

**TOKAI Holdings**3167 Tokyo Stock Exchange  
First Section

14-Jan.-15

Important disclosures  
and disclaimers appear  
at the end of this document.FISCO Ltd. Analyst  
Yuzuru Sato**■ TOKAI Holding's cumulative operating profit largely exceeded its original forecast in Q2**

Based in Shizuoka Prefecture, Japan, TOKAI Holdings Corporation ("TOKAI") <3167> engages in LP-gas ("LPG") with a focus on energy and home services and telecommunications businesses. Under its Total Life Concierge ("TLC") concept, the Company launched its new three-year medium-term management plan, Innovation Plan 2016 "Growing", in the fiscal year ending March 2015, with the aim of achieving JPY 209.5 billion in net sales and JPY 12.6 billion in operating profit in the fiscal year ending March 2017, the final year of the plan.

In the second quarter of the fiscal year ending March 2015 (April 2014–September 2014), TOKAI achieved JPY 87,274 million in net sales, an increase of 3.5% year-on-year ("y-o-y"), and JPY 1,816 million in operating profit, an increase of 341.7% y-o-y, largely exceeding its original forecast of JPY 720 million in operating profit. In addition to an increase in sales due to retail price revisions of LPG, this increase in income was attributable to a higher-than-anticipated reduction in customer acquisition cost particularly in its water and telecommunication businesses.

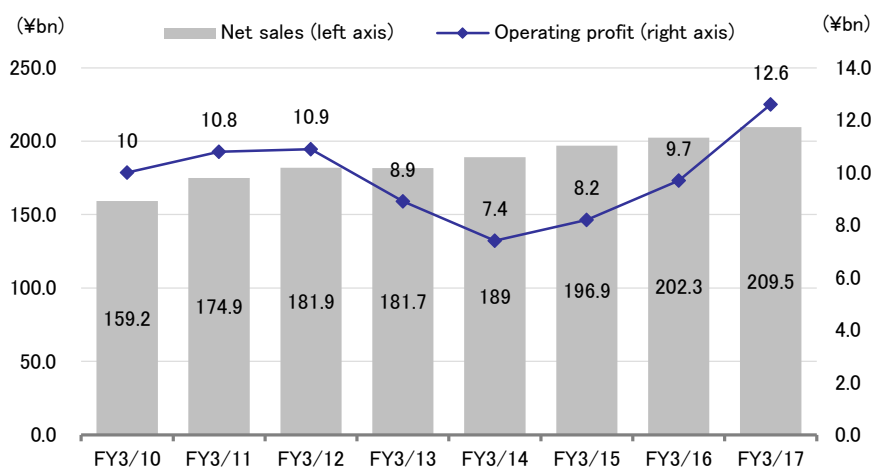
The company is expected to achieve JPY 196,900 million in net sales, a 4.2% increase y-o-y, and JPY 8,870 in operating income, a 20% increase y-o-y. In comparing with its original forecast, the increase in operating income was smaller than that of the cumulative result in the second quarter of the fiscal year with an upward revision to JPY 660 million. This was due to an overall conservative estimate based on a projected increase in customer acquisition cost caused by intensifying competition in telecommunications and CATV sectors expected from NTT <9432>'s launch of wholesale fiber access services.

As a growth strategy, TOKAI will focus on "retaining customers and promoting multiple transactions" and "realizing the TLC by making a fresh entry in sales of power" in its medium-term management plan. The company plans to introduce a promotional strategy for service subscriptions, targeted to those who use its group's core services, and to increase the return rate of reward points for when using multiple services, which has been test-marketed since August. While the subscription rate for multiple services currently accounts for only 7%, its introduction is expected to be beneficial. The company also plans to expand its power sales business in Shizuoka and the Kanto region upon the liberalization in fiscal year 2016, aiming to build an information system, Home Energy Management System (HEMS), offering high-added value information including not only electric or LPG usage information, but also information on regional leisure, shopping and various contents and to realize its TLC concept.

**■ Check Point**

- Net sales increased for the fifth consecutive period on half-year basis, reaching record high
- Original forecast for consolidated results was revised upward, but on the conservative side
- Offers an attractive level of total return per unit of shares

(Consolidated) Operating Results and Medium-Term Management Plan



Note: FY3/11 and FY3/10 indicate consolidated results of "Tokai Corp."

## Business Trends

### Net sales increased for the fifth consecutive period on half-year basis, reaching record high

#### (1) Results for the Second-Quarter Cumulative of the Fiscal Year Ending March 2015

Consolidated results for the second-quarter cumulative of the fiscal year ending March 2015 (April 2014–September 2014) show that TOKAI achieved JPY 87,274 million in net sales, a 3.5% increase y-o-y, JPY 1,816 million in operating profit, a 341.7% increase y-o-y, JPY 1,585 million in recurring profit, a 423.1% increase y-o-y, and JPY 225 million in quarterly net profit (previous year: JPY 354 million in loss) as released on October 30 2014. The net sales increased for the fifth consecutive period on a half-year basis, reaching record high. Although the net sales did not reach the Company's original forecast, profits largely exceeded the forecast, and its medium-term management plan initiated in the fiscal year ending March 2015 has shown a good start.

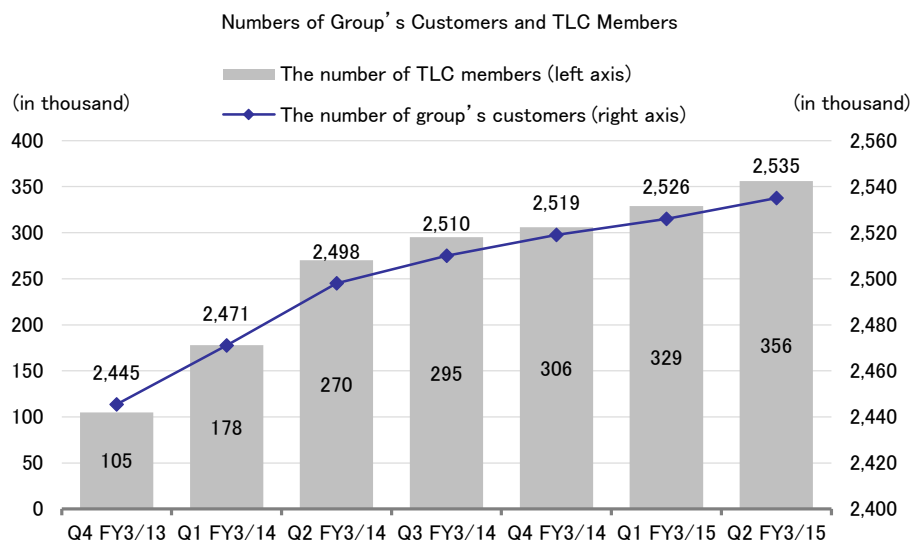
#### Consolidated Results for the Second-Quarter Cumulative of the Fiscal Year Ending March 2015

(Unit: JPY million)

	Cumulative Q2 FY3/14		Cumulative Q2 FY3/15				
	Result	Sales ratio	Original forecast	Result	Sales ratio	Year-on-year ratio	Forecast ratio
Net sales	84,315	–	88,500	87,274	–	3.5%	–1.4%
Sales cost	53,567	63.5%	–	55,489	63.6%	3.6%	–
Expenses	30,337	36.0%	–	29,969	34.3%	–1.2%	–
Operating profit	411	0.5%	720	1,816	2.1%	341.7%	152.3%
Recurring profit	303	0.4%	270	1,585	1.8%	423.1%	487.2%
Extraordinary profit and loss	–242	–	–	–371	–	–	–
Net profit	–354	–0.4%	–670	225	0.3%	–	–

Main factors for the increase in revenue are due to price revisions and streamlining effects in the company's LPG business as well as reduction in customer acquisition cost in its broadband and water businesses.

The number of customers in the entire group at the end of September was up to a total of 2,535 thousand, showing a steady increase of 37 thousand y-o-y, attributable to the increase in its broadband and water businesses. As for TLC membership service, which was introduced in December 2012 for the purpose of retaining customers and increasing the multiple usage rate, the number of members at the end of September steadily increased to a total of 356 thousand with a rise of 14% in the proportion of TLC members to all subscribers. This increase in the number of members is due to the fact that the Company increased the number of locations, where the reward points can be used, in order to increase the number of TLC members from previously reported 187 thousand locations at the end of June 2014, composed of AEON Group and WAON member stores, as shown in the table below.



**Expanded lineup of TLC Reward Point Exchange**

Exchange to WAON points	Available at 187 thousand locations at AEON Group/WAON member stores
Exchange to Suica points	Available at railways and buses and for shopping
Mutual exchange with LuLuCa points	Available at Shizuoka Railways trains and buses, Shizutetsu stores, Shin-Shizuoka Genova, Denbill, etc.
Exchange to TLC tickets	Available at TLC ticket agencies (129 stores including restaurants, bars and leisure venues in Shizuoka, as of December 2014)
Exchange to TLC selections	Available for exchange with gourmet food in department stores, cash vouchers, TOKAI group's water products, etc.

## Profits in gas and oil businesses rose by retail price revisions and improved productivity

### (2) Status by Business Segment

Earnings trends by business segment are as follows:

#### Second Quarter Cumulative Results by Business Segment

(JPY 100 million)

		Q2 FY3/13 (Cumulative)	Q2 FY3/14 (Cumulative)	Q2 FY3/15 (Cumulative)	Amount of Increase / Decrease
Gas and Oil	Net sales	426	418	428	+9
	Operating profit	18	12	20	+9
Telecommunications	Net sales	185	189	195	+7
	Operating profit	26	20	24	+4
CATV	Net sales	118	120	121	+1
	Operating profit	8	9	8	-1
Construction and Real Estate	Net sales	65	73	82	+9
	Operating profit	1	2	1	-1
Water	Net sales	19	21	24	+3
	Operating profit	-4	-13	-10	+3
Others and Adjustments	Net sales	22	22	22	0
	Operating profit	-24	-26	-26	-1
Total	Net sales	836	843	873	+30
	Operating profit	26	4	18	+14

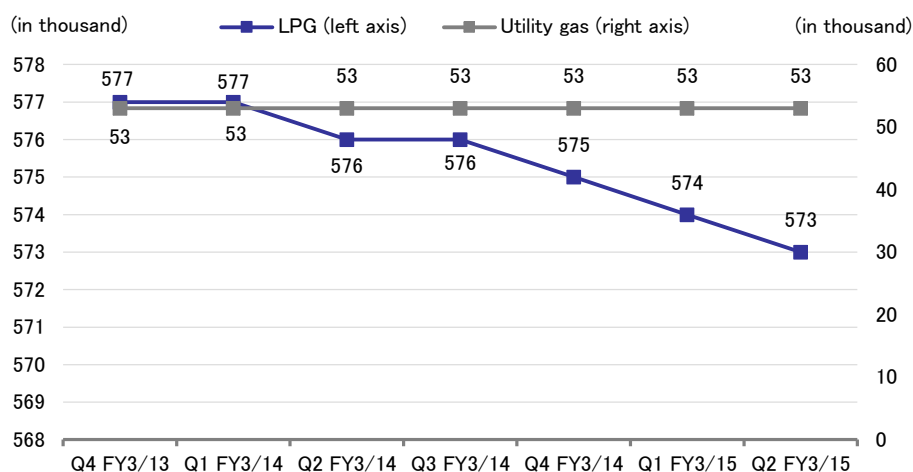
Note: Operating profits are before allocation of overhead, etc.

#### ○ Gas and Oil Business

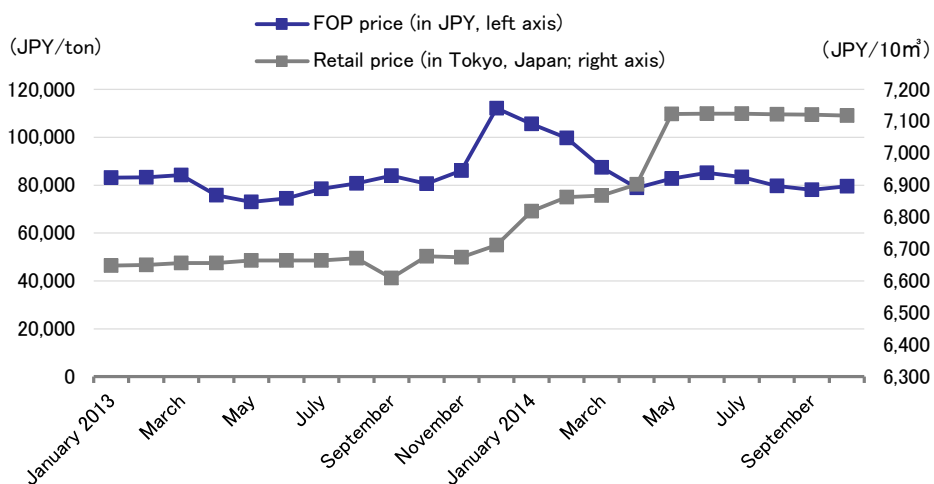
TOKAI's Gas and Oil segment achieved net sales of JPY 42.8 billion, a JPY 0.9 billion increase y-o-y, and operating profit of JPY 2.0 billion, a JPY 0.9 billion increase y-o-y. Although the number of customers in LPG business, a primary business in the segment, slightly decreased to 573 thousand, a y-o-y decrease of 3 thousand, the net sales posted a single-digit gain because sales of gas remained unchanged due to lower temperatures in the summer, as well as because of the effects of retail price revisions conducted in the previous half-year due to increased gas purchase prices.

In the Company's utility gas business, the number of customers remained on a par with the level at 53 thousand y-o-y, and net sales increased y-o-y due to the increase in sales unit prices under the fuel cost adjustment system despite a slight decrease in gas sales y-o-y. Its operating profit rose due to streamlining efforts including improved productivity in addition to retail price revisions in the LPG business, which amounted to JPY 500 million.

Trends in the Number of Customers in Gas Businesses



Trends in FBO and Retail Prices for LPG



Source: Japan LP Gas Association

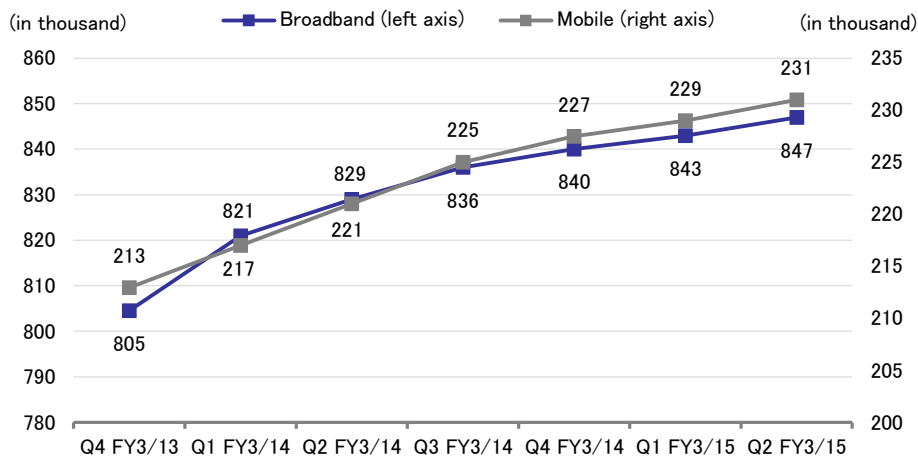
### ○ Information and Telecommunications

Information and Telecommunications segment achieved net sales of JPY 19.5 billion, a y-o-y increase of JPY 0.7 billion, and operating profit of JPY 2.4 billion, a y-o-y increase of JPY 0.4 billion, resulting in a rise of operating profit ratio from 10.4% to 12.2%. The sales increase was attributable to increases in fee revenue due to increase in the number of customers in broadband service business for consumers, in system development orders from major system integrator companies and in telecommunications and data center businesses for enterprise. Net sales accounted for over 50% for broadband business, nearly 40% for enterprise business and remaining percent for mobile business.

The number of customers in the broadband business is growing steadily, amounting to 847 thousand, a y-o-y increase of 18 thousand, and the number of customers in the mobile business, a cell phone distribution business, amounted to 231 thousand, a 10 thousand increase y-o-y.

The increase in operating profit was due to reduction in customer acquisition cost as well higher income from services for corporates.

Trends in the Number of Customers in Information and Telecommunications Business

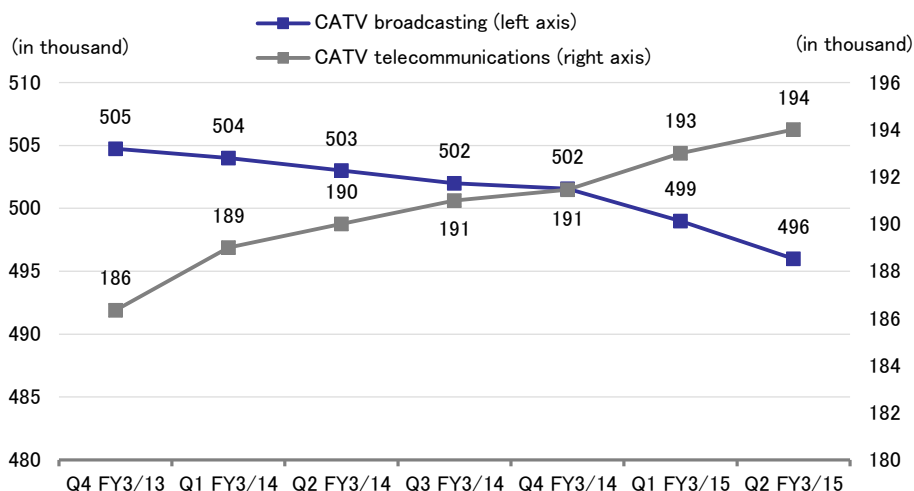


### OCATV

CATV segment achieved net sales of JPY 12.1 billion, a y-o-y increase of JPY 0.1 billion, and operating profit of JPY 0.8 billion, a y-o-y decrease of JPY 0.1 billion. While the number of customers in broadcasting business fell to 496 thousand due to intensified competition with major telecommunications carriers, the number of customers in telecommunications services rose to 194 thousand, an increase of 5 thousand. This is likely due to the effect of adopting a set discount in collaboration with cell phone companies.

As for profit, additional customer service cost due to the Company's termination of rebroadcasting programs outside the digital range of Tokyo key stations resulted in lower margins.

Number of CATV Subscribers



○ Construction and Real Estate

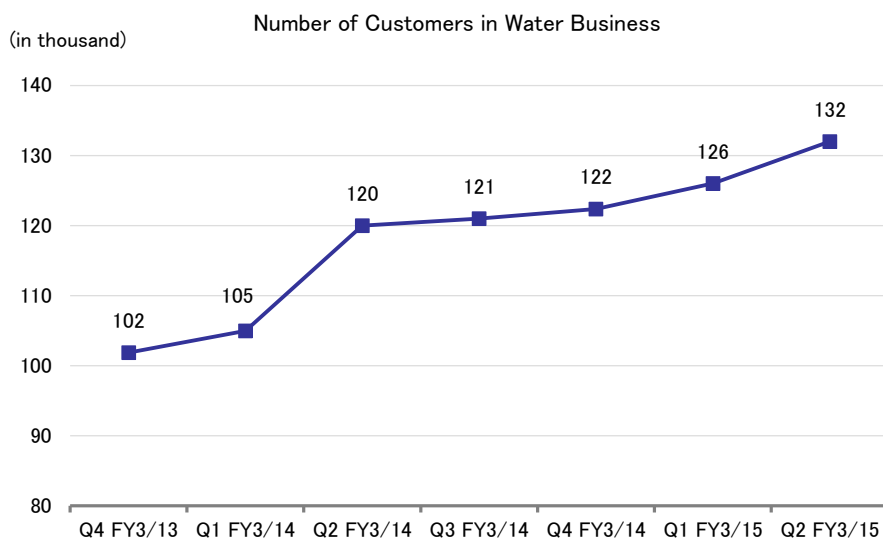
Construction and Real Estate segment achieved net sales of JPY 8.2 billion, a y-o-y increase of JPY 0.9 billion, and operating profit of JPY 0.1 billion, a y-o-y decrease of JPY 0.1 billion. The sales increase is mostly due to that the Company’s reform business in the Kanto region, which was included in Gas and Oil segment in the previous half-year, has been transferred to Construction and Real Estate segment; and, in real terms, it remained almost flat. Despite steady progress in delivery of newly-built condominiums, the overall activity, including housing sales and reform businesses, remained low due to the consumption tax hike.

○ Water

Water segment achieved net sales of JPY 2.4 billion, a y-o-y increase of JPY 0.3 billion, and operating loss decreased from JPY 1.3 billion to JPY 1.0 billion. The number of customers at the end of September steadily increased to 132 thousand, a y-o-y increase of 12 thousand.

The sales increase was due to factors including continued efforts to increase brand recognition of Urunon, the Company’s water product, by using “Doraemon” as the image character for One Way water delivery service, strengthening sales promotion focusing on large commercial facilities in the Kansai, Hokuriku and Tohoku regions in addition to the Kanto region and the launch of a new product, Sarari, smoother natural water with less vanadium and mineral contents. For this segment, the Company aims to reach its break-even point of 180 thousand customers in the fiscal year ending March 2017.

The increase of approximately JPY 0.1 billion in operating profit was attributable to a decrease of approximately JPY 0.1 billion in advertising expenses in addition to the sales increase due to increase in the number of customers.



### Others

In “Others” segment, net sales amounted to JPY 2.2 billion, and operating loss amounted to JPY 2.6 billion, remaining unchanged from the previous corresponding year respectively. The Company has a total of seven nursing facilities in its nursing business including recently established facilities such as “Rifurea Mizuho”, a day-service facility opened in July, and “Rifurea Agetsuchi”, a nursing care home and day-service facility opened in August. While the number of users in each facility steadily increased with an increase in net sales, operating loss increased due to a heavier burden from upfront investment. In wedding business, net sales continued to decline as the number of weddings continues to fall. The Company has decided to close one of its three wedding venues in Shizuoka at the end of March 2015.

## Achieved annual targets for interest-bearing debt and equity ratio 6 months ahead of schedule

### (3) Financial Status

The following table shows the Company’s financial status as of the end of September 2014. Total assets amounted to JPY 164,477 million, a y-o-y decrease of JPY 9,143 million. This is primarily due to decrease in accounts receivable, tangible fixed assets, cash and goodwill.

Meanwhile, total liabilities amounted to JPY 125,521 million, a y-o-y decrease of JPY 9,770 million. This was mainly resulted from lower interest-bearing debt and payment obligations. Net assets amounted to JPY 38,956 million, a y-o-y increase of JPY 627 million. The payout by dividends was covered by net profit and an increase in unrealized capital gain on other securities.

The Company has achieved its annual targets for interest-bearing debt and equity ratio six months ahead of schedule. Thus, this suggests that its financial structure is sound and improving.

### Consolidated Balance Sheet

(Unit: JPY million)

	FY3/12	FY3/13	FY3/14	Q2 FY3/15	Amount of increase / decrease
Current assets	41,093	40,351	40,606	33,985	-6,621
(Cash)	2,602	4,235	3,182	2,146	-1,036
Fixed assets	142,470	137,147	132,928	130,434	-2,494
(goodwill)	15,540	12,632	10,241	9,252	-989
Total assets	183,735	177,642	173,620	164,477	-9,143
Current liabilities	85,179	82,563	78,905	71,703	-7,202
Fixed liabilities	71,374	61,068	56,385	53,818	-2,567
(Interest-bearing debt)	105,659	93,668	85,843	80,930	-4,913
Total liabilities	156,553	143,631	135,291	125,521	-9,770
Net assets	27,181	34,011	38,329	38,956	627
MAIN MANAGEMENT INDEX					
Equity ratio	14.3%	18.6%	21.6%	23.1%	
Interest-bearing debt ratio	402.1%	283.0%	229.4%	212.8%	



## Original forecast for consolidated results was revised upward, but on the conservative side

### (4) Forecast for FY Ending March 2015

The Company's forecast of consolidated results for the FY ending March 2015 was revised upward from its original forecast as follows: net sales increased by 4.2% y-o-y to JPY 196,900 million; operating profit increased by 20.0% y-o-y to JPY 8,870 million; recurring profit increased by 18.6% y-o-y to JPY 8,320 million; and net profit increased by 43.9% y-o-y to JPY 3,740 million. Given that the cumulative operating profit in the second quarter exceeded the forecast by approximately JPY 1,100 million, these upward revisions made for the full year gave a conservative impression.

The Company attributed this mainly to a possibility of increase in customer acquisition cost in its broadband and CATV businesses, which are expected to be more competitive due to NTT's launch of wholesale fiber access in upcoming February 2015.

### Forecast for Consolidated Results for FY Ending March 2015

(Unit: JPY million)

	FY3/14		FY3/15				
	Result	Sales ratio	Original forecast	Result	Sales ratio	Year-on-year ratio	Forecast ratio
Net sales	188,987	-	196,900	196,900	-	4.2%	0.0%
Operating profit	7,392	3.9%	8,210	8,870	4.5%	20.0%	8.0%
Recurring profit	7,013	3.7%	7,380	8,320	4.2%	18.6%	12.7%
Net profit	2,598	1.4%	3,200	3,740	1.9%	43.9%	16.9%

### Number of Subscribers by Service

(Unit: Thousand)

	FY3/12	FY3/13	FY3/14	FY3/15 (tentative)	Number of increase / decrease
Gas (LPG, utility gas)	648	629	628	634	+6
Security	20	19	19	19	0
Water	97	102	122	143	+21
Telecommunications (land, Wi-Fi)	758	816	854	876	+22
Telecommunications (mobile)	193	213	227	238	+11
CATV	722	691	693	700	+7
CATV broadcasting	542	505	502	496	-6
CATV telecom	180	186	191	205	+14
Total	2,415	2,445	2,519	2,586	+67
Number of TLC members (in thousand)	-	110	306	396	+90

### Net Sales by Business Segment

(Unit: JPY million)

	FY3/12	FY3/13	FY3/14	FY3/15 (tentative)	Year-on-year ratio
Gas and Oil	94,794	94,519	97,229	97,800	0.6%
Information and Telecommunications Services	37,943	38,497	38,803	41,500	7.0%
CATV	24,292	23,786	24,187	24,600	1.7%
Construction and Real Estate	15,881	15,756	19,245	21,800	13.3%
Water	3,522	3,750	4,378	5,400	23.3%
Others	5,498	5,374	5,142	5,800	12.8%
Total	181,931	181,684	188,987	196,900	4.2%

The Company has maintained its original forecast in the number of customers and net sales by business segment. The numbers of customers of Water segment as well as of communications services and Information and Telecommunications businesses in the CATV segment are expected to grow. It also expects a slight increase in the Gas business by reducing the churn rate. The Water segment has, up to the cumulative second quarter, made steady progress, but the Gas, Information and Telecommunications and CATV segments slightly fell short of the forecast.

In net sales, all segments are expected to increase. While Construction and Real Estate and Information and Telecommunications segments progressed slightly less than the forecast reflecting the prolonged impact of the consumption tax hike, a recovery is expected in the second half of the year.

Operating profit is expected to increase by 20% y-o-y led by the Gas and Oil, Information Telecommunications and Water segments offsetting the decline in the CATV, Construction and Real Estate and Others segments.

## ■ New Three-year Medium-term Plan

### New medium-term plan aims at achieving net sales of JPY 209.5 billion

#### (1) Summary of medium-term plan, “Innovation Plan 2016 ‘Growing’ ”

In June 2014, TOKAI announced a medium-term plan, Innovation Plan 2016 “Growing”, ending in fiscal year 2017 (term ending in March 2017). The plan’s basic policies include: 1) improved sales and profitability through building up the number of customers; 2) continued improvement on financial structure; and 3) delivery of steady and sustained returns to shareholders.

The Company has also announced specific management targets, aiming to achieve net sales of JPY 209.5 billion as well as operating profit of JPY 12.6 billion in the final year of the plan (see table). Operating profit is expected to increase by JPY 5.2 billion y-o-y, and, of this increase, a JPY 2.7 billion increase in “external growth” such as expanding the customer base and reducing the customer acquisition cost and a JPY 2.5 billion increase in “internal growth” such as enhancing productivity through economies of scale and reducing the depreciation burden.

#### Management Index Targets in Medium-term Management Plan (IP16 “Growing”)

	FY3/14 (achieved)	FY3/15 (forecasted)	FY3/16 (planned)	FY3/17 (planned)
Number of customers (in thousand)	252	259	266	273
Net sales (in JPY billion)	1,890	1,969	2,023	2,095
Operating profit (in JPY billion)	74	82	97	126
Earnings per share (in JPY)	22.67	27.86	34.91	54.06
EBITDA (in JPY billion)	249	252	267	287
Interest-bearing debt (in JPY billion)	858	818	741	647
Equity ratio	21.6%	23.0%	25.1%	28.6%

Factor Analysis on Increase in Operating Profit (FY3/14-FY3/17)

External growth	Expanding customer base	○Upon payback on upfront invested businesses <ul style="list-style-type: none"> <li>• The number of subscribers in Water segment is expected to increase from 120 thousand at the end of March 2014 to 180 thousand at the end of March 2017.</li> <li>• The number of FTTH subscribers in CATV segment is expected to increase from 190 thousand at the end of March 2014 to 220 thousand at the end of March 2017.</li> </ul>	+¥1.1bn
		○Stock business is expected to increase in Information Services segment <ul style="list-style-type: none"> <li>• Cloud and data center services, etc.</li> </ul>	+¥0.8bn
	Reducing customer base acquisition cost		+¥0.8bn
		Subtotal	+¥2.7bn
Internal growth	Economies of scale	○Improved productivity in water business <ul style="list-style-type: none"> <li>• Achieved a 2.9 times increase from 1.28 million bottles (FY3/14) to 3.66 million (FY3/18).</li> <li>• Achieved a 35% efficiency gain in unit production cost over three years.</li> </ul>	+¥1.6bn
		○Improved efficiency in delivery of LPG, etc. <ul style="list-style-type: none"> <li>• Achieved a 15% efficiency gain in unit delivery price over three years</li> </ul>	
	Reduction of depreciation burden and others		+¥0.9bn
		Subtotal	+¥2.5bn
<b>Total</b>			<b>+¥5.2bn</b>

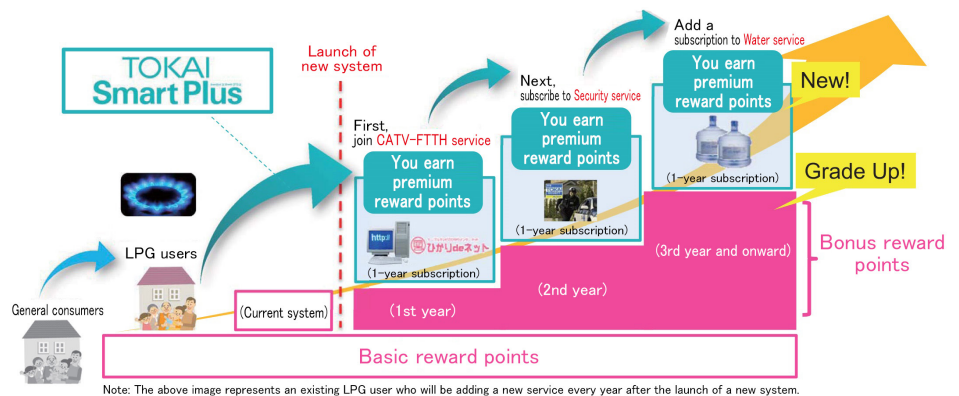
Plans to focus on retaining customers and promoting multiple transactions

(2) Retaining customers and promoting multiple transactions

Hereafter, the Company intends to focus on retaining customers and promoting multiple transactions. Retaining customers will be possible by increasing the number of TLC members as noted above. While its overall customers-to-TLC members ratio is still fairly low at 14%, as the Company not only largely increased the number of exchange locations for TLC reward points in August as noted above, but also increased convenience by extending the validity period of the points from one year to three years, the number should continue to grow steadily.

The Company also plans to follow a strategy to promote the growth in the number of multiple services users along with the number of members by developing “TOKAI Smart Plus” to be introduced in this period as a new measure to expand the membership. “TOKAI Smart Plus” is a program that offers premium reward points, equivalent to JPY 10,000, every time existing users join a new service for one year; and the existing bonus points are scheduled to be more than doubled according to members’ usage duration of multiple services from the second year onward. The more the users use the services the Company offers, the higher the return rates of the reward points. It therefore provides an incentive for some users to use the services and an added sense of good value.

Return Rates of Reward Points



Source: The Company's document

The program will apply to all its retail services including gas, Internet access, water and security services. With the number of existing customers who use multiple services only accounting for 7% of all customers, the Company has to improve the usage rate for multiple services. Although the program will not affect the fees for each service, it will enable subscribers to earn fee reduction by joining multiple services. Growth in usage rate of multiple services is thus likely.

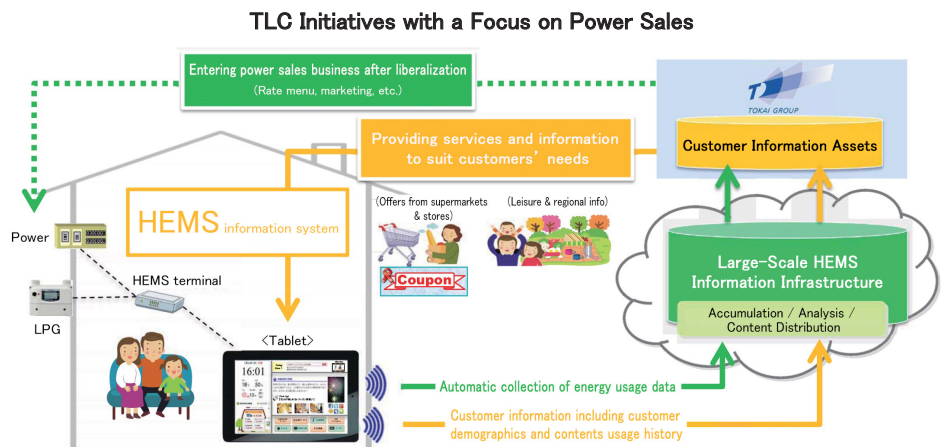
While there will be a cost of rewards, adopting it will lead to retention of customers and lower churn rates and will also enable the sales people to recommend multiple services when acquiring new customers, which may significantly reduce customer acquisition cost. Consequently, there is large growth potential in profit resulted from enhanced usage rate of multiple services. Since the effects of the new program are not incorporated in the medium-term plan, this may lead to exceeding the original forecast.

## Intends to enter electric power retail business upon liberalization

### (3) Advancing initiatives with a focus on electric power sales

TOKAI has announced to launch electric power retail services, led by the liberalization of electric power retail sales in 2016. The Company is in negotiations with a number of major electric power companies and looking to start providing services in Shizuoka and the Kanto region simultaneously at the time of liberalization.

The Company aims not only to engage in sales of power but also to provide high-value added services by building a Home Energy Management System (HEMS). For instance, it will enable to check the usage status of electricity or gas on tablet devices and offer a variety of useful daily information contents including regional leisure and offers from supermarkets and stores to realize the provision of value added quality services. The Company intends to enhance these contents in collaboration with major companies.



Source: The Company's document

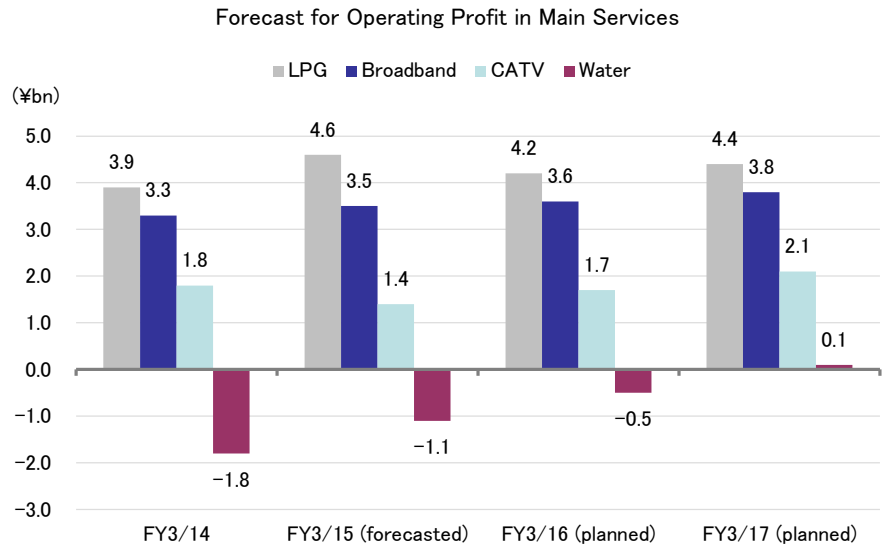
Prior to the power sales, the Company is scheduled to participate in the "Large-Scale HEMS Information Infrastructure Project", led by the Ministry of Economy, Trade and Industry, and plans to conduct a monitoring survey of approximately 1,000 households in Shizuoka over a period of one year starting in April 2015.

If the trend of all-electric home continues, the Company, whose business includes LPG sales, will have a negative impact. For this reason, it is likely that its entry into the electric power retail business will become an essential part of its business to realize its "Total Life Concierge" concept and to further increase profits.

## Water segment plans to achieve profitability for the first time in FY3/17

### (4) Overview of Mainstay Businesses

Operating profit forecast in the medium-term plan, based on the following assumptions, is as seen in the graph below.



#### OLPG

LPG business, the Company's core business, has the third largest customer base in Japan – the largest in Shizuoka and 6.3% in the Kanto region. In the LPG market, a yearly decline of 1.8–2.0% in consumption for households is expected due to decreasing population and consumers' growing commitment to energy conservation. As competitions continue to be intensified, further reorganization and consolidation of the industry are expected.

Operating profit for the fiscal year ending March 2017 is expected to amount to JPY 4.4 billion, a JPY 0.5 billion increase compared to the result in the fiscal year ended March 2014. In detail, while a JPY 0.8 billion decrease in profit is expected due to the decline in consumption for households, a JPY 0.9 billion increase in the increase of the number of customers (+30 thousand) and a JPY 0.8 billion increase due to the streamlining effects resulted from implementation of a collaborative delivery system and consolidation of back-office operations in the Kanto region and Shizuoka.

The Company follows a strategic sales policy to carry out sales activities aimed at increasing the number of customers and additional subscriptions by leveraging information shared with its other retail service businesses.

#### OBroadband

The Company has a 27.4% share in Shizuoka and a 4.4% share in the Kanto region as an Internet Service Provider (ISP). Market-wise, the wired broadband market is expected to peak in the fiscal year ending March 2016 and then become a mature market. Moreover, fiercer competition is expected due to NTT's launch of wholesale fiber access.

Operating profit for the fiscal year ending March 2017 is expected to amount to JPY 3.8 billion, a JPY 0.5 billion increase compared to the result in the fiscal year ended March 2014. The Company aims to achieve its plan by increasing the number of customer to 80 thousand in the period of three years leveraging its customer acquisition base it has with three major consumer electronics chains and by improving the efficiency of the backyard operations of “@T COM”, its nationwide ISP service, and “TNC”, its local ISP service specialized in Shizuoka, renewing the ISP system.

### OCATV

As a CATV service provider, the Company achieves the second highest net sales in the country and has also established itself as a regional media company whose number of serviceable households amounts to 1.07 million with a subscription rate accounting for 47%. Keen competition in prices with major telecommunications companies is expected to continue with respect to the market environment.

In this environment, operating profit for the fiscal year ending March 2017 is expected to amount to JPY 2.1 billion, a JPY 0.3 billion increase compared to the result in the fiscal year ended March 2014. The Company will continue to acquire new customers by substantially increasing 30 thousand customers of its CATV communications service in collaboration with cell phone companies by offering smartphone discounts as well as by promoting a proposal to introduce a “free basic fee + additional services” based on the bulk method for apartment complexes for its broadcasting service.

### OWater

With the 6th largest customer base in the country, the Company’s water business has the largest customer base in Shizuoka, accounting for 63.8%, and a 4.2% share nationwide. Due to high demand for safety and assurance of drinking water, growth in water delivery market is expected to continue.

Operating profit for the fiscal year ending March 2017 is expected to amount to JPY 0.1 billion, a JPY 1.9 billion increase compared to the result in the fiscal year ended March 2014, aiming to achieve profitability for the first time. The Company intends to substantially increase 60 thousand customers in the period of three years by expanding the product lineup to suit various needs and by strengthening the promotion focused on sales of channels, which will be conducted at large commercial facilities. It will also promote sales of auto-delivery as opposed to one-time delivery, which is more profitable. In addition, the effects of enhanced productivity are expected due to increased number of customers; the number of bottles to be produced is expected to increase by 2.9 times to 3,660 thousand in three years, and the productivity is expected to rise by 35% in three years.

## ■ Shareholder Return Policy

### Offers an attractive level of total return per unit of shares

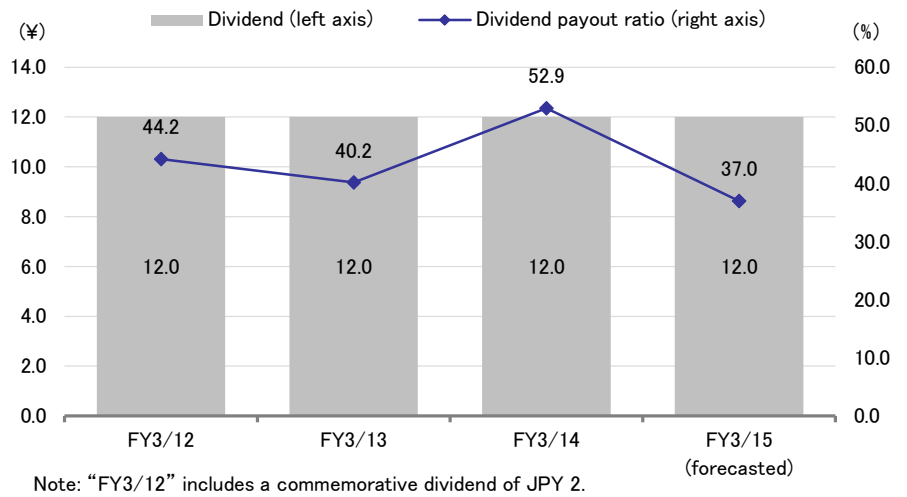
The Company’s dividend policy is based on paying out stable dividends, but, after its transition to a holding company structure, actual dividend payout ratios for the last three periods were over 40% respectively. The ratio for the fiscal year ending March 2015 is expected to account for over 30% as well. As for shareholder benefit, the Company awards some of its water products [Urunon “Fuji-no-tennensui (Mt. Fuji natural water)” or others], equivalent to JPY 1,800, a QUO card, equivalent to JPY 500, or reward points of “TLC Members” service, a comprehensive membership service, equivalent to JPY 1,000, per unit of shares biannually at the end of March and at the end of September to its shareholders. Based on the current market price level, a total return is calculated to be approximately 9%, which is an attractive level.



**TOKAI Holdings**  
 3167 Tokyo Stock Exchange  
 First Section

14-Jan.-15

**Dividend and Dividend Payout Ratio**



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