new customers.
- The CATV business has posted stable earnings, despite the impact of the completion of terrestrial digitization in FY2012. Sales of the FTTH communication service by itself have grown into the broadcast-available households area, and from now on we expect a further expansion of earnings.
- The Aqua business, in which eight years have passed since its launch in FY2007, has been developing nationwide since FY2013, and should go into the black in FY2016.

		FY2011 Result	FY2012 Result	FY2013 Result	FY2014 Result	FY2015 Forecast	FY2016 Plan
Gas and petroleum	(¥ billion)	7.8	7.4	6.5	7.7	7.9	7.5
Information and communication	(¥ billion)	5.5	4.9	4.4	5	2.7	5.2
CATV	(¥ billion)	2.3	1.3	1.8	1.7	1.8	2
Building construction and real estate	(¥ billion)	1	0.6	1.4	1	1.4	1.9
Aqua	(¥ billion)	- 0.9	- 0.9	- 2	- 1.3	- 1	0.2
Other businesses and adjustments	(¥ billion)	- 4.8	- 4.3	- 4.7	- 5	- 5.1	- 4.2
All companies	(¥ billion)	10.9	8.9	7.4	9	7.8	12.6

*1. Hikari collaboration: A model where NTT provides ISP operators and others with optical fiber lines they can use to provide their own-branded optical fiber broadband services.

*2. On basis of before allocation to indirect expenses, etc.

*3. Forecast for FY2015 was disclosed in May 2015. Plan for FY2016 was disclosed in June 2014.

Medium-term Management Plan Innovation Plan 2016 “Growing”

An aggressive plan to raise earnings to record levels in FY2016

- TOKAI regained financial soundness by the FY2011-FY2013 medium-term management plan (Innovation Plan 2013), which had been our maximum concern. Currently, we are proceeding with the next medium-term management plan (FY2014-FY2016): Innovation Plan 2016 “Growing.”
- TOKAI aims to achieve an approximately doubled EPS compared with the end of FY2013 to raise earnings to record levels in FY2016. (Operating income of ¥12.6 billion and net income of ¥6.2 billion.)
- TOKAI also aims to achieve a capital adequacy ratio of about 30%, and plans to have interest-bearing liabilities at the level of half the figure of ¥124 billion, as they were before the Group integration in FY2010.

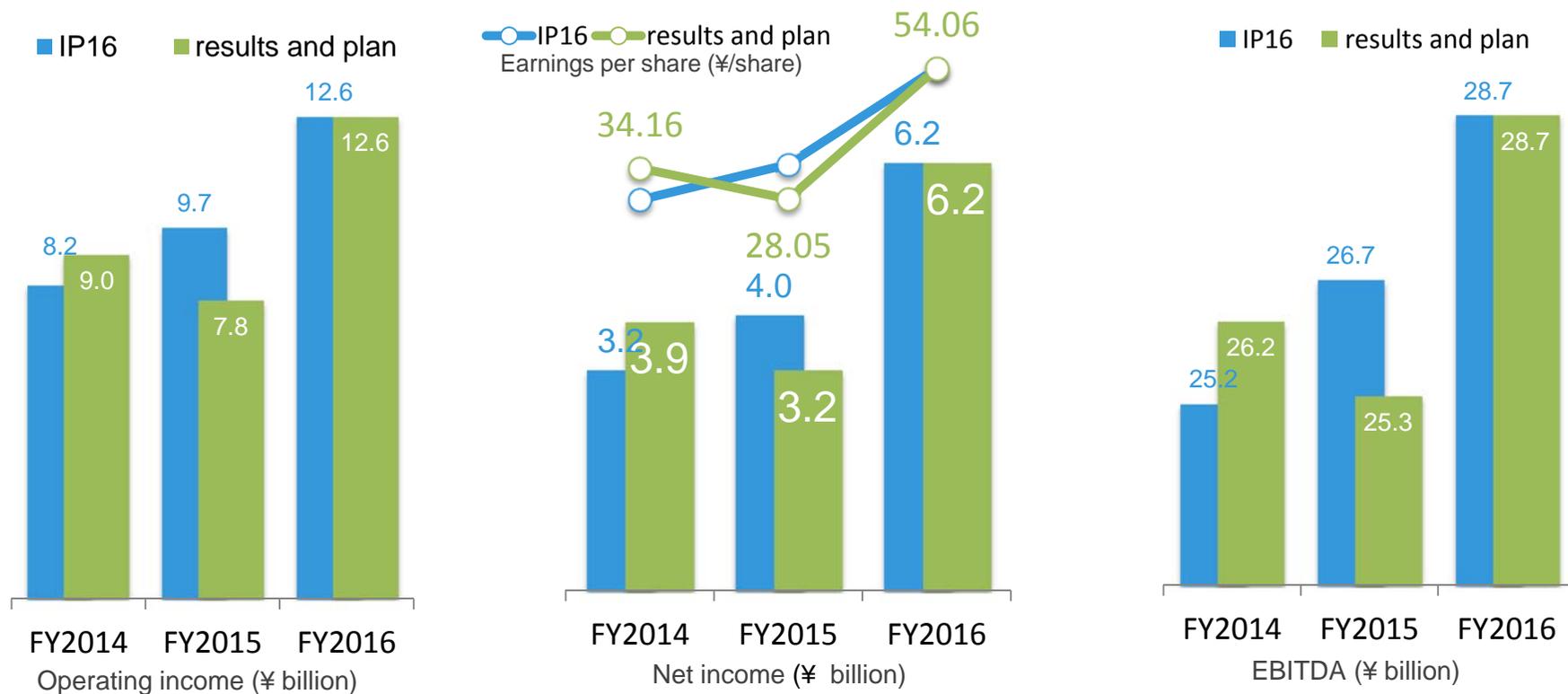
		FY2010 Result	FY2013 Result	FY2014 Plan	FY2015 Plan	FY2016 Plan
Net sales	(¥ billion)	174.9	189	196.9	202.3	209.5
Operating income	(¥ billion)	10.8	7.4	8.2	9.7	12.6
Net income	(¥ billion)	2.2	2.6	3.2	4.0	6.2
Net earnings per share	(¥/share)	30.48	22.67	27.86	34.91	54.06
EBITDA	(¥ billion)	26.3	24.9	25.2	26.7	28.7
Interest-bearing liabilities	(¥ billion)	124	85.8	81.8	74.1	64.7
Capital adequacy ratio	(%)	7.7	21.6	23.0	25.1	28.6

* FY2014-FY2016 plan was disclosed in June 2014

Progress With Medium-term Management Plan (1) Earnings

This fiscal year, the final year of the plan, TOKAI should adequately get the benefit of the advance investment made in sales promotion costs for the fiber optic broadband service collaboration

- In FY2014, net income exceeded the innovation plan IP16 and achieved a record figure. This fiscal year (FY2015), TOKAI started the full-scale Hikari collaboration and will incur one-time reduced earnings due to the current upfront expenses (¥3 billion) for sales activities to win new customers. (From next fiscal year, TOKAI expects increased earnings from fee income and so does not expect any impact on FY2016 earnings.)
- Performance in the first half of FY2015 saw profits significantly exceed initial plans and steady progress is being made toward full-year projections. Uncertainties are inherent in the LP gas business in the second half, so we will defer revising the full-year forecast.
- The main factors for increased earnings from FY2015 to FY2016 are improved earnings in the Aqua business, increased earnings in the Hikari collaboration, increased earnings due to a larger number of customers mainly because of an expanded LP gas area, and reduced expenses due to the end of the amortization of goodwill generated at the time of the management merger.



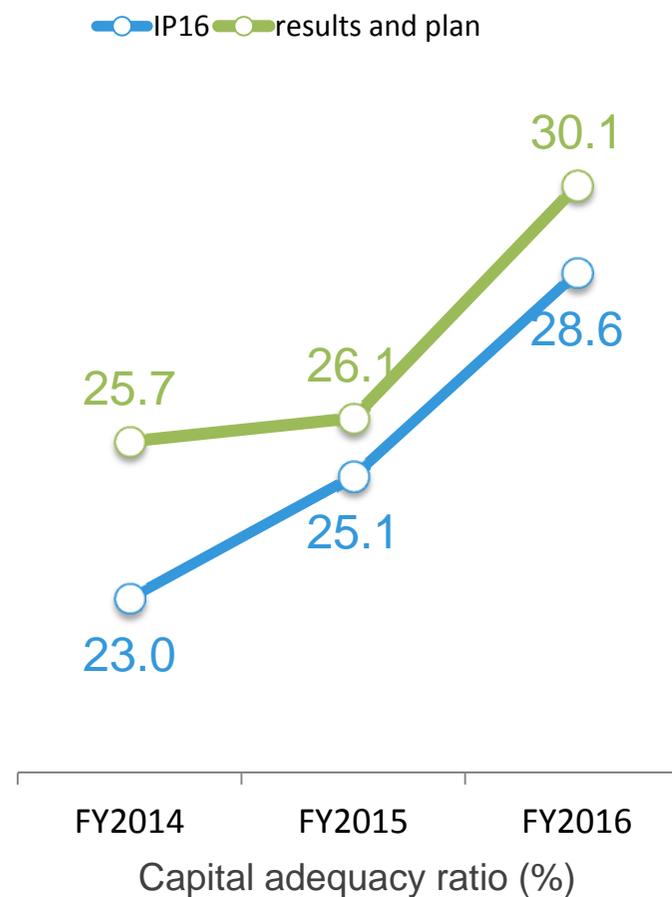
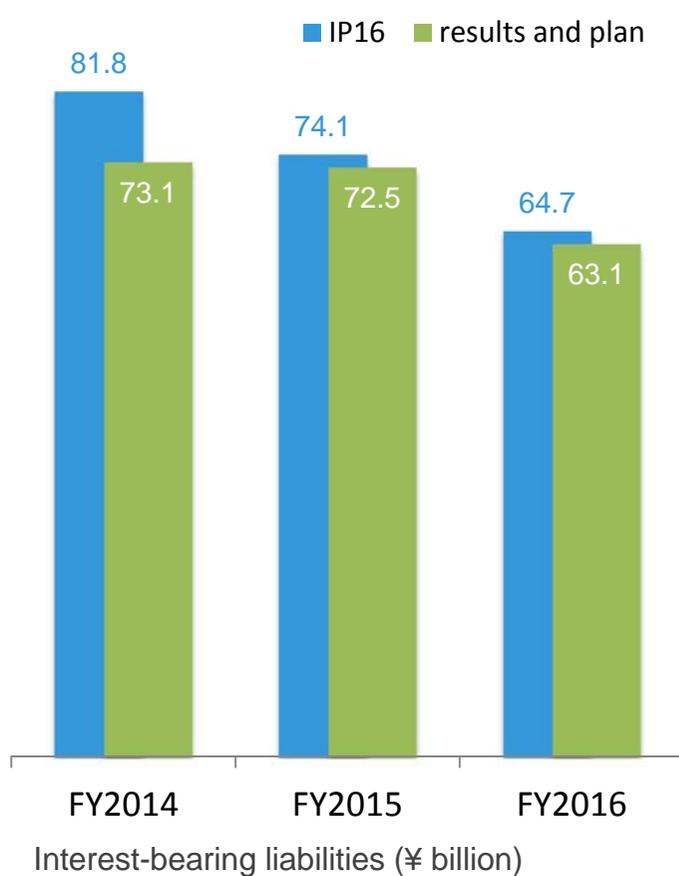
* IP16 was disclosed in June 2014. Actual and Planned denote FY2014 actual results and forecasts for FY2015 (disclosed in May 2015) and FY2016 (disclosed in June 2014)

Progress With Medium-term Management Plan

(2) Financial Conditions

TOKAI expects to achieve the plan targets for improving financial conditions by the end of the first half of FY2015

- The improvement in financial conditions has now exceeded the IP16 pace. TOKAI expects to achieve targets for both capital adequacy ratio and interest-bearing liabilities in FY2015, due to increased net income in FY2014 and to increased operating cash flows.

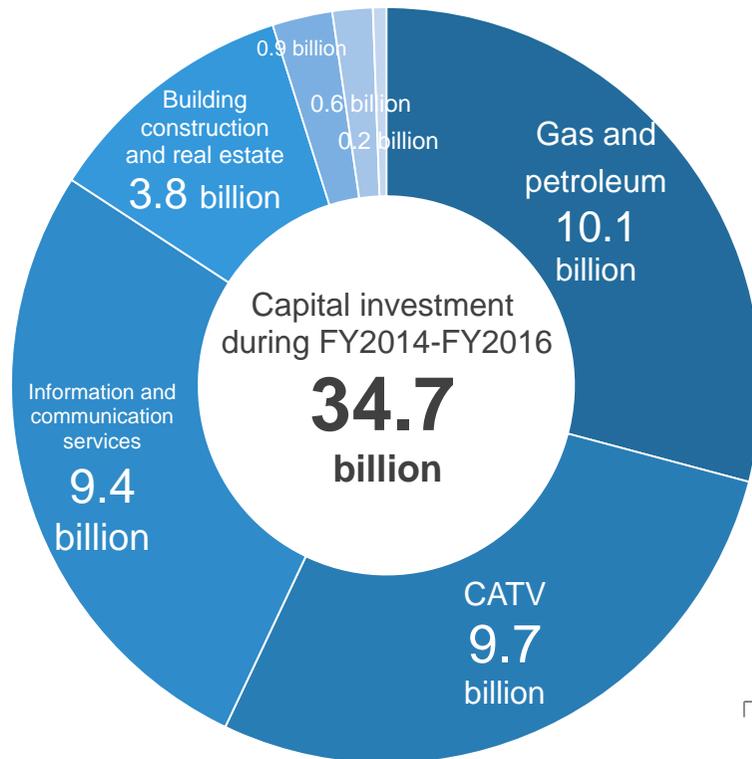


* IP16 was disclosed in June 2014. Actual and Planned denote FY2014 actual results and forecasts for FY2015 (disclosed in May 2015) and FY2016 (figures disclosed in June 2014 from beginning of the period for actual results and reflecting forecasts)

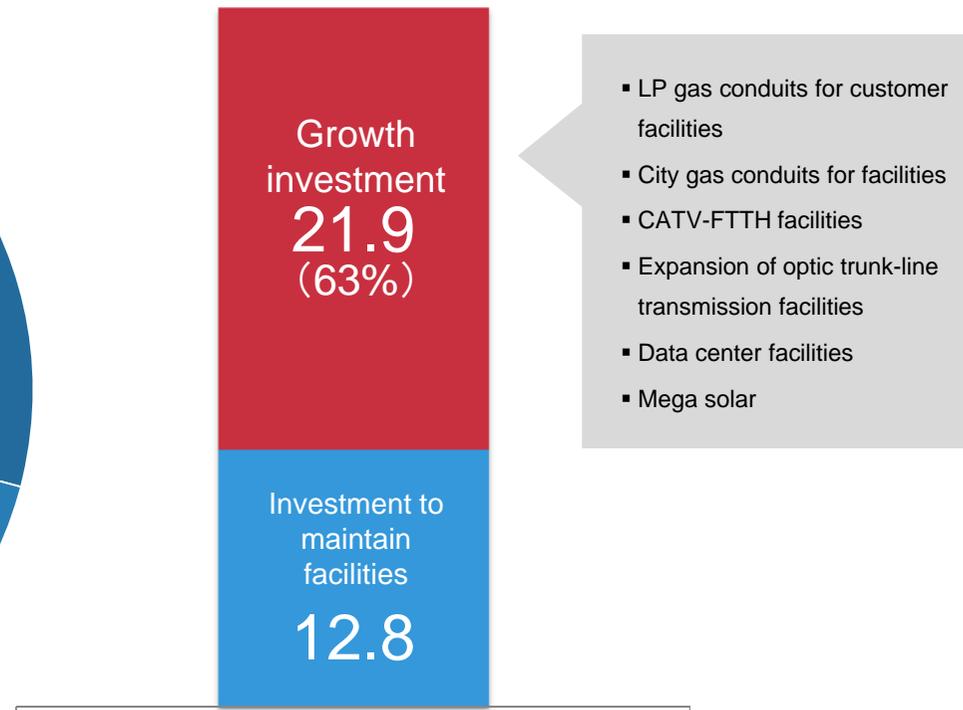
Breakdown of Capital Investment During FY2014-FY2016

TOKAI is investing ¥34.7 billion over 3 years, and is allocating 63% as growth investments to increase the number of retail customers and other businesses

- The main businesses receiving investments are gas and petroleum, CATV, and information a communication services.
- Of this, ¥21.9 billion, or 63%, is growth investment and the remaining ¥12.8 billion will be maintenance investment for existing equipment.
- The main growth investments are directed at the gas business (LP and City), facilities to win new customers in the CATV business, expanding facilities for optic-fiber trunk line transmission to expand communication demand for companies, together with data centers. TOKAI is also investing in mega solar.



* FY2014-FY2016 plan was disclosed in June 2014



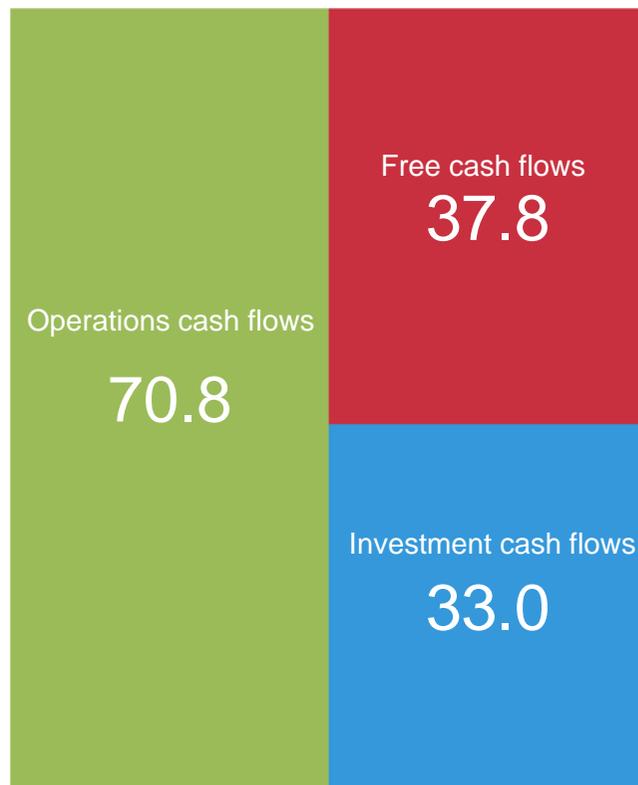
Breakdown of capital investment

FY2014-FY2016 Cash Flows

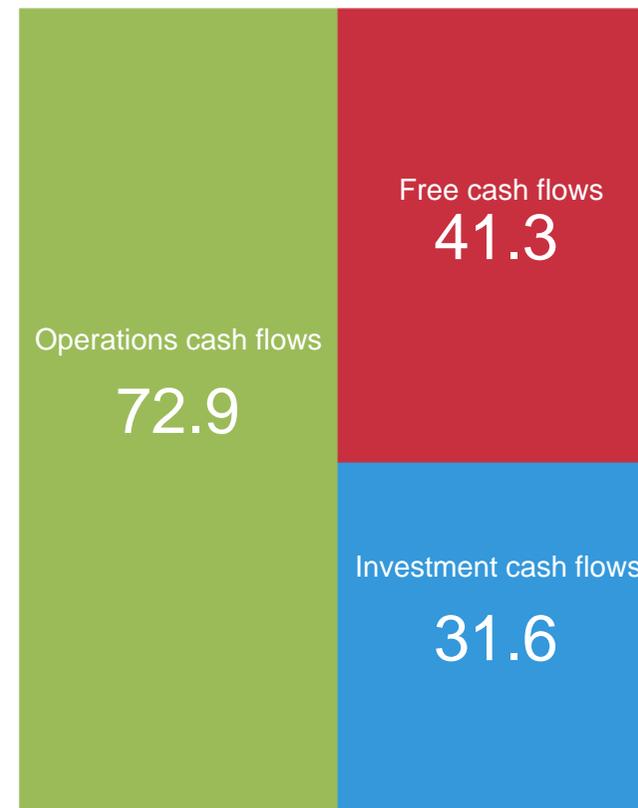
TOKAI has created ¥41.3 billion in free cash flows, as underlying assets for debt repayments or shareholder returns

- As regards cash flows during FY2014-FY2016, operating cash flows should exceed IP16 and free cash flows should also exceed plan targets.
- Free cash flows are forecast to significantly exceed ¥3 billion.

(Units: ¥ billion)



Innovation Plan 2016 "Growing"
(Disclosed in June 2014)



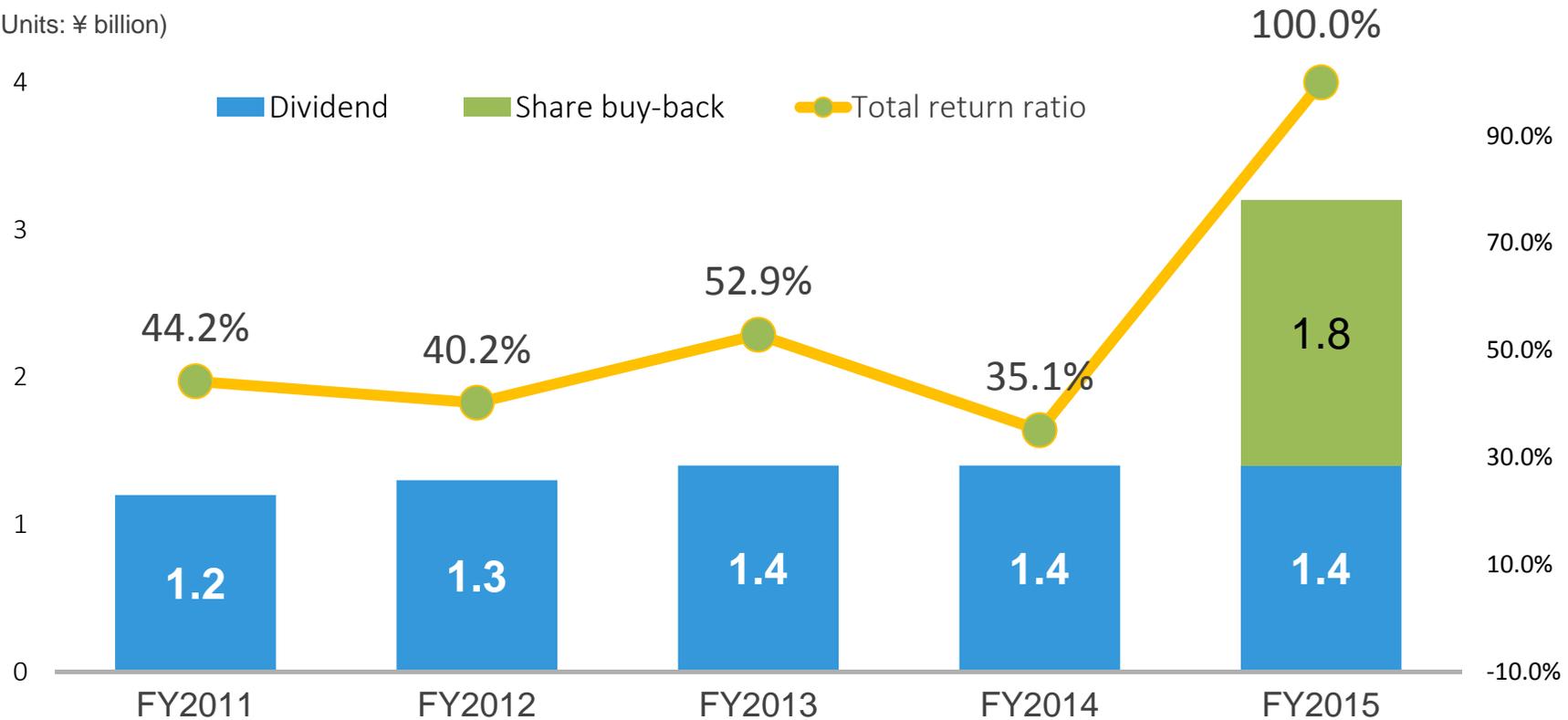
FY2014 results and FY2015-FY2016 plan
(FY2015 forecast was disclosed in May 2015,
FY2016 plan was disclosed in June 2014)

Approach to Shareholder Returns

TOKAI's policy in FY2015 is to achieve a total return ratio of 100%.

- Aiming for a dividend payout ratio of 40%, TOKAI's approach is to achieve stable dividends, and when surplus cash has been generated, we will flexibly return it by purchasing TOKAI shares or alternative methods.
- For FY2015, the annual dividend is expected to be ¥12 (comprising an interim dividend of ¥6 and a year-end dividend of ¥6), and the total dividend amount to be ¥1.4 billion. In addition, we intend to purchase ¥1.8 billion of treasury stock because our business results have been progressing steadily toward the final fiscal year of IP16.
- Moreover, on November 6, 2015, TOKAI canceled 15.52 million of its treasury stock, representing 10% of its issued common shares.

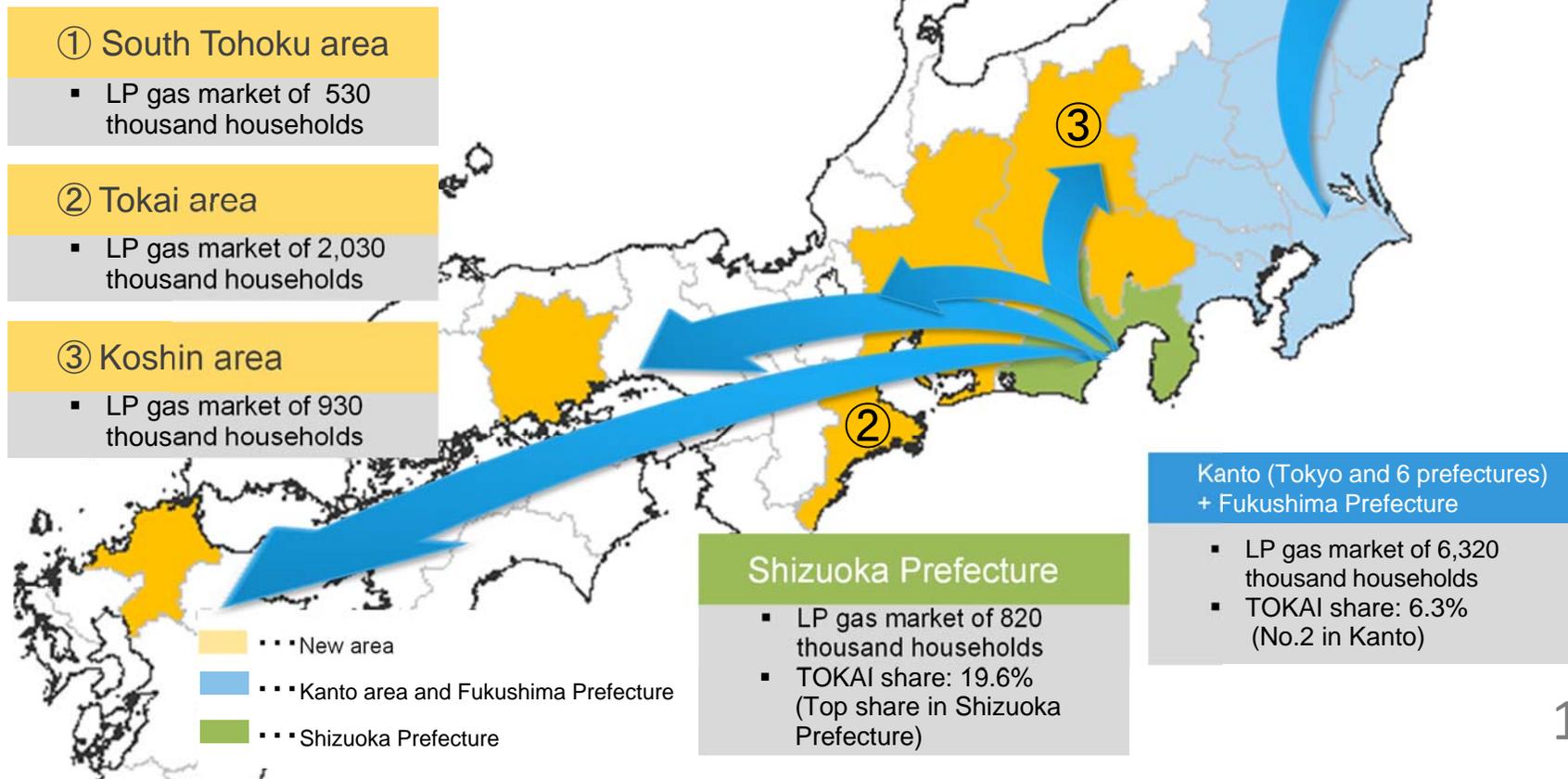
(Units: ¥ billion)



Expanding the Area of the LP Gas business

Aiming to further stabilize and expand TOKAI's earnings foundation, including through M&A

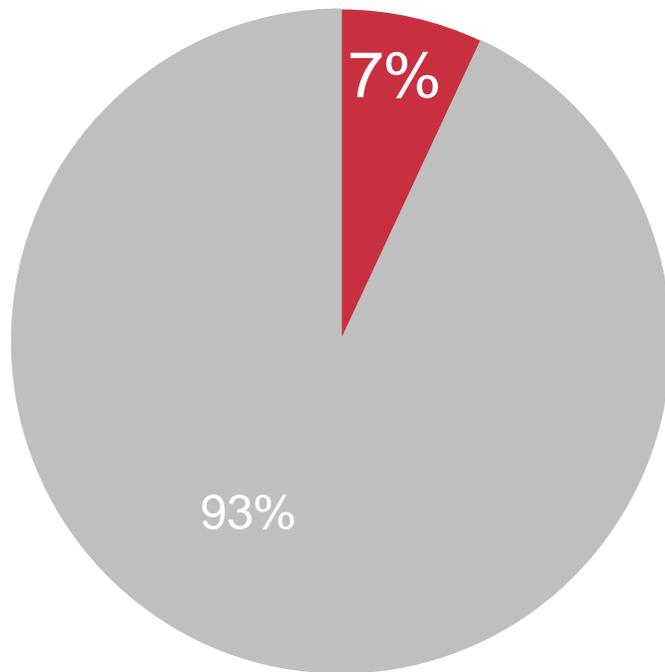
- TOKAI has been pursuing the expansion of its sales area from the beginning of the current fiscal year. (We are newly advancing into one prefecture in South Tohoku and Tokai area.)
- Not limiting ourselves to electricity set plans alone, TOKAI will also simultaneously provide a set menu for Aqua, communications, broadcasting and lifestyle-related services. As the only Group capable of doing so, we will utilize this strength to push ahead with finding new customers.



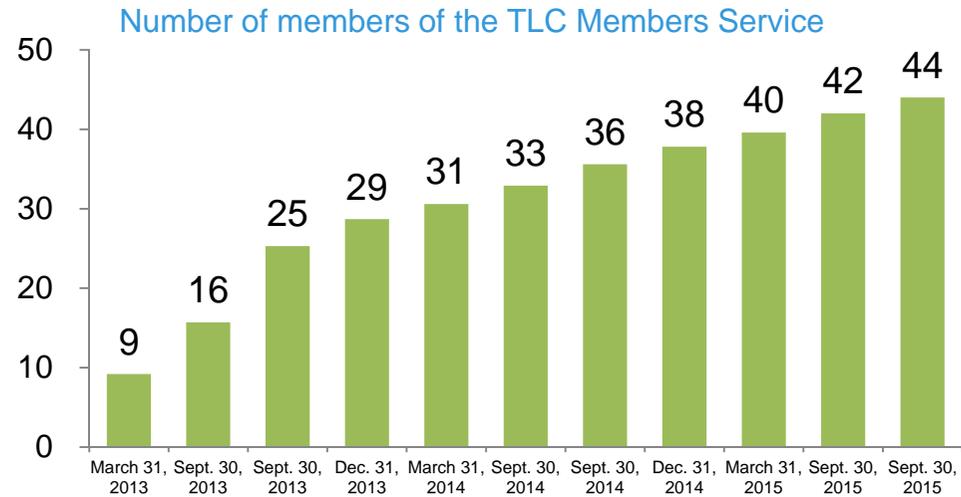
Opportunity for Further Growth Through Cross-selling

Currently, only 7% of customers make multiple transactions, so there is still a lot of room for future growth.

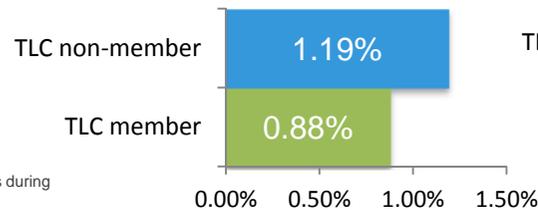
- The TLC Members Service was formed in December 2014 with the aim of capturing the business of customers engaging in multiple transactions, and currently the Service has 440 thousand members.
- The effect of the Service has been that 40% less members terminate their contracts as compared to non-members. Looking ahead, it will effectively reduce costs by anchoring customers.
- Cross-selling by vigorously recruiting members has led to TOKAI gaining results from over five times as many members as non-members.



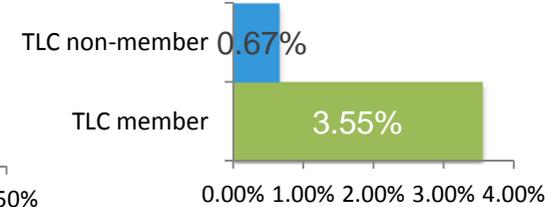
Ratio of customers doing multiple transactions



The ratio of terminated contracts of members and non-members (Note1)



The ratio of cross-selling of members and non-members (Note2)



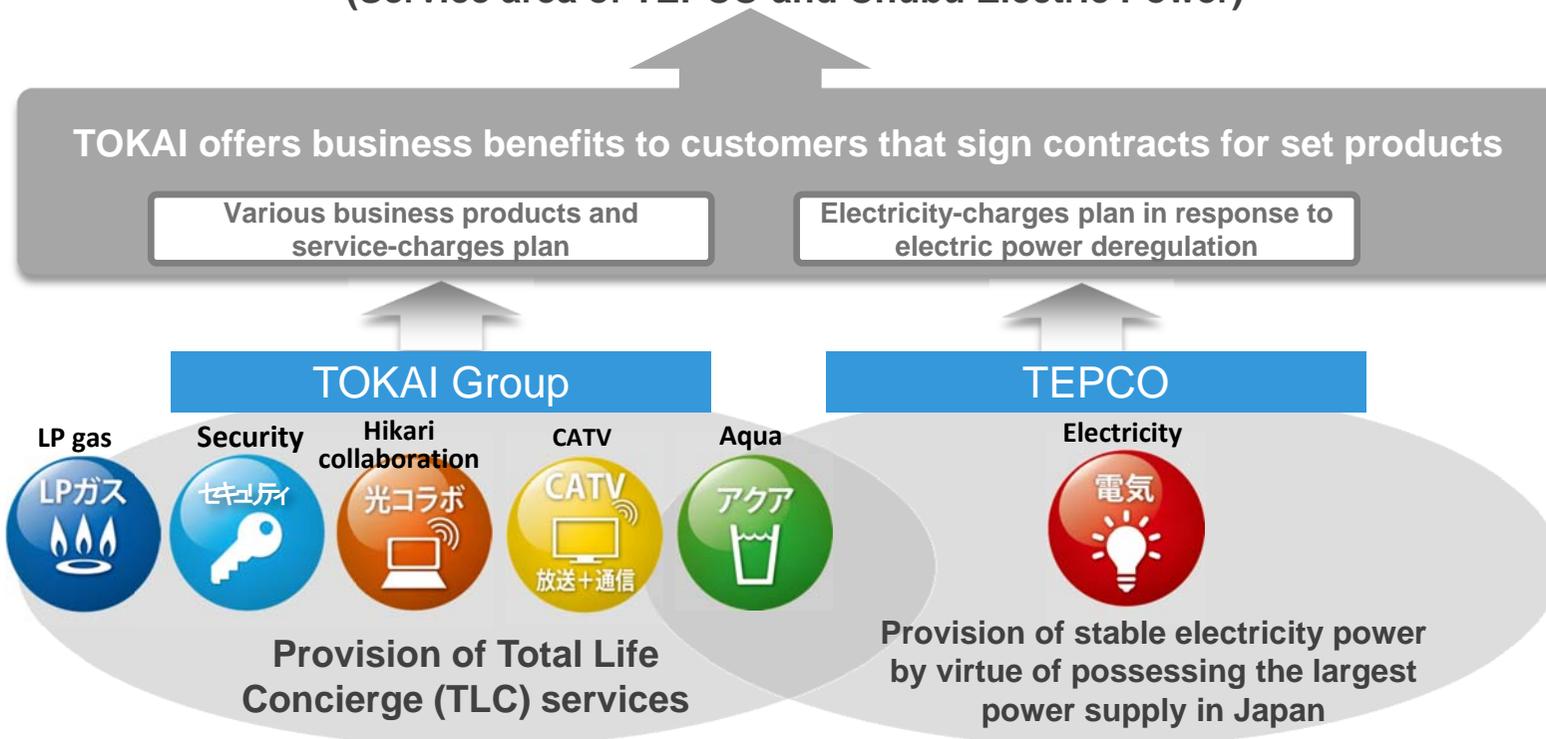
Note1: The ratio of terminated contracts is the result of calculating the number of terminated contracts during the year of FY2014 divided by the number of customers at the beginning of each month in FY2014
 Note2: The ratio of cross-selling contracts is the result of calculating the number of customers who did cross-selling each month during FY2014 divided by the number of customers at the beginning of each month in FY2014

Tie-up With Tokyo Electric Power Company (TEPCO) in Response to Electric Power Deregulation

TOKAI will also provide services to 20 million households that are customers of TEPCO, independent the Group's 2.54 million customers

- TOKAI officially agreed on an official tie-up with TEPCO to sell electricity, and from the same day started selling high-voltage electricity to customer companies in the service area of Chubu Electric Power Co., Inc.
- At this year's end, TOKAI plans to announce a set menu for the sale of gas, other Group company services, and electricity. From October, TOKAI has started PR activities about being engaged in electricity sales, and from January 2016 TOKAI will start accepting business reservations.

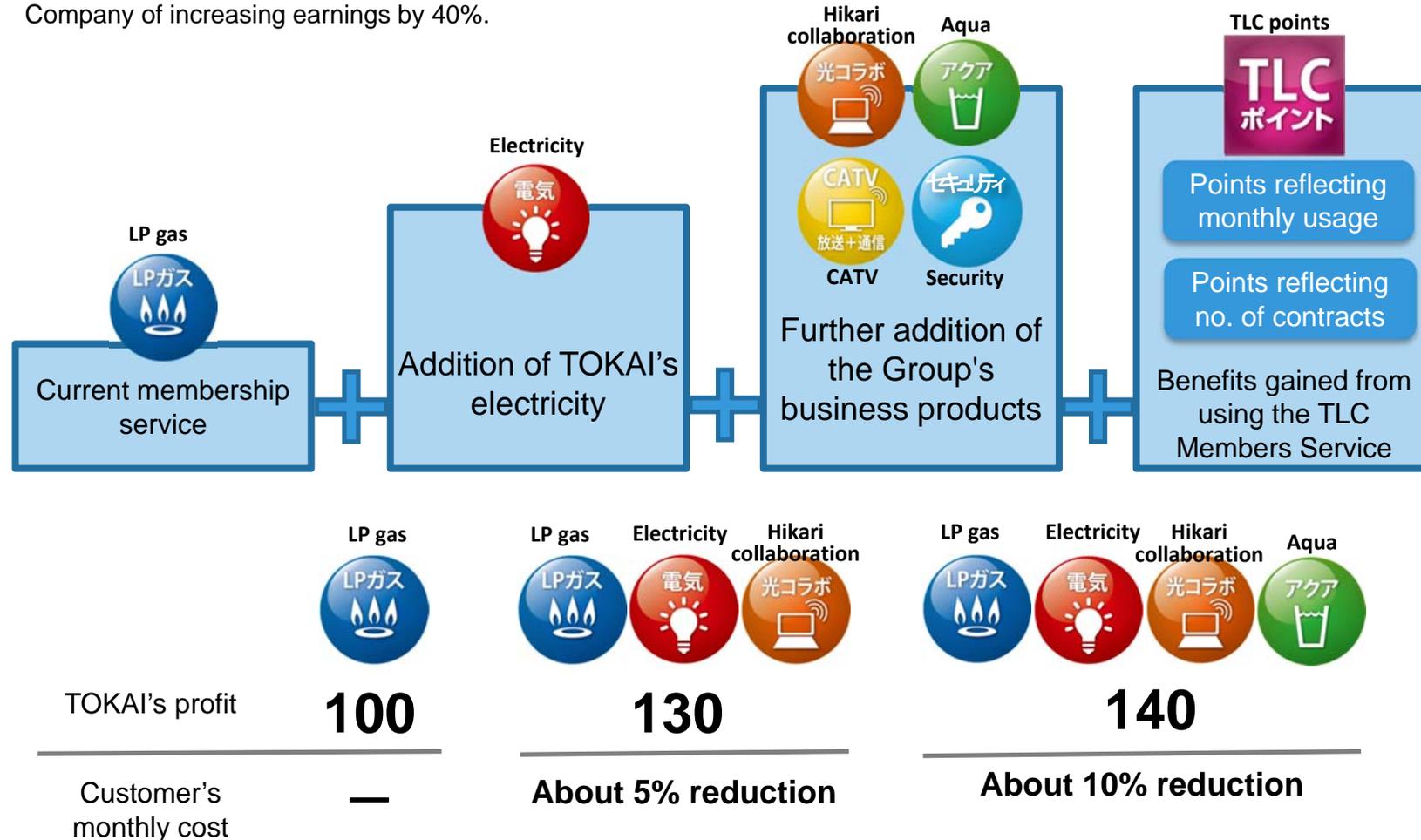
Targeting households and companies that will be completely affected by retail sales of electricity after electric power deregulation
(Service area of TEPCO and Chubu Electric Power)



Promotion of Cross-selling Utilizing Electric Power Sales Opportunities

Starting with the sale of electric power services that are popular in all households, TOKAI is promoting a set menu of the Group's business products

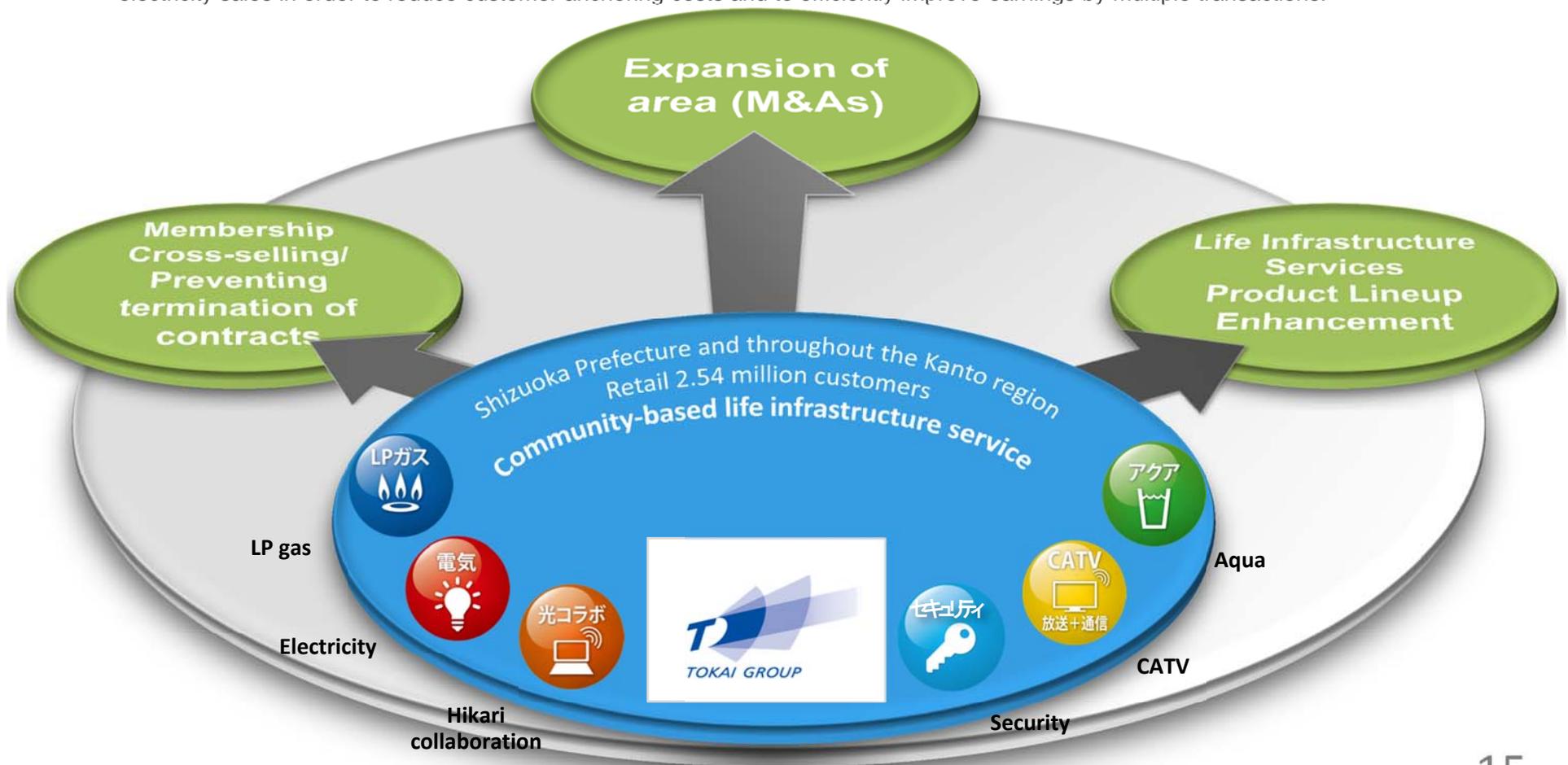
- Comprehensively proposing (through a set sales menu) the wide variety of life infrastructure services TOKAI possesses by means of the total 1.5 thousand customer-support staff having face-to-face meetings with customers.
- For customers, TOKAI will contribute to reducing monthly infrastructure costs by about 10%, and examine the effect on the Company of increasing earnings by 40%.



Future Growth Opportunities for the Group

Aiming for further growth, TOKAI will expand its earnings foundation by area expansion and promoting membership services

- TOKAI will expand nationwide from peripheral areas by using the community-based life infrastructure service provision model that has been established in Shizuoka Prefecture and throughout the Kanto region.
- Seizing the opportunities provided by electric power deregulation, TOKAI will push ahead with cross-selling using the foothold of electricity sales in order to reduce customer anchoring costs and to efficiently improve earnings by multiple transactions.



Promote Various Further Collaborations Toward Topline Growth

Enhance the Lifestyle Infrastructure Business lineup through alliances with many influential businesses

 Astomos Energy (Gas suppliers)	 Rinnai (Gas device suppliers)	 TEPCO ((Electric power) supply partners)	 NTT (Optical fiber broadband line suppliers)	 KDDI (Optical fiber broadband line suppliers)
 SoftBank (Mobile phone agency)	 Nojima (ISP service acquisition partners)	 Kojima (ISP service acquisition partners)	 K'S HOLDINGS (ISP service acquisition partners)	 J:COM (Broadcast content buyers)
 AIR WATER (Aqua service partners)	 Aioi Nissay Dowa Insurance (Insurance agency contractors)	 ALSOK (Security service partners)	 AEONRETAIL (Members card service partners)	 Amazon Data Services Japan (Connection service partners of TOKAI cloud service)
 Microsoft (Connection service partners of TOKAI cloud service)	 IBM Japan (Connection service partners of TOKAI cloud service)	 Google (Connection service partners of TOKAI cloud service)	 Internet Initiative Japan (Connection service partners of TOKAI cloud service)	 TechFirm (Systems development partners)

(Summary) Attraction and Growth Opportunities of the TOKAI Group

Expand the earnings base through both service area expansion and cross-selling promotion, which will further improve corporate value

- TOKAI, engaged in LP gas, information and communications services, CATV, Aqua, and real estate businesses, is made up of a unique set of companies unprecedented in Japan.

In the future, we will use this differentiation to further enhance our corporate value.

- Among these companies, the Group has more than 100 locations, about 1,500 sales representatives, and 2.25 million customers in Shizuoka Prefecture and the Kanto region (1.16 million customers in Shizuoka Prefecture and a strong customer base of 1.09 million customers in the Kanto region has been established as a result of our track record).
- **We will continue to efficiently expand our earnings base on the two key points of service area expansion and cross-selling promotion.**
 - To build a more robust earnings base, we must expand the current business area to include more regions of Japan and build up our customer base further. If we combine cross-selling with the current 2.54 million customers and sales of ¥200 billion, there is hidden potential to increase operating income to ¥12 billion. We are hopeful this will come about.
 - Package contracts deployed by the Group will bring in three times more revenue than sales based on the LP gas business alone. Currently, only 7% of customers have package contracts. We aim to expand power machine sales to all households, including existing customers and new customers, as it is possible to start promotion of the set sales menu in hopes of effectively improving profitability.
- **In the past, our financial structure was fragile with a high debt ratio and significant improvement was possible before the previous medium-term management plan (FY2011-2013). In the future, we will shift our focus to ROE, while leveraging profitability improvement measures.**
 - For profit growth, we believe we must aggressively increase topline growth, including through M&A.
 - In the Innovation Plan 2016 "Growing" period, we're thinking to strengthen shareholder value. The goal of the plan achievement of the final year of FY2016, we want to consider, actions such as dividend hikes and share buy back.

These materials contain projections and other forward-looking statements on management's judgments derived from information available at the time of formulation, and include potential risks and uncertainties. Various factors may cause actual results in the future to differ materially from projections and other forward-looking statements made within these materials.

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うれしいをつなぐ。ひろげる。

