

January 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 Third Quarter of the Fiscal Year Ending March 31, 2017 Significantly Higher Profits Led to Record-High Profits

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

(Millions of yen)

	Q3 FY03/17 (April 1, 2016 to December 31, 2016)	Q3 FY03/16 (April 1, 2015 to December 31, 2015)	Year-on-year	
			Change	Percent Change
Sales	127,432	130,103	-2,671	-2.1%
Operating profit	8,193	4,006	+4,187	+104.5%
Recurring profit	8,246	3,921	+4,325	+110.3%
Quarterly net income	4,850	1,395	+3,454	+247.6%
EPS (Yen)	42.71	12.05	+30.66	+254.5%

1. Significantly Higher Profits Led to Record-High Profits

Consolidated results for the third quarter of the fiscal year ending March 31, 2017 were sales of 127.4 billion yen, operating profit of 8.2 billion yen, recurring profit of 8.2 billion yen, and quarterly net income of 4.9 billion yen.

Operating profit doubled, growing by 4.2 billion yen (up 104.5%) compared to 4.0 billion yen during Q3 FY03/16, and all profit indicators posted historic highs during the third quarter.

Active sales promotion activities conducted for Hikari Collaboration*—an area of focus during FY03/17—during the previous fiscal year were successful, resulting in a 2.3 billion yen improvement, and the Aqua (bottled water delivery) business also showed a 1.2 billion yen improvement and achieved profitability for two consecutive periods after the interim period, owing to factors such as a shift in the sales strategy. For these reasons, operating profit increased significantly, by 4.2 billion yen year-on-year.

2. Revenue/Expense Balance of Hikari Collaboration Steadily Improved, ARPU Increased, and 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 as of the end of the third quarter of the fiscal year ending March 31, 2017 was up by 69 thousand compared to the beginning of the fiscal year, to 288 thousand. Customers continued to shift to high unit price and high profitability services, leading to a 26% year-on-year improvement in ARPU in the Broadband business.

Hikari Collaboration sales for the third quarter were up 6.4 billion yen year-on-year while operating loss contracted by 2.3 billion yen, demonstrating steady progress.

3. Revenue/Expense Balance of Aqua Business Steadily Improved Toward Achieving Full-Year Profitability

The number of customers in the Aqua business as of the end of the third quarter of the fiscal year ending March 31, 2017 was up by 2 thousand compared to the beginning of the fiscal year, to 135 thousand.

By transitioning to a sales structure emphasizing efficient customer acquisition to match market conditions, the Company was successful in securing customer count growth on par with the same period of the previous fiscal year while also restricting acquisition costs per customer to 69% of those seen during the same period of the previous fiscal year. Combined with other factors such as reduced advertising costs, the operating loss/profit improved by 1.2 billion yen year-on-year.

Steady progress was achieved in improving revenue/expense balance and the business was profitable during the interim period, with profits further expanding during the third quarter.

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

As announced on October 31, 2016, earnings forecasts for the fiscal year ending March 31, 2017 were revised upward to operating profit of 12.8 billion yen, recurring profit of 12.4 billion yen, and net income of 6.5 billion yen, with historic highs anticipated in all profit categories.

(Millions of yen)

	FY03/17 Forecast (April 1, 2016 to March 31, 2017)	FY03/16 Results (April 1, 2015 to March 31, 2016)	Year-on-year	
			Change	Percent Change
Sales	179,700	180,940	-1,240	-0.7%
Operating profit	12,750	8,245	+4,505	+54.7%
Recurring profit	12,360	8,150	+4,210	+51.6%
Net income	6,500	3,458	+3,042	+88.0%
EPS (Yen)	57.23	30.01	+27.22	+90.7%

As announced in the upward revision on October 31, 2016, the dividend forecast for the fiscal

year ending March 31, 2017 shall be 17 yen per share, including a commemorative dividend of 6 yen to mark the achievement of “Innovation Plan 2016 ‘Growing’” medium-term management plan. Annual dividends will be 28 yen per share, a twofold increase from 14 yen for the fiscal year ended March 31, 2016.

	FY03/17 (Forecast)	FY03/16
End of Q2	11.00	6.00
Year-end	17.00 (Ordinary dividend: 11.00) (Commemorative dividend: 6.00)	8.00
Annual dividend total	28.00	14.00
Consolidated payout ratio	48.9%	46.7%

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

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

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

* ISPs that provide self-branded optical broadband service via fiber optic lines provided by NTT.

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

TOKAI Holdings Corporation
(Code: 3167)

January 31, 2017

Significantly higher profits led to record-high profits

- ◎ Profitability improved steadily in Hikari Collaboration and Aqua, areas of focus for the current fiscal year (the two businesses combined, improvement of 3.5 billion yen), contributing to earnings. Aqua achieved profitability for two consecutive periods following the interim period
- ◎ Effect on sales of price revisions resulting from lower prices of raw materials for gas was minus 6.2 billion yen year-on-year

(Millions of yen)

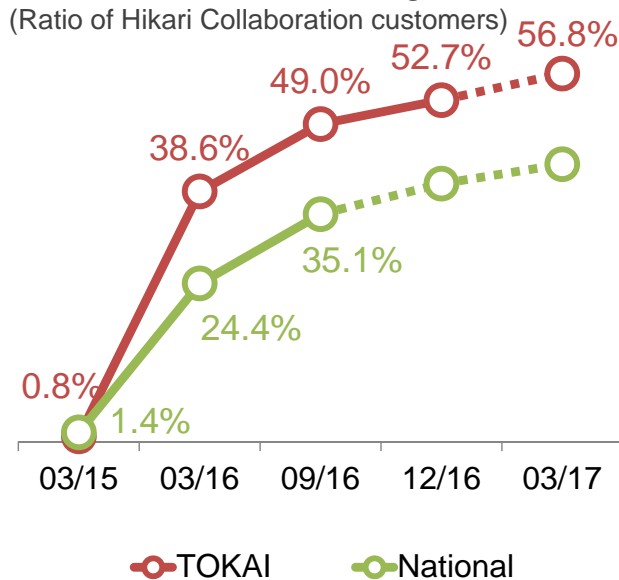
	Q3 FY03/17 (April 1, 2016 to December 31, 2016)	Q3 FY03/16 (April 1, 2015 to December 31, 2015)	YoY	
			Amount of Change	Percent Change
Sales	127,432	130,103	-2,671	-2.1%
Operating profit	8,193	4,006	+4,187	+104.5%
Of which, Hikari Collaboration	-125	-2,418	+2,292	—
Of which, Aqua	299	-933	+1,233	—
Recurring profit	8,246	3,921	+4,325	+110.3%
Net income	4,850	1,395	+3,454	+247.6%
EPS (Yen)	42.71	12.05	+30.66	+254.5%

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

Progress in shift to Hikari Collaboration

- ◎ In line with the NTT's shift in fiber optic line sales from direct sales to wholesaling, the Company entered the Hikari Collaboration market (self-branded optical broadband services via fiber optic lines) in March 2015
- ◎ Progress is ahead of the national average and the shift to high ARPU services continues to advance
- ◎ Contributions to higher profits are expected to continue into the next management plan period by aiming for a higher ratio of Hikari Collaboration customers combined with new customer acquisition

Hikari Collaboration Progress



Hikari Collaboration ratio = $\frac{\text{Number of Hikari Collaboration contracts} < \text{Transfers} + \text{New} > \text{ at period-end}}{\text{Number of Flet's Hikari contracts} + \text{Hikari Collaboration contracts} < \text{Transfers} + \text{New} > \text{ at period-end}}$

Effect of Shift to Hikari Collaboration

Broadband business ARPU

Q3 FY03/17	3,037 yen/contract	↑ Up 26%
Q3 FY03/16	2,411 yen/contract	

Broadband business operating profit

FY03/16	FY03/17 Forecast
1.1 billion yen	3.1 billion yen

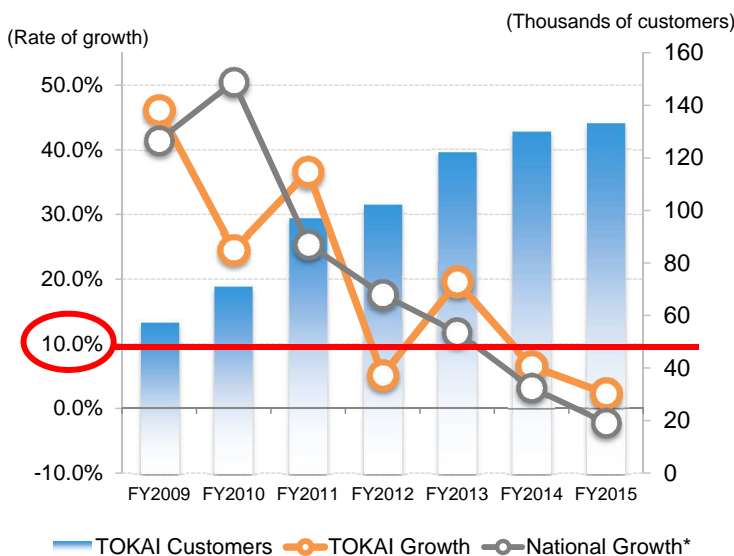
*Operating profit is calculated prior to elimination of indirect expenses

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Water delivery business also contributing to profit increase through an efficient model

- ◎ As market growth was in the single digits in FY2014 and flat in FY2015, the Company shifted to efficient customer acquisition (emphasizing cost efficiency) from FY03/17, and achieved profitability during the interim period
- ◎ While maintaining contract figures on par with Q3 FY03/16, acquisition cost was reduced by 31% and full-year targets are projected to be achieved
- ◎ Continuous contributions to profits are expected from moderate growth, achieved by focusing on efficient markets

Market Customer Growth in Single Digits since FY2014



*Source: Japan Delivery Water & Server Association

Shift of Emphasis to Sales Efficiency

	Q3 FY03/16	Q3 FY03/17
New contracts	20,721	18,722
Acquisition costs	1,058 million yen	726 million yen

→
31%
reduction

Aqua business operating profit

FY03/16	FY03/17 Forecast
-1.1 billion yen	0.3 billion yen

*Operating profit is calculated prior to elimination of indirect expenses

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Full-year forecast

- ◎ No change from revised full-year forecast (upward revision announced on October 31, 2016)
- ◎ Forecast calls for historic highs in profits, with operating profit of 12.8 billion yen and net income of 6.5 billion yen

(Millions of yen)

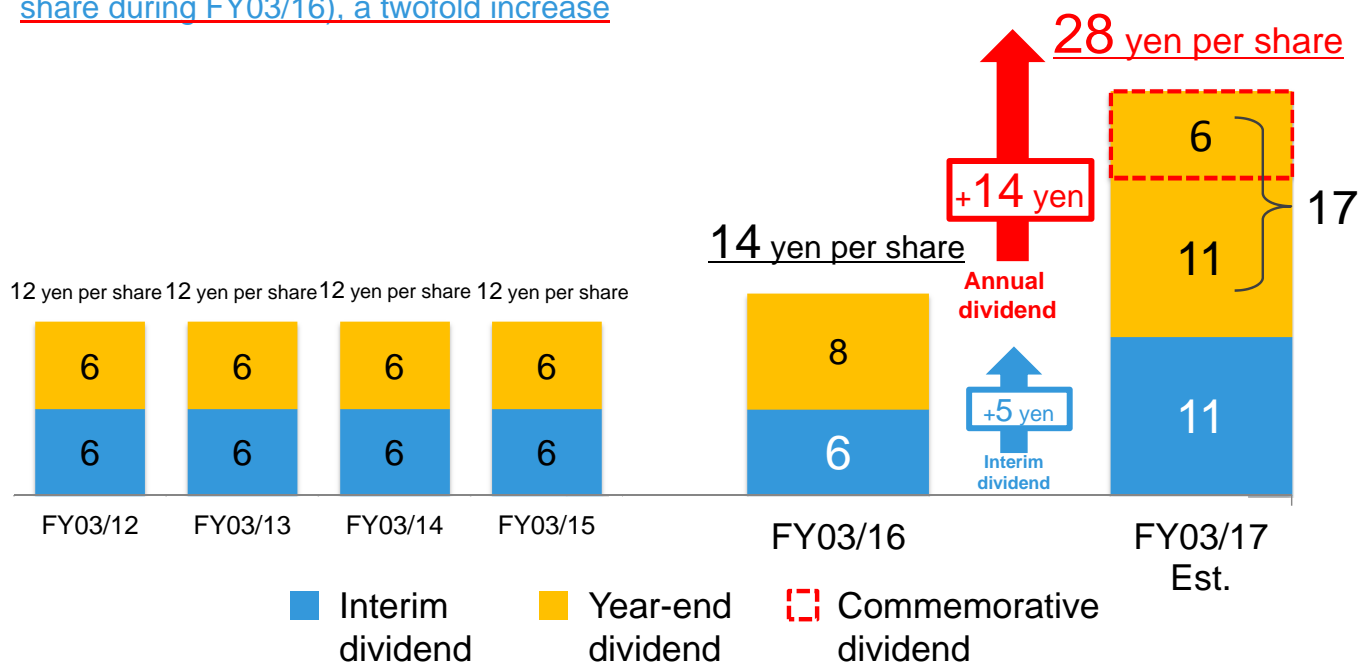
	FY03/17 Forecasts (April 1, 2016 to March 31, 2017)	FY03/16 Results (April 1, 2015 to March 31, 2016)	YoY	
			Amount of Change	Percent Change
Sales	179,700	180,940	-1,240	-0.7%
Operating profit	12,750	8,245	+4,505	+54.7%
Of which, Hikari Collaboration	-442	-3,007	+2,566	—
Of which, Aqua	301	-1,119	+1,420	—
Recurring profit	12,360	8,150	+4,210	+51.6%
Net income	6,500	3,458	+3,042	+88.0%
EPS (Yen)	57.23	30.01	+27.22	+90.7%

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

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Dividend forecast

- ◎ No change from revised dividend forecast (upward revision announced on October 31, 2016)
- ◎ Year-end dividends are planned to increase to 17 yen per share, including the originally planned dividend of 11 yen per share combined with an IP16 achievement commemorative dividend of 6 yen
- ◎ Two consecutive fiscal years of dividend increase and an annual dividend of 28 yen (14 yen per share during FY03/16), a twofold increase



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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)

	Q3 FY03/12 Results	Q3 FY03/13 Results	Q3 FY03/14 Results	Q3 FY03/15 Results	Q3 FY03/16 Results	Q3 FY03/17 Results
Sales	129,122	130,879	132,959	135,981	130,103	127,432
Operating profit	5,684	5,690	3,196	4,866	4,006	8,193
Recurring profit	4,917	4,948	2,959	4,517	3,921	8,246
Quarterly net income	1,178	1,767	920	1,819	1,395	4,850
EPS (Yen)	11.80	17.68	8.03	15.81	12.05	42.71

(2) Sales by segment

(Millions of yen)

	Q3 FY03/12 Results	Q3 FY03/13 Results	Q3 FY03/14 Results	Q3 FY03/15 Results	Q3 FY03/16 Results	Q3 FY03/17 Results
Gas and Petroleum	66,146	67,174	66,964	67,106	58,348	51,291
Information and Communications	28,155	28,375	28,628	30,020	31,988	36,212
CATV	18,097	17,800	18,093	18,207	18,345	18,901
Building and Real Estate	10,148	10,846	12,379	13,311	13,783	12,926
Aqua	2,679	2,883	3,271	3,707	4,130	4,391
Others	3,895	3,798	3,621	3,626	3,507	3,708
Total	129,122	130,879	132,959	135,981	130,103	127,432

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(3) Operating profit by segment

(Millions of yen)

	Q3 FY03/12 Results	Q3 FY03/13 Results	Q3 FY03/14 Results	Q3 FY03/15 Results	Q3 FY03/16 Results	Q3 FY03/17 Results
Gas and Petroleum	3,816	4,493	3,297	4,376	5,232	5,550
Information and Communications	4,170	3,785	3,227	3,716	1,472	2,993
CATV	1,669	1,205	1,398	1,309	1,453	2,125
Building and Real Estate	341	247	591	349	523	619
Aqua	-660	-616	-1,695	-1,166	-933	299
Others, adjustments	-3,653	-3,423	-3,623	-3,718	-3,741	-3,396
Total	5,684	5,690	3,196	4,866	4,006	8,193

*Prior to elimination of indirect expenses

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(4) Consolidated financial indicators

(Millions of yen)

	Q3 FY03/12 Results	Q3 FY03/13 Results	Q3 FY03/14 Results	Q3 FY03/15 Results	Q3 FY03/16 Results	Q3 FY03/17 Results
Total assets	186,035	176,147	172,863	168,034	164,500	157,735
Total liabilities	160,908	144,838	138,724	128,808	122,228	111,007
Total net assets	25,127	31,308	34,139	39,225	42,272	46,728
Balance of interest-bearing debt	114,480	98,447	91,032	82,743	79,539	65,678
EBITDA	19,052	18,771	16,333	17,817	16,565	19,922
Equity ratio	13.0 %	17.3 %	19.2 %	22.8 %	25.1 %	29.1 %

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(5) Consolidated cash flows

(Millions of yen)

	Q3 FY03/12 Results	Q3 FY03/13 Results	Q3 FY03/14 Results	Q3 FY03/15 Results	Q3 FY03/16 Results	Q3 FY03/17 Results
Operating cash flow	17,756	17,521	14,535	15,111	8,505	17,082
Investment cash flow	-7,590	-7,554	-7,672	-6,909	-8,750	-6,929
Free cash flow	10,166	9,967	6,863	8,202	-244	10,152
Financing cash flow	-14,201	-8,628	-7,635	-7,983	-47	-11,261

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(6) Group customer count

(Thousands of customers)

		Q3 FY03/12 Results	Q3 FY03/13 Results	Q3 FY03/14 Results	Q3 FY03/15 Results	Q3 FY03/16 Results	Q3 FY03/17 Results
Gas (LP and city gas)		656	631	629	624	629	635
Information and Communications	Previous ISP model, etc.	752	803	848	866	686	538
	Hikari Collaboration	—	—	—	—	173	288
	Mobile	186	207	225	234	235	234
	Subtotal	939	1,010	1,073	1,099	1,094	1,060
CATV		726	688	694	689	704	728
Aqua		97	103	121	133	134	135
Security		20	20	19	18	18	17
Total		2,414	2,427	2,510	2,540	2,553	2,551

*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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