

Consolidated Financial Results for the 3 Months Ended Jan 31, 2017 (Based on Japanese GAAP)

* Please note this document is a translation of the original Japanese document "Financial Results for the 3 months ended January 31, 2017 (Kessan Tanshin)" and is only for reference purposes. In the event of any discrepancy between this translated document and the original Japanese document, the latter shall prevail.

February 28, 2017

Company Name: H.I.S. Co., Ltd.

Stock Code: 9603, URL: <http://www.his.co.jp/english/info.html>

Representative Director: Hideo Sawada, Representative Director, Chairman and President

Contact: Shigeru Nakatani, Director and CFO

Scheduled date to file Quarterly Securities Report: February 28, 2017

Scheduled date to commence dividend payments: -

Preparation of supplementary material on quarterly financial results: No

Holding of quarterly financial results meeting: No

(Rounded down to the nearest million Japanese Yen)

1. Consolidated Financial Results for the 3 Months Ended January 31, 2017

(1) Consolidated Earnings (Cumulative)

(% shows year-on-year changes)

	Sales (JPY million)		Operating Income (JPY million)		Ordinary Income (JPY million)		Net Income Attributable to Owners of Parent (JPY million)	
3 months ended Jan 31, 2017	125,022	0.7%	2,547	-45.7%	7,174	63.3%	3,997	108.3%
3 months ended Jan 31, 2016	124,123	-3.7%	4,690	-6.5%	4,393	-24.4%	1,918	-29.1%

(*Note) Comprehensive Income: JPY6,148 million (270.0%) for the 3 months ended Jan 31, 2017

JPY1,661 million (-65.0%) for the 3 months ended Jan 31, 2016

	EPS (JPY)	Diluted EPS (JPY)
3 months ended Jan 31, 2017	65.04	60.71
3 months ended Jan 31, 2016	29.72	27.78

(2) Consolidated Financial Position

	Total Assets (JPY million)	Net Assets (JPY million)	Equity Ratio (%)	BPS (JPY)
Jan 31, 2017	369,771	100,772	22.6%	1,357.65
Oct 31, 2016	332,385	95,139	23.9%	1,295.35

(*Reference) Shareholders' Equity: JPY83,462 million as of January 31, 2017

JPY79,592 million as of October 31, 2016

2. Dividend

	Dividend Per Share (JPY)				
	1Q	2Q	3Q	4Q	Total
Fiscal Year ended October 31, 2016	-	0.00	-	22.00	22.00
Fiscal Year ending October 31, 2017	-				
Fiscal Year ending October 31, 2017 (Forecast)		0.00	-	26.00	26.00

(*Note) Changes from the most recently announced dividend forecasts: No

3. Financial Forecasts for Fiscal Year ending October 31, 2017 (November 1, 2016 – October 31, 2017)

(% shows year-on-year changes)

	Sales (JPY million)		Operating Income (JPY million)		Ordinary Income (JPY million)		Net Income Attributable to Owners of Parent (JPY million)		EPS (JPY)
1 st Half (6 month)	269,000	5.1%	8,700	1.9%	10,500	133.7%	5,200	-	84.59
Full Year	580,000	10.7%	20,000	40.1%	23,000	165.9%	12,000	-	195.20

(*Note) Changes from the most recently announced financial forecasts: No

(*Notes)

(1) Changes in important subsidiaries during the 3 months ended January 31, 2017 (changes in specified subsidiaries resulting in the change in scope of consolidation): Yes

2 companies newly added: HS Insurance Co., Ltd., H.I.S.- MERIT TRAVEL INC.

(2) Application of special accounting methods for preparing quarterly consolidated financial statements: Yes

For details, please see “application of special accounting methods for preparing quarterly consolidated financial statements” of the attached appendix.

(3) Changes in accounting policies, changes in accounting estimates, and restatement of prior period financial statements

1) Changes in accounting policies due to amendments to accounting standards and other regulations: No

2) Changes in accounting policies due to reasons other than 1) above: No

3) Changes in accounting estimates: No

4) Restatement of prior period financial statements: No

(4) The Number of Issued and Outstanding Shares (Common Shares)

1. Number of Issued and Outstanding Shares (Including Treasury Stocks) at the end of period	Jan 31, 2017	68,522,936 shares	Oct 31, 2016	68,522,936 shares
2. Number of Treasury Stocks at the end of period	Jan 31, 2017	7,047,516 shares	Oct 31, 2016	7,078,316 shares
3. Average Number of Shares during the period	Nov 2016 – Jan 2017	61,459,970 shares	Nov 2015 – Jan 2016	64,567,370 shares

(*Note) The stocks of the company held by H.I.S. Employee Stock Ownership Trust are included in the number of treasury stock at the end of period (425,600 shares as of Jan 31, 2017 and 456,400 shares as of Oct 31, 2016) and the number of treasury stock deducted in calculating the average number of shares during the period (441,050 shares during Nov 2016 – Jan 2017).

(*Note) Explanations regarding the Quarterly Review Procedures

This documents is not subject to the quarterly review procedures as promulgated by the Financial Instruments and Exchange Act. Quarterly review procedures for the quarterly consolidated financial statements in accordance with the Financial Instruments and Exchange Act has been completed as of the announcement of this document.

(*Note) Explanations regarding the Appropriate Use of Financial Forecasts and Other Special Instructions

The financial forecasts above are based on information that is available to management as of the date of announcement of this document and certain assumptions as of the date of announcement of this document that are related to uncertain factors that could influence financial forecasts. Actual results may be significantly different from these financial forecasts due to various factors. For more information, please see “Explanation regarding financial forecasts and other forward-looking information” on the attached appendix.

Regarding the business environment during the consolidated 1st quarter of the current fiscal year, the world economy was chaotic due to uncertainties of U.S. and European economy arising from the launch of the new U.S. administration and Brexit, as well as rapid exchange rate fluctuations and geopolitical risks. On the other hand, domestic economy continued to show gradual recovery trend, including improvement in stock price and employment.

Under such circumstances, H.I.S. Group reorganized its business execution structure to respond to the expanding business domain. H.I.S. Group also continued its efforts to build a new business model that can contribute to world peace as a company constantly changing and developing not only through travel but also through various businesses with the corporate philosophy "Contributing to the creative development of humanity and world peace by complying with the law of nature"

Operating results by business segment are as follows. The amount of each segment is the amount before eliminating intersegment transactions.

(Travel Business)

The number of Japanese travelers departing Japan during the consolidated 1st quarter of the current fiscal year continued to show moderate recovery from a decline due to terrorist attacks in Europe, and increased by 6.8% as compared to the same period last year to 4.23 million (Source: JNTO).

The number of customers of H.I.S Group's outbound travel business from Japan, which is its pillar business, increased by 4.0% as compared to the same period last year as well, as a result of taking advantage of its product planning capabilities and price competitiveness. However, sales were negatively affected by the decrease in fuel surcharges, while operating income was negatively affected by sluggish sales of highly-profitable tour products due to the tendency for easy-going short-term as a result of the year-end and New Year holidays and the delay in demand recovery for Europe.

On the other hand, with the launch of the global online business, WEB business, that had been dispersed in each department within H.I.S. Group, was integrated and strengthened in December 2016, working to improve user interfaces, etc.

In H.I.S. Group's outbound travel business from overseas, efforts were made to continue to introduce and strengthen management resources to capture the travel demand in Asia, where the number of outbound travelers is rapidly increasing due to economic development. Especially in Southeast Asia including Thailand, Indonesia, and Vietnam, various marketing measures were promoted to strengthen its ability to acquire local customers, such as establishing a branch network based on its own brand, exhibiting at the travel fair, and TV commercials for Japanese introduction programs in cooperation with ministries and agencies. Sales and earnings of overseas subsidiaries have been strong on a local currency basis. However, due to the yen appreciation trend, sales on a Japanese yen basis was negatively affected.

In the inbound travel business to Japan, the "shopping spree" boom by Chinese tourists returned to normal. But the number of foreign visitors to Japan from East Asia and Southeast Asia still continues to show significant increase. The number of visitors to Japan in 2016 increased by 21.8% as compared to the previous year to about 24 million. The government target for 2020 was set at 40 million visitors and the market is expected to further expand. H.I.S. Group is shifting its focus from tour products with shopping commissions as the primary source of revenue to experience-type tour products and diversification of destinations to meet the changing needs of visitors to Japan. In cooperation with local governments, H.I.S. Group is steadily expanding consulting-type services that take advantage of its strengths, including tours from Thailand to Hokkaido and MICE trips from Taiwan to Okinawa. As a result, the number of customers in each country has been increasing.

In the meantime, H.I.S. Group's sales network continued to expand globally with 294 locations in Japan and 232 locations in 141 cities in 66 countries outside of Japan at the end of the consolidated 1st quarter of the current fiscal year.

As a result of the above, the Travel Business recorded net sales of 108,602 million yen (100.2 % of the same period last year), and operating income of 854 million yen (33.2% of the same period last year) due to the fact that year-end demand was negatively affected, despite an increase in the number of customers for the outbound travel business from Japan,

(Huis Ten Bosch Group)

Huis Ten Bosch hosted various shows and events such as "The World Flower Garden Show" which is the only world competition in Japan, "Screaming! Halloween" which enriches experiential event via AR (augmented reality) - VR (virtual reality), and "Dragon Robot of Light" that first appeared in the current fiscal year and "Canal Water Boat Show of Light" presented by Huis Ten Bosch Opera Company in the world's largest 13 million ball "The Kingdom of Light".

In addition, Henn-na Hotel (strange hotel) was certified as Guinness World Record as "a hotel where robot worked as staff for the first time", and it has been established as a content which continues to draw attention from start of operation. Huis Ten Bosch focused on improving its experience value with Only One and Number One contents that can be enjoyed in 3 generations by opening the 6th kingdom "Kingdom of Robots" in addition to the mainstream 5 events of "Kingdom of Flower", "Kingdom of Light", "Kingdom of Music and Show", "Kingdom of Game", and "Kingdom of Health and Beauty".

As for the number of visitors, the Christmas period of December 23rd - 25th overlapped with 3 consecutive holidays, and attracted about 70,000 visitors, the record high since the start of business. The New Year's Eve countdown special live and fireworks festival were also successful in attracting visitors. On the other hand, despite a moderate economic recovery compared to the period immediately after the Kumamoto earthquake in April 2016, the number of group tourists and foreign visitors was sluggish, resulting in 789,000 visitors (97% of the same period last year) , almost the same level as last year.

Laguna Ten Bosch hosted the "Brightest Winter Laguna in History" as a winter event to attract customers.

Meanwhile, HTB Energy, which became a member of H.I.S. Group in the last fiscal year, is conducting full-fledged business development in the fully liberalized electricity retail market. This energy business is expected to greatly contribute to the consolidated net sales and earnings of H.I.S. Group during the current fiscal year.

As a result of the above, Huis Ten Bosh Group recorded net sales of 8,587 million yen (102.3% of the same period last year) and operating income of 2,254 million yen (89.2% of the same period last year).

(Hotel Business)

In the Hotel Business, which H.I.S. Group is aiming to strengthen as the third pillar following Travel Business and Huis ten Bosh Group, HIS Hotel Holdings Co., Ltd. was founded in November 2016 to oversee the Hotel business and to realize the operation of 100 facilities over the medium to long term. As with the outbound travel business from overseas in the Travel Business, the Hotel Business has a great potential for growth by capturing travel demand in Asia. H.I.S. Group is considering and preparing hotel business deployment in Japan, such as Tokyo, Osaka, and Kyoto, where hotel room shortage is becoming more serious, and overseas, centering on destinations preferred by Asian customers. Regarding existing facilities, both the average unit price and the occupancy rate of Guam Reef & Olive Spa Resort (Guam) went up as it expanded its market share in the South Korean and Taiwanese markets. In addition, the distribution channels at other domestic and overseas hotels were reviewed. As a result of the above, Hotel Business recorded net sales of 1,694 million yen (93.2% of the same period last year) and operating income of 231 million yen (90.7% of the same period last year).

Meanwhile, "Henn-na Hotel (strange hotel) Maihama Tokyo Bay" (Urayasu City, Chiba Prefecture) is planned to open in March 2017.

(Transportation Business)

ASIA ATLANTIC AIRLINES CO., LTD. focused on opening new routes and operating highly profitable routes, such as opening a regular flight from Thailand to Harbin (China). The Transportation Business recorded net sales of 971 million (251.5% of the same period last year) and operating loss of 421 million yen (operating loss of 437 million yen in the same period last year).

(The Kyushu Sanko Group)

The Kyushu Sanko Group's business was negatively affected by the fact that some changes and suspensions of route and high-speed buses and the fact that decline in orders for charter buses due to Kumamoto earthquake continued to remain, as well as by the fact that the full start of the Sakuramachi redevelopment project suspended the traffic center business. As a result, the Kyushu Sanko Group recorded net sales of 5,867 million yen (97.4% of the same period last year) and operating income of 224 million yen (61.0% of the same period last year).

As a result of the above, H.I.S. Group recorded net sales of 125,022 million yen (100.7% of the same period last year) and operating income of 2,547 million yen (54.3% of the same period last year) during the consolidated 1st quarter of the current fiscal year. Ordinary income was 7,174 million (163.3% of the same period last year) due to foreign exchange gain of 3,361 million yen, and net income attributable to parent company shareholders was 3,997 million yen (208.3% of the same period last year), both of which were record high.

(Financial Forecasts)

There is no change to the consolidated financial forecasts for the 1st half and full year that were announced on "Kessan Tanshin" dated December 9, 2016.

The following events could possibly have an impact on the financial forecasts for the 1st half and full year.

1. Foreign Exchange Fluctuations

H.I.S. Group has transactions denominated in foreign currencies, resulting in income, expenses, assets and liabilities denominated in foreign currencies. Risks are hedged via foreign exchange contracts to reduce the impact of fluctuations in exchange rates, but if the exchange rate fluctuates significantly, there is a possibility that the financial forecasts for the 1st half and full year could be affected.

2. Reduction of fuel surcharges

Fuel surcharges included in the sales of the Travel Business may be reduced or be unnecessary with the decline of fuel oil price. There is a possibility that consolidated sales forecasts could be affected by this, but there is no impact on consolidated operating income, ordinary income, net income attributable to parent company shareholders, and EPS forecasts.

Consolidated Balance Sheet

(Millions of yen)

	As of October 31, 2016	As of January 31, 2017
Assets		
Current assets		
Cash and deposits	159,011	175,687
Accounts receivable - trade	24,063	29,080
Operating accounts receivable	8,084	5,564
Securities	2,998	1,750
Travel advance payments	24,387	31,863
Prepaid expenses	2,583	2,944
Deferred tax assets	2,628	2,223
Short-term loans receivable	65	73
Short-term loans receivable from subsidiaries and associates	78	53
Accounts receivable - other	3,001	3,024
Other	6,705	7,427
Allowance for doubtful accounts	△77	△61
Total current assets	233,531	259,632
Non-current assets		
Property, plant and equipment		
Buildings, net	14,349	14,249
Tools, furniture and fixtures, net	4,360	4,251
Vessels, net	971	1,032
Land	23,441	23,490
Leased assets, net	2,804	2,701
Other, net	16,363	20,162
Total property, plant and equipment	62,291	65,888
Intangible assets		
Goodwill	268	4,834
Other	5,288	5,406
Total intangible assets	5,556	10,241
Investments and other assets		
Investment securities	1,704	1,693
Shares of subsidiaries and associates	6,681	9,378
Investments in capital of subsidiaries and associates	74	74
Long-term loans receivable	6,557	6,804
Long-term loans receivable from subsidiaries and associates	85	85
Net defined benefit asset	318	324
Deferred tax assets	3,355	3,551
Guarantee deposits	6,758	6,834
Other	5,492	5,272
Allowance for doubtful accounts	△206	△183
Total investments and other assets	30,822	33,836
Total non-current assets	98,670	109,966
Deferred assets	183	172
Total assets	332,385	369,771

(Millions of yen)

	As of October 31, 2016	As of January 31, 2017
Liabilities		
Current liabilities		
Operating accounts payable	18,744	23,958
Short-term loans payable	8,915	9,865
Current portion of long-term loans payable	583	231
Accounts payable - other	2,487	2,923
Accrued expenses	3,004	2,673
Income taxes payable	829	1,874
Accrued consumption taxes	595	615
Travel advance received	53,293	66,444
Lease obligations	925	955
Provision for bonuses	2,951	1,579
Provision for directors' bonuses	106	76
Other	10,368	10,699
Total current liabilities	102,805	121,898
Non-current liabilities		
Bonds payable	20,000	20,000
Convertible bond-type bonds with subscription rights to shares	20,113	20,103
Long-term loans payable	77,042	89,996
Deferred tax liabilities	4,754	4,789
Net defined benefit liability	6,886	6,969
Provision for directors' retirement benefits	788	794
Provision for repairs	761	617
Lease obligations	2,283	2,125
Other	1,808	1,705
Total non-current liabilities	134,440	147,100
Total liabilities	237,245	268,999
Net assets		
Shareholders' equity		
Capital stock	11,000	11,000
Capital surplus	3,665	3,646
Retained earnings	80,988	83,624
Treasury shares	△14,162	△14,068
Total shareholders' equity	81,491	84,202
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	△152	28
Deferred gains or losses on hedges	△546	87
Foreign currency translation adjustment	△744	△493
Remeasurements of defined benefit plans	△455	△363
Total accumulated other comprehensive income	△1,899	△740
Subscription rights to shares	77	115
Non-controlling interests	15,470	17,194
Total net assets	95,139	100,772
Total liabilities and net assets	332,385	369,771

Consolidated Statements of Income

(Millions of yen)

	Three months ended January 31, 2016	Three months ended January 31, 2017
Net sales	124,123	125,022
Cost of sales	97,464	100,274
Gross profit	26,659	24,748
Selling, general and administrative expenses	21,969	22,200
Operating income	4,690	2,547
Non-operating income		
Interest income	422	428
Foreign exchange gains	—	3,361
Share of profit of entities accounted for using equity method	—	532
Other	181	493
Total non-operating income	604	4,816
Non-operating expenses		
Interest expenses	66	92
Foreign exchange losses	312	—
Share of loss of entities accounted for using equity method	397	—
Other	124	96
Total non-operating expenses	900	188
Ordinary income	4,393	7,174
Profit before income taxes	4,393	7,174
Income taxes	1,735	2,142
Profit	2,657	5,032
Profit attributable to non-controlling interests	738	1,034
Profit attributable to owners of parent	1,918	3,997

Segments Information

Information on net sales, incomes or losses by reported segment

First Quarter ended January (November 1, 2015 – January 31, 2016)

(Millions of yen)

	Reportable segments						Others Businesses *1	Total	Emanations & Corporate *2	Consolidated *3
	Travel Business	Huis Ten Bosch Group	Hotel Business	Transportation Business	Kyushu Sanko Group	Subtotal				
Net Sales										
(1)Sales of outside customers	108,297	7,992	1,514	286	6,020	124,111	11	124,123	—	124,123
(2)Inter-Segment sales/transfers	51	400	304	99	3	859	—	859	△859	—
Total	108,348	8,393	1,818	386	6,024	124,970	11	124,982	△859	124,123
Segment income (loss)	2,577	2,527	254	△437	367	5,290	7	5,297	△607	4,690

Note

1. Other Businesses refer to the business segment not included in the report segment, including real estate businesses.
2. Segment incomes (losses) of △607 millions of yen are corporate-wide expenses not included in each reported segment and refer to administrative expenses at the headquarters, not included in the reported segment.
3. Segment incomes (losses) are adjusted with operating incomes in the consolidated financial statements.

First Quarter ended January (November 1, 2016 – January 31, 2017)

(Millions of yen)

	Reportable segments						Others Businesses *1	Total	Emanations & Corporate *2	Consolidated *3
	Travel Business	Huis Ten Bosch Group	Hotel Business	Transportation Business	Kyushu Sanko Group	Subtotal				
Net Sales										
(1)Sales of outside customers	108,536	8,239	1,442	931	5,861	125,011	11	125,022	—	125,022
(2)Inter-Segment sales/transfers	66	347	252	40	6	712	—	712	△712	—
Total	108,602	8,587	1,694	971	5,867	125,723	11	125,735	△712	125,022
Segment income (loss)	854	2,254	231	△421	224	3,143	7	3,150	△603	2,547

Note

1. Other Businesses refer to the business segment not included in the report segment, including real estate businesses.
2. Segment incomes (losses) of △603 millions of yen are corporate-wide expenses not included in each reported segment and refer to administrative expenses at the headquarters, not included in the reported segment.
3. Segment incomes (losses) are adjusted with operating incomes in the consolidated financial statements.