

FY 2015 Q2 Financial Results Highlights

(Fiscal Year Ending March 31 2016)

TOKAI Holdings Corporation
(Code 3167 JP)

November 5 2015

Agenda

1. Outline of FY 2015 Q2 Financial Results
2. Main topics in H1
3. Measures to increase new customers in core businesses
4. Full-year forecast for FY2015
5. Shareholder Returns

Highlights of Q2 Results (1/4)

■ Business Environment and Performance

- Saudi imported LPG contract prices have dropped to Y51,000 per tonne down 62% YoY from Y81,000. This impacted sales in H1 by -Y4.3bln or -4.9% YoY. However Operating, Recurring and Net Profit all exceeded last year's levels and initial forecasts. (Actual OP exceeded forecasts by Y1bln, RP by Y1bln and NP by Y0.6bln)
- The 6,000 new customer increase in H1 was well behind the run-rate for the 70,000 targeted increase in new customer numbers for the FY. Pace of increase will be increased in H2.

Highlights of Q2 Results (2/4)

■ Shareholder Returns

- For next FY (final year of IP16) we are confident to achieve equity ratio of over 30% and interest bearing debt of Y50bln
- Our group is not satisfied with a Y500 of share price level, hence we decided to cancel 15mln treasury stock (10% of outstanding). We believe the high level of treasury stock at 25% of outstanding has been a dilution concern for shareholders.
- Returns to shareholders have been increased significantly. The company will return to shareholders the equivalent of 100% of our estimated Y3.2bln net income through a Y1.4bln dividend and Y1.8bln share buyback.

Highlights of Q2 Results (3/4)

■ Full Year Forecasts

- Q2 results announced on Oct 29th exceeded the forecasted numbers released in May
- Although H1 has been strong, FY forecasts will not be changed at this stage due to uncertainties affecting our business such as LPG contract price uncertainty, volatile demand due to temperatures and forex changes. Although we expect demand to pick up in H2, our forecasts will only be revised when this becomes more certain.

Highlights of Q2 Results (4/4)

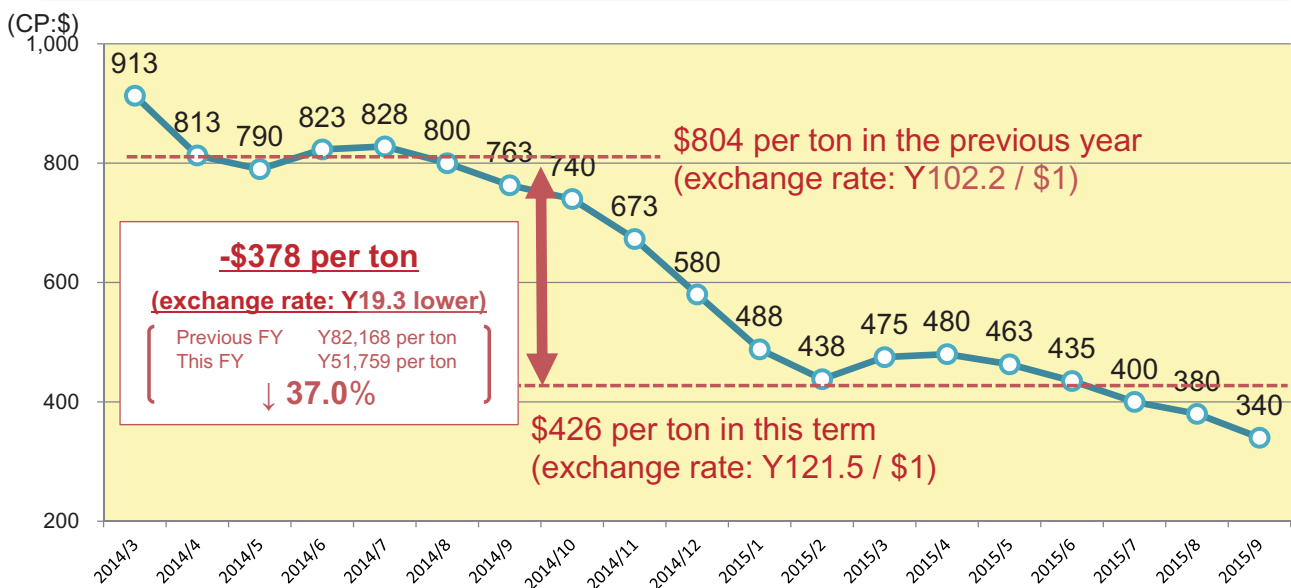
■ Main Topics

1. An official announcement of a business tie-up with Tokyo Electric Power for sales of electric power with Tokyo Electric Power was made. In October, marketing and sales of high voltage electric power for corporations was started in the Chubu Electric Power area.
2. The number of customers nationwide switching to “Hikari Collaboration” has been increasing at a slower pace than forecasted. Our company switch rate was 16.5% which exceeded the national average of 11.2%. The number of new customers for “Hikari Collaboration” has grown steadily using our network of home electric appliances stores, which is a strength of our company.
3. In the LP gas sector, we promote more contact with customers by our sales forces to prevent possible cancelation of the contract. Also, we are expanding our marketing area where is adjacent to our current main area such as Kanto region and Shizuoka Prefecture.

1. Outline of FY 2015 Q2 Financial Results

Contract Price Changes for LPG

- In FY 3/2015 the average CP for LP gas was \$426 per ton vs \$804 per ton at the same period last year (-\$378 per ton). The exchange rate for \$1 was Y121.5 this term vs Y102.2 in the same period last year.
- As a result the average purchase price per ton was approx. Y30,000 lower than the previous year (60% of the price of the previous FY).



Consolidated Q2 Financial Results (P/L)

- Sales declined 2.9% YoY. This was due to the distribution of Y4.3 billion to customers in response to the LPG price revision, which was implemented after the fall in the purchase price (negative impact of 4.9%). This negative result was offset by an increase in retail customer numbers and a revenue increase in the construction business, etc.
- Operating Income, Ordinary Income, Net Income, and Quarterly Net Income exceeded both the previous FY and the original budget.

(Y billion)	Previous Year	Forecast	Result	Change YoY		Comparison vs forecast	
Sales	87.3	86.8	84.8	-2.5	-2.9%	-2.1	-2.4%
Operating income	1.8	0.9	1.9	+0	+2.2%	+1.0	+105.6%
Ordinary income	1.6	0.7	1.8	+0.2	+12.2%	+1.0	+143.1%
Quarterly Net income	0.2	-0.4	0.3	+0.1	+22.8%	+0.6	-

Declined by Y4.3 billion due to the price revision after the decline of the purchase price.

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Consolidated Operating Income by segment

- The original planned 1H Operating Income was Y0.9 billion (down Y0.9 billion YoY) including Y1 billion revenue increase in the Gas, Aqua and Broadband sectors and Y1.9 billion of anticipated expenses for "Hikari Collaboration".
- 1H results of Y1.9 billion exceeded the initial plan by Y1 billion. Due to costs carried over to H2 due to the delay of the switch to "Hikari Collaboration" (Y0.3 billion) and revenue growth (Y0.7 billion) including the improved income from the LP gas sector and the increase in CATV customer numbers

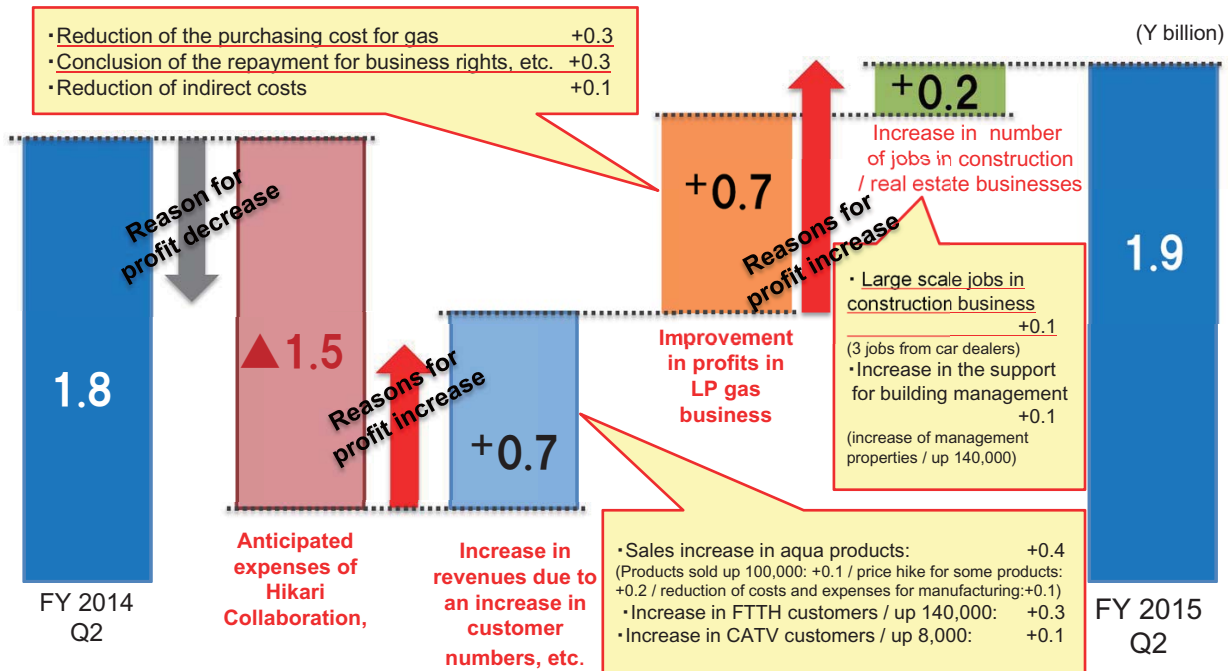
(Y billion)	Previous Year	Forecast		Results	Change YoY		Comparison vs forecast	
		vs previous year						
Gas / Petroleum	2.0	+0.2	2.2	2.7	+0.6	+31.2%	+0.5	+23.2%
Information / Communication Services	2.4	-1.5	0.8	1.1	-1.3	-54.5%	+0.3	+42.3%
CATV	0.8		0.9	1.0	+0.1	+14.8%	+0	+3.8%
Construction / Real estate	0.1		0.3	0.3	+0.2	+142.9%	+0.1	+18.0%
Aqua	-1.0	+0.4	-0.6	-0.6	+0.4	-%	-0	-%
Others / Adjusted amount	-2.6		-2.7	-2.6	+0	-%	+0.1	-%
Total	1.8	-0.9	0.9	1.9	+0	+2.2%	+1.0	+105.6%

Forecast in income decline vs previous year

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Factors behind an Increase in Operating Income YoY

- Operating income was Y1.9 billion, exceeding the previous year. The anticipated expense of Hikari Collaboration (Y1.5 billion) was offset by **an increase in customers in core areas of Aqua, Broadband and CATV, as well as the profit increase from improved performance in LP gas area.**



Group Customer Numbers

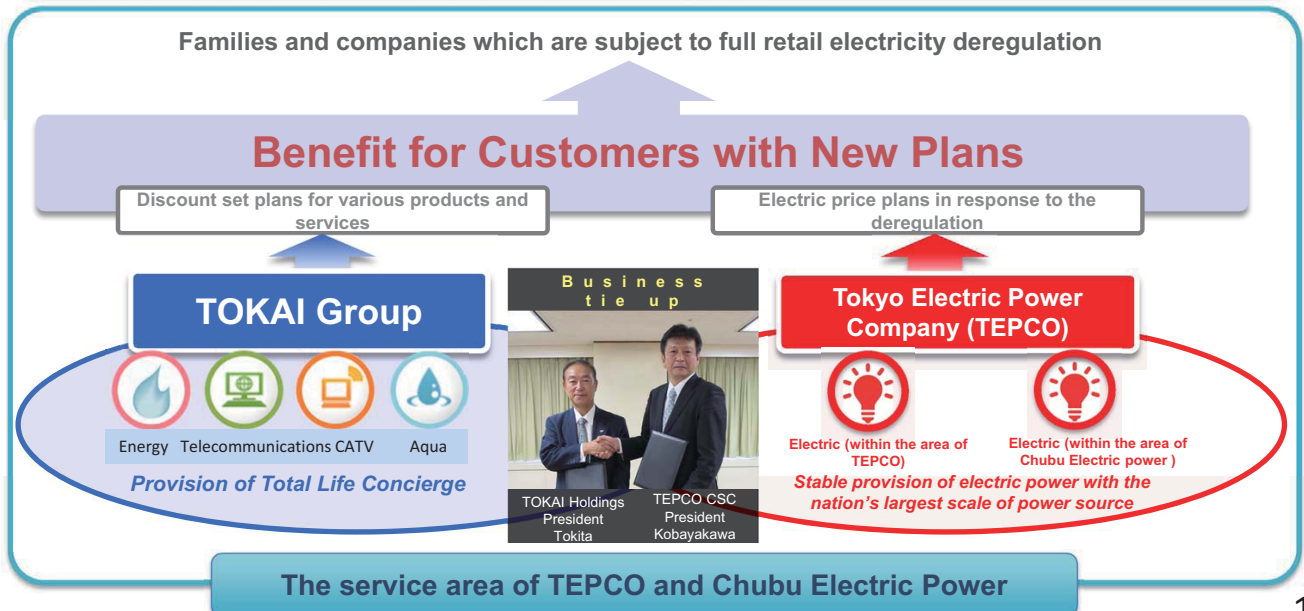
- Group customer numbers have grown especially in the CATV and Gas sectors. **This has resulted in a increase in net customer numbers for the first time in 3 quarters.** However, the net increase was only 6,000 due to the delay in execution of the net increase plan aiming at a 35,000 customer increase.
- The pace of existing FLET'S customers switching to "Hikari Collaboration" exceeded that of the national average.

(unit: thousand)	FY2014, Q2	FY2014, Q4	FY2015, Q1	FY2015, Q2
Gas (LP gas, city gas)	626	626	625	✓ 627
Telecommunications (fixed / wireless)	863	864	861	859
[the number of the customers who have switched to "Hikari Collaboration": the numbers are not included in the total below]	[0]	[4]	[53]	[95]
Telecommunications (mobile)	231	235	235	234
CATV	690	690	692	✓ 698
Aqua	132	130	130	132
Security	18	18	18	18
Total	2,535	2,537	2,537	2,543
Net increase / decrease in a quarter	+8	-3	-1	+7
Net increase / decrease including the switch to "Hikari Collaboration"	+8	+1	+48	+49

2. Main topics in H1

Business tie up with TEPCO for Electricity Sales

- A business tie up with Tokyo Electric Power was officially announced for electricity sales. The sales of high voltage power targeting the corporate customers in Chubu Electric Power area was launched on the same date.
- At the end of the year, a new sales plan, in which a combination of electricity and services of our group including Gas etc will be announced. An advertising campaign for electricity sales was started in October 2015 and order reservations will be taken from January 2016.

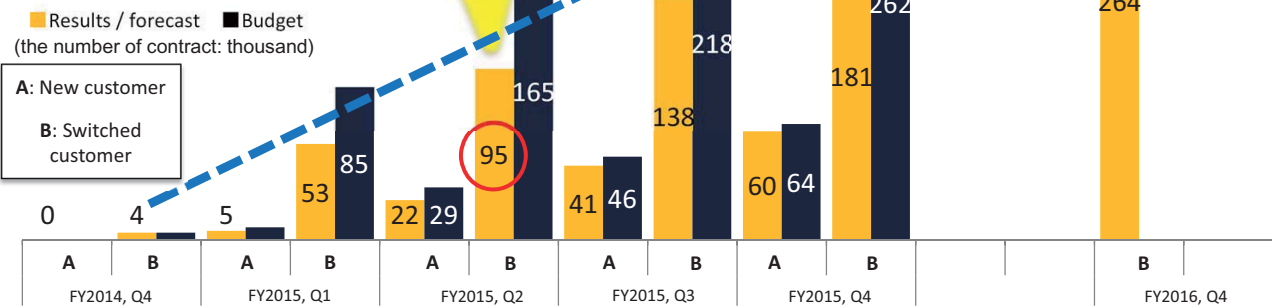


Promoting the switch to “Hikari Collaboration”

- The pace of the switch to Hikari Collaboration was slower than we initially expected, but our company switch ratio (ratio of the customers switching to Hikari Collaboration vs all FLET’S customers) was 16.5%, exceeding the 11.2% national average.
- New customers for Hikari Collaboration increased steadily through the electronic home appliances store network which is a real strength of our company. It is assumed that the mid-term profit plan will not be affected even after the review of the pace of Hikari Collaboration switching (the 262,000 customer target number set in the budget for FY March 2016 will now be achieved by the end of March 2017).

The Ratio of the Switch (*1)
 The National Average Ratio(*2) **The Ratio of our Company**
 11.2% < **16.5%**

After reviewing the pace of switching, the target number of switching customers is expected to be achieved in the end of FY 2016 instead of FY 2015.

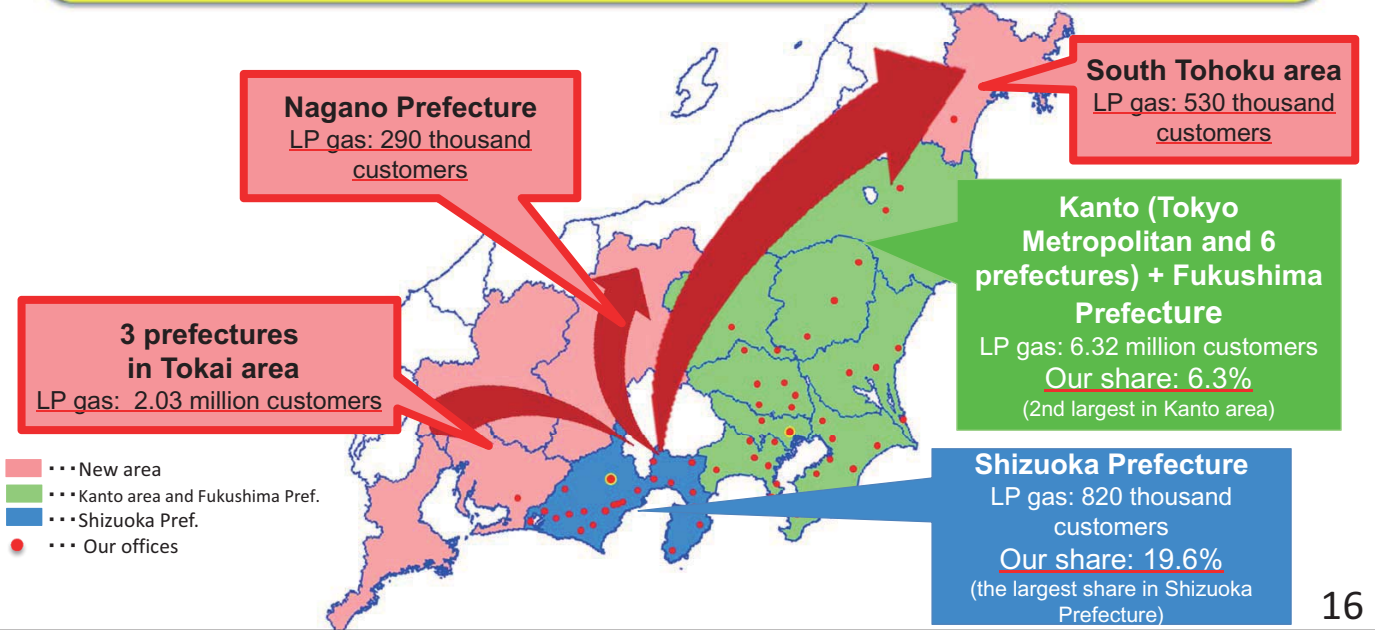


* 1 The ratio of the switch: A ratio of the customers who have switched to Hikari Collaboration, to the whole FLET’S customers
 * 2 The national average ratio: As of August 5 2015. Our company forecasted the ratio of Q2 using the previous ratios of the switch and the additional materials of Q1 Financial Results of NTT.

III. Measures to obtain more new customers for the group’s core business

LP Gas Sector

- Since the beginning of this FY, our marketing areas has been expanded (to Tohoku area and 3 prefectures in Tokai area).
- In January, 2016, new discount bundle plans with electric power will be released (will be announced in the end of 2015). Our bundle plan is not only with electric power, but also with other items, such as aqua, telecommunication and broadband, as well as any other services and products we provide in order to enhance our sales promotion through making differentiation to our competitors.



City Gas Sector

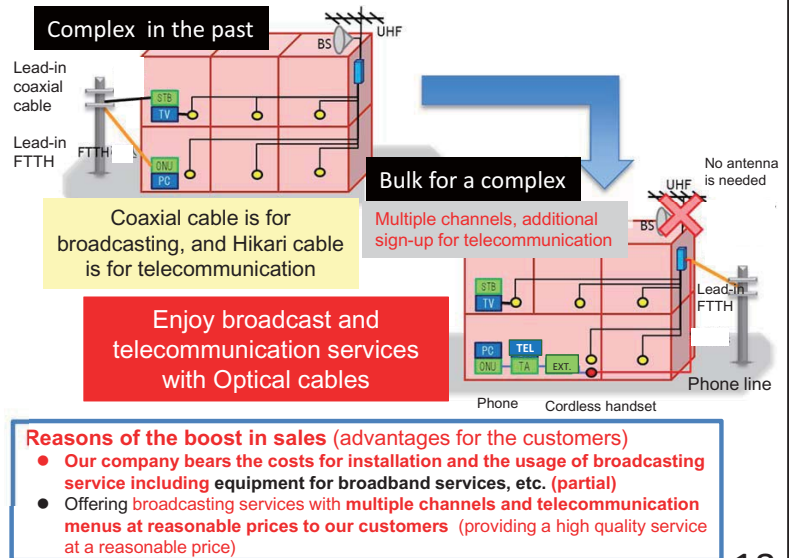
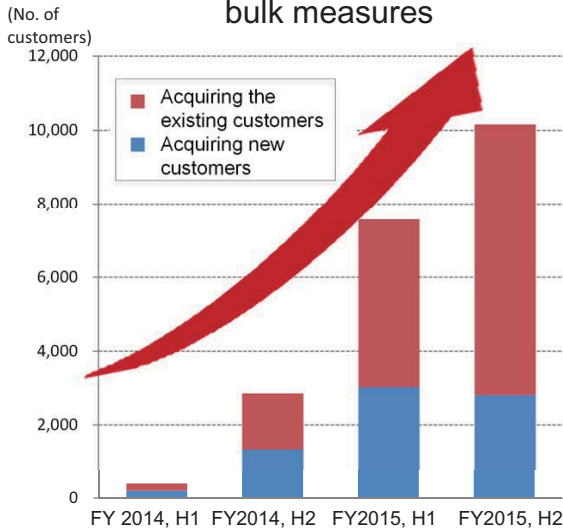
- We target to obtain more customers by higher penetration in household and sales area expansion. The city gas business has the strongest connection to local areas among our businesses, and our showroom has been playing a role of a business hub to acquire new customers by providing comprehensive lifestyles in addition to energy, renovation, telecommunication and broadcasting business
- New discount plans with a bundle of city gas and electric power will be sold in January 2016 (will be announced in the end of 2015).



CATV Sector

- In order to increase a sign-up ratio in our broadcasting service area, bulk measures have been taken to condominiums (37%) since the last fiscal year, and the promotion has been expanding. At the same time, we have maintained ARPU by offering a telecommunication and multiple channel broadcasting at reasonable fee.
- In 2H FY2015, we kicked off special sales team who regularly visit existing high-pay customers (broadcasting + telecommunication). In January 2016, we will release new discount bundle plans with CATV and electric power (will be announced in the end of 2015).

Change in the result of the bulk measures



Broadband Sector

- The promotion of "Hikari Collaboration" will be continued in H2. The activity will be even stronger using the connection with electronics retail stores and telemarketing activities, which were started in H1.
- Since our company has strong price competitiveness in the NTT East Japan area, new discount sales plans, a bundle of "Hikari Collaboration" and electric power will be launched in January 2016 (will be announced in the end of 2015).

Further promotion of "Hikari Collaboration"

To promote the switch to "Hikari Collaboration", we monitor the results of the promotion activities in H1 in order to determine potential customers to approach as preference. Our strength of retail stores will have its sales system enhanced.

1. Electronics retail stores

- Increase in the number of sales staff by 20%

2. Telemarketing

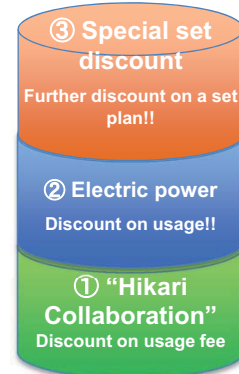
- Promotional activity targeting at highly potential customers

Special promotion for a set plan with electric power starting in January

3 advantages of a set plan with electric power



In case where a contract is made only for "Hikari Collaboration"



In case where a contract is made for both "Hikari Collaboration" and electric power

Aqua Sector

- In addition to the existing promotional activities using our own network (sales activity by offering actual products at large shopping complexes, online sales, branches and agencies), the diversification of the sales network will be enhanced with partnership agreement with a major agent company in order to obtain new customers.
- In January 2016, new discount bundle plans of aqua products with electric power will be released (will be published in the end of 2015).



- Direct sales (face to face) by offering product tasting at large shopping complexes throughout the nation
- Our sales network running throughout the nation with branches (150), agencies (2,000)
- Website sales network

Partnership agreement



- 3rd largest number of ISP customers in the nation
- Promoting online applications to its members
- Offering points to applicants

Purchased by 30 thousand-50 thousand customers every year



Focusing on 3 million of ISP members, online application is promoted.

IV. Full-year forecast for FY2015

【Consolidation】 Performance Forecast for the Entire Fiscal Year

- The results of Q2 exceeded the original forecast released in May, and the differences between the forecast and the results are shown below.
- Although our business is steadily growing towards the goals of the year, the performance forecast for the entire fiscal year will not be reviewed because currently some uncertain factors are expected in H2 (our forecast will be reviewed when income increase becomes certain).

(¥ billion)

H1	Sales	Operating income	Ordinary income	Quarterly net income
The previous forecast	86.8	0.9	0.7	-0.4
Results	84.8	1.9	1.8	0.3
Increase / decrease	-2.1	+1.0	+1.0	+0.6

The entire fiscal year	Sales	Operating income	Ordinary income	Net income
The previous forecast	192.2	7.8	7.4	3.2
Current forecast	192.2	7.8	7.4	3.2
Increase / decrease	—	—	—	—

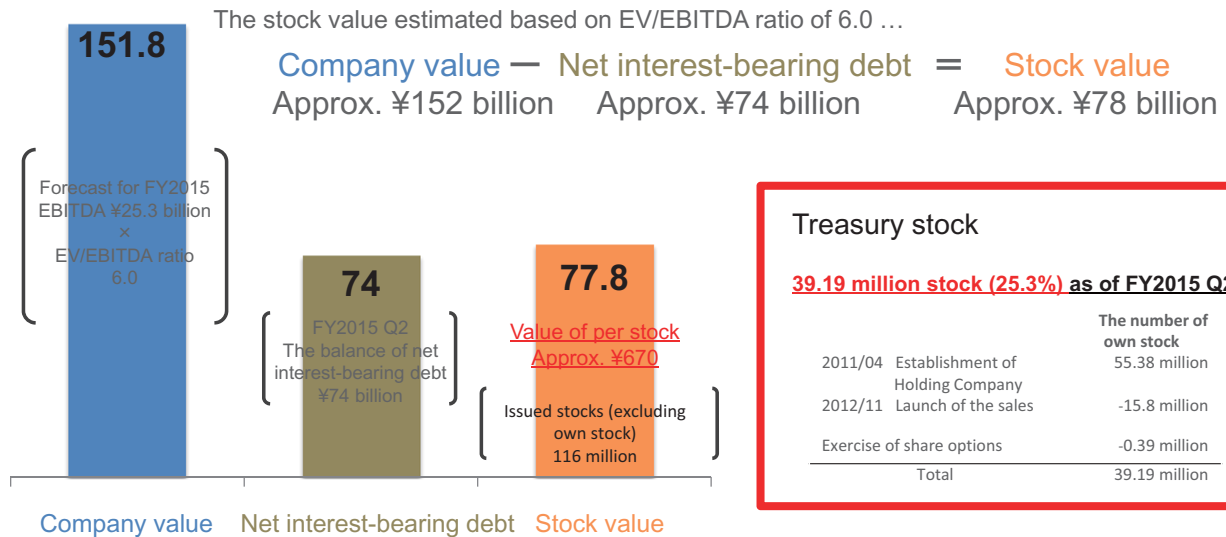
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V. Returns to stockholders

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Self-evaluation of the current value of our group

- The value of our group this FY is approx. ¥152 billion based on our EBITDA. Our stock value shall be approx. ¥78 billion, discounting the current balance of net interest-bearing debt. Our self-evaluation for the value of stock price is a ¥600 level based on our cash flow (the closing price on September 30, 2015 was ¥499 per stock.)
- In a meantime, we understand that our group's treasury stock, which is 25.3% of the whole issued shares, is still a big concern for our stockholders (causing stock dilution).



Treasury stock

39.19 million stock (25.3%) as of FY2015 Q2

		The number of own stock
2011/04	Establishment of Holding Company	55.38 million
2012/11	Launch of the sales	-15.8 million
	Exercise of share options	-0.39 million
	Total	39.19 million

Financial Improvement by issuing CB (2015/6)

- Currently, our target of equity ratio in FY2016(the final FY in IP16) is expected to be achieved. (A)
- In addition, we are confident with our B/S improvement plan (equity ratio: 36.2%, interest-bearing debt: ¥53.1 billion (B)) with a funding by issuing zero-coupons overseas convertible bonds with the purpose of financial improvement by stock conversion.
- Therefore, we have decided to enhance the plan on the returns to our shareholders in the period of IP16.

Purpose of the issuance of CB

- ① Reduction of interest costs (issuance of zero coupons)
- ② Increase equity capital by stock conversion and reduction of interest-bearing debt

Outline of the CB scheme

Total amount of the issued CB:	¥10 billion
Date of issuance:	June 25, 2015
Date of redemption:	June 25, 2020 (5-year bonds)
Conversion value:	¥585 (increase ratio:10.17%)
Downward adjustment of the conversion value:	70% of floor value (1 year later, and 2 years later)

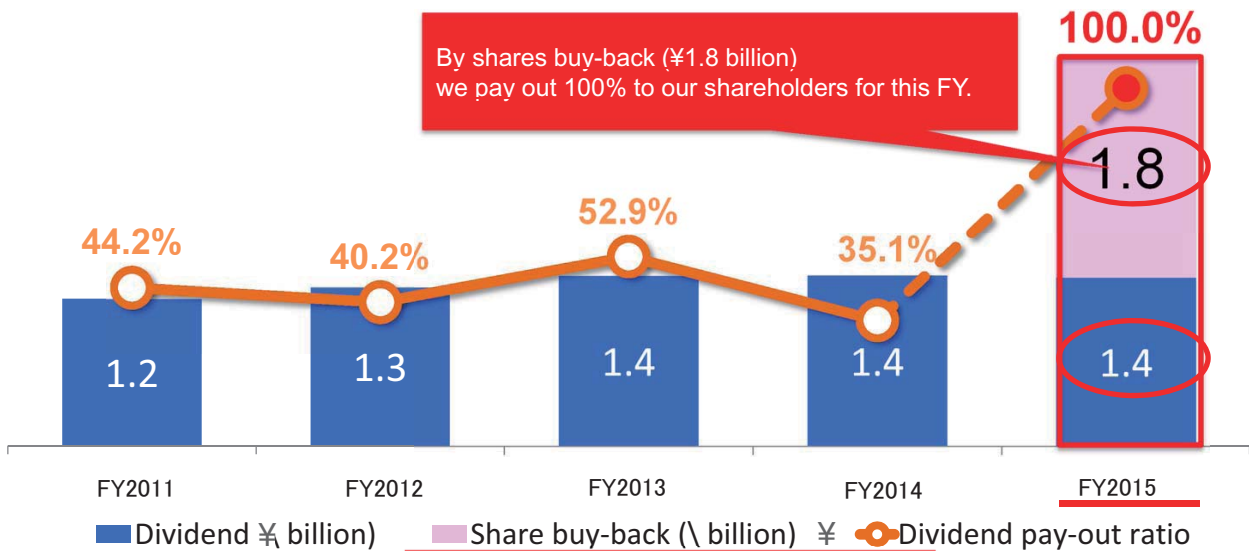
Significance of the issuance (contribution for financial improvement)

© Stock conversion will widely contribute to financial improvement

	Capital stock	Equity ratio	Interest-bearing debt
FY 2010 (results)	¥14.9 billion	7.7%	¥124 billion
FY 2014 (results)	¥42.5 billion	25.7%	¥73.1 billion
FY 2015 (forecast)	¥44.4 billion	26.1%	¥72.5 billion
(A) FY 2016 (forecast)	¥49.2 billion	30.1%	¥63.1 billion
(B) Effect of CB	¥59.2 billion	36.2%	¥53.1 billion
FY 2016 (IP16)	¥46.8 billion	28.6%	¥64.7 billion

Pay out to Shareholders in FY 2015

- An annual dividend is expected to be ¥12 (the end of Q2: ¥6 + the end of the FY: ¥6), and the total amount is estimated to be ¥1.4 billion.
- Our company will pay out 100% of profit to shareholders by share buy-back for ¥1.8 billion. This is because the business performance has been steadily growing towards the end of the medium-term management plan called "Innovation Plan 2016" (IP16).
- At the same time, 155.2 millions of treasury stocks (10% of the outstanding shares) will be cancelled.



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Financial Highlights

		FY2014 2Q	FY2014 4Q	FY2015 2Q	FY2015 4Q
Total assets	¥ billion	164.5	165.7	160.2	170.2
Total liabilities	¥ billion	125.5	122.2	117.7	124.7
Interest-bearing liabilities	¥ billion	80.9	73.1	76.3	72.5
Total net assets	¥ billion	39.0	43.5	42.5	44.4
ROE	%	0.6	9.9	0.7	7.5
EBITDA	¥ billion	10.5	26.2	10.2	25.3
Equity ratio	%	23.1	25.7	25.9	26.1

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The performance forecasts and future outlooks in this material are calculated according to information available as of now, and there are potential risks and uncertainty. Please be aware that, due to the changes in various factors, there is a possibility that actual results may widely differ to the future outlooks mentioned.

For inquiries in regards to this material, please contact below.

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