



August 5, 2016

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 Quarter of the Fiscal Year Ending March 31, 2017

Record-High Profits in All Categories

TOKAI Holdings Corporation (hereinafter, the “Company”) today announced its financial results for the first quarter of the fiscal year ending March 31, 2017 (April 1, 2016 to June 30, 2016).

(Millions of yen)

	Q1 FY03/17 (April 1, 2016 to June 30, 2016)	Q1 FY03/16 (April 1, 2015 to June 30, 2015)	Year-on-year	
			Change	Percent Change
Sales	41,618	42,672	-1,054	-2.5%
Operating profit	2,870	1,708	+1,161	+68.0%
Recurring profit	2,900	1,649	+1,251	+75.9%
Quarterly net income	1,766	714	+1,052	+147.2%
EPS (Yen)	15.60	6.18	+9.42	+152.4%

1. Consolidated First Quarter Results (P/L) Strong Towards Achieving 4.3 Billion Yen Profit Increase; All Profit Indicators Post Historic Highs

Towards full-year consolidated earnings forecasts, which project a substantial profit increase (operating profit of 8.3 billion yen in the year ended March 31, 2016 to operating profit of 12.6 billion yen in the year ending March 31, 2017), operating profit for the first quarter was up 1.2 billion yen year-on-year (up 68.0%), demonstrating strong progress.

Sales fell by 1.1 billion yen year-on-year (down 2.5%). This was primarily due to the effect of 2.4 billion yen in price reductions in line with lower gas procurement prices implemented during the previous fiscal year (these effects are factored into full-year earnings forecasts).

Concerning profits, active sales promotion activities conducted for Hikari Collaboration¹ during the previous fiscal year were successful, resulting in a 400 million yen improvement, and the Aqua (bottled water delivery) business also showed a 200 million yen improvement in the balance between revenues and expenses. In addition, increase of the number of customers and cost reductions in the CATV business contributed 200 million yen, and the 200 million yen in the amortization of goodwill stemming from a business merger incurred during the first quarter of the

previous fiscal year was not incurred this year. For these and other reasons, operating profit increased significantly, by 1.2 billion yen year-on-year.

2. Hikari Collaboration Progressed as Planned, ARPU² Improved, High Profitability Realized

Amid a stagnant broadband market, Hikari Collaboration is a product that can be expected to see improved ARPU and higher earnings. By promoting this service, the Company plans to realize high profitability in its Broadband business.

The number of Hikari Collaboration customers at the end of the first quarter of the year ending March 31, 2017 was 251 thousand, an increase of 32 thousand compared to the beginning of the fiscal year ending March 31, 2017 (increase by 13 thousand new customers and 19 thousand transferred customers). The Company aggressively promoted a shift towards high unit price and high profitability services.

As a result, ARPU in the Broadband business improved 38% year-on-year and monthly operating profit per contract increased 58%, contributing to higher sales and profits.

For Hikari Collaboration, operating profit in the first quarter improved by 400 million yen year-on-year. Progress was as planned toward the initial forecast of improving the balance between revenues and expenses by 2.3 billion yen for the year (1.0 billion yen in the first half of the fiscal year and 1.3 billion yen in the second half).

3. At the Aqua Business, Balance Between Revenues and Expenses Steadily Improved Toward Achieving Profitability this Fiscal Year

The number of customers in the Aqua business as of the end of the first quarter of the fiscal year ending March 31, 2017 was up by 1 thousand from the beginning of the fiscal year, to 134 thousand.

In addition to the 100 million yen profit increase that resulted from the higher number of customers, the Company was able to limit its acquisition cost per customer to 73% of the first quarter of the previous year's levels, despite new customer count increasing by 17% year-on-year. SG&A expenses were also down by 100 million yen owing to lower advertising expenses. These factors caused operating profit to improve by 200 million yen year-on-year.

The effects of measures implemented during the second half of the previous fiscal year, such as concentrating sales resources in areas with higher customer acquisition efficiency and revising sales personnel structures from an efficiency viewpoint began to produce results during the first quarter of this fiscal year.

Progress was as planned toward the initial forecast of improving the balance between revenues and expenses by 1.1 billion yen (500 million yen in the first half of the fiscal year and 600 million yen in the second half) to achieve profits for the year.

4. Consolidated Earnings and Dividend Forecasts for the Fiscal Year Ending March 31, 2017

As announced on May 10, 2016, forecasts for the fiscal year ending March 31, 2017 anticipate operating profit of 12.6 billion yen, recurring profit of 11.8 billion yen, and quarterly net income of 6.2 billion yen, posting historic highs in all profit categories. The Company also decided substantially higher dividends.

(Millions of yen)

	FY03/17 Forecast (April 1, 2016 to March 31, 2017)	FY03/16 Results (April 1, 2015 to March 31, 2016)	YoY	
			Change	Percent Change
Sales	187,100	180,940	+6,160	+3.4%
Operating profit	12,560	8,245	+4,315	+52.3%
Recurring profit	11,830	8,150	+3,680	+45.1%
Quarterly net income	6,240	3,458	+2,782	+80.4%
EPS (Yen)	55.13	30.01	+25.12	+83.7%

	FY03/17 (Forecast)	FY03/16
End of Q2	11.00	6.00
Year-end	11.00	8.00
Annual dividend total	22.00	14.00
Consolidated payout ratio	40.0%	46.7%

Based on the Company's dividend policy that aims for a dividend payout ratio of 40%, it plans to increase its annual dividends per share from the previous 12 yen (14 yen per share in the previous fiscal year after a two yen increase) to 22 yen per share (11 yen at the end of the second quarter and 11 yen for year-end).

For details, please see the attached materials, entitled "Financial Results for the First Quarter of the Fiscal Year Ending March 31, 2017."

Furthermore, for the Company's first quarter earnings announcement for the year ending March 31, 2017 please see the following URL .

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

¹: ISPs that provide self-branded optical broadband services using fiber optic lines provided by NTT.

²: ARPU: Short for average revenue per user, referring to monthly sales generated per contract.

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

TOKAI Holdings Corporation
(Code: 3167)

August 5, 2016

Q1 FY03/17 Earnings Highlights

- 1. Steady progress towards full-year forecasts of a significant profit increase; all profit indicators to post historic highs**
 - Towards full-year consolidated earnings forecasts, which project a substantial profit increase (FY03/16 operating profit of ¥8.3 billion to FY03/17 operating profit of ¥12.6 billion), operating profit for Q1 was ¥1.2 billion higher YoY, demonstrating strong progress
 - The revenue/expense balance in Hikari Collaboration and Aqua improved, and with higher profits in CATV and a decrease in amortization of goodwill, profits increased by ¥1.2 billion (up 68% YoY)
- 2. Hikari Collaboration progressed as planned, ARPU improved, and high profitability realized**
 - The Broadband business continued to actively shift from the previous ISP model to high unit price and high profitability Hikari Collaboration
 - Operating profit improved by ¥400 million YoY in Hikari Collaboration, progressing as planned towards improving the revenue/expense balance by ¥2.3 billion for the year
- 3. Steady improvement in revenue/expense balance towards full-year profitability in Aqua**
 - Concentrating sales resources in areas with higher customer acquisition efficiency and revising sales personnel structures from a profitability viewpoint began to produce results
 - Operating profit in Q1 improved by ¥200 million YoY, progressing as planned toward achieving profitability for the year by a ¥1.1 billion improvement in the revenue/expense balance
- 4. Significant dividend increase planned, continued focus on returning profits to shareholders**
 - Planned increase of annual dividend from ¥14/share to ¥22/share (¥11/share in 1H and ¥11/share at year-end)
 - Considering other shareholder returns (share buybacks, etc.) under the same approach as FY03/16

Steady progress toward ¥4.3 billion YoY profit increase

- Towards full-year forecasts of profit increase (up ¥4.3 billion), Q1 operating profit up ¥1.2 billion —
 - Operating profit, recurring profit, and quarterly net income all posted record highs —
 - Hikari Collaboration and Aqua, key businesses for higher profits in FY03/17, steadily achieved improvement in revenue/expense balance —

(Millions of yen)

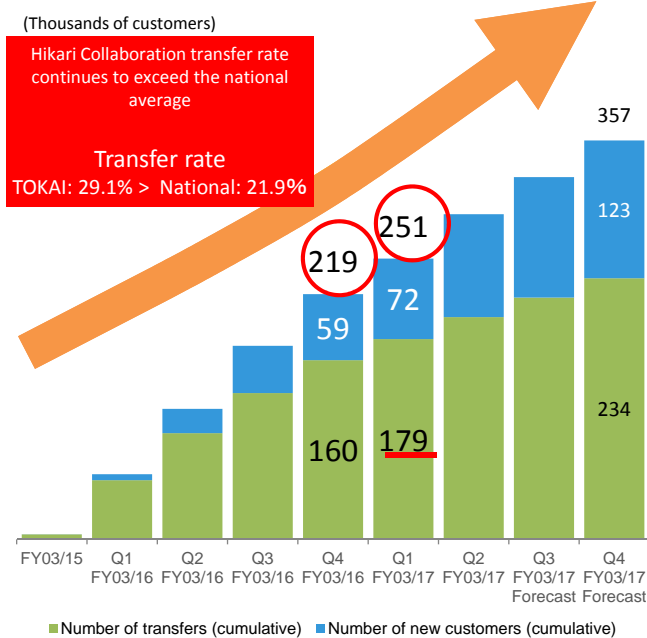
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2

Progress in Hikari Collaboration

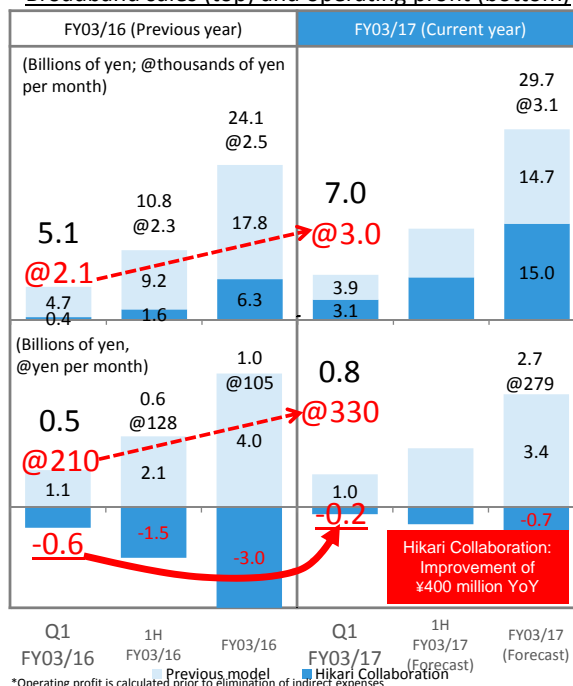
- Number of Hikari Collaboration customers as of the end of Q1 FY03/17 was 251 thousand, up by 32 thousand (13 thousand new customers and 19 thousand transferred customers) compared to the beginning of FY03/17 —
 - Amid a stagnant broadband market, shift to higher unit price and higher profitability services progressed —
 - ARPU increased 38% YoY, and operating profit per contract increased 58% —

Results and forecasts for Hikari Collaboration customer count



* Transfer rate: Ratio of contracts transferred to Hikari Collaboration as a proportion of registered Flet's Hikari contracts

Broadband sales (top) and operating profit (bottom)



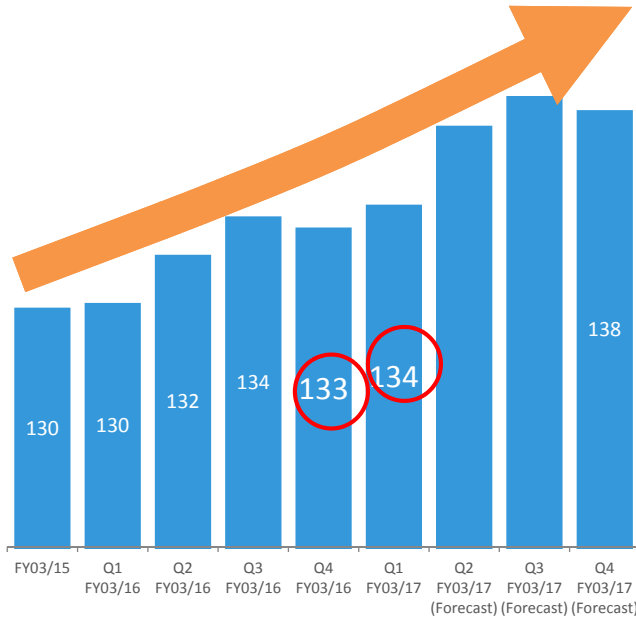
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Steady profit improvement in the Aqua business

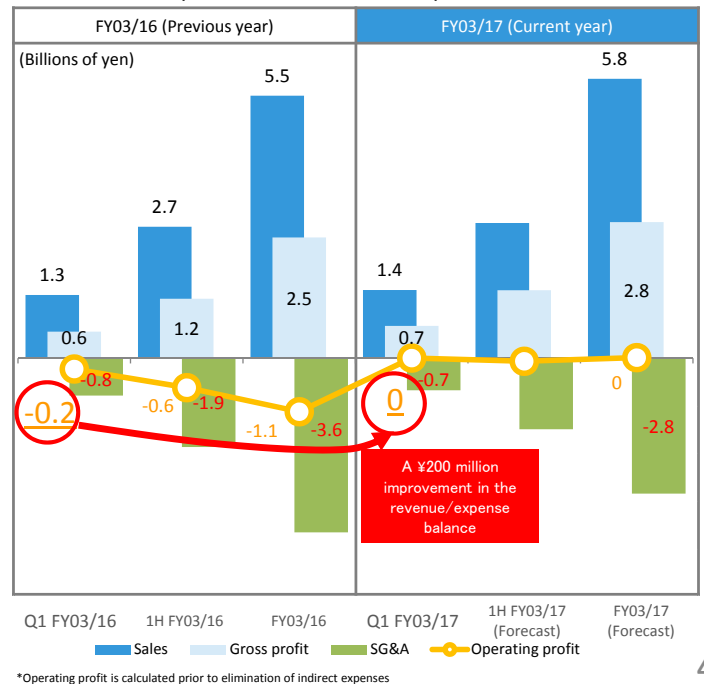
- Customer count at end Q1 FY03/17 was 134 thousand, up 1 thousand from the end of FY03/16 –
 - Started seeing effects of strategic shift to secure profits through emphasis on profitability –
- In addition to a ¥100 million increase from higher customer count, ¥200 million improvement via reduction of selling and administrative expenses –

Customer count results and forecast

(Thousands of customers)



Aqua business revenue/expense



Full-year forecasts for significant profit growth and dividend forecasts

- As announced in May 2016, FY03/17 plans call for significant increase in profits –
- Operating profit, recurring profit, and quarterly net income to post historic highs –
- Dividends to increase significantly, based on the policy of a dividend payout ratio of about 40% –

(Millions of yen)

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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)

	Q1 FY03/12 Results	Q1 FY03/13 Results	Q1 FY03/14 Results	Q1 FY03/15 Results	Q1 FY03/16 Results	Q1 FY03/17 Results
Sales	41,727	43,339	43,038	44,302	42,672	41,618
Operating profit	1,707	1,718	648	1,657	1,708	2,870
Recurring profit	1,504	1,494	549	1,547	1,649	2,900
Quarterly net income	338	549	149	713	714	1,766
EPS (Yen)	3.39	5.50	1.31	6.21	6.18	15.60

(2) Sales by segment

(Millions of yen)

	Q1 FY03/12 Results	Q1 FY03/13 Results	Q1 FY03/14 Results	Q1 FY03/15 Results	Q1 FY03/16 Results	Q1 FY03/17 Results
Gas and Petroleum	21,984	23,365	21,940	22,513	20,288	17,479
Information and Communications	8,863	9,167	9,414	9,659	9,826	11,780
CATV	6,023	5,888	5,970	6,070	6,074	6,241
Building and Real Estate	2,788	2,806	3,419	3,728	4,012	3,414
Aqua	772	891	942	1,123	1,320	1,424
Others	1,295	1,220	1,350	1,207	1,149	1,277
Total	41,727	43,339	43,038	44,302	42,672	41,618

8

(3) Operating profit by segment

(Millions of yen)

	Q1 FY03/12 Results	Q1 FY03/13 Results	Q1 FY03/14 Results	Q1 FY03/15 Results	Q1 FY03/16 Results	Q1 FY03/17 Results
Gas and Petroleum	1,381	1,345	1,049	1,494	1,865	2,197
Information and Communications	1,344	1,371	826	1,333	691	913
CATV	560	421	377	503	498	717
Building and Real Estate	24	-7	135	31	63	81
Aqua	-357	-212	-523	-511	-227	19
Others, adjustments	-1,246	-1,201	-1,216	-1,193	-1,182	-1,060
Total	1,707	1,718	648	1,657	1,708	2,870

*Prior to elimination of indirect expenses

9

(4) Consolidated financial indicators

(Millions of yen)

	Q1 FY03/12 Results	Q1 FY03/13 Results	Q1 FY03/14 Results	Q1 FY03/15 Results	Q1 FY03/16 Results	Q1 FY03/17 Results
Total assets	190,479	176,864	171,202	167,262	164,163	155,595
Total liabilities	165,557	149,684	137,619	128,734	120,110	113,074
Total net assets	24,921	27,180	33,582	38,528	44,053	42,521
Balance of interest-bearing debt	119,735	103,218	90,176	81,168	73,461	67,061
EBITDA	6,098	6,082	5,040	6,030	5,898	6,760
Equity ratio	12.6 %	14.9 %	19.1 %	22.5 %	26.3 %	26.8 %

10

(5) Consolidated cash flows

(Millions of yen)

	Q1 FY03/12 Results	Q1 FY03/13 Results	Q1 FY03/14 Results	Q1 FY03/15 Results	Q1 FY03/16 Results	Q1 FY03/17 Results
Operating cash flow	7,281	6,703	7,725	8,080	4,285	8,242
Investment cash flow	-3,503	-2,237	-3,407	-1,844	-3,162	-2,454
Free cash flow	3,778	4,466	4,318	6,236	1,123	5,787
Financing cash flow	-5,830	-3,925	-5,368	-6,449	-1,261	-6,216

11

(6) Group customer count

(Thousands of customers)

		Q1 FY03/12 Results	Q1 FY03/13 Results	Q1 FY03/14 Results	Q1 FY03/15 Results	Q1 FY03/16 Results	Q1 FY03/17 Results
Gas (LP and city gas)		671	642	629	627	625	634
Information and Communications	Previous ISP model, etc.	704	775	833	858	802	595
	Hikari Collaboration	—	—	—	—	58	251
	Mobile	175	198	217	229	235	235
	Subtotal	879	972	1,049	1,087	1,095	1,081
CATV		740	682	693	692	692	716
Aqua		87	99	105	126	130	134
Security		21	20	19	18	18	17
Total		2,378	2,392	2,471	2,526	2,537	2,557

*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.

12

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。

