

# Annual Securities Report

(Report based on Article 24, Paragraph 1 of the  
Financial Instruments and Exchange Act of Japan)

(The 37th Fiscal Year)

From November 1, 2016 to October 31, 2017

H.I.S. Co., Ltd.

6-8-1 Nishishinjuku, Shinjuku-ku, Tokyo

(E04358)

## Table of Contents

|   | Page |
|---|------|
| Cover   |      |
| Part I Information on the Company .....   | 1    |
| I. Overview of the Company .....  | 1    |
| 1. Key Financial Data and Trends .....  | 1    |
| 2. Corporate History .....  | 4    |
| 3. Description of Business .....  | 7    |
| 4. Information on Subsidiaries and Affiliates .....                                   | 10   |
| 5. Employees .....  | 16   |
| II. Business Overview .....   | 17   |
| 1. Summary of Results.....  | 17   |
| 2. Production, Orders Received and Sales.....   | 20   |
| 3. Management Policy, Management Environment, and Issues to be Addressed, etc. ....   | 21   |
| 4. Business and Other Risks .....   | 21   |
| 5. Material Business Agreements, etc.....   | 23   |
| 6. Research and Development Activities.....   | 23   |
| 7. Analyses of Consolidated Business Results, Financial Position and Cash Flows ..... | 24   |
| III. Equipment and Facilities .....   | 26   |
| 1. Capital Expenditures.....  | 26   |
| 2. Principal Facilities .....   | 27   |
| 3. Plans for Additions and Disposals of Facilities .....                              | 28   |
| IV. Information on the Company.....   | 29   |
| 1. Information on the Company's Shares .....  | 29   |
| (1) Total number of shares, etc. ....   | 29   |
| (2) Information on share subscription rights, etc. ....                               | 30   |
| (3) Information on moving strike convertible bonds, etc.....                          | 37   |
| (4) Details of rights plans .....   | 37   |
| (5) Changes in the total number of issued shares, capital stock, etc.....             | 37   |
| (6) Composition of issued shares by type of shareholders.....                         | 38   |
| (7) Major shareholders.....   | 38   |
| (8) Information on voting rights .....  | 39   |
| (9) Details of stock option program.....  | 40   |
| (10) Details of employee stock ownership plan.....                                    | 41   |
| 2. Information on Acquisition of Treasury Shares, etc. ....                           | 41   |
| 3. Dividend Policy .....  | 42   |
| 4. Stock Prices .....   | 43   |
| 5. Directors and Audit & Supervisory Committee Members.....                           | 44   |
| 6. Corporate Governance, etc. ....  | 49   |
| V. Financial Information .....  | 60   |
| 1. Consolidated Financial Statements, etc. ....                                       | 61   |
| (1) Consolidated Financial Statements .....   | 61   |
| (2) Others.....   | 115  |
| 2. Non-consolidated Financial Statements, etc. ....                                   | 117  |
| (1) Non-consolidated Financial Statements .....                                       | 117  |
| (2) Major Assets and Liabilities .....  | 128  |
| (3) Others.....   | 128  |
| VI. Stock-related Administration for the Company.....                                 | 129  |
| VII. Reference Information on the Company .....                                       | 130  |
| 1. Information on the Parent Company, etc. of the Company .....                       | 130  |
| 2. Other Reference Information.....   | 130  |
| Part II Information on Guarantors, etc. for the Company.....                          | 131  |
| [Independent Auditor's Report]  |      |

## [Cover]

|   |   |
|---|---|
| [Document Filed]  | Annual Securities Report (“Yukashoken Hokokusho”)   |
| [Article of Applicable Law Requiring Filing of This Document]       | Article 24, Paragraph 1 of the Financial Instruments and Exchange Act of Japan  |
| [Filed with]  | Director, Kanto Local Finance Bureau  |
| [Filing Date]   | January 26, 2018  |
| [Fiscal Year]   | The 37th Fiscal Year (from November 1, 2016 to October 31, 2017)  |
| [Company Name]  | Kabushiki Kaisha Eichi Ai Esu   |
| [Company Name in English]   | H.I.S. Co., Ltd.  |
| [Title and Name of Representative]                                  | Hideo Sawada, Representative Director, Chairman and President; Chief Executive Officer; Group Chief Executive Officer (CEO) |
| [Location of Head Office]   | 6-8-1 Nishishinjuku, Shinjuku-ku, Tokyo   |
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| [Contact Person]  | Shigeru Nakatani, Director, Senior Executive Officer, and CFO   |
| [Place Where the Filed Document is Available for Public Inspection] | Tokyo Stock Exchange, Inc.<br>(2-1, Nihonbashi Kabutocho, Chuo-ku, Tokyo)   |

## Part I Information on the Company

### I. Overview of the Company

#### 1. Key Financial Data and Trends

##### (1) Consolidated financial data

| Fiscal year   |                   | 33rd         | 34th         | 35th         | 36th         | 37th         |
|---|-------------------|--------------|--------------|--------------|--------------|--------------|
| Year end  |                   | October 2013 | October 2014 | October 2015 | October 2016 | October 2017 |
| Net sales   | (millions of yen) | 479,478      | 523,246      | 537,456      | 523,705      | 606,024      |
| Ordinary income   | (millions of yen) | 15,203       | 19,016       | 22,685       | 8,648        | 19,647       |
| Profit attributable to owners of parent                           | (millions of yen) | 8,903        | 9,050        | 10,890       | 267          | 13,259       |
| Comprehensive income  | (millions of yen) | 15,024       | 13,040       | 14,583       | (5,928)      | 20,386       |
| Net assets  | (millions of yen) | 90,680       | 102,295      | 113,990      | 95,139       | 111,247      |
| Total assets  | (millions of yen) | 215,913      | 281,332      | 308,245      | 332,385      | 422,809      |
| Net assets per share  | (yen)             | 1,219.42     | 1,366.04     | 1,534.77     | 1,295.35     | 1,466.13     |
| Earnings per share  | (yen)             | 137.30       | 139.56       | 167.94       | 4.25         | 219.52       |
| Diluted earnings per share  | (yen)             | —            | 137.61       | 157.22       | 3.58         | 204.60       |
| Shareholders' equity ratio  | (%)               | 36.6         | 31.5         | 32.3         | 23.9         | 20.3         |
| Return on equity  | (%)               | 12.1         | 10.8         | 11.6         | 0.3          | 16.0         |
| Price-earnings ratio  | (times)           | 19.3         | 20.5         | 24.4         | 674.8        | 17.3         |
| Cash flows from operating activities                              | (millions of yen) | 15,360       | 23,701       | 12,597       | 5,149        | 32,369       |
| Cash flows from investing activities                              | (millions of yen) | (10,975)     | (12,703)     | (28,177)     | (15,440)     | (26,209)     |
| Cash flows from financing activities                              | (millions of yen) | 16,817       | 37,033       | 16,253       | 30,181       | 29,769       |
| Cash and cash equivalents at end of fiscal year                   | (millions of yen) | 61,426       | 110,145      | 113,330      | 129,842      | 168,659      |
| Number of employees   |                   | 9,026        | 9,652        | 10,143       | 10,845       | 13,510       |
| [Average number of part-time employees not included in the above] | (persons)         | [2,750]      | [3,071]      | [3,469]      | [3,535]      | [3,422]      |

(Notes)

1. Consumption taxes, etc. are not included in net sales.
2. The Company has applied the Revised Accounting Standard for Business Combinations (ASBJ Statement No. 21 issued on September 13, 2013), and from the 36th consolidated fiscal year, "Profit" is presented as "Profit attributable to owners of parent."
3. On May 1, 2014, the Company conducted a 2-for-1 stock split of common stock. Net assets per share, earnings per share and diluted earnings per share are calculated assuming the stock split occurred at the beginning of the 33rd fiscal year.
4. The Company introduced the E-Ship® trust-type employee stock ownership incentive plan. In the consolidated financial statements, it records the shares held by the H.I.S. Employee Stock Ownership Association Dedicated Trust (the "Trust") as treasury shares. Accordingly, in calculating the amount of net assets per share in the 36th and 37th fiscal years, "the number of common stock held as treasury shares at fiscal year-end " is calculated by including the shares held by the Trust. In calculating earnings per share and diluted earnings per share for the 36th and 37th fiscal years, "average number of shares of common stock during the period" is calculated by including shares held by the Trust in the treasury shares.

5. Diluted earnings per share is not stated for the 33rd fiscal year since there were no dilutive shares.
6. Both interest-bearing debt (corporate bonds, convertible bond-type bonds with share subscription rights, loans) and corresponding cash and deposits are included in the calculation of shareholders' equity ratios. When these amounts are deducted, the shareholders' equity ratios would be 41.9% in the 33rd fiscal year, 41.1% in the 34th fiscal year, 44.2% in the 35th fiscal year, 38.7% in the 36th fiscal year, and 34.1% in the 37th fiscal year.

## (2) Non-consolidated financial data

| Fiscal year  |                   | 33rd           | 34th             | 35th             | 36th             | 37th           |
|--|-------------------|----------------|------------------|------------------|------------------|----------------|
| Year end   |                   | October 2013   | October 2014     | October 2015     | October 2016     | October 2017   |
| Net sales  | (millions of yen) | 383,816        | 407,835          | 402,112          | 395,278          | 428,734        |
| Ordinary income (loss)   | (millions of yen) | 4,262          | 5,845            | 5,730            | (636)            | 4,642          |
| Profit (loss)  | (millions of yen) | 2,485          | 3,404            | 2,461            | (2,358)          | (108)          |
| Capital stock  | (millions of yen) | 6,882          | 6,882            | 11,000           | 11,000           | 11,000         |
| Shares issued and outstanding  | (shares)          | 34,261,468     | 68,522,936       | 68,522,936       | 68,522,936       | 68,522,936     |
| Net assets   | (millions of yen) | 52,914         | 55,377           | 55,465           | 39,822           | 23,593         |
| Total assets   | (millions of yen) | 142,744        | 194,308          | 209,435          | 234,489          | 264,887        |
| Net assets per share   | (yen)             | 815.94         | 853.94           | 855.30           | 646.86           | 398.96         |
| Total dividends per share<br>(interim dividend amount)                                   | (yen)             | 34.00<br>(—)   | 18.00<br>(—)     | 22.00<br>(—)     | 22.00<br>(—)     | 29.00<br>(—)   |
| Earnings (loss) per share  | (yen)             | 38.33          | 52.50            | 37.96            | (37.51)          | (1.80)         |
| Diluted earnings per share   | (yen)             | —              | 51.73            | 35.25            | —                | —              |
| Shareholders' equity ratio   | (%)               | 37.1           | 28.5             | 26.5             | 16.9             | 8.8            |
| Return on equity   | (%)               | 4.7            | 6.3              | 4.4              | —                | —              |
| Price-earnings ratio   | (times)           | 69.0           | 54.6             | 107.7            | —                | —              |
| Dividend payout ratio  | (%)               | 44.4           | 34.3             | 58.0             | —                | —              |
| Number of employees<br>[Average number of part-time employees not included in the above] | (persons)         | 4,428<br>[993] | 4,617<br>[1,055] | 4,910<br>[1,060] | 5,353<br>[1,041] | 5,581<br>[897] |

## (Notes)

- Consumption taxes, etc. are not included in net sales.
- On May 1, 2014, the Company conducted a 2-for-1 stock split of common stock. Net assets per share, earnings (loss) per share and diluted earnings per share are calculated assuming the stock split occurred at the beginning of the 33rd fiscal year.
- The Company introduced the E-Ship® trust-type employee stock ownership incentive plan. In the consolidated financial statements, it records the shares held by the H.I.S. Employee Stock Ownership Association Dedicated Trust (the "Trust") as treasury shares. Accordingly, in calculating the amount of net assets per share in the 36th and 37th fiscal years, the "number of common stock held as treasury shares at fiscal year-end" is calculated by including the shares held by the Trust. In calculating net loss per share for the 36th and 37th fiscal years, the "average number of shares of common stock during the period" is calculated by including the shares held by the Trust in the treasury shares.
- Diluted earnings per share is not stated for the 33rd fiscal year since there were no dilutive shares. In the 36th and 37th fiscal years, although there were dilutive shares, the item is not stated due to recording of a net loss per share.
- In the 36th and 37th fiscal years, return on equity, price-earnings ratio, and dividend payout ratio are not stated due to recording of a net loss.
- Both interest-bearing debt (corporate bonds, convertible bond-type bonds with share subscription rights, loans) and corresponding cash and deposits are included in the calculation of shareholders' equity ratios. When these amounts are deducted, the shareholders' equity ratios would be 43.1% in the 33rd fiscal year, 41.3% in the 34th fiscal year, 41.4% in the 35th fiscal year, 33.8% in the 36th fiscal year, and 21.5% in the 37th fiscal year.

## 2. Corporate History

| Month/Year     | Events   |
|----------------|--|
| December 1980  | Established International Tours Co., Ltd. (capital: 10 million yen) at 1-4-6 Nishishinjuku, Shinjuku-ku, Tokyo for the purpose of selling overseas air tickets   |
| April 1981     | Opened Osaka Branch (currently Umeda Head Office) in Kita-ku, Osaka<br>Obtained Retail Agency License (No. 3034) from Ministry of Transportation   |
| December 1983  | Opened Fukuoka Branch (currently Fukuoka Tenjin Head Office) in Chuo-ku, Fukuoka   |
| September 1984 | Opened Nagoya Branch (currently Sakae Head Office) in Nakamura-ku, Nagoya  |
| May 1985       | Established HIS (HONG KONG) COMPANY LIMITED  |
| June 1986      | Obtained General Travel Agency License (No. 724) from Ministry of Transportation   |
| January 1988   | Established H.I.S. INTERNATIONAL TOURS (NY) INC.   |
| October 1989   | Established H.I.S. Deutschland Touristik GmbH  |
| April 1990     | Changed Company name to H.I.S. Co., Ltd.   |
| August 1990    | Established Passaporte Co., Ltd. (currently QUALITA Co., Ltd.)   |
| September 1990 | Established No. 1 Travel Shibuya Co., Ltd.   |
| December 1990  | Received approval as a certified International Air Transport Association (IATA) agent<br>Established H.I.S. AUSTRALIA PTY. LTD.  |
| April 1991     | Established H.I.S. KOREA CO., LTD.   |
| November 1991  | Established HQ Sales Division as a headquarters organization; established Kanto, Chubu, Kansai and Kyushu Area Sales Divisions as regional organizations   |
| August 1992    | Established H.I.S. INTERNATIONAL TOURS FRANCE SARL (currently HIS INTERNATIONAL TOURS FRANCE SAS)  |
| April 1993     | Established H.I.S. INTERNATIONAL TRAVEL PTE LTD  |
| May 1993       | Opened Shinjuku Headquarters Branch (currently Shinjuku Head Office) at Southgate Shinjuku 5-33-8 Sendagaya, Shibuya-ku, Tokyo   |
| September 1993 | Acquired equity stake in HAWAII HIS CORPORATION  |
| January 1994   | Consolidated the Nagoya Branch and the Nagoya Sakae Branch in Higashi-ku, Nagoya, to establish the Nagoya Branch (currently Sakae Head Office) as a large retail branch<br>Established H.I.S. AUSTRALIA HOLDINGS PTY LTD<br>Established H.I.S. INVESTMENTS PTY LTD |
| September 1994 | Consolidated the Fukuoka Branch, Tenjin Branch and Head Office Branch in Hakata-ku, Fukuoka, to establish Travel Wonderland Kyushu as a large retail branch  |
| October 1994   | Moved and expanded the Osaka Branch to establish Travel Wonderland Kansai (currently Umeda Head Office) as a large retail branch   |
| March 1995     | Shares registered with Japan Securities Dealers Association for over-the-counter sales   |
| May 1995       | Established H.I.S. INTERNATIONAL TOURS (BC) INC. (currently H.I.S. CANADA INC.)  |
| September 1995 | Established THE WATERMARK HOTEL GROUP PTY LTD  |
| December 1995  | Established PT. HARUM INDAH SARI TOURS & TRAVEL  |
| January 1996   | Established H.I.S. INTERNATIONAL TOURS KOREA INC.  |
| March 1996     | Established H.I.S. ITALIA S.R.L. (currently H.I.S. EUROPE ITALY S.R.L.)  |
| November 1996  | Opened THE WATERMARK HOTEL, GOLD COAST (currently HOTEL WATERMARK GOLD COAST)  |
| March 1997     | Established H.I.S. Tours Co., Ltd.   |
| July 1997      | Moved Yokohama Branch to Nishi-ku, Yokohama and established Travel Wonderland Yokohama (currently Yokohama Head Office) as a large retail branch   |
| October 1997   | Established H.I.S. GUAM, INC.<br>Established H.I.S. SAIPAN, INC.   |
| April 1998     | Opened large retail branch Travel Wonderland Shibuya (currently Shibuya Head Office) in Shibuya-ku, Tokyo  |

| Month/Year     | Events  |
|----------------|---|
| June 1998      | Opened large retail branch Travel Wonderland Omiya (currently Omiya Head Office) in Omiya-ku, Saitama   |
| October 1999   | Opened large retail branch Travel Wonderland Sapporo (currently Sapporo Head Office) in Chuo-ku, Sapporo  |
| December 1999  | Acquired equity stake in H.I.S. TAIWAN COMPANY LIMITED  |
| March 2000     | Made H.I.S. Kyoritsu Securities Co., Ltd. (currently Sawada Holdings Co., Ltd.) a subsidiary  |
| April 2000     | Moved headquarters function and Kanto Area Sales Division to the Shibuya Mark City West Building, 1-12-1 Dogenzaka, Shibuya-ku, Tokyo   |
| May 2000       | Acquired Towa Travel Service (currently Orion Tour Co., Ltd.) and made it a subsidiary  |
| December 2000  | Established H.I.S. EUROPE LIMITED   |
| February 2001  | Dissolved capital relationship with H.I.S. Kyoritsu Securities Co., Ltd. (currently Sawada Holdings Co., Ltd.)  |
| August 2002    | Established H.I.S. U.S.A. INC. (currently H.I.S. U.S.A. HOLDING, INC.)  |
| November 2002  | Acquired Cruise Planet Co., Ltd. and made it a subsidiary   |
| December 2002  | Listed shares on the 2nd Section of the Tokyo Stock Exchange  |
| December 2003  | Established HIS (FIJI) LIMITED  |
| April 2004     | Moved headquarters function and Kanto Area Sales Division to the Sumitomo Fudosan Shinjuku Oak Tower, 6-8-1 Nishishinjuku, Shinjuku-ku, Tokyo   |
| September 2004 | Opened Travel Station Marunouchi Oazo Office (currently Marunouchi Head Office) in Chiyoda-ku, Tokyo  |
| October 2004   | Listed shares on the 1st Section of the Tokyo Stock Exchange<br>Established H.I.S. (Austria) Travel GmbH  |
| September 2005 | Opened WHG INVESTMENTS BRISBANE PTY LTD   |
| October 2005   | Acquired equity stake in Kyushu Industrial Transportation Co., Ltd. (currently KYUSHU INDUSTRIAL TRANSPORTATION HOLDINGS CO., LTD.)   |
| May 2006       | Acquired equity stake in H.I.S.-SONGHAN VIETNAM TOURIST JOINT VENTURE COMPANY LTD. (currently H.I.S SONGHAN VIETNAM TOURIST COMPANY LTD.)   |
| July 2006      | Established H.I.S. Travel Switzerland AG  |
| September 2007 | Established H.I.S. TRAVEL (UAE) L.L.C. (currently H I S TRAVEL & TOURISM L.L.C.)  |
| April 2008     | Reorganized four regional bases (Kanto, Chubu, Kansai and Kyushu/Chugoku Area Sales Divisions) into the East Japan (Kanto, Tohoku, Hokkaido) and West Japan (Chubu, Kansai, Kyushu and Chugoku) sales regions<br>Established H.I.S. Travel Nederland B.V. |
| June 2008      | Established H.I.S. (PHILIPPINES) TRAVEL CORP.   |
| July 2008      | Acquired equity stake in H.I.S. (HAINAN) INTERNATIONAL TRAVEL SERVICE CO., LTD  |
| December 2008  | Opened the Company's first hotel in Japan, the Watermark Hotel Sapporo  |
| January 2009   | Made Ohshu Express Ltd. a subsidiary  |
| April 2009     | Established H.I.S. NEW ZEALAND LIMITED  |
| April 2010     | Made Huis Ten Bosch a subsidiary  |
| May 2010       | Established H.I.S. (SHANGHAI) INTERNATIONAL TRAVEL SERVICE CO., LTD   |
| January 2011   | Established HTB CRUISE Co., Ltd.  |
| July 2011      | Opened Watermark Hotel Nagasaki Huis Ten Bosch  |
| April 2012     | Made GUAM REEF HOTEL, INC. a subsidiary   |
| July 2012      | Made KYUSHU INDUSTRIAL TRANSPORTATION HOLDINGS CO., LTD. a subsidiary   |
| September 2012 | Expanded opening of Travel Wonderland Jakarta   |
| December 2012  | Established ASIA ATLANTIC AIRLINES CO., LTD.  |
| March 2013     | Expanded opening of Travel Wonderland Bangkok   |
| April 2013     | Expanded opening of Travel Wonderland Saigon<br>Opened Shinjuku Sanhome Head Office (currently HAWAII Shinjuku Sanhome Office) as a large retail branch in Shinjuku-ku, Tokyo   |
| May 2014       | Established LAGUNA TEN BOSCH CO., LTD.  |
| June 2014      | Expanded opening of Travel Wonderland Phnom Penh  |
| May 2015       | Opened Watermark Hotel & Spa Bali, Jimbaran on Bali Island, Indonesia   |
| July 2015      | Opened Henn-na Hotel, showcasing cutting-edge technologies, at Huis Ten Bosch   |
| November 2015  | Established LY-HIS TRAVEL Co., Ltd., a joint venture with LY.com  |
| December 2015  | Established INTERPARK TOUR JAPAN Co., Ltd., a joint venture with INTERPARK  |
| March 2016     | Opened second wing at Henn-na Hotel in Huis Ten Bosch   |
| April 2016     | Began electric power sales  |



| Month/Year    | Events  |
|---------------|---|
| November 2016 | Established H.I.S. Hotel Holdings Co., Ltd.   |
| December 2016 | Made Merit Holdings Inc. a subsidiary<br>Made H.S. Insurance Co., Ltd. a subsidiary   |
| March 2017    | Established H.I.S. SUPER POWER Co., Ltd.<br>Opened Henn-na Hotel Maihama Tokyo Bay  |
| May 2017      | Established H.I.S. Okinawa Co., Ltd.<br>Made GROUP MIKI HOLDINGS LIMITED a subsidiary<br>Made Green World Hotels Co., Ltd. a subsidiary |
| August 2017   | Opened Henn-na Hotel Laguna Ten Bosch   |

### 3. Description of Business

The H.I.S. Group (H.I.S. Co., Ltd., and affiliated companies; hereinafter, the “H.I.S. Group” or the “Group”) comprises H.I.S. Co., Ltd. (hereinafter, the “Company”), 157 subsidiaries and 17 affiliated companies. The main businesses operated by the H.I.S. Group and the positioning of the Company and affiliated companies in these businesses are as follows.

The six business groupings of Travel Business, Huis Ten Bosch Group, Hotel Business, Transportation Business, Kyushu Sanko Group and Other herebelow are consistent with the reportable segments stated in the “Notes to Consolidated Financial Statements in (1) Consolidated Financial Statements, 1. Consolidated Financial Statements under Part I: Information on the Company, section V. Financial Information.”

#### (1) Travel Business

The H.I.S. Group businesses undertake domestic and overseas travel and other ancillary businesses.

[Affiliated Companies]

|                                      |  |
|--------------------------------------|--|
| HAWAII HIS CORPORATION               | HIS INTERNATIONAL TOURS FRANCE SAS       |
| H.I.S. INTERNATIONAL TOURS (NY) INC. | H.I.S. Deutschland Touristik GmbH        |
| H.I.S. GUAM, INC.                    | H.I.S. EUROPE ITALY S.R.L.               |
| H.I.S. CANADA INC.                   | HIS ULUSLARARASI TURIZM SEYAHAT ACENTASI |
| H.I.S. – MERIT TRAVEL INC.           | LIMITED SIRKETI                          |
| H.I.S. SAIPAN, INC.                  | GROUP MIKI HOLDINGS LIMITED              |
| H.I.S. KOREA CO., LTD.               | Orion Tour Co., Ltd.                     |
| H.I.S. Tours Co., Ltd.               | QUALITA Co., Ltd.                        |
| PT. HARUM INDAH SARI TOURS & TRAVEL  | Ohshu Express Ltd.                       |
| HIS (HONG KONG) COMPANY LIMITED      | TOUR WAVE CO., LTD                       |
| H.I.S. TAIWAN COMPANY LIMITED        | Japan Holiday Travel CO., LTD            |
| H.I.S. INTERNATIONAL TRAVEL PTE LTD  | Cruise Planet Co., Ltd.                  |
| H.I.S. AUSTRALIA PTY. LTD.           |  |
| H.I.S. EUROPE LIMITED                | and 89 other companies                   |

#### (2) Huis Ten Bosch Group

The H.I.S. Group owns and operates theme parks located in Sasebo, Nagasaki Prefecture and Gamagori, Aichi Prefecture; develops new power generation, including renewable energy; and operates other ancillary businesses.

[Affiliated Companies]

|                          |                            |
|--------------------------|----------------------------|
| Huis Ten Bosch Co., Ltd. | LAGUNA TEN BOSCH CO., LTD. |
| HTB ENERGY CO., LTD.     | and 14 other companies     |

#### (3) Hotel Business

The H.I.S. Group operates hotels and other ancillary businesses in Australia, Guam, Indonesia, Taiwan, and Japan.

[Affiliated Companies]

|                                   |  |
|-----------------------------------|--|
| H.I.S. AUSTRALIA HOLDINGS PTY LTD | WATERMARK HOTEL JAPAN CO., LTD         |
| H.I.S. INVESTMENTS PTY LTD        | The Watermark Hotel Nagasaki Co., Ltd. |
| GUAM REEF HOTEL, INC.             | H.I.S. Hotel Holdings Co., Ltd.        |
| PT. HARUM INDAH SARI INDONESIA    | and 5 other companies                  |
| Green World Hotels Co., Ltd.      |  |

(4) Transportation Business

The H.I.S. Group operates passenger route transport, including international charters, and other ancillary businesses.

[Affiliated Companies]

ASIA ATLANTIC AIRLINES CO., LTD.

(5) Kyushu Sanko Group

The Kyushu Sanko Group, whose holding company is KYUSHU INDUSTRIAL TRANSPORTATION HOLDINGS CO., LTD., operates H.I.S. Group's businesses including automobile transport, real estate rental, etc.

[Affiliated Companies]

KYUSHU INDUSTRIAL TRANSPORTATION                      and 13 other companies  
HOLDINGS CO., LTD.

(6) Other businesses

H.S. Insurance Co., Ltd. handles property and casualty insurance, mainly for overseas travel.

H.I.S. SUPER POWER Co., Ltd. engages in power generation business, and operates other ancillary businesses.

SYS Inc. develops and manages guest room reservation systems, and operates other ancillary businesses

[Affiliated Companies]

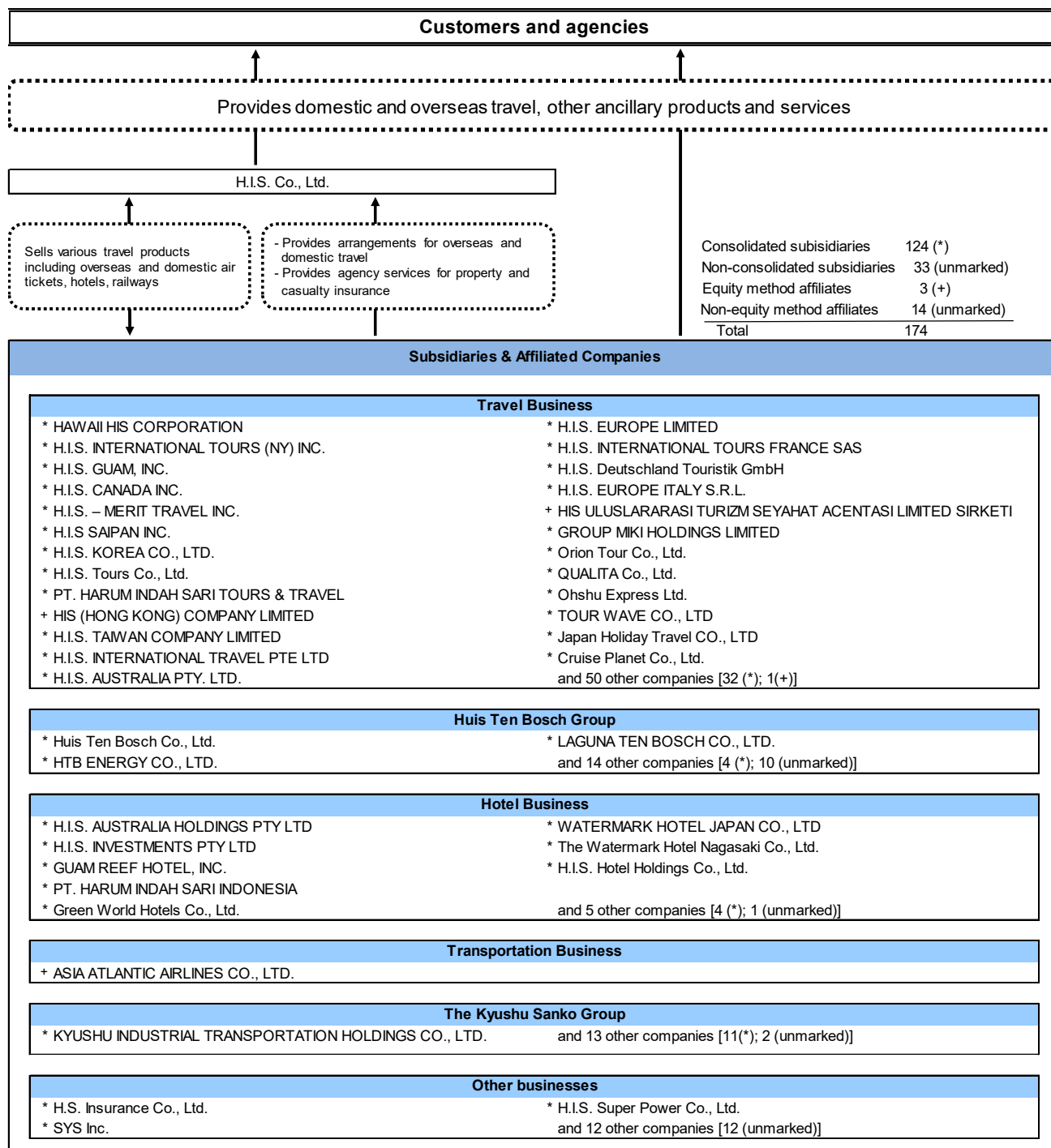
H.S. Insurance Co., Ltd.

SYS Inc.

H.I.S. SUPER POWER Co., Ltd.

and 12 other companies

The following table illustrates the H.I.S. Group's operating relationships.



#### 4. Information on Subsidiaries and Affiliates

##### (1) Consolidated Subsidiaries

| Company name  | Location  | Capital              | Main business   | Ownership of voting rights (%) | Relationship   |
|---|---|----------------------|-----------------|--------------------------------|--|
| H.I.S. U.S.A. HOLDING, INC. (Note 3)                        | Delaware, U.S.A.  | 847 thousand USD     | Travel Business | 100.0                          | 1) Concurrent Director<br>One concurrent director at said company  |
| HAWAII HIS CORPORATION (Note 2)                             | Honolulu, Hawaii, U.S.A.  | 100 thousand USD     | Travel Business | 100.0 (100.0)                  | 1) Business Transaction<br>Purchasing and sales of travel products between the companies   |
| H.I.S. INTERNATIONAL TOURS (NY) INC. (Note 2)               | New York City, New York, U.S.A.                                     | 150 thousand USD     | Travel Business | 100.0 (100.0)                  | 1) Business Transaction<br>Purchasing and sales of travel products between the companies   |
| H.I.S. GUAM, INC. (Note 2)                                  | Guam, Territory of U.S.A.   | 200 thousand USD     | Travel Business | 100.0 (100.0)                  | 1) Concurrent Director<br>One concurrent director at said company<br>2) Business Transaction<br>Purchasing of travel products from said company                |
| H.I.S. CANADA INC.  | Yukon Territory, Canada   | 100 thousand CAD     | Travel Business | 100.0                          | 1) Business Transaction<br>Purchasing and sales of travel products between the companies   |
| H.I.S. – MERIT TRAVEL INC. (Note 3)                         | Vancouver, British Columbia, Canada                                 | 45,395 thousand CAD  | Travel Business | 89.9                           | 1) Concurrent Director<br>Two concurrent directors at said company   |
| H.I.S. SAIPAN, INC. (Note 2)                                | Saipan, Commonwealth of the Northern Mariana Islands, U.S.A.        | 200 thousand USD     | Travel Business | 100.0 (100.0)                  | 1) Business Transaction<br>Purchasing of travel products from said company   |
| H.I.S. (China) Holding Co., Limited (Note 3)                | Hong Kong Special Administrative Region, People's Republic of China | 87,257 thousand HKD  | Travel Business | 100.0                          | 1) Concurrent Director<br>One concurrent director at said company  |
| H.I.S. KOREA CO., LTD.                                      | Seoul, Republic of Korea  | 425,000 thousand KRW | Travel Business | 58.8                           | 1) Business Transaction<br>Purchasing of travel products from said company   |
| H.I.S. Tours Co., Ltd.                                      | Bangkok, Kingdom of Thailand  | 20,000 thousand THB  | Travel Business | 100.0                          | 1) Business Transaction<br>Purchasing and sales of travel products between the companies   |
| PT. HARUM INDAH SARI TOURS & TRAVEL                         | Denpasar, Republic of Indonesia                                     | 168 thousand USD     | Travel Business | 90.0                           | 1) Business Transaction<br>Purchasing and sales of travel products between the companies   |
| HIS (HONG KONG) COMPANY LIMITED (Note 2)                    | Hong Kong Special Administrative Region, People's Republic of China | 1,500 thousand HKD   | Travel Business | 100.0 (100.0)                  | 1) Concurrent Director<br>Two concurrent directors at said company<br>2) Business Transaction<br>Purchasing and sales of travel products between the companies |
| H.I.S. INTERNATIONAL MANAGEMENT PTE. LTD. (Note 2) (Note 3) | Republic of Singapore   | 20,000 thousand USD  | Travel Business | 100.0 (0.1)                    | 1) Business Transaction<br>Purchasing of travel products from said company   |

| Company name   | Location              | Capital            | Main business   | Ownership of voting rights (%) | Relationship   |
|--|-----------------------|--------------------|-----------------|--------------------------------|--|
| H.I.S. INTERNATIONAL TRAVEL PTE LTD<br>(Note 2)                      | Republic of Singapore | 400 thousand SGD   | Travel Business | 100.0 (100.0)                  | 1) Business Transaction<br>Purchasing and sales of travel products between the companies   |
| H.I.S. AUSTRALIA PTY. LTD.<br>(Note 2)                               | Queensland, Australia | 25 thousand AUD    | Travel Business | 100.0 (100.0)                  | 1) Concurrent Director<br>One concurrent director at said company<br>2) Business Transaction<br>Purchasing and sales of travel products between the companies  |
| H.I.S. EUROPE LIMITED<br>(Note 2)                                    | London, England       | 100 thousand GBP   | Travel Business | 100.0 (100.0)                  | 1) Business Transaction<br>Purchasing and sales of travel products between the companies   |
| GROUP MIKI HOLDINGS LIMITED<br>(Note 3)                              | London, England       | 116 thousand EUR   | Travel Business | 70.3                           | 1) Business Transaction<br>Purchasing and sales of travel products between the companies   |
| HIS INTERNATIONAL TOURS FRANCE SAS<br>(Note 2)                       | Paris, France         | 2,030 thousand EUR | Travel Business | 100.0 (100.0)                  | 2) Business Transaction<br>Purchasing and sales of travel products between the companies   |
| H.I.S. Deutschland Touristik GmbH<br>(Note 2)                        | Frankfurt, Germany    | 25 thousand EUR    | Travel Business | 100.0 (100.0)                  | 1) Concurrent Director<br>Two concurrent directors at said company<br>2) Business Transaction<br>Purchasing and sales of travel products between the companies   |
| H.I.S. EUROPE ITALY S.R.L.<br>(Note 2)                               | Rome, Italy           | 83 thousand EUR    | Travel Business | 100.0 (100.0)                  | 1) Business Transaction<br>Purchasing and sales of travel products between the companies   |
| HIS ULUSLARARASI TURIZM SEYAHAT ASENTASI LIMITED SIRKETI<br>(Note 2) | Istanbul, Turkey      | 9,132 thousand TRY | Travel Business | 100.0 (96.9)                   | 1) Business Transaction<br>Purchasing and sales of travel products between the companies<br>2) Capital Assistance<br>The Company provides payment guarantee (up to 226 million yen) for notes and accounts payable – trade   |
| Orion Tour Co., Ltd.   | Chuo-ku, Tokyo        | 248 million yen    | Travel Business | 100.0                          | 1) Concurrent Director<br>Two concurrent directors at said company<br>2) Business Transaction<br>Purchasing and sales of travel products between the companies   |
| QUALITA Co., Ltd.  | Shinjuku-ku, Tokyo    | 51 million yen     | Travel Business | 100.0                          | 1) Concurrent Director<br>One concurrent director at said company<br>2) Business Transaction<br>Purchasing and sales of travel products between the companies<br>3) Capital Assistance<br>The Company provides payment guarantee (up to 35 million yen) for notes and accounts payable – trade |

| Company name                                       | Location                           | Capital           | Main business        | Ownership of voting rights (%) | Relationship  |
|--|------------------------------------|-------------------|----------------------|--------------------------------|---|
| Ohshu Express Ltd.                                 | Shibuya-ku, Tokyo                  | 132 million yen   | Travel Business      | 100.0                          | 1) Concurrent Director<br>Three concurrent directors at said company<br>2) Business Transaction<br>Purchasing and sales of travel products between the companies  |
| TOUR WAVE CO., LTD (Note 2)                        | Aoba-ku, Sendai, Miyagi Prefecture | 80 million yen    | Travel Business      | 100.0 (100.0)                  | 1) Concurrent Director<br>Two concurrent directors at said company<br>2) Business Transaction<br>Purchasing and sales of travel products between the companies  |
| Japan Holiday Travel CO., LTD                      | Naniwa-ku, Osaka, Osaka Prefecture | 30 million yen    | Travel Business      | 66.7                           | 1) Concurrent Director<br>Three concurrent directors at said company<br>2) Business Transaction<br>Purchasing and sales of travel products between the companies<br>3) Capital Assistance<br>The Company provides payment guarantee (up to 40 million yen) for notes and accounts payable – trade |
| Cruise Planet Co., Ltd.                            | Shibuya-ku, Tokyo                  | 25 million yen    | Travel Business      | 100.0                          | 1) Concurrent Director<br>Two concurrent directors at said company<br>2) Business Transaction<br>Purchasing and sales of travel products between the companies  |
| Huis Ten Bosch Co., Ltd. (Note 3)                  | Sasebo, Nagasaki Prefecture        | 1,500 million yen | Huis Ten Bosch Group | 66.7                           | 1) Concurrent Director<br>Three concurrent directors at said company<br>2) Business Transaction<br>Purchasing and sales of travel products between the companies  |
| Huis Ten Bosch Technical Center Co., Ltd. (Note 2) | Sasebo, Nagasaki Prefecture        | 98 million yen    | Huis Ten Bosch Group | 100.0 (100.0)                  | 1) Business Transaction<br>Sales of travel products to said company   |
| HTB Tourism Co., Ltd. (Note 2)                     | Sasebo, Nagasaki Prefecture        | 55 million yen    | Huis Ten Bosch Group | 100.0 (100.0)                  | 1) Business Transaction<br>Purchasing and sales of travel products between the companies  |
| HTB ENERGY CO., LTD. (Note 2)                      | Sasebo, Nagasaki Prefecture        | 95 million yen    | Huis Ten Bosch Group | 84.2 (84.2)                    | 1) Concurrent Director<br>Two concurrent directors at said company<br>2) Business Transaction<br>Sales of travel products to said company<br>3) Capital Assistance<br>The Company loans 1,500 million yen in working capital  |
| LAGUNA TEN BOSCH CO., LTD. (Note 2) (Note 3)       | Gamagori, Aichi Prefecture         | 1,588 million yen | Huis Ten Bosch Group | 66.0 (61.0)                    | 1) Concurrent Director<br>Three concurrent directors at said company<br>2) Business Transaction<br>Purchasing and sales of travel products between the companies  |

| Company name  | Location                            | Capital             | Main business        | Ownership of voting rights (%) | Relationship   |
|---|-------------------------------------|---------------------|----------------------|--------------------------------|--|
| HTB CRUISE Co., Ltd.<br>(Note 2)                    | Sasebo, Nagasaki Prefecture         | 400 million yen     | Huis Ten Bosch Group | 100.0 (50.0)                   | 1) Business Transaction<br>Sales of travel products to said company<br>2) Capital Assistance<br>The Company loans 1,612 million yen in working capital   |
| TEN BOSCH CRUISE PANAMA S.A.<br>(Note 2)            | Panama City, Panama                 | 10 thousand USD     | Huis Ten Bosch Group | 100.0 (100.0)                  | 1) Concurrent Director<br>One concurrent director at said company  |
| H.I.S. AUSTRALIA HOLDINGS PTY LTD<br>(Note 3)       | Queensland, Australia               | 93,350 thousand AUD | Hotel Business       | 100.0                          | 1) Concurrent Director<br>One concurrent director at said company  |
| H.I.S. INVESTMENTS PTY LTD<br>(Note 2) (Note 3)     | Queensland, Australia               | 80,750 thousand AUD | Hotel Business       | 100.0 (100.0)                  | 1) Concurrent Director<br>One concurrent director at said company  |
| H.I.S. Hotel Holdings Co., Ltd.                     | Shinjuku-ku, Tokyo                  | 10 million yen      | Hotel Business       | 100.0                          | 1) Concurrent Director<br>Three concurrent directors at said company<br>2) Business Transaction<br>Purchasing and sales of hotel products between the companies<br>3) Capital Assistance<br>The Company loans 6,022 million yen in capital expenditure funding |
| WATERMARK HOTEL JAPAN CO., LTD<br>(Note 2)          | Shinjuku-ku, Tokyo                  | 90 million yen      | Hotel Business       | 100.0 (100.0)                  | 1) Concurrent Director<br>Three concurrent directors at said company<br>2) Business Transaction<br>Purchasing of hotel products from said company<br>3) Capital Assistance<br>The Company loans 160 million yen in working capital                             |
| The Watermark Hotel Nagasaki Co., Ltd.<br>(Note 2)  | Shinjuku-ku, Tokyo                  | 250 million yen     | Hotel Business       | 100.0 (100.0)                  | 1) Concurrent Director<br>Three concurrent directors at said company<br>2) Business Transaction<br>Purchasing of hotel products from said company  |
| GUAM REEF HOTEL, INC.<br>(Note 2)                   | Guam, U.S. Territory                | 10 thousand USD     | Hotel Business       | 100.0 (100.0)                  | _____  |
| PT. HARUM INDAH SARI INDONESIA<br>(Note 2) (Note 3) | Badung, Bali, Republic of Indonesia | 180 billion IDR     | Hotel Business       | 100.0 (1.0)                    | _____  |
| Green World Hotels Co., Ltd.<br>(Note 2) (Note 3)   | Taipei City, Taiwan                 | 1,097 million TWD   | Hotel Business       | 51.0 (51.0)                    | 1) Concurrent Director<br>One concurrent director at said company<br>2) Capital Assistance<br>The Company guarantees liabilities (up to 1,757 million yen) against bank guarantees   |



| Company name   | Location  | Capital                 | Main business            | Ownership of voting rights (%) | Relationship   |
|--|---|-------------------------|--------------------------|--------------------------------|--|
| KYUSHU INDUSTRIAL TRANSPORTATION HOLDINGS CO., LTD.<br>(Note 3) (Note 4) | Chuo-ku,<br>Kumamoto,<br>Kumamoto<br>Prefecture | 1,065<br>million<br>yen | Kyushu<br>Sanko<br>Group | 84.6                           | 1) Concurrent Director<br>One concurrent director at said company<br>2) Business Transaction<br>Purchasing and sales of travel products between the companies<br>3) Capital Assistance<br>The Company loans 2,050 million yen in capital expenditure funding |
| H.S. Insurance Co., Ltd.<br>(Note 3)                                     | Shinjuku-ku,<br>Tokyo                           | 1,612<br>million<br>yen | Other<br>Business        | 82.0                           | 1) Concurrent Director<br>One concurrent director at said company<br>2) Business Transaction<br>The Company is a sales representative for travel insurance   |
| H.I.S. SUPER POWER Co., Ltd.<br>(Note 2)                                 | Shinjuku-ku,<br>Tokyo                           | 50<br>million<br>yen    | Other<br>Business        | 100.0<br>(34.0)                | 1) Concurrent Director<br>Three concurrent directors at said company<br>2) Capital Assistance<br>The Company loans 801 million yen in capital expenditure funding  |
| SYS Inc.   | Minato-ku,<br>Tokyo                             | 100<br>million<br>yen   | Other<br>Business        | 95.6                           | 1) Concurrent Director<br>Three concurrent directors at said company<br>2) Capital Assistance<br>The Company guarantees liabilities (up to 900 million yen) against bank guarantees  |
| And 78 other companies   |   |                         |                          |                                |  |

(Notes)

1. The “Main business” column indicates segment names stated in “Segment information, etc.”
2. Figures in parentheses in the “Ownership of voting rights” column represent percentage of voting rights held indirectly by the Company.
3. These companies fall under the category of specified subsidiaries.
4. The company files an Annual Securities Report (Yukashoken Hokokusho).

## (2) Equity-method affiliates

| Company name                                 | Location          | Capital              | Main business           | Ownership of voting rights (%) | Relationship   |
|--|-------------------|----------------------|-------------------------|--------------------------------|--|
| H.I.S. TAIWAN COMPANY LIMITED                | Taipei, Taiwan    | 42 million TWD       | Travel Business         | 50.0                           | 1) Concurrent Director<br>Two concurrent directors at said company<br>2) Business Transaction<br>Purchasing and sales of travel products between the companies   |
| ASIA ATLANTIC AIRLINES CO., LTD.<br>(Note 2) | Bangkok, Thailand | 249,500 thousand THB | Transportation Business | 28.9<br>(27.9)                 | 1) Business Transaction<br>Purchasing of travel products from said company<br>2) Capital Assistance<br>The Company guarantees liabilities (up to 30 million yen) against bank guarantees<br>In addition, the Company provides payment guarantee (up to 791 million yen) for notes and accounts payable – trade |
| And 1 other company                          |                   |                      |                         |                                |  |

(Note)

1. The “Main business” column indicates segment names stated in Segment information, etc.
2. Figures in parentheses in the “Ownership of voting rights” column represent percentage of voting rights held indirectly by the Company.

5. Employees  
(1) Consolidated Companies

As of October 31, 2017

| Name of business segment  | Number of employees |         |
|---------------------------|---------------------|---------|
| Travel Business           | 10,638              | [1,230] |
| Huis Ten Bosch Group      | 619                 | [1,334] |
| Hotel Business            | 603                 | [468]   |
| Transportation Business   | —                   | [—]     |
| Kyushu Sanko Group        | 1,487               | [371]   |
| Reportable segments total | 13,347              | [3,403] |
| Other                     | 80                  | [9]     |
| Corporate-wide (shared)   | 83                  | [10]    |
| Total                     | 13,510              | [3,422] |

(Notes)

1. “Number of employees” represents full-time employees only. An additional figure for the average number of part-time staff employed during the fiscal year is provided in square brackets.
2. The employees in “Corporate-wide (shared)” are those belonging to administrative departments and thus do not fall into any business segment.
3. In the consolidated fiscal year ended October 31, 2017, the conversion of GROUP MIKI HOLDINGS LIMITED into a subsidiary raised the number of group employees in the Travel Business to 10,638, an increase of 2,388 from the end of the previous fiscal year. Similarly, the conversion of Green World Hotels Co., Ltd. into a subsidiary lifted the number of group employees in the Hotel Business segment to 603, an increase of 390 from the end of the previous fiscal year. In addition, the exclusion of ASIA ATLANTIC AIRLINES CO., LTD. from the scope of consolidation reduced the number of group employees in the Transportation Business to zero, a decrease of 216 from the end of the previous fiscal year. Meanwhile, the number of group employees in other segments increased by 103 from the end of the previous fiscal year. As a result, the total number of group employees came to 13,510. There were no significant changes in part-time employees.

(2) The Filing Company

As of October 31, 2017

| Number of employees | Average age    | Average length of service | Average annual pay (yen) |
|---------------------|----------------|---------------------------|--------------------------|
| 5,581 [897]         | 33.8 years old | 7.7 years                 | 4,139,955                |

| Name of business segment  | Number of employees |       |
|---------------------------|---------------------|-------|
| Travel Business           | 5,498               | [885] |
| Hotel Business            | —                   | [2]   |
| Reportable segments total | 5,498               | [887] |
| Other                     | —                   | [—]   |
| Corporate-wide (shared)   | 83                  | [10]  |
| Total                     | 5,581               | [897] |

(Notes)

1. “Number of employees” represents full-time employees only. An additional figure for the average number of part-time staff employed during the fiscal year is provided in square brackets.
2. Average annual salary includes bonuses and extra wages.
3. The employees in “Corporate-wide (shared)” are those belonging to administrative departments and thus do not fall into any business segment.

(3) Labor Unions

There are no applicable matters to report.

## II. Business Overview

### 1. Summary of Results

#### (1) Business Results

In the consolidated fiscal year ended October 31, 2017, the management environment was affected by geopolitical risk in the international arena, but the Japanese economy continued to gradually recover thanks in part to an improvement in employment and income conditions and supported by the effects of various policies.

Against this backdrop, the H.I.S. Group implemented organizational reforms to accommodate expansion in its business spheres. Guided by its corporate philosophy (“In accordance with the laws of the universe, we contribute to the creative development of humanity and world peace.”), the Group aimed to build new business models that can help it contribute to world peace not only through travel but through a wide range of other businesses as a company that consistently pursues change and advancement.

Business performance by segment was as follows. Figures in each segment reflect the amounts before offsetting and eliminating inter-segment transactions.

#### [Travel Business]

In the consolidated fiscal year ended October 31, 2017, the number of outbound travelers from Japan rose 5.6% year on year to 17,810,000 supported in part by a rebound from the downturn in the wake of terrorist attacks in Europe and despite a sustained slowdown prompted by conditions in East Asia. The number of inbound travelers to Japan rose 17.8% year on year to 27,710,000, with the key 20 markets registering new records across the board, thus reflecting ongoing strong performance (source: Japan National Tourism Organization [JNTO]).

In core domestic travel, the number of customers purchasing high-margin tour products in the first quarter declined due to calendar factors around the New Year period, leading to a temporary decline in profit margins. However, this was followed by steady performance from the second quarter aided by a recovery from external adverse factors such as terrorist attacks.

In February and March, in particular, the Company achieved success with initiatives related to outbound travel from Japan such as student and spring break travel. In domestic travel, the Company faced a slow recovery in travel to Kyushu alongside impact from natural disasters, but it implemented new initiatives such as the launch of a new domestic airline ticket website, the launch of its revamped bus tour website, and the start of a direct sales support service for accommodation facilities.

In overseas travel, the Company deployed and strengthened management resources to capture travel demand in Asia, where economic development is driving a sharp increase in the number of outbound travelers. It also converted Merit Holdings Inc., a travel business company operating out of Canada, into a subsidiary with an eye toward expanding its share of outbound travelers in North America. In addition, the Company turned GROUP MIKI HOLDINGS LIMITED into a subsidiary, thus further strengthening the provision of local travel products and services for inbound travelers to Europe.

In inbound travel to Japan, the number of travelers continued to rise sharply, and the market is expected to expand further as signaled by the Japanese government’s goal of attracting 40 million annual tourists by 2020. The H.I.S. Group registered steady growth in uptake for its MICE business, which is strengthening sales in Asian countries, while B2B transactions centered on Europe and the US also held strong.

After factoring in new, scrapped, and consolidated outlets, the H.I.S. Group’s global sales network comprised 286 locations in Japan, and 271 overseas in 156 cities across 70 countries (as of October 31, 2017).

Consequently, the Travel Business recorded net sales of 536,826 million yen (an increase of 15.3% from a year earlier) and operating income of 9,900 million yen (an increase of 9.5%).

#### [Huis Ten Bosch Group]

To celebrate the 25th anniversary of Huis Ten Bosch (Sasebo, Nagasaki Prefecture), the Company introduced a variety of events at the five themed areas of “Kingdom of Flowers,” “Kingdom of Light,” “Kingdom of Music and Shows,” “Kingdom of Games,” and “Kingdom of Health and Beauty.” It also added a new “Kingdom of Robot,” expanding the number of themed areas to six. In this way, the Company concentrated on improving experience value, delivering one-of-a-kind theme park content that can be enjoyed by three generations.

At the “Kingdom of Light,” which boasts the largest number of lights (13 million) in the world, events such as the “Light Dragon Robot” and “Light and Canal Water Show” (which combines revue theater with illumination) were favorably received. Meanwhile, the Henn-na Hotel chain, which aims to achieve the world’s most efficient hotel management, was recognized by the Guinness Book of World Records as “the first robot-staffed hotel.” The hotel chain continues to enjoy high occupancy rates. As a new facility, the Company added a “VR Hall” that brings together a range of virtual reality (VR) content in a single

location. In the summer, Huis Ten Bosch launched the “Bahamut Disco” attraction and opened the VR rollercoaster “VR-KING,” thus continuing its rise as Japan’s largest VR theme park. Throughout the fiscal year under review, the Company also rolled out popular content in Tokyo, and implemented other new initiatives to improve brand recognition and promote market expansion.

As a result of these initiatives, the number of visitors and transaction volume exceeded year-earlier levels from April, but the total number of visitors for the entire fiscal year finished at 2,881,000, down 0.5% from a year earlier.

At Laguna Ten Bosch, the Company enhanced the “Night Pool” attraction at its popular pool facility, and worked to increase the number of visitors. In addition, it opened the Henn-na Hotel Laguna Ten Bosch, the first hotel in the chain to be directly connected to a theme park, and worked to capture new markets.

Further, HTB ENERGY entered the commercial energy market in earnest from the previous fiscal year.

As a result of the above, the Huis Ten Bosch Group recorded net sales of 36,780 million yen (an increase of 15.4% from a year earlier) and operating income of 7,688 million yen (an increase of 2.7%).

#### [Hotel Business]

In the Hotel Business, which the H.I.S Group is developing into a third earnings driver after the Travel Business and the Huis Ten Bosch Group, the Company established H.I.S. Hotel Holdings Co., Ltd. in November 2016 with the mandate of overseeing hotel operations and the medium- to long-term goal of rolling out 100 facilities. Like overseas outbound travel business in the Travel Business, this business offers strong growth prospects that can be realized by capturing travel demand in Asia, and the Company is accordingly considering and preparing for the development of hotels in Japan, where hotel room shortages are intensifying in cities such as Tokyo, Osaka, and Kyoto, as well as overseas, especially in travel destinations that attract visitors from Asia.

The Company launched two new Henn-na Hotels in the fiscal year under review—namely, the Henn-na Hotel Maihama Tokyo Bay (Urayasu City in Chiba Prefecture) in March, and the Henn-na Hotel Laguna Ten Bosch (Gamagori City in Aichi Prefecture) in August. Further, it converted the Taiwanese hotel group Green World Hotels Co., Ltd. into a subsidiary. Henn-na Hotel Maihama Tokyo Bay achieved profitability in its first year of operation, making a significant contribution to earnings. Among existing facilities, the Guam Reef & Olive Spa Resort (Guam) performed well thanks to measures promoting an increase in the number of guests traveling in group and a shift to online reservations.

As a result, the Hotel Business reported record-highs in both net sales and operating income, which came in at 8,177 million yen (a 23.7% increase from a year earlier) and 764 million yen (a 37.5% increase), respectively, reflecting solid performance. EBITDA was 1,713 million yen (a 22.8% increase).

#### [Transportation Business]

The Transportation Business recorded net sales of 3,272 million yen (a decrease of 1.6% from a year earlier) and an operating loss of 840 million yen (versus an operating loss of 834 million yen a year earlier). ASIA ATLANTIC AIRLINES CO. LTD. was changed from a consolidated subsidiary to an equity-method affiliate at the end of the third quarter of the fiscal year under review. Accordingly, from the fourth quarter, earnings of ASIA ATLANTIC AIRLINES CO. LTD. are reflected as investment income (losses) under the equity-method.

#### [Kyushu Sanko Group]

With one year having elapsed since the Kumamoto earthquake, the Kyushu Sanko Group showed signs of recovery across the board. Highway bus services, which suffered in the wake of the earthquake, performed well. The Company held a groundbreaking ceremony for the Sakuramachi Redevelopment Project in February 2017, and construction progression was firm. As a result, the Kyushu Sanko Group business recorded net sales of 22,282 million yen (an increase of 10.0% from a year earlier), and operating income of 564 million yen (an increase of 531.9%).

Based on the above, the Company’s consolidated results for the consolidated fiscal year ended October 31, 2017 were 606,024 million yen in net sales, marking a record high (an increase of 15.7% from a year earlier), and 15,915 million yen in operating income (an increase of 11.5%). Ordinary income was 19,647 million yen (an increase of 127.2%), reflecting the booking of 2,275 million yen in foreign exchange gains (versus foreign exchange losses of 6,798 million yen a year earlier), and profit attributable to owners of parent came to 13,259 million yen (an increase of 4,864.5%).

## (2) Cash Flows

The amount of cash and cash equivalents (hereinafter, “funds”) at the end of the consolidated fiscal year ended October 31, 2017 was 168,659 million yen, an increase of 38,816 million yen compared to the end of the previous fiscal year. Cash flows from operating activities increased 32,369 million yen, cash flows from investing activities decreased 26,209 million yen, and cash flows from financing activities increased 29,769 million yen.

### [Cash flows from operating activities]

Funds from operating activities saw an increase of 32,369 million yen in the fiscal year under review. This mainly reflected an increase in funds from the booking of profit before income taxes (20,730 million yen), depreciation (7,104 million yen) as a non-cash item, and an increase in travel advances received (5,894 million yen), alongside a decrease in funds resulting from an increase in travel advance payments (5,185 million yen).

In the previous fiscal year, funds saw an increase of 5,149 million yen. This was largely attributable to an increase in funds from the booking of profit before income taxes (5,107 million yen), non-cash items including depreciation (6,544 million yen), foreign exchange losses (3,616 million yen), and impairment loss (3,541 million yen), and an increase in travel advances received (3,704 million yen), as well as a decrease in funds due to income taxes paid (7,229 million yen), an increase in notes and accounts receivable – trade (6,526 million yen), and an increase in travel advance payments (2,911 million yen).

As a result, in the fiscal year under review, cash flows from operating activities increased 27,220 million yen compared to the previous fiscal year.

### [Cash flows from investing activities]

Funds from investing activities saw a decrease of 26,209 million yen in the fiscal year under review. This was mainly because payments into time deposits (43,132 million yen), purchases of property, plant and equipment and intangible assets (24,189 million yen), purchases of investment securities (8,366 million yen), and purchases of shares of subsidiaries resulting in a change in the scope of consolidation (5,856 million yen) exceeded the proceeds from withdrawal of time deposits (51,799 million yen), proceeds from the purchase of investments in subsidiaries resulting in a change in the scope of consolidation (8,465 million yen), and proceeds from redemption of securities (3,300 million yen).

In the previous fiscal year, funds saw a decrease of 15,440 million yen. This was mainly because payments into time deposits (57,392 million yen), purchases of property, plant and equipment and intangible assets (13,309 million yen), purchases of shares in subsidiaries and affiliates (1,696 million yen), payments of loans receivable (1,632 million yen) and purchases of investment securities (1,234 million yen) exceeded the proceeds from withdrawal of time deposits (49,732 million yen), and proceeds from redemption of securities (13,345 million yen).

As a result, in the fiscal year under review, cash flows from investing activities declined 10,769 million yen compared to the previous fiscal year.

### [Cash flows from financing activities]

Funds from financing activities saw an increase of 29,769 million yen in the fiscal year under review. This mainly reflected an increase in funds from proceeds from long- and short-term loans payable (81,640 million yen), proceeds from issuance of bonds (19,899 million yen), alongside a decrease in funds from repayments of long- and short-term loans payable (59,796 million yen), purchases of treasury shares (10,001 million yen), and cash dividends paid (1,361 million yen).

In the previous fiscal year, funds saw an increase of 30,181 million yen. This mainly reflected an increase in proceeds from long-term loans payable (63,465 million yen), alongside a decrease in funds from repayments of long-term loans payable (21,673 million yen), and purchases of treasury shares (11,791 million yen).

As result, in the fiscal year under review, cash flows from financing activities declined 411 million yen compared to the previous fiscal year.

## 2. Production, Orders Received and Sales

### (1) Purchasing

Purchasing by segment during the consolidated fiscal year ended October 31, 2017 are as follows.

| Segment name             | Year ended October 31, 2017<br>[November 1, 2016 to October 31, 2017]<br>(millions of yen) | Versus previous fiscal year<br>(%) |
|--------------------------|--|------------------------------------|
| Travel Business          | 453,183  | 117.0                              |
| Huis Ten Bosch Group     | 10,331   | 162.5                              |
| Hotel Business           | 3,265  | 114.6                              |
| Transportation Business  | 3,794  | 99.3                               |
| Kyushu Sanko Group       | 19,753   | 107.6                              |
| Reportable segment total | 490,328  | 117.1                              |
| Other                    | 957  | —                                  |
| Total                    | 491,285  | 117.3                              |

(Notes)

1. Intersegment transactions have been eliminated.
2. The businesses of the H.I.S. Group (H.I.S. Co., Ltd., and consolidated subsidiaries, hereinafter the same) are not operated based on production; as such, information on purchasing is stated in the place of production overview.
3. Figures do not include consumption taxes.

### (2) Orders received

Information on orders received has been omitted as the H.I.S. Group's businesses are not operated based on orders received.

### (3) Sales

Sales by segment during the consolidated fiscal year ended October 31, 2017 are as follows.

| Segment name             | Year ended October 31, 2017<br>[November 1, 2016 to October 31, 2017]<br>(millions of yen) | Versus previous fiscal year<br>(%) |
|--------------------------|--|------------------------------------|
| Travel Business          | 535,512  | 115.0                              |
| Huis Ten Bosch Group     | 35,239   | 116.4                              |
| Hotel Business           | 7,213  | 129.7                              |
| Transportation Business  | 3,180  | 155.5                              |
| Kyushu Sanko Group       | 22,259   | 110.0                              |
| Reportable segment total | 603,406  | 115.2                              |
| Others                   | 2,617  | 5,761.7                            |
| Total                    | 606,024  | 115.7                              |

(Notes)

1. Intersegment transactions have been eliminated.
2. The H.I.S. Group calculates total transaction value (selling price) as net sales.
3. Figures do not include consumption taxes.

### 3. Management Policy, Management Environment, and Issues to be Addressed, etc.

#### (1) Management Policy of the Company

Guided by its corporate philosophy (“In accordance with the laws of the universe, we contribute to the creative development of humanity and world peace.”), the H.I.S. Group aims to build new business models that can help it contribute to world peace not only through travel but through a wide range of other businesses as a company that consistently pursues change and advancement.

#### (2) Key Performance Indicators

In addition to company-wide and business-specific net sales, operating income, ordinary income and corresponding growth rates, H.I.S. Group regards the number of customers serviced (an indicator of support received from customers) and its transaction value-based share in the Travel Business as important management indicators, and looks to ensure sustainable growth and improved profitability with the aim of building a stronger position to capture growing travel demand in Asia.

#### (3) Medium- to Long-Term Corporate Management Strategy

The H.I.S. Group is leveraging its expertise in the Travel Business, and implementing organizational reforms across the Group to accommodate expansion in business fields, while promoting new business models that aim to establish the Group’s dominance in global markets through the active development of growth markets such as travel, theme parks, hotels, agriculture, electricity, and robotics.

#### (4) Issues to be Addressed

The environment surrounding the H.I.S. Group is expected to become increasingly competitive due to direct air ticket sales outlets and travel agencies in Japan and overseas, the rise of online travel agents utilizing the internet, and the expansion of new travel-related services. Given this environment, the Group must address the following issues.

##### - Pursuit of customer satisfaction and provision of safe and secure products

To become a global company trusted worldwide and supported by the customers, H.I.S. believes it is necessary to provide comfortable, safe and secure services. Making maximum use of the Group’s global network and infrastructure, it will continue striving to provide safe, secure and high-quality products, services and information through the creation of new experience value and the provision of expanded services. An effort will also be made to please and gain the support of customers throughout the world by attempting to improve the level of Group’s services in Japan and overseas.

##### - Improving efficiency

As the market environment continues to change rapidly, it will become crucial for the Group to be able to keep up with the evolution of business models and act with speed as necessary. As such, the Group will work to manage its businesses with a constant focus on improving efficiency and streamlining operations through initiatives such as pursuing specialization and advancing into growth markets.

##### - Challenges and innovation

The H.I.S. Group expects technological advances to drive further development not only in its existing businesses but also in the various business models going forward. It intends to consistently take on new challenges and promote innovation as a Group with the aim of moving into new business fields and further developing existing businesses in the future.

### 4. Business and Other Risks

Risks that could have an impact on the business performance, share price and financial position of the Group are outlined below. Being mindful of the possibility that these risks may occur, the Group will make every effort to avoid such risks and take appropriate action in the event of their occurrence.

All matters relating to the future in the sections below are based on the current views of the H.I.S. Group as of the date of filing this Securities Report in Japanese (January 26, 2018) and business risks are not limited to those discussed below.

#### 1) Business development regionality

The Travel Business accounts for 88.6% of Group net sales, and 86.3% of net sales are concentrated in Japan. Accordingly, the Group’s financial position and business performance could be affected if the travel business environment were to change in Japan.

#### 2) Changes in fuel surcharges

Net sales of the Company account for 68.5% of Group net sales, and overseas travel comprises 86.4% of the Company’s total net sales. The Company is currently adding a fuel surcharge to overseas travel fares to reflect the change in crude oil prices. A



sharp increase in this fuel surcharge could dampen overall demand and adversely affect the Group's financial position and operating results.

3) Trends in outbound travel to Asia; inbound tourists to Japan

A breakdown of the volume of outbound travelers from Japan handled by the Company indicates that Asia is the most popular regional destination with a share of 60.4% of total volume (or 35.6% of net sales). Therefore, changes in the region's external environment (such as terrorist attacks, outbreaks of contagious diseases, or natural disasters) could affect the Group's financial position and operating results. Likewise, if it becomes difficult to secure seats on flights due to a rapid increase in the number of inbound tourists from Asia to Japan, this could have a similar impact.

4) Competition

The Group's travel business continues to face fierce competition as Japanese and international travel agencies, direct air ticket sales outlets, online travel agencies, and other companies offering new travel-related services emerge. The Group's financial position and operating results could be affected if stiffer competition on prices were to occur.

5) Reduction in commissions on airline tickets sold at the airlines' published fares

The Group also sells airline tickets at published fares provided directly to consumers by airline companies. Airline companies are taking steps to reduce or eliminate the commissions paid to travel agencies on these airline tickets, and such trend could affect the Group's financial position and operating results.

6) Fluctuations in the valuation of owned assets including securities

The Group holds both listed and unlisted stocks, bonds and other instruments. Hence, sales or valuation losses could occur from fluctuations in stock and bond markets in the case of securities with determinable fair market value, and from changes in the financial status of investee companies in the case of securities without determinable fair market value, and the Group's financial position and operating results could be affected as a result.

7) Impairment of fixed assets

The H.I.S Group records property, plant and equipment, intangible assets, stocks, goodwill, and other items arising from investment activities or acquisitions in Japan or abroad as assets on its consolidated balance sheet, and amortizes these over reasonable periods during which future synergies from business value and business integration are expected to manifest. However, if the Group determines that expected effects cannot be obtained, it books impairment losses for the relevant assets, and this could affect the Group's financial position and operating results.

8) Exchange rate fluctuations

The Group conducts business in foreign currencies, which results in income and expenses as well as assets and liabilities in foreign currencies. The Group hedges risk through forward exchange contracts and other instruments to mitigate the impact of exchange rate fluctuations. However, sharp fluctuations in exchange rates could affect the Group's financial position and operating results. The Group also translates the financial statements of consolidated overseas subsidiaries into Japanese yen when producing the consolidated financial statements. This could affect the Group's financial position and operating results, should there be fluctuation in exchange rates.

9) Breakout and spread of infectious diseases throughout the world (including Japan)

If an infectious disease were to break out and spread throughout the world including Japan, leading to a sudden decline in the desire for travel, this could impact the Group's financial position and operating results.

10) Flight operations

If an aviation accident were to occur on a flight operated by a Group affiliate, various issues would arise including loss of credibility with customers, damaged reputation, a slump in demand for air travel, and claims for damage during flight operations. This could significantly affect the Group's financial position and operating results. Likewise, if an accident by flights operated by other companies were to happen, the demand for air travel will likely slump. This could also affect the Group's financial position and operating results.

11) Food safety

The Group has developed a manual outlining standards for the arrangement, mediation and quality control of planned tours and optional tours, and also carefully selects restaurants. Additionally, Group businesses include operating restaurants with a stringent focus on food safety. Amid rising concerns about food safety, the occurrence of health problems such as food

poisoning could affect the Group's reputation, and impact its financial position and operating results.

#### 12) Effect of weather

The Group operates two theme parks, namely, Huis Ten Bosch in Sasebo, Nagasaki Prefecture, and Laguna Ten Bosch in Gamagori, Aichi Prefecture. The nature of these businesses is such that the number of visitors is expected to decline temporarily if there is prolonged bad weather including typhoons and torrential rainfall. This could affect the Group's financial position and operating results.

#### 13) Systems failures

The Group makes use of computer systems for operations including reservation arrangements. If a critical failure occurs in communication networks or programs, or there are problems caused by a computer virus, etc., this could gravely affect Group operations. Further, depending on the scale of the systems failure, services to customers may be interrupted or repair costs could increase, affecting the Group's financial position and operating results.

#### 14) Systems development

The H.I.S. Group is moving forward with internal development of its in-house systems, and also undertakes contracted development of various data systems for its corporate customers. With regard to development processes, if development is not progressing according to schedule, costs may increase more than expected. Further, the Group is not only concentrating on improving the quality of its existing products and services, but also on the provision of new products and services. If certain technologies become obsolete or if technological innovation comes to a halt, the Group's originality or competitive strength could be eroded, affecting its financial position and operating results.

#### 15) Personal information

The Group retains personal information in each business segment. Pursuant to Japanese laws concerning the protection of personal information, the Group has established a Privacy Policy to ensure the appropriate handling and protection of personal information. If a large-scale data leak were to occur for any reason, this could affect the Group's reputation and incur damage claims, impacting the Group's financial position and operating results.

#### 16) Changes in external environment

The risks surrounding the Group's travel business include changes in global conditions such as terror attacks, war, and other events; damage to travel infrastructure due to natural disasters; or global disorder caused by a sudden turbulence in the currency market. This could affect the Group's financial position and operating results.

#### 17) Compliance

When conducting business activities, the Group is subject to various laws, regulations, business customs and social norms in Japan and all countries where its sales offices are located, of which it strives to be in full compliance. However, there is a possibility that conditions considered to be in violation of compliance may arise due to the introduction of unexpected and new regulations, changes in policies of the enforcement authorities, or other causes such as differences in understanding and interpretation. The Group's financial position and business performance could be adversely affected if conditions that are in violation of compliance arise, resulting in expenses related to legal procedures and damage to the H.I.S. brand image.

### 5. Material Business Agreements, etc.

The Company received approval to become a certified International Air Transport Association (IATA) passenger sales agent on December 31, 1990 (effective until cancellation of approval), and has entered into a passenger sales agency agreement.

(Note) About the International Air Transport Association (IATA)

Founded in 1945, this private institution is an affiliation mainly of airlines engaged in international flights. Headquarters are in Montreal, Canada, and Geneva, Switzerland. Determination of various measures associated with IATA certified agents and settlement of accounts is done in Geneva.

The authority of IATA comprises determination of fares, conditions on transport, agency measures, and other flight-related rules as well as fare settlements.

An approval as a certified IATA sales agent allows travel agents to issue international flight tickets in-house.

### 6. Research and Development Activities

There are no applicable matters to report.

## 7. Analyses of Consolidated Business Results, Financial Position and Cash Flows

Analysis of financial conditions, operating results and cash flows during the consolidated fiscal year ended October 31, 2017 are as follows. All matters relating to the future in the sections below are based on the current views of the Group as of the end of the fiscal year under review.

### (1) Significant accounting policies and estimates

The consolidated financial statements of the Group are prepared in conformity with accounting standards that are generally accepted in Japan. In preparing the consolidated financial statements, estimates have been made in the calculation of allowance for doubtful accounts, provision for bonuses, and net defined benefit liability. These estimates are rationally determined in consideration of past results; however, because of uncertainties characteristic of estimates, they may differ from the actual results.

### (2) Analysis of financial position

#### 1) Current assets

The balance of current assets at the end of the fiscal year under review was 283,485 million yen, an increase of 49,954 million yen from the end of previous fiscal year.

This was mainly due to an increase in cash and deposits (up 34,028 million yen from the end of the previous fiscal year) and an increase in accounts receivable – trade (up 10,737 million yen).

#### 2) Non-current assets

The balance of non-current assets at the end of the fiscal year under review was 139,095 million yen, an increase of 40,425 million yen from the end of previous fiscal year.

This was mainly due to an increase in property, plant and equipment (up 20,710 million yen from the end of previous fiscal year), an increase in goodwill (up 5,969 million yen), and an increase in investment securities (up 9,252 million yen).

#### 3) Current liabilities

The balance of current liabilities at the end of the fiscal year under review was 131,866 million yen, an increase of 29,061 million yen from the end of previous fiscal year.

This was mainly due to an increase in operating accounts payable (up 4,845 million yen from the end of previous fiscal year), an increase in accrued expenses (up 7,045 million yen), an increase in income taxes payable (up 3,099 million yen), and an increase in travel advances received (up 5,144 million yen).

#### 4) Non-current liabilities

The balance of non-current liabilities at the end of the fiscal year under review was 179,694 million yen, an increase of 45,254 million yen from the end of previous fiscal year.

This was mainly due to an increase in bonds payable (up 20,000 million yen from the end of previous fiscal year) and an increase in long-term loans payable (up 24,560 million yen).

#### 5) Net assets

The balance of net assets at the end of the fiscal year under review was 111,247 million yen, an increase of 16,107 million yen from the end of previous fiscal year.

This was mainly due to an increase in retained earnings resulting from the booking of profit attributable to owners of parent (up 11,742 million yen), and an increase in non-controlling interests (up 9,750 million yen).

### (3) Analysis of operating results

#### 1) Net sales

In the fiscal year under review, net sales were 606,024 million yen, an increase of 82,318 million yen (up 15.7%) from the previous fiscal year. By reportable segment, Travel Business net sales were 536,826 million yen (up 15.3%), Huis Ten Bosch Group net sales were 36,780 million yen (up 15.4%), Hotel Business net sales were 8,177 million yen (up 23.7%), Transportation Business net sales were 3,272 million yen (down 1.6%), and the Kyushu Sanko Group net sales were 22,282 million yen (up 10.0%). The figures for each reportable segment represent amounts before the elimination of transactions among segments.

## 2) Operating expenses

Operating expenses in the fiscal year under review were 590,108 million yen, an increase of 80,677 million yen (up 15.8%) from the previous fiscal year.

Within operating expenses, cost of sales was 491,285 million yen, an increase of 72,624 million yen (up 17.3%) from the previous fiscal year.

Selling, general and administrative expenses was 98,822 million yen, an increase of 8,052 million yen (up 8.9%) from the previous fiscal year. The ratio of selling, general and administrative expenses to sales declined 1.0 point compared to the previous fiscal year, to 16.3%.

## 3) Operating income

Operating income in the fiscal year under review was 15,915 million yen, an increase of 1,640 million yen (up 11.5%) from the previous fiscal year. The ratio of operating income to sales decreased 0.1 point compared to the previous fiscal year, to 2.6%.

## 4) Ordinary income

Ordinary income in the fiscal year under review was 19,647 million yen, an increase of 10,999 million yen (up 127.2%) from the previous fiscal year. The ratio of ordinary income to sales climbed 1.6 points compared to the previous year, to 3.2%.

Main non-operating income included interest income (1,668 million yen) and foreign exchange gains (2,275 million yen), and non-operating expenses included interest expenses (458 million yen) and losses on sales of shares of subsidiaries and affiliates (216 million yen).

## 5) Profit attributable to owners of parent

Profit before income taxes in the fiscal year under review was 20,730 million yen, an increase of 15,623 million yen (up 305.9%) from the previous fiscal year.

Total income taxes in the fiscal year under review were 4,895 million yen, an increase of 1,094 million yen (up 28.8%) from the previous fiscal year.

As a result, profit attributable to owners of parent in the fiscal year under review was 13,259 million yen, an increase of 12,992 million yen (up 4,864.5%) from the previous fiscal year.

## (4) Analysis of cash flows

For an analysis of cash flows, see “(2) Cash Flows section in 1. Summary of Results under Part I: Information on the Company, II. Business Overview.”

### III. Equipment and Facilities

#### 1. Capital Expenditures

Focusing on areas expected to grow over the long term, the Group works to expand sales network while saving labor and streamlining operations, and makes investments to improve profitability.

The breakdown of capital expenditures during the consolidated fiscal year ended October 31, 2017 (based on the amounts recorded as tangible fixed assets, guarantee deposits, and hardware/software; figures do not include consumption tax, etc.) are as follows.

| Segment name             | Capital expenditure amount (millions of yen) |
|--------------------------|--|
| Travel Business          | 2,822  |
| Huis Ten Bosch Group     | 2,847  |
| Hotel Business           | 6,027  |
| Transportation Business  | 10   |
| Kyushu Sanko Group       | 8,596  |
| Reportable segment total | 20,304                                       |
| Other                    | 2,457  |
| Corporate-wide (shared)  | 19   |
| Total                    | 22,781                                       |

Amounts and purposes of major investments included in the above are as follows.

|                          |   |
|--------------------------|---|
| Travel Business:         | In Japan, funds were used to develop and improve travel reservation systems, etc. (912 million yen) and invest in branch and office facilities (564 million yen). At overseas subsidiaries, funds were used to acquire to expand the number of branch locations and conduct in-branch refurbishment (829 million yen).  |
| Huis Ten Bosch Group:    | Investment at Huis Ten Bosch Co., Ltd. totaled 2,461 million yen, with the bulk directed toward theme park facilities such as VR attractions (407 million yen), the “Gold Hall” (398 million yen), and the power generation business (353 million yen). In addition, LAGUNA TEN BOSCH CO., LTD. invested 286 million yen to expand and enhance theme park facilities. |
| Hotel Business:          | Funds were used to construct hotels that opened during the fiscal year under review (4,219 million yen). In addition, H.I.S. Hotel Holdings Co., Ltd. purchased land (1,586 million yen).   |
| Transportation Business: | Funds were used to purchase system equipment for ASIA ATLANTIC AIRLINES CO., LTD.   |
| Kyushu Sanko Group:      | Investments were made in the Sakuramachi Redevelopment Project (7,660 million yen, including associated expenses). Funds were also used to acquire buses and auxiliary equipment (713 million yen).   |
| Other:                   | The Company purchased two properties (2,440 million yen).   |
| Corporate-wide (shared): | Funds were used to modify the head office layout.   |

## 2. Principal Facilities

The Group's principal facilities are as follows.

### (1) The Filing Company

| Facility name<br>(Location)   | Segment            | Facility<br>type                                | Book value (millions of yen) |                                     |                                       |                  |                             |                       |       |       | Number of<br>employees<br>(persons) | Number of<br>temporary<br>employees<br>(persons) |
|---|--------------------|---|------------------------------|-------------------------------------|---------------------------------------|------------------|-----------------------------|-----------------------|-------|-------|-------------------------------------|--|
|   |                    |   | Buildings                    | Tools,<br>furniture<br>and fixtures | Land<br>(thousand<br>m <sup>2</sup> ) | Leased<br>assets | Construction<br>in progress | Guarantee<br>deposits | Other | Total |                                     |  |
| Headquarters/<br>East Japan<br>Regional Office<br>(Shinjuku-ku,<br>Tokyo) | Travel<br>Business | Branch<br>facilities;<br>reservation<br>systems | 1,126                        | 288                                 | —                                     | 9                | —                           | 1,789                 | 3,225 | 6,440 | 3,741<br>(504)                      |  |
| West Japan<br>Regional Office<br>(Kita-ku,<br>Osaka)                      | Travel<br>Business | Branch<br>facilities;<br>reservation<br>systems | 620                          | 162                                 | —                                     | 55               | 4                           | 1,063                 | 23    | 1,930 | 1,757<br>(381)                      |  |
| Headquarters<br>(Shinjuku-ku,<br>Tokyo)                                   | Other              | Real estate                                     | 1,619                        | —                                   | 1,080<br>(2)                          | —                | —                           | —                     | —     | 2,700 | —<br>(—)                            |  |
| Headquarters<br>(Shinjuku-ku,<br>Tokyo)                                   | Corporate-<br>wide | Office<br>facilities;<br>software               | 51                           | 17                                  | 2<br>(0)                              | 3                | —                           | 381                   | 49    | 506   | 83<br>(10)                          |  |

(Notes)

1. Of the book value, "Other" comprises vehicles and software, etc. The amounts do not include consumption tax, etc.
2. "Numbers of temporary employees" stated in parentheses refer to the annual average number of temporary workers, which is not included in the number of employees.
3. Of leased facilities, the leasing fees incurred during the fiscal year under review was 3,973 million yen.

### (2) Domestic subsidiaries

| Company name<br>Facility name<br>(Location)  | Segment                    | Facility<br>type                | Book value (millions of yen) |                                     |                                       |                  |                             |                       |       |        | Number of<br>employees<br>(persons) | Number of<br>temporary<br>employees<br>(persons) |
|--|----------------------------|---------------------------------|------------------------------|-------------------------------------|---------------------------------------|------------------|-----------------------------|-----------------------|-------|--------|-------------------------------------|--|
|  |                            |                                 | Buildings                    | Tools,<br>furniture<br>and fixtures | Land<br>(thousand<br>m <sup>2</sup> ) | Leased<br>assets | Construction<br>in progress | Guarantee<br>deposits | Other | Total  |                                     |  |
| Huis Ten Bosch<br>Co., Ltd. (Sasebo,<br>Nagasaki<br>Prefecture)  | Huis Ten<br>Bosch<br>Group | Theme<br>park<br>facilities     | 3,775                        | 1,832                               | 402<br>(1,181)                        | —                | 720                         | 9                     | 4,513 | 11,254 | 481<br>(1,061)                      |  |
| H.I.S. Hotel<br>Holdings Co., Ltd.<br>(Shinjuku-ku,<br>Tokyo)  | Hotel<br>Business          | Hotel<br>facilities             | 2,449                        | 296                                 | 3,792<br>(8)                          | —                | 33                          | 19                    | 63    | 6,655  | 22<br>(1)                           |  |
| Kyushu Sanko Bus<br>Co., Ltd. (Nishi-<br>ku, Kumamoto,<br>Kumamoto<br>Prefecture)                            | Kyushu<br>Sanko<br>Group   | Business<br>facilities,<br>etc. | 850                          | 42                                  | 7,379<br>(194)                        | 1,694            | 30                          | —                     | 68    | 10,066 | 525<br>(58)                         |  |
| Kumamoto<br>Sakuramachi<br>Development Co.,<br>Ltd., etc. (Chuo-<br>ku, Kumamoto,<br>Kumamoto<br>Prefecture) | Kyushu<br>Sanko<br>Group   | Business<br>facilities          | —                            | 0                                   | 12,124<br>(30)                        | —                | 17,232                      | —                     | —     | 29,357 | 15<br>(3)                           |  |

(Notes)

1. Of the book value, "Other" comprises machinery, equipment, vessels, and software, etc. The amounts do not include consumption tax, etc.
2. "Numbers of temporary employees" stated in parentheses refer to the annual average number of temporary workers, which is not included in the number of employees.

3. Of facilities leased by domestic subsidiaries, leasing fees incurred during the fiscal year under review was 625 million yen.
4. Facility names of domestic subsidiaries are consistent with company names.
5. The Kumamoto Sakuramachi Development Co., Ltd., now state the combined book values and employee numbers of Kyushu Sanko Landmark Co., Ltd., and the Kumamoto Sakuramachi Development Co., Ltd.; the two entities operate the Kumamoto Sakuramachi Development Project.

### (3) Overseas subsidiaries

| Company name<br>Facility name<br>(Location)                 | Segment           | Facility<br>type    | Book value (millions of yen) |                                     |                                       |                  |                             |                       |       | Number of<br>employees<br>(persons) | Number of<br>temporary<br>employees<br>(persons) |
|---|-------------------|---------------------|------------------------------|-------------------------------------|---------------------------------------|------------------|-----------------------------|-----------------------|-------|-------------------------------------|--|
|   |                   |                     | Buildings                    | Tools,<br>furniture<br>and fixtures | Land<br>(thousand<br>m <sup>2</sup> ) | Leased<br>assets | Construction<br>in progress | Guarantee<br>deposits | Other |                                     |  |
| Green World<br>Hotels Co., Ltd.<br>(Taipei City,<br>Taiwan) | Hotel<br>Business | Hotel<br>facilities | 3,317                        | 1,153                               | 390<br>(0)                            | —                | 1                           | 570                   | 23    | 5,456                               | 442<br>(15)                                      |

(Notes)

1. Of the book value, “Other” comprises vehicles and software, etc. The amounts do not include consumption tax, etc.
2. “Numbers of temporary employees” stated in parentheses refer to the annual average number of temporary workers, which is not included in the number of employees.
3. Of the facility leased by the overseas subsidiary, leasing fees incurred during the fiscal year under review was 1,818 million yen.

### 3. Plans for Additions and Disposals of Facilities

New addition of a major facility as of the end of the fiscal year ended October 31, 2017, is listed below. Amounts do not include consumption tax, etc.

| Company name<br>Facility name                                    | Segment name   | Facility details                                 | Planned investment amount            |  | Scheduled commencement/completion |              | Increased capacity after completion |
|--|----------------|--|--------------------------------------|--|-----------------------------------|--------------|-------------------------------------|
|  |                |  | Total amount<br>(millions of<br>yen) | Amount<br>already paid<br>(millions of<br>yen) | Commencement                      | Completion   |                                     |
| H.I.S. Hotel<br>Holdings Co.,<br>Ltd.<br>(Shinjuku-ku,<br>Tokyo) | Hotel Business | Hotel facilities, etc.<br>in the East Japan area | 3,190                                | 25   | June 2017                         | August 2019  | 980 guest<br>rooms                  |
| H.I.S. Hotel<br>Holdings Co.,<br>Ltd.<br>(Shinjuku-ku,<br>Tokyo) | Hotel Business | Hotel facilities, etc.<br>in the West Japan area | 4,084                                | 1,057  | September 2017                    | January 2019 | 290 guest<br>rooms                  |

#### IV. Information on the Company

##### 1. Information on the Company's Shares

###### (1) Total number of shares, etc.

###### 1) Total number of shares

| Class        | Total number of shares authorized to be issued |
|--------------|--|
| Common stock | 88,551,450                                     |
| Total        | 88,551,450                                     |

###### 2) Number of shares issued

| Class        | Number of shares issued as of end of fiscal year (October 31, 2017) | Number of shares issued as of filing date (January 26, 2018) | Stock exchange on which the Company is listed | Description  |
|--------------|---|--|---|--|
| Common stock | 68,522,936  | 68,522,936   | First Section of the Tokyo Stock Exchange     | Standard Company shares with no restricted rights; 100 shares constitute one unit. |
| Total        | 68,522,936  | 68,522,936   | —   | —  |



(2) Information on share subscription rights, etc.

1) Bonds with share subscription rights, which the Company issued under the provisions of the Companies Act, are as follows.

By resolution of the Board of Directors meeting held on July 30, 2014

|  | As of end of fiscal year<br>(October 31, 2017)   | As of end of month preceding<br>date of filing<br>(December 31, 2017)                       |
|--|--|---|
| Balance of bonds with share subscription rights  | 20,000 million yen   | 20,000 million yen  |
| Number of share subscription rights  | 2,000 units  | 2,000 units   |
| Of which, number of share subscription rights held by the Company  | —  | —   |
| Class of shares subject to share subscription rights   | Common stock   | Same as left  |
| Number of shares subject to share subscription rights  | 4,268,943 shares (Note 1)  | 4,282,288 shares (Notes 1, 7)   |
| Amount payable on the exercise of share subscription rights  | 4,685 yen (Note 2)   | 4,670.4 yen (Notes 2, 7)  |
| Exercise period of share subscription rights   | From August 29, 2014<br>to August 16, 2019<br>(local time for reception<br>of exercise request)<br>(Note 3)  | Same as left  |
| Share issue price and additional paid-in capital per share in the event of issuance of shares upon exercise of share subscription rights | Issue price: 4,685 yen<br>Additional paid-in capital<br>per share: 2,343 yen (Note 4)  | Issue price: 4,670.4 yen<br>Additional paid-in capital<br>per share: 2,336 yen (Notes 4, 7) |
| Conditions for exercise of share subscription rights   | Partial exercise of each stock<br>acquisition right is not possible  | Same as left  |
| Matters regarding transfer of share subscription rights  | Share subscription rights are<br>attached to convertible bond-<br>type bonds with share<br>subscription rights and cannot be<br>transferred separately | Same as left  |
| Matters regarding subrogation payment  | (Note 5)   | Same as left  |
| Matters regarding grant of share subscription rights accompanying corporate reorganization   | (Note 6)   | Same as left  |

(Notes)

- The number of shares of the Company's common stock to be delivered upon the exercise of the share subscription rights shall be the total of the par value of the bonds pertaining to the exercise request divided by the conversion price as described in Note 2 below. However, fractions of less than one share resulting from the exercise shall be rounded down and no adjustment by cash shall be made.
- (1) Initially, the conversion price will be 4,697 yen.  
(2) Regarding conversion price, following the issuance of bonds with share subscription rights, in the event the Company issues or disposes of shares of Company's common stock at a payment amount below the market price of the Company's common stock, the conversion price will be adjusted according to the formula below. In the formula below, "number of shares already issued" means the total number of outstanding common shares of the Company (excluding those owned by the Company).

$$\text{Post-adjustment conversion price} = \text{Pre-adjustment conversion price} \times \frac{\text{Number of shares already issued} + \frac{\text{Number of shares Issued or disposed of} \times \text{Amount payable per share}}{\text{Market price}}}{\text{Number of shares already issued} + \text{Number of shares issued or disposed of}}$$

In addition, in the event the Company implements a stock split or stock consolidation of its common stock, or issues share subscription rights (including those attached to bonds with share subscription rights) for which issuance of Company's common stock can be requested at a payment amount below the market price of the

Company's common stock, or upon occurrence of certain other events, the conversion price will be adjusted as appropriate.

3. The period during which share subscription rights can be exercised shall be August 29, 2014 through August 16, 2019 (local time for reception of exercise request).

However, rights can be exercised (i) up to three business days before the redemption date in Tokyo in the event of early redemption due to a clean-up clause prescribed in the terms of subject bonds, changes in tax regulations, reorganization, delisting of shares, squeeze outs, etc. (this does not apply to share subscription rights attached to bonds not selected for early redemption in the case of early redemption on changes in tax regulations as prescribed in the terms of subject bonds); (ii) until subject bonds are cancelled, in the event these bonds are purchased and cancelled; (iii) until the loss of the benefit of time, in the event subject bonds lose the benefit of time.

In all of the aforementioned situations, the exercise of subject share subscription rights will not be possible after August 16, 2019 (local time for reception of exercise request).

Notwithstanding the above, in the event the Company reasonably determines the necessity of conducting corporate reorganization, the exercise of subject share subscription rights shall not be permitted during a period designated by the Company, the term of which shall be 30 days or less, and shall end within 14 days from the day following the effective date of the reorganization.

In addition, with regard to the period beginning two business days in Tokyo (or, in the event said date is not a business day in Tokyo, then three business) preceding the record date determined by the Company, or preceding the date designated for confirmation of shareholders as per Article 151, paragraph (1) of the Act on Book-Entry Transfer of Company Bonds, Shares, etc. (hereinafter, "shareholder confirmation date") and ending on the said shareholder confirmation date (or, in the event the said shareholder confirmation date is not a business day in Tokyo, the next business day in Tokyo), in the event the date on which the exercise of subject share subscription rights takes effect (or, in the event said date is not a business day in Tokyo, the next business day in Tokyo) falls within such period, the exercise of subject share subscription rights will not be possible. However, in the event laws or practices related to the issuance of shares pertaining to the exercise of share subscription rights through transfer systems based on the Act on Book-Entry Transfer of Company Bonds, Shares, etc., are amended, the limitation on the period during which the subject share subscription rights can be exercised pursuant to this paragraph may be revised by the Company to reflect such changes.

4. The increase in capital stock arising from the issuance of shares upon exercise of subject share subscription rights shall equal one half of the maximum amount by which capital stock can be increased as calculated in accordance with Article 17 of the Ordinance on Company Accounting; any fraction less than one yen arising therefrom shall be rounded up to the nearest one yen.
5. Upon the exercise of each share subscription right, the bonds attached to the subject share subscription rights shall be contributed, and the price of the bond shall be the same as the par value thereof.
6. (1) In the event of corporate reorganization, the Company shall make the best effort to have the Succeeding Company (defined below) assume the position of the principal debtor of subject bonds based on the terms of the subject bonds, and issue new share subscription rights in lieu of these share subscription rights. However, succession and issuance will be executed based on the assumption that (i) it can be conducted based on applicable laws at the time of execution, (ii) a mechanism for execution has already been created or can be created and (iii) the Company or Succeeding Company will not bear unreasonable (determined by the Company) costs (including taxes) from the perspective of overall reorganization. In such a case, the Company shall make the best effort to ensure that the Succeeding Company is a listed company in Japan at the effective date of the reorganization. The Company's effort obligations as described in (1) is not applicable when the Company delivers to its financial agent a certificate prescribed in the clause pertaining to early redemption resulting from reorganization.

"Succeeding Company" refers to the other party in corporate reorganization, which undertakes the obligations of the Company concerning subject bonds and/or subject share subscription rights.

- (2) The details of the share subscription rights of the Succeeding Company that are to be issued pursuant to the above provisions in (Note 6 (1)) are as follows.

- 1) Number of share subscription rights

A number equal to the number of share subscription rights attached to subject bonds that are outstanding as of the timing immediately before the effective date of reorganization.

- 2) Class of shares subject to share subscription rights

Common stock of the Succeeding Company

- 3) Number of shares subject to share subscription rights

The number of shares of the Succeeding Company's common stock delivered upon exercise of such company's share subscription rights shall be determined by the Succeeding Company, taking into consideration the conditions of the

reorganization. In addition to making decisions by referring to the terms of subject bonds, (i) or (ii) below shall be followed.

The conversion price shall be subject to the same adjustment as in (Note 2 (2)) above.

( i ) In the case of a merger, share exchange, or share transfer, the conversion price shall be determined so that the holder of the Company's common shares, the number of which amounting to the number of shares obtainable when subject share subscription rights are exercised immediately before the effective date of reorganization, shall be able to receive the number of Succeeding Company's common shares the holder is eligible to receive from such reorganization by exercising the share subscription rights immediately following the effective date of reorganization. If securities or other assets other than the common stock of the Succeeding Company are deliverable at the time of reorganization, the same number of shares of common stock of the Succeeding Company may be received as calculated by dividing the fair value of such securities or assets by the market price of the common stock of the Succeeding Company.

( ii ) In the event of reorganization other than the above, the conversion price shall be determined so that the economic benefit received by exercising the Succeeding Company's share subscription rights immediately after the effective date of reorganization will be equivalent to the economic benefit the holder of subject bonds would have received, had such holder exercised the subject share subscription rights immediately prior to the effective date of such reorganization.

4) Assets to be contributed upon exercise of share subscription rights and their value

Upon the exercise of the share subscription rights of the Succeeding Company, the succeeded bonds shall be contributed; the value thereof shall be the same as the face value of the succeeded bonds.

5) Exercise period of share subscription rights of the Succeeding Company

The exercise period of share subscription rights of the Succeeding Company shall be from the effective date of the reorganization (or a specified date within 14 days after the effective date) until the expiration date of the exercise period of subject share subscription rights as outlined in (Note 3) above.

6) Other conditions for exercising share subscription rights

Partial exercise of each share subscription right of the Succeeding Company is not possible.

7) Increase in capital stock and capital reserve in the case of issuing shares upon exercise of share subscription rights

The increase in capital stock arising from the issuance of shares upon exercise of share subscription rights of the Succeeding Company shall equal one half of the maximum amount by which capital stock can be increased as calculated in accordance with Article 17 of the Ordinance on Company Accounting; any fraction less than one yen arising therefrom shall be rounded up to the nearest one yen. The increase in capital reserve shall be obtained by subtracting the amount of increase in capital stock from such maximum amount by which capital stock can be increased.

8) In the event of corporate reorganization

Even in the event the Succeeding Company undergoes reorganization, the same procedures as with the subject bonds shall apply.

9) Other

Any fractions less than one share resulting from the exercise of the share subscription rights of the Succeeding Company shall be rounded down and no adjustment in cash shall be made. Share subscription rights of the Succeeding Company cannot be transferred separately from the succeeded bonds.

(3) In the event the Company has the Succeeding Company undertake or succeed the Company's obligations associated with subject bonds in accordance with the provisions of (Note 6 (1)) above, the Company shall abide by the terms of subject bonds and also bear a guarantee in certain cases specified in such terms.

7. At the 37th General Meeting of Shareholders held on January 25, 2018, a surplus dividend plan was approved for a year-end dividend of 29 yen per share. Along with the decision to provide an annual dividend of 29 yen per share for the fiscal year ended October 2017, and in accordance with conversion price adjustment provisions of bond terms of the Euro-yen Convertible Bond Type Bonds with Share Subscription Rights maturing in 2019, the Company adjusted the conversion price from 4,685 yen to 4,670.4 yen dating back to November 1, 2017. Each numerical value as of the end of the month preceding the date of filing shows the numerical value reflecting the effect of such conversion price adjustments.

2) Share subscription rights issued under the provisions of Articles 236, 238, and 240 of the Companies Act for the purpose of granting stock options to employees of the Company and its subsidiaries

By resolution of Board of Directors meeting held on April 22, 2016

|  | As of end of fiscal year<br>(October 31, 2017)  | As of end of month preceding<br>date of filing<br>(December 31, 2017) |
|--|---|---|
| Number of share subscription rights  | 7,937 units   | 7,937 units   |
| Of which, number of share subscription rights held by the Company  | 200 units   | 310 units   |
| Class of shares subject to share subscription rights   | Common stock  | Same as left  |
| Number of shares subject to share subscription rights  | 793,700 shares (Notes 1, 2)   | 793,700 shares (Notes 1, 2)   |
| Amount payable on the exercise of share subscription rights  | 2,817 yen (Note 3)  | Same as left  |
| Exercise period of share subscription rights   | From May 1, 2019<br>to July 31, 2019  | Same as left  |
| Share issue price and additional paid-in capital per share in the event of issuance of shares upon exercise of share subscription rights | Issue price: 3,436 yen<br>Additional paid-in capital<br>per share: 1,718 yen  | Same as left  |
| Conditions for exercise of share subscription rights   | (Note 4)  | Same as left  |
| Matters regarding transfer of share subscription rights  | Approval of the Board of Directors is required for the acquisition of any share subscription rights by means of transfer. | Same as left  |
| Matters regarding subrogation payment  | —   | —   |
| Matters regarding grant of share subscription rights accompanying corporate reorganization   | (Note 5)  | Same as left  |

(Notes)

- The number of shares to be granted upon exercise of each share subscription right (hereinafter, “Number of Shares to be Granted”) shall be 100 shares.
- If the Company implements a stock split (including gratis allotment of shares of common stock; items pertaining to stock split shall also apply to gratis allotment hereinafter) or stock consolidation with respect to common stock of the Company after the date of allotment of the share subscription rights, the Number of Shares to be Granted with respect to the share subscription rights not exercised at that time will be adjusted in accordance with the following formula.

Number of Shares to be Granted post-adjustment =

Number of Shares to be Granted pre-adjustment × Stock split or consolidation ratio

In addition, if there is an unavoidable ground requiring an adjustment of the Number of Shares to be Granted, the Number of Shares to be Granted may be adjusted to the extent necessary subject to a Board of Directors resolution.

Any fractions of less than one share resulting from the adjustment will be rounded down.

- If the Company implements a stock split or stock consolidation with respect to common stock of the Company, the amount payable on the exercise of share subscription rights (hereinafter, “exercise price”) shall be adjusted in accordance with the following formula, with any fractional amounts under 1 yen rounded up.

$$\text{Post-adjustment exercise price} = \frac{\text{Pre-adjustment exercise price}}{\text{Stock split/consolidation ratio}} \times \frac{1}{\text{Stock split/consolidation ratio}}$$

In the event of any new share issuance or treasury share disposals at less than market price (excluding any share issuance, treasury share disposals or transfers of treasury share by share exchange associated with the exercising of share subscription rights), the exercise price shall be adjusted in accordance with the following formula, with any fractional amounts under 1 yen rounded up.

$$\text{Post-adjustment exercise price} = \frac{\text{Pre-adjustment exercise price}}{\text{Market price per share}} \times \frac{\text{Number of shares already issued} + \frac{\text{Number of newly issued shares} \times \text{Amount payable per share}}{\text{Market price per share}}}{\text{Number of shares already issued} + \text{Number of newly issued shares}}$$

“Number of shares already issued” in the above formula shall equal the total number of shares outstanding, less the number of

treasury shares owned by the Company. In the case of treasury share disposals, “Number of newly issued shares” in the above formula shall be taken to mean “Number of treasury shares disposed of,” and “Amount payable per share” shall be taken to mean “Disposal value per share.”

If the Company conducts a merger, or a demerger, or other such situation occurs, the Company reserves the right to adjust the exercise price within a reasonable range.

4. The exercise conditions of the share subscription rights are as follows.
  - (1) Persons granted an allotment of the share subscription rights (hereinafter, “Rights Holders”) must be Directors or employees of the Company or one of its subsidiaries at the time share subscription rights are exercised. However, this restriction shall not apply if so approved by the Board of Directors in the cases of resignations of Directors after their terms have expired, resignations in conjunction with an appointment as a Director, or based on other justifiable reasons.
  - (2) In the event of the death of a Rights Holder, rights may not be exercised by the corresponding heir.
  - (3) Other conditions are as stipulated in the share subscription rights allotment agreement concluded between the Company and the Rights Holder.
5. In the event the Company engages in a merger (only if the Company is to be dissolved as a result of the merger), an absorption-type demerger or incorporation-type demerger (in each case, only if the Company is to be the demerged company), or share exchange or share transfer (in each case, only if the Company is to be a wholly-owned subsidiary) (hereafter all of which are collectively referred to as “Reorganization”), then the Rights Holders of share subscription rights remaining in effect (the “Remaining Share Subscription Rights”) immediately prior to the effective date of the Reorganization (hereinafter respectively referring to an effective date of absorption-type merger in case of an absorption-type merger, a date of incorporation of a company incorporated through a consolidation-type merger in case of a consolidation-type merger, an effective date of absorption-type demerger in case of an absorption-type demerger, a date of incorporation of a company incorporated through an incorporation-type demerger in case of an incorporation-type demerger, an effective date of a share exchange in case of a share exchange, or a date of incorporation of a wholly owning parent company incorporated through share transfer) shall be granted share subscription rights of the relevant stock companies specified under Article 236, Paragraph 1, Item 8 (a) through (e) of the Companies Act (such entity hereinafter referred to as the “Reorganized Company”). However, these share subscription rights shall be granted only if provisions for issuing the share subscription rights of the Reorganized Company in accordance with the following conditions are included in an absorption-type merger agreement, a consolidation-type merger agreement, an absorption-type demerger agreement, an incorporation-type demerger plan, a share exchange agreement, or a share transfer plan.
  - (1) Number of share subscription rights of the Reorganized Company to be issued  
The number of share subscription rights equal to the number of Remaining Share Subscription Rights held by respective Rights Holders shall be issued.
  - (2) Class of shares of the Reorganized Company subject to share subscription rights  
Common stock of the Reorganized Company
  - (3) Number of shares of the Reorganized Company subject to share subscription rights  
The number shall be reasonably adjusted in consideration of the conditions of Reorganization, etc., and fractions less than one share resulting from the adjustment shall be discarded.
  - (4) Amount of assets to be contributed upon exercise of share subscription rights  
The amount shall be reasonably adjusted in consideration of the conditions of Reorganization, etc., and fractions less than one yen resulting from the adjustment shall be rounded up.
  - (5) Exercise period of share subscription rights  
The exercise period of share subscription rights shall be from the latter of the first day of the aforementioned “Exercise period of share subscription rights” or the effective date of the Reorganization, to the expiration date of the “Exercise period of share subscription rights.”
  - (6) Increase in capital stock and capital reserve in the case of issuing shares upon exercise of share subscription rights  
Determined in accordance with aforementioned “Share issue price and additional paid-in capital per share in the event of issuance of shares upon exercise of share subscription rights.”
  - (7) Restrictions on acquisition of share subscription rights through transfer  
The acquisition of share subscription rights through transfer shall be subject to the approval of the Reorganized Company’s Board of Directors.
  - (8) Conditions for the exercise of share subscription rights  
Determined in accordance with aforementioned “Exercise conditions of the share subscription rights.”
  - (9) Matters concerning the acquisition of share subscription rights  
Determined in accordance with the following “Conditions for acquisition of own share subscription rights and reason for acquisition.”  
Conditions for acquisition of own share subscription rights and reason for acquisition

- If the Rights Holder, prior to exercising his/her share subscription rights, loses the eligibility to exercise such rights pursuant to the provisions prescribed in the above “Exercise conditions of the share subscription rights,” the Company reserves the right to acquire subject share subscription rights gratis on a date separately determined by its Board of Directors.
- In the event proposals a, b or c below are approved at the Company’s General Meeting of Shareholders (in the event a General Meeting of Shareholders resolution is unnecessary, approval by the Board of Directors), the Company may acquire share subscription rights gratis on a date separately determined by the Board of Directors.
  - a: Proposal for approval of a merger agreement causing the Company to be dissolved
  - b: Proposal for approval of a demerger agreement or demerger plan resulting in the Company becoming the demerged company
  - c: Proposal for approval of a share exchange agreement or stock transfer plan in which the Company becomes a wholly owned subsidiary

3) Share subscription rights issued under the provisions of Articles 236, 238, and 240 of the Companies Act for the purpose of granting stock options to Directors of the Company and its subsidiaries

By resolution of Board of Directors meeting held on January 26, 2017

|  | As of end of fiscal year<br>(October 31, 2017)  | As of end of month preceding<br>date of filing<br>(December 31, 2017) |
|--|---|---|
| Number of share subscription rights  | 1,170 units   | 1,170 units   |
| Of which, number of share subscription rights held by the Company  | —   | 150 units   |
| Class of shares subject to share subscription rights   | Common stock  | Same as left  |
| Number of shares subject to share subscription rights  | 117,000 shares (Notes 1, 2)   | 117,000 shares (Notes 1, 2)   |
| Amount payable on the exercise of share subscription rights  | 2,978 yen (Note 3)  | Same as left  |
| Exercise period of share subscription rights   | From May 1, 2019<br>to July 31, 2019  | Same as left  |
| Share issue price and additional paid-in capital per share in the event of issuance of shares upon exercise of share subscription rights | Issue price: 3,559 yen<br>Additional paid-in capital per share: 1,780 yen   | Same as left  |
| Conditions for exercise of share subscription rights   | (Note 4)  | Same as left  |
| Matters regarding transfer of share subscription rights  | Approval of the Board of Directors is required for the acquisition of any share subscription rights by means of transfer. | Same as left  |
| Matters regarding subrogation payment  | —   | —   |
| Matters regarding grant of share subscription rights accompanying corporate reorganization   | (Note 5)  | Same as left  |

(Notes)

1. The number of shares to be granted upon exercise of each share subscription right (hereinafter, “Number of Shares to be Granted”) shall be 100 shares.
2. If the Company implements a stock split (including gratis allotment of shares of common stock; items pertaining to stock split shall also apply to gratis allotment hereinafter) or stock consolidation with respect to common stock of the Company after the date of allotment of the share subscription rights, the Number of Shares to be Granted with respect to the share subscription rights not exercised at that time will be adjusted in accordance with the following formula.  
 Number of Shares to be Granted post-adjustment =  
 Number of Shares to be Granted pre-adjustment × Stock split or consolidation ratio  
 In addition, if there is an unavoidable ground requiring an adjustment of the Number of Shares to be Granted, the Number of Shares to be Granted may be adjusted to the extent necessary subject to a Board of Directors resolution.  
 Any fractions of less than one share resulting from the adjustment will be rounded down.
3. If the Company implements a stock split or stock consolidation with respect to common stock of the Company, the amount payable on the exercise of share subscription rights (hereinafter, “exercise price”) shall be adjusted in accordance with the

following formula, with any fractional amounts under 1 yen rounded up.

$$\text{Post-adjustment exercise price} = \frac{\text{Pre-adjustment exercise price}}{\text{Stock split/consolidation ratio}} \times \frac{1}{\text{Stock split/consolidation ratio}}$$

In the event of any new share issuance or treasury share disposals at less than market price (excluding any share issuance, treasury share disposals or transfers of treasury share by share exchange associated with the exercising of share subscription rights), the exercise price shall be adjusted in accordance with the following formula, with any fractional amounts under 1 yen rounded up.

$$\text{Post-adjustment exercise price} = \frac{\text{Pre-adjustment exercise price} \times \left( \frac{\text{Number of shares already issued} + \frac{\text{Number of newly issued shares} \times \text{Amount payable per share}}{\text{Market price per share}}}{\text{Number of shares already issued} + \text{Number of newly issued shares}} \right)}{\text{Number of shares already issued} + \text{Number of newly issued shares}}$$

“Number of shares already issued” in the above formula shall equal the total number of shares outstanding, less the number of treasury shares owned by the Company. In the case of treasury share disposals, “Number of newly issued shares” in the above formula shall be taken to mean “Number of treasury shares disposed of,” and “Amount payable per share” shall be taken to mean “Disposal value per share.”

If the Company conducts a merger, or a demerger, or other such situation occurs, the Company reserves the right to adjust the exercise price within a reasonable range.

4. The exercise conditions of the share subscription rights are as follows.
  - (1) Persons granted an allotment of the share subscription rights (hereinafter, “Rights Holders”) must be Directors or employees of the Company or one of its subsidiaries at the time share subscription rights are exercised. However, this restriction shall not apply if so approved by the Board of Directors in the case of resignations of Directors after their terms have expired or based on other justifiable reasons.
  - (2) In the event of the death of a Rights Holder, rights may not be exercised by the corresponding heir.
  - (3) Other conditions are as stipulated in the share subscription rights allotment agreement concluded between the Company and the Rights Holder.
5. In the event the Company engages in a merger (only if the Company is to be dissolved as a result of the merger), an absorption-type demerger or incorporation-type demerger (in each case, only if the Company is to be the demerged company), or share exchange or share transfer (in each case, only if the Company is to be a wholly-owned subsidiary) (hereafter all of which are collectively referred to as “Reorganization”), then the Rights Holders of share subscription rights remaining in effect (the “Remaining Share Subscription Rights”) immediately prior to the effective date of the Reorganization (hereinafter respectively referring to an effective date of absorption-type merger in case of an absorption-type merger, a date of incorporation of a company incorporated through a consolidation-type merger in case of a consolidation-type merger, an effective date of absorption-type demerger in case of an absorption-type demerger, a date of incorporation of a company incorporated through an incorporation-type demerger in case of an incorporation-type demerger, an effective date of a share exchange in case of a share exchange, or a date of incorporation of a wholly owning parent company incorporated through share transfer) shall be granted share subscription rights of the relevant stock companies specified under Article 236, Paragraph 1, Item 8 (a) through (e) of the Companies Act (such entity hereinafter referred to as the “Reorganized Company”). However, these share subscription rights shall be granted only if provisions for issuing the share subscription rights of the Reorganized Company in accordance with the following conditions are included in an absorption-type merger agreement, a consolidation-type merger agreement, an absorption-type demerger agreement, an incorporation-type demerger plan, a share exchange agreement, or a share transfer plan.
  - (1) Number of share subscription rights of the Reorganized Company to be issued  
The number of share subscription rights equal to the number of Remaining Share Subscription Rights held by respective Rights Holders shall be issued.
  - (2) Class of shares of the Reorganized Company subject to share subscription rights  
Common stock of the Reorganized Company
  - (3) Number of shares of the Reorganized Company subject to share subscription rights  
The number shall be reasonably adjusted in consideration of the conditions of Reorganization, etc., and fractions less than one share resulting from the adjustment shall be discarded.
  - (4) Amount of assets to be contributed upon exercise of share subscription rights  
The amount shall be reasonably adjusted in consideration of the conditions of Reorganization, etc., and fractions less than one yen resulting from the adjustment shall be rounded up.
  - (5) Exercise period of share subscription rights  
The exercise period of share subscription rights shall be from the latter of the first day of the aforementioned “Exercise

period of share subscription rights” or the effective date of the Reorganization, to the expiration date of the “Exercise period of share subscription rights.”

(6) Increase in capital stock and capital reserve in the case of issuing shares upon exercise of share subscription rights

Determined in accordance with aforementioned “Share issue price and additional paid-in capital per share in the event of issuance of shares upon exercise of share subscription rights.”

(7) Restrictions on acquisition of share subscription rights through transfer

The acquisition of share subscription rights through transfer shall be subject to the approval of the Reorganized Company’s Board of Directors.

(8) Conditions for the exercise of share subscription rights

Determined in accordance with aforementioned “Exercise conditions of the share subscription rights.”

(9) Matters concerning the acquisition of share subscription rights

Determined in accordance with the following “Conditions for acquisition of own share subscription rights and reason for acquisition.”

Conditions for acquisition of own share subscription rights and reason for acquisition

- If the Rights Holder, prior to exercising his/her share subscription rights, loses the eligibility to exercise such rights pursuant to the provisions prescribed in the above “Exercise conditions of the share subscription rights,” the Company reserves the right to acquire subject share subscription rights gratis on a date separately determined by its Board of Directors.
- In the event proposals a, b or c below are approved at the Company’s General Meeting of Shareholders (in the event a General Meeting of Shareholders resolution is unnecessary, approval by the Board of Directors), the Company may acquire share subscription rights gratis on a date separately determined by the Board of Directors.
  - a: Proposal for approval of a merger agreement causing the Company to be dissolved
  - b: Proposal for approval of a demerger agreement or demerger plan resulting in the Company becoming the demerged company
  - c: Proposal for approval of a share exchange agreement or stock transfer plan in which the Company becomes a wholly owned subsidiary

(3) Information on moving strike convertible bonds, etc.

There are no applicable matters to report.

(4) Details of rights plans

There are no applicable matters to report.

(5) Changes in the total number of issued shares, capital stock, etc.

| Date             | Increase/<br>decrease in total<br>number of<br>issued shares<br>(shares) | Balance of<br>issued shares<br>(shares) | Increase/decrease<br>in capital stock<br>(millions of yen) | Balance of<br>capital stock<br>(millions of yen) | Increase/<br>decrease in<br>capital reserve<br>(millions of yen) | Balance of<br>capital reserve<br>(millions of yen) |
|------------------|--|---|--|--|--|--|
| February 1, 2015 | —  | 68,522,936                              | 4,117  | 11,000   | (4,117)  | 3,661  |

(Note) In accordance with the provisions of Article 448, Paragraph 1 of the Companies Act, capital reserve has been reduced and incorporated into capital stock.



## (6) Composition of issued shares by type of shareholders

As of October 31, 2017

| Category                           | Status of shares (one unit of stock: 100 shares) |                        |   |                    |                            |             |                        |         | Number of shares less than one unit (shares) |
|------------------------------------|--|------------------------|---|--------------------|----------------------------|-------------|------------------------|---------|--|
|                                    | Government and municipality                      | Financial institutions | Financial instruments business operator | Other corporations | Foreign corporations, etc. |             | Individuals and others | Total   |  |
|                                    |  |                        |   |                    | Non-individuals            | Individuals |                        |         |  |
| Number of shareholders             | —  | 35                     | 29                                      | 89                 | 266                        | 31          | 11,956                 | 12,406  | —  |
| Share ownership (units)            | —  | 103,463                | 10,401                                  | 39,426             | 156,671                    | 148         | 374,698                | 684,807 | 42,236                                       |
| Ownership percentage of shares (%) | —  | 15.11                  | 1.52                                    | 5.76               | 22.88                      | 0.02        | 54.71                  | 100.00  | —  |

(Notes)

1. Of the 9,656,406 treasury shares, 96,564 units are included in the “Individuals and others” column, while six shares are included in the “Number of shares less than one unit” column.
2. Of the shares registered in the name of Japan Securities Depository Center, Incorporated, 18 units are included in the “Other corporations” column and 40 shares are included in the “Number of shares less than one unit” column.

## (7) Major shareholders

As of October 31, 2017

| Name  | Address   | Share Ownership (thousands of shares) | Ownership percentage to the total number of issued shares (%) |
|---|---|---------------------------------------|---|
| Hideo Sawada  | Shibuya-ku, Tokyo   | 19,136                                | 27.93   |
| H.I.S. Co., Ltd.  | 6-8-1 Nishishinjuku, Shinjuku-ku, Tokyo   | 9,656                                 | 14.09   |
| Japan Trustee Services Bank, Ltd.   | 1-8-11 Harumi, Chuo-ku, Tokyo   | 5,047                                 | 7.37  |
| Hide Inter Ltd.   | 1-7-26 Shoto, Shibuya-ku, Tokyo   | 3,458                                 | 5.05  |
| The Master Trust Bank of Japan, Ltd.  | 2-11-3 Hamamatsucho, Minato-ku, Tokyo   | 2,077                                 | 3.03  |
| The Bank of New York Mellon<br>(Standing proxy: Mizuho Bank, Ltd., Settlement & Clearing Services Department)         | RUE MONTOYERSTRAAT 46, 1000 BRUSSELS, BELGIUM<br>2-15-1 Konan, Minato-ku, Tokyo                   | 1,889                                 | 2.76  |
| State Street Bank and Trust Company<br>(Standing proxy: Mizuho Bank, Ltd., Settlement & Clearing Services Department) | P. O. BOX 351 BOSTON MASSACHUSETTS 02101, U.S.A<br>(2-15-1 Konan, Minato-ku, Tokyo)               | 1,821                                 | 2.66  |
| (Standing proxy: The Hong Kong and Shanghai Banking Corporation Limited, Tokyo Branch, Custody Services Department)   | (3-11-1 Nihonbashi, Chuo-ku, Tokyo)   |                                       |   |
| National Mutual Insurance Federation of Agricultural Cooperatives   | 2-7-9 Hirakawacho, Chiyoda-ku, Tokyo  | 1,334                                 | 1.95  |
| JPMorgan Chase Bank<br>(Standing proxy: Mizuho Bank, Ltd., Settlement & Clearing Services Department)                 | 25 BANK STREET, CANARY WHARF, LONDON, E14 5JP, UNITED KINGDOM<br>(2-15-1 Konan, Minato-ku, Tokyo) | 1,116                                 | 1.63  |
| Kazumasa Namekata   | Ageo, Saitama Prefecture  | 1,021                                 | 1.49  |
| Total   | —   | 46,560                                | 67.95   |

(Notes)

1. Of the shares owned by the above trust banks, the numbers of shares pertaining to trust services are as follows.

|                                      |                  |
|--------------------------------------|------------------|
| Japan Trustee Services Bank, Ltd.    | 5,047,000 shares |
| The Master Trust Bank of Japan, Ltd. | 2,077,000 shares |

2. A Report of Possession of Large Volume as stipulated in Article 27-26 (1) of the Financial Instruments and Exchange Act was submitted on September 5, 2017 (date reporting obligation arose: August 31, 2017), by Baillie Gifford & Co and joint holder Baillie Gifford Overseas Limited. Although their holdings of 3,432,000 shares (ownership ratio: 5.01%) have been made public through the Report, the Company could not confirm the actual status of shareholdings as of the end of the fiscal year under review; thus they are not included in the above “Major Shareholders.” The details of the Report of Possession of Large Volume are as follows.

| Entities                         | Address or location of main office                              | Number of shares held<br>(thousands of shares) | Percentage of share certificates held (%) |
|----------------------------------|---|--|---|
| Baillie Gifford & Co             | Calton Square, 1 Greenside Row,<br>Edinburgh, EH1 3AN, Scotland | 1,737  | 2.53                                      |
| Baillie Gifford Overseas Limited | Calton Square, 1 Greenside Row,<br>Edinburgh, EH1 3AN, Scotland | 1,695  | 2.47                                      |

(8) Information on voting rights

1) Issued shares

As of October 31, 2017

| Classification  | Number of shares<br>(shares) | Number of voting rights | Description |
|---|------------------------------|-------------------------|-------------|
| Shares without voting rights                                    | —                            | —                       | —           |
| Shares with restricted voting rights<br>(treasury shares, etc.) | —                            | —                       | —           |
| Shares with restricted voting rights<br>(others)                | —                            | —                       | —           |
| Shares with full voting rights (treasury<br>shares, etc.)       | Common stock: 9,656,400      | —                       | —           |
| Shares with full voting rights (others)                         | Common stock: 58,824,300     | 588,243                 | —           |
| Shares less than one unit                                       | Common stock: 42,236         | —                       | —           |
| Total number of issued shares                                   | 68,522,936                   | —                       | —           |
| Total number of voting rights held by all<br>shareholders       | —                            | 588,243                 | —           |

(Note)

“Shares with full voting right (others)” and “Shares less than one unit” above include 1,800 shares and 40 shares, respectively, held under the name of Japan Securities Depository Center, Inc. (JASDEC). “Number of voting rights” above includes 18 voting rights shares with full voting right held under the name of this same institution.

2) Treasury shares

As of October 31, 2017

| Shareholder      | Shareholder address                        | Number of shares held under own name | Number of shares held under another name | Total number of shares held | Ownership percentage to the total number of issued shares (%) |
|------------------|--|--------------------------------------|--|-----------------------------|---|
| H.I.S. Co., Ltd. | 6-8-1 Nishishinjuku,<br>Shinjuku-ku, Tokyo | 9,656,400                            | —  | 9,656,400                   | 14.09   |
| Total            | —  | 9,656,400                            | —  | 9,656,400                   | 14.09   |

(Note)

In addition to the above, the H.I.S. Employee Stock Ownership Association Dedicated Trust holds 363,100 shares of Company stock as trust assets under the trust-type employee stock ownership incentive plan (E-Ship®); these shares are recorded in consolidated financial statements as treasury shares.

(9) Details of stock option program

The Company has adopted a stock option program utilizing share subscription rights. Details of the program are summarized below.

(By resolution at the Board of Directors meeting held on April 22, 2016)

Pursuant to the provisions of Articles 236, 238, and 240 of the Companies Act, the following was approved by a resolution at the Board of Directors meeting held on April 22, 2016.

|  |  |
|--|--|
| Resolution date  | April 22, 2016   |
| Individuals covered by the plan  | Company employees: 1,322<br>Subsidiary employees: 261          |
| Class of shares subject to share subscription rights                                       | As noted in (2) Information on share subscription rights, etc. |
| Number of shares   | Same as above  |
| Amount payable on the exercise of share subscription rights                                | Same as above  |
| Exercise period of share subscription rights   | Same as above  |
| Conditions for exercise of share subscription rights                                       | Same as above  |
| Matters regarding transfer of share subscription rights                                    | Same as above  |
| Matters regarding subrogation payments   | Same as above  |
| Matters regarding grant of share subscription rights accompanying corporate reorganization | Same as above  |

(By resolution at the Board of Directors meeting held on January 26, 2017)

Pursuant to the provisions of Articles 236, 238, and 240 of the Companies Act, the following was approved by a resolution at the Board of Directors meeting held on January 26, 2017.

|  |   |
|--|---|
| Resolution date  | January 26, 2017  |
| Individuals covered by the plan  | Directors (excluding Directors serving as Audit & Supervisory Committee Members, non-Executive Directors, non-Permanent Directors, and External Directors): 10<br>Directors of subsidiaries: 34 |
| Class of shares subject to share subscription rights                                       | As noted in (2) Information on share subscription rights, etc.  |
| Number of shares   | Same as above   |
| Amount payable on the exercise of share subscription rights                                | Same as above   |
| Exercise period of share subscription rights   | Same as above   |
| Conditions for exercise of share subscription rights                                       | Same as above   |
| Matters regarding transfer of share subscription rights                                    | Same as above   |
| Matters regarding subrogation payments   | Same as above   |
| Matters regarding grant of share subscription rights accompanying corporate reorganization | Same as above   |

## (10) Details of employee stock ownership plan

With the aim of providing Company employees with an incentive for enhancing corporate value over the medium- to long-term, the Company has introduced a trust-type employee stock ownership incentive plan (E-Ship®), hereinafter referred to as the “Plan.”

### 1) Summary of the Plan

The Plan is an incentive plan for all employees joining the H.I.S. Employee Stock Ownership Association (hereinafter, the “Association”). Under the Plan, the Company establishes at a trust bank a dedicated trust for the H.I.S. Employee Stock Ownership Association (hereinafter, the “Trust”); over a period of five years after its establishment, the Trust acquires in advance the number of shares in Company stock that the Association is expected to acquire. Thereafter, the Trust sells the Company stock to the Association on an ongoing basis. If an amount equivalent to gains from the sale of stock remains in the Trust at the time it is terminated, such amount will be distributed to qualified beneficiaries as residual assets. Further, since the Company guarantees the bank loan obtained by the Trust to purchase Company stock, if the Trust accumulates losses from the sale of Company stock as a result of declining stock prices and an amount equivalent to such losses remains in the Trust as outstanding loans at the time the Trust is terminated, the Company will repay any remaining liabilities based on terms of the loan guarantee agreement.

### 2) Total number of shares expected to be acquired by the Association

500,700 shares

### 3) Scope of individuals entitled to beneficiary rights, etc. under the subject employee stock ownership plan

Association members who satisfy the beneficiary eligibility requirements.

## 2. Information on Acquisition of Treasury Shares, etc.

[Class of shares] Acquisition of common stock under Article 155, Item 3 and Item 7 of the Companies Act

### (1) Acquisition by resolution at General Meeting of Shareholders

There are no applicable matters to report.

### (2) Acquisition by resolution of the Board of Directors

| Classification  | Number of shares (shares) | Total amount (yen) |
|---|---------------------------|--------------------|
| Status of resolution at Board of Directors meeting on May 26, 2017<br>(Acquisition period: May 30, 2017 to July 24, 2017) | 3,600,000                 | 10,000,000,000     |
| Treasury shares acquired before the current fiscal year   | —                         | —                  |
| Treasury shares acquired during the current fiscal year   | 3,034,500                 | 9,999,932,000      |
| Of the total number of shares resolved by the Board of Director, total remaining number and value                         | 565,500                   | 68,000             |
| Unexercised shares at the end of the current fiscal year (%)  | 15.7                      | —                  |
| Treasury shares acquired during the current period  | —                         | —                  |
| Unexercised shares on filing date (%)   | 15.7                      | —                  |

| Classification  | Number of shares (shares) | Total amount (yen) |
|---|---------------------------|--------------------|
| Status of resolution at Board of Directors meeting on October 31, 2017<br>(Acquisition period: November 1, 2017 to December 29, 2017) | 1,350,000                 | 5,000,000,000      |
| Treasury shares acquired before the current fiscal year   | —                         | —                  |
| Treasury shares acquired during the current fiscal year   | —                         | —                  |
| Of the total number of shares resolved by the Board of Director, total remaining number and value                                     | 1,350,000                 | 5,000,000,000      |
| Unexercised shares at the end of the current fiscal year (%)  | 100.0                     | 100.0              |
| Treasury shares acquired during the current period  | 1,298,800                 | 4,999,814,000      |
| Unexercised shares on filing date (%)   | 3.8                       | —                  |

(3) Acquisition not based on resolutions at General Meeting of Shareholders or of the Board of Directors

| Classification  | Number of shares (shares) | Total amount (millions of yen) |
|---|---------------------------|--------------------------------|
| Treasury shares acquired during the current fiscal year | —                         | —                              |
| Treasury shares acquired during the current period      | 81                        | 0                              |

(Note) Fractional shares less than one trading unit purchased between January 1, 2018 and the filing date of this Annual Securities Report are not included in the number of treasury shares acquired during the current period.

(4) Status of the disposition and holding of acquired treasury shares

| Classification  | Fiscal year ended October 31, 2017 |   | Current period            |   |
|---|------------------------------------|---|---------------------------|---|
|   | Number of shares (shares)          | Total amount disposed (millions of yen) | Number of shares (shares) | Total amount disposed (millions of yen) |
| Acquired treasury shares for which subscribers were solicited                   | —                                  | —                                       | —                         | —                                       |
| Acquired treasury shares that was disposed of                                   | —                                  | —                                       | —                         | —                                       |
| Acquired treasury shares transferred due to merger, share exchange, or demerger | —                                  | —                                       | —                         | —                                       |
| Others (requests for purchase of fractional shares)                             | 10                                 | 0                                       | —                         | —                                       |
| Total number of treasury shares held  | 9,656,406                          | —                                       | 10,955,287                | —                                       |

(Notes)

- Fractional shares less than one trading unit sold or purchased between January 1, 2018 and the filing date of the Annual Securities Report upon request of shareholders are not included in the number of treasury shares held.
- Company shares held by the H.I.S. Employee Stock Ownership Association Dedicated Trust in accordance with the introduction of a trust-type employee stock ownership incentive plan (E-Ship®) are not included in the number of treasury shares to be disposed of and the number of treasury shares held during the fiscal year under review and the current period.

### 3. Dividend Policy

The Group recognizes the return of profits to shareholders as one of its important management policies. While seeking to improve its corporate value, the Group will carry out stable and continuous distribution of profits in accordance with actual results, taking global conditions, travel industry trends, the strengthening of its corporate structure, and future business developments into consideration. The Group has an interim dividend system, but since the ratio of its sales and earnings tends to be comparatively larger in the second half of each fiscal year, it provides only a year-end dividend at present to ensure fair dividends with respect to financial performance.

In addition to rapid environmental changes within the travel industry in Japan and overseas, preparations for competition/reorganization, development of office networks, and active investments in information technologies, there is an increasing need in recent years to deal with other unexpected external factors, such as terrorist attacks, political instability and natural disasters. Given these circumstances, the Group strongly believes that it is essential to establish a stable financial base that allows timely action, and intends to stabilize its management base by substantially increasing the amount of internal reserves.

Based on the above dividend policy, the Company plans to pay a regular year-end dividend of 29 yen per share for the fiscal year ending October 31, 2017. Furthermore, as part of its effort to return profits to shareholders, the Company also acquired treasury shares amounting to 9,999 million yen during the fiscal year under review.

The Company prescribes in its Articles of Incorporation that “except as otherwise provided by laws and regulations, matters concerning surplus dividends listed under each item of Article 459, Paragraph 1 of the Companies Act, can be determined by a resolution of the Board of Directors.” However, this does not mean that the option of resolution at a General Meeting of Shareholders is eliminated.

Payment of dividends for the fiscal year ended October 31, 2017 is as follows.

| Authorizing resolution  | Total dividends<br>(millions of yen) | Dividend per share (yen) |
|---|--------------------------------------|--------------------------|
| Resolution at the General Meeting of Shareholders on January 25, 2018 | 1,707                                | 29.00                    |

#### 4. Stock Prices

##### (1) Highest and lowest stock prices in the recent five fiscal years

| Fiscal year   | 33rd         | 34th            | 35th         | 36th         | 37th         |
|---------------|--------------|-----------------|--------------|--------------|--------------|
| Year-end      | October 2013 | October 2014    | October 2015 | October 2016 | October 2017 |
| Highest (yen) | 5,800        | 6,060<br>□3,480 | 4,765        | 4,340        | 3,935        |
| Lowest (yen)  | 2,361        | 4,955<br>□2,472 | 2,491        | 2,524        | 2,465        |

(Notes)

- Share-price highs and lows refer to market trading of the Company’s shares listed on the First Section of the Tokyo Stock Exchange.
- Figures marked “□” denote highest and lowest ex-rights share prices after the 2-for-1 stock split conducted on May 1, 2014.

##### (2) Highest and lowest stock prices in the recent six months

| Month         | May 2017 | June  | July  | August | September | October |
|---------------|----------|-------|-------|--------|-----------|---------|
| Highest (yen) | 3,235    | 3,590 | 3,485 | 3,775  | 3,690     | 3,935   |
| Lowest (yen)  | 2,668    | 3,110 | 3,160 | 3,275  | 3,360     | 3,520   |

(Note) Share-price highs and lows refer to market trading of the Company’s shares listed on the First Section of the Tokyo Stock Exchange.

## 5. Directors and Audit & Supervisory Committee Members

Male: 9, Female: 1 (percentage of female officers 10.1%)

| Title   | Position  | Name             | Date of birth    | Career summary  | Term of office | Share ownership (thousands) |
|---|---|------------------|------------------|---|----------------|-----------------------------|
| Representative Director, Chairman and President | Chief Executive Officer, Group Chief Executive Officer (CEO)                                  | Hideo Sawada     | February 4, 1951 | <p>Dec. 1980 Established Company and became Representative Director and President</p> <p>March 1999 Representative Director and President, Kyoritsu Shoken, Co., Ltd. (currently Sawada Holdings Co., Ltd.)</p> <p>Jun. 2004 Director and Chairman of the Company</p> <p>Dec. 2009 Representative Director and Chairman of the Company</p> <p>Mar. 2010 Representative Director and President of Huis Ten Bosch Co., Ltd. (current)</p> <p>Sep. 2012 Chairman of Tokyo Symphony Orchestra (current)</p> <p>Nov. 2016 Representative Director, Chairman and President, Chief Executive Officer (CEO) of the Company Representative Director and Chairman of Sawada Holdings Co., Ltd. (current)</p> <p>Nov. 2017 Representative Director and Chairman of H.I.S. Hotel Holdings Co., Ltd. (current)</p> <p>Jan. 2018 Representative Director, Chairman and President; Chief Executive Officer of the Company; Group Chief Executive Officer (CEO) (current)</p> | (Note 2)       | 19,136                      |
| Director  | Senior Managing Executive Officer; President of H.I.S. Japan                                  | Tatsuya Nakamori | August 4, 1967   | <p>Nov. 1986 Joined the Company</p> <p>Jan. 2010 Director of the Company; In charge of West Japan Area Sales; Head of Kansai Area Sales Division</p> <p>Feb. 2014 Director of the Company; In charge of West Japan Area Sales</p> <p>Mar. 2014 Managing Director of the Company; In charge of Airline-related Purchasing/Arrangement, and Online Travel Business</p> <p>Apr. 2014 Managing Director of the Company; In charge of Airline-related Purchasing/Arrangement, and Online Travel Business; Gen. Mgr. of HQ Procurement Division</p> <p>Nov. 2016 Managing Director of the Company; President of H.I.S. Japan</p> <p>Jan. 2018 Director and Senior Managing Executive Officer of the Company; President of H.I.S. Japan (current)</p>  | (Note 2)       | 13                          |
| Director  | Managing Executive Officer; Vice President of H.I.S. Japan & Head of Domestic Travel Division | Masayuki Oda     | January 1, 1966  | <p>June 1996 Joined the Company</p> <p>Mar. 2014 Corporate Officer of the Company; Head of Kansai Area Sales Division</p> <p>Jan. 2016 Director of the Company; In charge of Kansai, Chugoku, Shikoku, Kyushu Area Sales; In charge of Global Product Marketing; Head of Kansai Area Sales Division</p> <p>Nov. 2016 Director of the Company; Vice President of H.I.S. Japan</p> <p>Jan. 2018 Director and Managing Executive Officer of the Company; Vice President of H.I.S. Japan &amp; Head of Domestic Travel Division (current)</p>   | (Note 2)       | 0                           |

| Title    | Position   | Name                | Date of birth    | Career summary   | Term of office | Share ownership (thousands) |
|----------|--|---------------------|------------------|--|----------------|-----------------------------|
| Director | Senior Executive Officer; In charge of Finance & Accounting (Consolidated), Legal & Internal Control, Compliance; Head of Corporate Loan Audit Office; Chief Financial Officer (CFO) | Shigeru Nakatani    | October 19, 1948 | <p>Jul. 2010<br/>Jan. 2012</p> <p>Nov. 2016</p> <p>Nov 2017</p> <p>Jan. 2018</p> <p>Joined the Company<br/>Director of the Company; In charge of Accounting &amp; Finance; Head of HQ Accounting Division<br/>Director of the Company; In charge of Finance &amp; Accounting (Consolidated), Legal &amp; Internal Control, Compliance; Head of HQ Accounting Division &amp; Head of Corporate Loan Audit Office; Chief Financial Officer (CFO)<br/>Director of the Company; In charge of Finance &amp; Accounting (Consolidated), Legal &amp; Internal Control, Compliance; Head of Corporate Loan Audit Office; Chief Financial Officer (CFO)<br/>Director of the Company; Senior Executive Officer; In charge of Finance &amp; Accounting (Consolidated), Legal &amp; Internal Control, Compliance; Head of Corporate Loan Audit Office; Chief Financial Officer (CFO) (current)</p> | (Note 2)       | 7                           |
| Director | Senior Executive Officer; In charge of HR (Consolidated), CS & ES, General Affairs, CSR; Head of HQ HR; Chief Human Resources Officer (CHO)  | Katsuhiko Sakaguchi | April 30, 1955   | <p>Dec. 2014<br/>Mar. 2015</p> <p>Jan. 2016</p> <p>Nov. 2016</p> <p>Aug. 2017</p> <p>Jan. 2018</p> <p>Joined the Company<br/>Senior Corporate Officer of the Company; In charge of HR Strategy (Japan &amp; Overseas)<br/>Director of the Company; In charge of HR Strategy (Japan &amp; Overseas)<br/>Director of the Company; In charge of HR (Consolidated), CS &amp; ES, HR &amp; Labor, General Affairs, CSR; Chief Human Resources Officer (CHO)<br/>Director of the Company; In charge of HR (Consolidated), CS &amp; ES, HR &amp; Labor, General Affairs, CSR; Chief Human Resources Officer (CHO) &amp; Head of HQ HR<br/>Director and Senior Executive Officer of the Company; In charge of HR (Consolidated), CS &amp; ES, General Affairs, CSR; Head of HQ HR; Chief Human Resources Officer (CHO) (current)</p>   | (Note 2)       | 10                          |
| Director | Senior Executive Officer; Vice President of H.I.S. Japan & Head of Kansai Area Sales Division  | Atsushi Yamanobe    | March 18, 1970   | <p>Apr. 1993<br/>Mar. 2014</p> <p>Jan. 2016</p> <p>Nov. 2016</p> <p>Jan. 2018</p> <p>Joined the Company<br/>Corporate Officer of the Company; Gen. Mgr. of Kanto Sales Division; Gen. Mgr. of Kanto Web Business Division; Gen. Mgr. of Kanto Corporate Sales and Group Travel Division<br/>Director of the Company; In charge of East Japan Area Sales; Head of Kanto Area - Overseas Travel Division<br/>Director of the Company; Vice President of H.I.S. Japan<br/>Director and Senior Executive Officer of the Company; Vice President of H.I.S. Japan &amp; Head of Kansai Area Sales Division (current)</p>   | (Note 2)       | 1                           |



| Title   | Position  | Name            | Date of birth    | Career summary  | Term of office | Share ownership (thousands) |
|---|---|-----------------|------------------|---|----------------|-----------------------------|
| Director  | Senior Executive Officer, Head of Southeast Asia Central Sales Division; Head of Jakarta Central Branch | Mutsumi Gomi    | June 6, 1968     | <p>Apr. 1992<br/>May. 2002</p> <p>Jan. 2004</p> <p>Apr. 2008</p> <p>May. 2010</p> <p>Sep. 2012</p> <p>Jan. 2016</p> <p>Nov. 2017</p> <p>Jan. 2018</p> <p>Joined the Company<br/>Manager of Marketing Section, Kansai Area Sales Division<br/>Manager of Central Purchasing/Marketing, Kansai Area Sales Division<br/>Group Leader for America &amp; Oceania Travel Business Group (Kanto)<br/>Gen. Mgr. of East Japan FIT Department<br/>Seconded to PT. HARUM INDAH SARI TOURS &amp; TRAVEL, President and Director; Head of Jakarta Central Branch<br/>Officer of the Company; Seconded to PT. HARUM INDAH SARI TOURS &amp; TRAVEL, President and Director; Head of the Jakarta Central Branch<br/>Corporate Officer of the Company; Seconded to PT. HARUM INDAH SARI TOURS &amp; TRAVEL, President and Director; Head of Southeast Asia Central Sales Division &amp; Head of Jakarta Central Branch<br/>Director and Senior Executive Officer of the Company; Head of Southeast Asia Central Sales Division &amp; Head of Jakarta Central Branch (current)</p>             | (Note 2)       | 2                           |
| Director, Audit & Supervisory Committee Member (Note 1) | -   | Masahiko Hirata | February 1, 1931 | <p>Apr. 1954</p> <p>Feb. 1985</p> <p>Feb. 1986</p> <p>Jun. 1987</p> <p>Jun. 1988</p> <p>Apr. 1997</p> <p>Jul. 1997</p> <p>Aug. 1997</p> <p>Jan. 1998</p> <p>Jun. 1999</p> <p>Jun. 2008</p> <p>Jun. 2015</p> <p>Jan. 2016</p> <p>Joined Matsushita Electric Industrial Co., Ltd. (currently Panasonic Corporation)<br/>Director, Matsushita Electric Industrial<br/>Managing Director, Matsushita Electric Industrial<br/>Senior Managing Director, Matsushita Electric Industrial<br/>Representative Director and Executive Vice President, Matsushita Electric Industrial<br/>Guest Lecturer, Sanno University<br/>Guest member, Matsushita Electric Industrial Co., Ltd. (currently Panasonic Corporation)<br/>Adviser of the Company<br/>External Director of the Company<br/>External Corporate Auditor, Uni-Charm Co., Ltd.<br/>External Director, IntegreX Inc.<br/>Director serving as Audit &amp; Supervisory Committee Member (external director), Uni-Charm Co., Ltd.<br/>Director serving as Audit &amp; Supervisory Committee Member of the Company (current)</p> | (Note 3)       | 7                           |

| Title   | Position | Name            | Date of birth   | Career summary   | Term of office | Share ownership (thousands) |
|---|----------|-----------------|-----------------|--|----------------|-----------------------------|
| Director, Audit & Supervisory Committee Member (Note 1) | —        | Tsunekazu Umeda | August 22, 1945 | <p>Mar. 1974 Registered as a certified public accountant</p> <p>Sep. 1987 Partner, Arthur Andersen LLP and Eiwa Audit Corporation (currently KPMG AZSA LLC)</p> <p>Apr. 1995 Director, Umeda Certified Public Accountant Office (current)</p> <p>Jun. 1995 Director and Executive Vice President, Nippon Kaiheiki Kogyo (currently NKK Switches Co., Ltd.)</p> <p>Jan. 1999 External Corporate Auditor of the Company</p> <p>Jun. 2000 External Corporate Auditor, HABA Laboratories, Inc.</p> <p>Jun. 2000 External Corporate Auditor, TOMY Company (currently Takara Tomy Co., Ltd.) (current)</p> <p>Jun. 2007 External Corporate Auditor, Sawada Holdings Co., Ltd. (current)</p> <p>Mar. 2010 External Corporate Auditor, Huis Ten Bosch Co., Ltd.</p> <p>Jun. 2010 External Director, Suzuden Corporation</p> <p>Jun. 2015 Director serving as Audit &amp; Supervisory Committee Member (external director), HABA Laboratories, Inc. (current)</p> <p>Dec. 2015 Corporate Auditor, Huis Ten Bosch Co., Ltd. (current)</p> <p>Jan. 2016 Director serving as Audit &amp; Supervisory Committee Member of the Company (current)</p> | (Note 3)       | 21                          |
| Director, Audit & Supervisory Committee Member          | —        | Sonoko Sekita   | July 23, 1965   | <p>Feb. 1988 Joined the Company</p> <p>May 2000 Manager, Accounting Department, Kanto Area Sales Division</p> <p>Apr. 2008 Accounting Group Leader, Head Office Accounting Division</p> <p>Dec. 2012 Seconded to H.I.S. MANAGEMENT SERVICES SDN.BHD. as Director and Gen. Mgr. of Accounting</p> <p>Jan. 2015 Full-time Corporate Auditor of the Company</p> <p>Jan. 2016 Director serving as Audit &amp; Supervisory Committee Member of the Company (current)</p>  | (Note 3)       | 25                          |
| Total   |          |                 |                 |  |                | 19,226                      |

(Notes)

1. Directors serving as Audit & Supervisory Committee Members Masahiko Hirata and Tsunekazu Umeda are External Directors.
2. One-year period beginning at the conclusion of the General Meeting of Shareholders held on January 25, 2018.
3. Two-year period beginning at the conclusion of the General Meeting of Shareholders held on January 25, 2018.

4. The Company has instituted a corporate officer system with the aim of enhancing the business execution structure.

Names and positions of Corporate Officers (excluding Corporate Officers who concurrently serve as Director) are as follows.

| Position                 |   | Name           |
|--------------------------|---|----------------|
| Senior Corporate Officer | Chairman of Streamlining Committee; Head of CS/ES Division; In charge of General Affairs Group        | Hikaru Wada    |
| Corporate Officer        | In charge of Overseas Systems Strategy  | Kiyoshi Takano |
| Corporate Officer        | Head of Corporate Planning Division & General Manager of Public Relations IR Office                   | Ken Fukushima  |
| Corporate Officer        | Head of Overseas Sales Division   | Hideo Hatano   |
| Corporate Officer        | Head of Chubu Area Sales Division   | Yuji Iwama     |
| Corporate Officer        | Head of Kanto Area Sales Division   | Kozo Arita     |
| Corporate Officer        | Head of Accounting Division   | Yuka Kataoka   |
| Corporate Officer        | Representative Director and President of H.I.S. SUPER POWER Co., Ltd.                                 | Shohei Akao    |
| Corporate Officer        | General Manager of H.I.S. European Strategy Promotion Division  | Konosuke Oda   |
| Corporate Officer        | General Manager of Inbound Division, Southeast Asia Central Sales HQ & Head of Vietnam Central Branch | Shintaro Sudo  |

6. Corporate Governance, etc.

(1) Corporate Governance

Basic policy on corporate governance

Fully embracing its founding intention, the H.I.S.–HTB Group corporate philosophy, and the H.I.S. corporate philosophy, the Company seeks to achieve sustainable growth and enhance its corporate value over the medium- to long-term by providing products and services that are useful to the society. To realize this objective, the Company intends to make fair, transparent, quick and decisive decisions with a sound awareness of the positions of its shareholders, customers, employees, business partners and local communities; fulfill accountability; and become a company appreciated and trusted by society. The Company understands corporate governance to be a “mechanism for fair, transparent, quick and decisive decision-making in recognition of the position of the company’s shareholders, customers, employees, business partners and local communities” as defined in the Corporate Governance code formulated by the Tokyo Stock Exchange (hereinafter, “TSE CG code”).

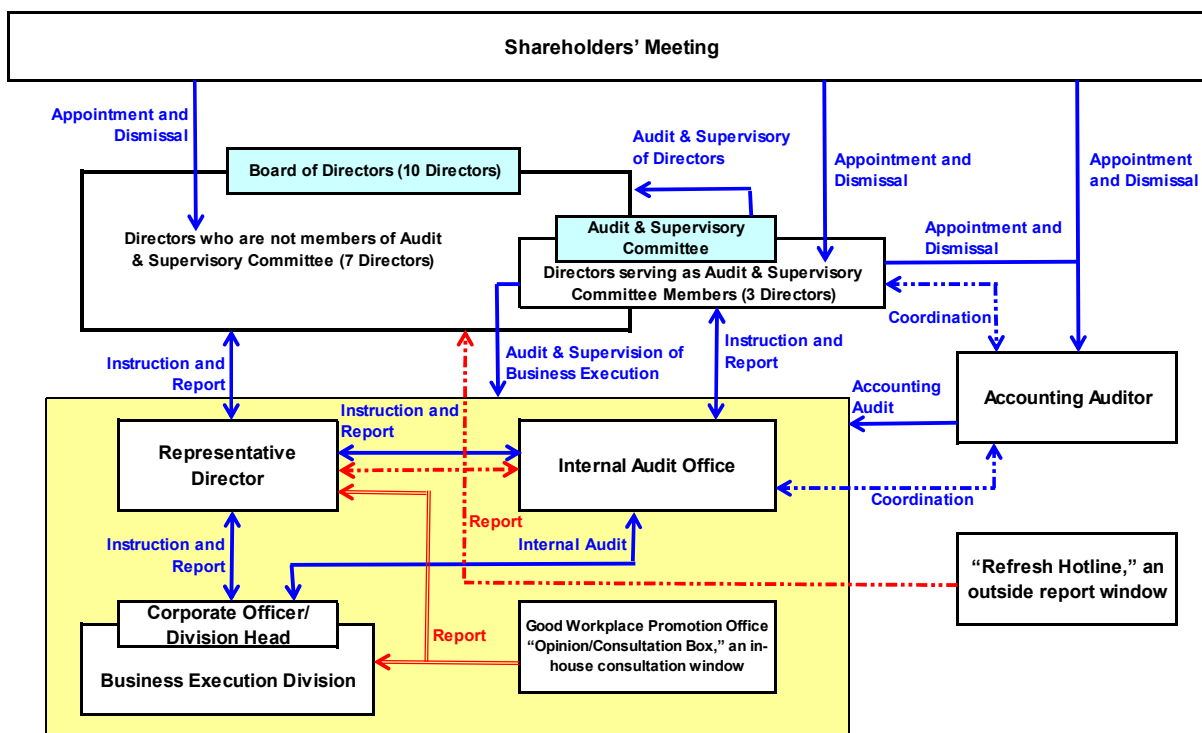
The 73 principles of the TSE CG code are replete with major principles contributing to the realization of “proactive governance” as a best practice employing a principles-based approach. H.I.S. will work to fully understand the purpose and essence of each of these principles, and comply with them to the best of its ability, while taking into consideration the industry and scale of its businesses, the business environment and characteristics, and its own institutional design and conditions.

1) Corporate Governance Structure

(I) Corporate governance overview

The Company has adopted a corporate governance structure with an Audit and Supervisory Committee. The following Corporate Governance Structure Chart (as of January 25, 2018) indicates the reciprocal relationships of each institution.

**Corporate Governance Structure (as of January 25, 2018)**



In addition, the Company has introduced a “virtual” pure holding company structure within the framework of the current holding company, adopting the function of a pure holding company to the extent possible by reorganizing the business execution structure. There are two primary reasons for implementing this change. First, the Group’s businesses are expanding into fields that require decision-making from a perspective separate from experience in the travel business, and the Company sees the need to reorganize the business execution structure to ensure swift and accurate decision-making and clarification of management responsibilities at the respective business fields. Second, the Company also sees the need to create a system that would allow it to formulate and execute strategies for the entire Group, and swiftly implement changes in the management design.

The current H.I.S. Group Global Business Execution Structure (as of January 25, 2018) shown in the page to follow comprises the following organizational components.

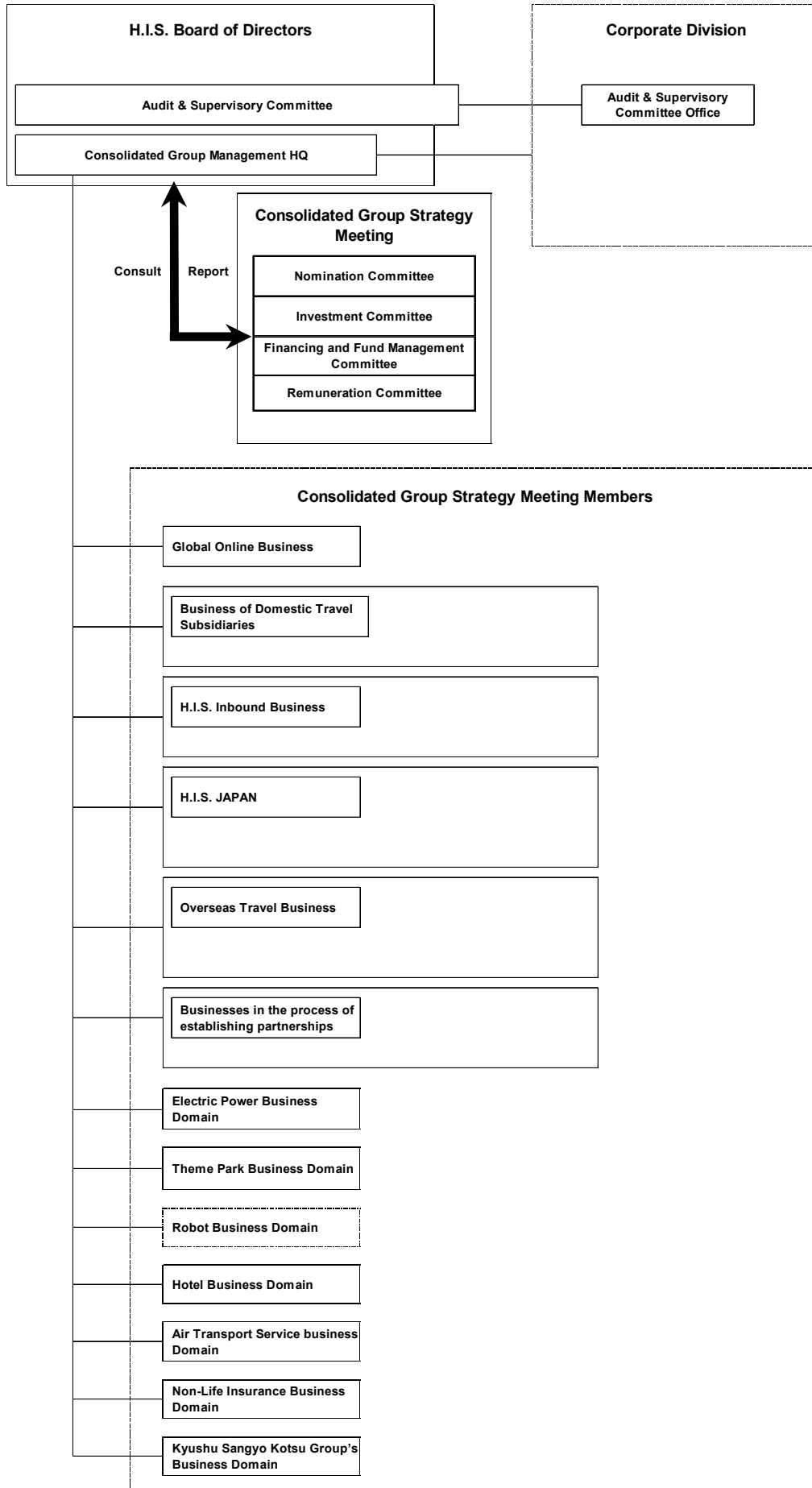
- a) Consolidated Group Management HQ  
Members are four Executive Directors; a permanent organization within the Board of Directors.  
Responsibilities include making decisions on some of the important business execution matters formerly resolved by the Board of Directors as entrusted by the Board; overseeing the Corporate Division; implementing selection and focus of investments and coordination among the domains (business divisions) of the corporate Group from the perspective of achieving optimal synergies; and presiding over the Consolidated Group Strategy Meetings.
- b) Corporate Division  
Administration division of the Company's head office; execution arm of the Consolidated Group Management HQ
- c) Business of Domestic Travel Subsidiaries  
Business field operated by the Company's travel business subsidiaries in Japan
- d) H.I.S. Inbound Business  
Quasi-divisional company in the Company's Travel Business segment; conducts inbound business to Japan (corresponds to a business subsidiary under a pure holding company system)
- e) H.I.S. JAPAN  
Another quasi-divisional company in the Company's Travel Business segment alongside H.I.S. Inbound; handles the Company's travel business (outbound travel from Japan and domestic travel)
- f) Overseas Travel Business  
Business field operated by the Company's travel business affiliates located overseas
- g) Consolidated Group Strategy Meeting  
Meeting headed by the Consolidated Group Management HQ; participating members at the Company-level include officers in charge of business execution at each business division and External Directors (Director serving as Audit & Supervisory Committee Member) and, at the Group company-level, officers in charge of business execution at individual business areas. Other personnel are also summoned as necessary.

At Consolidated Group Strategy Meetings, decisions are made on certain important matters including formulation of consolidated Group strategy, and certain important matters pertaining to each business domain (business divisions) are reported.

A Consolidated Group Strategy Meeting, in which all participating members are Directors including Directors serving as Audit & Supervisory Committee Members (or External Directors), and where matters discussed concern important personnel affairs, important investments, important financing or investment management items, or important compensation related items, is referred to as a meeting of the Nomination Committee, the Investment Committee, the Financing and Fund Management Committee, or the Remuneration Committee, which are all advisory committees to the Board of Directors.

In addition, under the H.I.S. Global Business Execution Structure (as of January 25, 2018), business units that operate non-travel businesses via a separate entity are referred to as Domains.

# H.I.S. Group Global Business Execution Structure (as of January 25, 2018)



(II) Reason for adoption of corporate governance structure

In consideration of the scale and nature of the Company and H.I.S. Group's businesses, the Company had in place a governance structure of a company with Corporate Auditors and Board of Corporate Auditors until the 35th fiscal year (ended October 31, 2015). The intent was to engage in fair, transparent, quick and decisive decision-making regarding business management, and facilitate full accountability to the shareholders and other stakeholders.

The Corporate Auditors and Board of Corporate Auditors, in addition to conducting legality audits, conducted validity audits to the extent permitted by laws and regulations, and offered advice and recommendations at the Board of Directors meetings with respect to the execution of operational and professional duties by Directors. Factoring in such conditions, the Company reviewed the details pertaining to the Audit & Supervisory Committee structure created by the Law for Partial Amendment to the Companies Act (Act No. 90 of 2014, effective May 1, 2015), and determined that the latter structure was compatible with the actual circumstances of the Company and would help strengthen its corporate governance further, as the Company and Group pursued sustainable growth and enhancement of corporate value over the medium- to long-term.

Thus, the transition to a company with an Audit & Supervisory Committee was proposed at the 35th General Meeting of Shareholders held on January 27, 2016, and implemented by a resolution approved by the shareholders.

(III) Internal control system and status (including systems for ensuring appropriateness of business operations within the corporate group consisting of the Company and the Group subsidiaries)

As a company with an Audit & Supervisory Committee based on Article 399, Paragraph 13, Section 2 of the Companies Act, the Company determines, as basic policies and via resolution of the Board of Directors, those items required for the Audit & Supervisory Committee to execute its duties. It also determines those items necessary for systemic improvements that ensure appropriateness business operations within the corporate group consisting of the Company and the Group subsidiaries. Such items include:

- a) System for ensuring that Directors and employees conduct their duties in compliance with laws, regulations, and the Company's Articles of Incorporation
- b) Rules and system for managing risk of loss to the Company and the Group (subsidiaries and affiliated companies)
- c) System for ensuring that duties of Directors are being conducted efficiently
- d) System for ensuring preservation and management of information in relation to Directors' execution of duties
- e) System for ensuring appropriateness of business operations within the corporate group consisting of the Company and the Group companies
- f) System for ensuring reliability of financial reporting
- g) Items required for the Audit & Supervisory Committee to execute its duties (system for ensuring that audits by the Audit & Supervisory Committee are conducted effectively, etc.)

In the fiscal year under review, the Company has maintained and operated its internal control system in line with the above basic policies; related efforts are as follows:

- i) H.I.S. GROUP CSR REPORT was created and distributed to ensure thorough ethical compliance; a pocket-sized credo card (compliance card) listing and explaining H.I.S. policies, the H.I.S. corporate philosophy, and the H.I.S. Corporate Behavior Charter was distributed to all Company and Group company officers and employees for use as a source of reference during their daily work.
- ii) The "Refresh Hotline," an internal report window operated by outside experts: details of employee consultations are delivered anonymously to the Company with accompanying expert opinions based on consultation details. Acting as an intermediary between employees and the Company, this service functions as the Company's self-correcting system in terms of corporate ethics and compliance violations.
- iii) The Board of Directors has been making important business execution decisions via Board resolution and in accordance with laws and regulations, the Articles of Incorporation and internal regulations, and receiving reports on the business execution status of each Director and the performance of major group Companies.
- iv) Important information such as resolutions by the Board of Directors is being appropriately retained, recorded and managed by those departments with authority and responsibility in accordance with laws, regulations, and timely disclosure rules of the financial instruments exchange. In the event information is determined to be useful for shareholders and investors in making appropriate investment decisions, the Company makes an effort to provide appropriate disclosure.
- v) Systematic auditing by the Audit & Supervisory Committee utilizing the internal control system is being conducted effectively, with the Internal Audit Office (Internal Audit Division) fulfilling its expected role.

The Company is also reviewing various procedures based on actual work conditions.

(IV) Risk management system and status

Matters that may negatively impact business results, financial condition, stock price and other aspects of the Company and Group businesses are described in “4. Business and Other Risks section of Part I: Information on the Company, II. Business Overview.”

The full-time Executive Directors working at the Head Office use opportunities, such as internal business meetings held several times a week, to identify risks that may occur and strive to improve risk management based on the internal control framework.

(V) Summary of agreement (limited liability agreement) between the Company and its Directors (excluding Executive Directors, etc.) or its accounting auditor, stipulated in Article 427, Paragraph 1 of the Companies Act.

The Company has set forth in its Articles of Incorporation a stipulation based on the provision of Article 427, Paragraph 1 of the Companies Act and accordingly concluded with the three non-Executive Directors (who are Directors serving as Audit & Supervisory Committee Members) and with the accounting auditors agreements to limit their liability for damages as prescribed in Article 423, Paragraph 1 of the Companies Act. This limitation of liability is applied only in cases where the Director serving as Audit & Supervisory Committee member or the accounting auditor causing the damage performed his/her duties in good faith and without gross negligence; the limit of liability in such a case is the “minimum liability limit” amount stipulated in Article 425, Paragraph 1 of the Companies Act.

Furthermore, limited liability agreements the Company concluded with Corporate Auditors (including former Corporate Auditors) during the phase when it was a company with Board of Corporate Auditors (namely, the period prior to the conclusion of the 35th General Meeting of Shareholders held on January 27, 2016 regarding the fiscal year ended October 31, 2015) as defined in the Articles of Incorporation effective at that time, remain in effect at the present time with the same stipulations as the current limited liability agreement.

2) Internal Audit and Audit by Audit & Supervisory Board Members

(I) Internal audit organization, personnel and procedures

Internal auditing of Company divisions and Group company operations (including internal control auditing) is conducted regularly based on internal auditing rules, internal auditing conduct standards, and annual auditing plans by the Internal Audit Office (seven members) under direct supervision of the Representative Director, Chairman and CEO.

The Internal Audit Office provides recommendations regarding auditing results and improvements, reporting to the Representative Director, Chairman and CEO, relevant Directors, responsible personnel in corresponding departments and divisions and the Audit & Supervisory Committee. Under close cooperation with the Audit & Supervisory Committee (and occasionally by receiving instructions), the Internal Audit Office plays a significant role in the Audit & Supervisory Committee’s systematic auditing efforts utilizing the internal control system.

(II) Organization, personnel and procedures regarding audit by the Audit & Supervisory Committee

The Company’s Audit & Supervisory Committee consists of three Directors (Directors serving as Audit & Supervisory Committee Members), including two External Directors. In addition to selecting one full-time Audit & Supervisory Committee Member, the Audit & Supervisory Committee appoints two additional Members as Appointed Committee Members under Article 399, Paragraph 3, Section 1 of the Companies Act.

The Audit & Supervisory Committee Office, which assists the Committee in executing its duties, is established within the Audit & Supervisory Committee organization. Employees dedicated to assisting the professional duties of the Audit & Supervisory Committee are selected and are placed in the Audit & Supervisory Committee Office based on consent of the Audit & Supervisory Committee Members. In addition, employees from the Internal Audit Office, Accounting Division, and/or Legal Division assist the Audit & Supervisory Committee in executing its duties as necessary. The Audit & Supervisory Committee maintains the exclusive authority to direct, command and supervise the business duties of employees placed in the Audit & Supervisory Committee Office, and the Committee’s opinions and intentions are respected and significantly reflected in personnel-related matters such as evaluation and transfer of such employees.

Audit by the Audit & Supervisory Committee is fundamentally an organizational audit utilizing the internal control system. The Committee follows the audit policies, standards and plans, which it defines on its own; communicates with the Directors, the Internal Audit Division and the Internal Control Division through exchanging opinions; collects information; and also maintains mutual cooperation with the accounting auditor; with the intent to conduct Audit & Supervisory Committee audits effectively.

Of the Directors serving as Audit & Supervisory Committee Members, External Director Tsunekazu Umeda is a certified public accountant possessing a wealth of experience and knowledge with regard to finance and accounting.



Also, External Director Masahiko Hirata's wealth of management experience and knowledge includes those in the areas of accounting and finance. Sonoko Sekita possesses a significant amount of knowledge with regard to accounting and finance through her business experience and numerous achievements over many years in the accounting department of the Company and of its business administration company abroad.

(III) Mutual cooperation among internal audit, audit by Audit & Supervisory Committee, and accounting audit, and their relationship to Internal Control Division

As the audit by Audit & Supervisory Committee is basically systematic auditing utilizing the internal control system, please refer to the above "(I) Internal audit organization, personnel and procedures" and "(II) Organization, personnel and procedures regarding audit by the Audit & Supervisory Committee" sections in regard to mutual cooperation among internal audit, audit by Audit & Supervisory Committee, and accounting audit, and their relationship to Internal Control Division. As the Company's two External Directors are Audit & Supervisory Committee Members, please also refer to the "(II) Status of cooperation between External Directors and Internal Audit Division section under 4) External Directors."

3) Accounting Audit

The Company has concluded an auditing agreement with Deloitte Touche Tohmatsu LLC regarding auditing based on the Financial Instruments and Exchange Act and auditing based on the Companies Act. There are no special conflicts of interest between the Company and Deloitte Touche Tohmatsu LLC or its engagement partners conducting the Company's audit. Certified public accountants engaged in the accounting audit duties in the fiscal year under review are as follows:

- Designated Limited Liability Partners and Engagement Partners: Akemi Mochizuki and Toshihiro Kuchiki
- Accounting audit assistant composition: 14 certified public accountants, eight accountant assistants, and 12 others.

(Note) The number of years of ongoing auditing has been omitted as it is within seven years.

4) External Directors

(I) Basic thinking on the number and appointment status of External Directors; standards and policies regarding independence of External Directors

a) Basic thinking on the number and appointment status of External Directors

At present, the Company has two External Directors, both of whom have been appointed as Audit & Supervisory Committee Members (Director serving as Audit & Supervisory Committee Member). In addition, provided there is a qualified candidate, the Company will consider the appointment of an External Director not serving as an Audit & Supervisory Committee Member.

External Director and Audit & Supervisory Committee Member Masahiko Hirata, formerly representative director and executive vice president of Matsushita Electric Industrial Co., Ltd. (currently Panasonic Corporation), possesses a wealth of management experience and knowledge with outstanding insight into corporate ethics and corporate governance. Mr. Hirata has a track record of providing appropriate advice and recommendations regarding the Company's management and continues to supervise based on his accumulated experiences, knowledge and insight from an independent and objective perspective, fulfilling his duties as an Audit & Supervisory Committee Member.

External Director and Audit & Supervisory Committee Member Tsunekazu Umeda, formerly a partner at Arthur Andersen and Company, representative partner of Eiwa Audit Corporation (currently KPMG AZSA LLC), and founder of the Umeda Certified Public Accountant Office, possesses a wealth of experience and knowledge as a certified public accountant regarding finance and accounting. In addition to being involved in corporate management, Mr. Umeda has experience with the Company as an external corporate auditor under the Board of Corporate Auditors structure, and continues to supervise the Company's management based on his accumulated experiences, knowledge and insight from an independent and objective perspective, fulfilling his duties as a member of the Audit & Supervisory Committee.

The Company's current External Directors both satisfy the independence requirement stipulated by the Tokyo Stock Exchange (TSE) provision on independent auditors. With the consent of the principals, the Company designated them as independent directors and submitted an Independent Director Notification to the TSE.

b) Details on standards and policies regarding independence of External Directors

Based on the requirements for external directors stipulated in the Companies Act and independence standards stipulated by the Tokyo Stock Exchange, the Company applies the following conditions (the amendment or elimination of which is based on a resolution of the Board of Directors) to determine whether the relevant External Directors is independent. At present, the Company has two External Directors, both of whom satisfy these conditions:

- i ) Principal is not at present, nor has never in the past been an executive director, executive officer, corporate officer, or employee (hereinafter, “Business Executor”) of the Company, its subsidiaries or affiliated companies
- ii ) Principal is not a major shareholder (a shareholder listed among the top ten shareholders on the latest shareholder registry or a shareholder with a ratio of 10% or more of the total voting rights), nor does not currently belong to an organization that is a major shareholder
- iii ) Principal is not a Business Executor of a company, of which the Group is a major shareholder (a shareholder listed among the top ten shareholders on the latest shareholder registry or a shareholder with a ratio of 10% or more of the total voting rights)
- iv ) Principal is not a person belonging to a business partner engaged in transactions with the Group totaling 2% of consolidated net sales of either party per year in the three most recent fiscal years
- v ) Principal is not a Business Executor of a financial institution that is a major lender to the Group (lender of an amount equivalent to 2% or more of the Company’s consolidated total assets)
- vi ) Principal is not a Business Executor of the Group’s leading brokerage firm
- vii ) Principal is not a consultant, accounting expert or legal expert who obtained cash or other asset gains of 10 million yen or more on average in a single fiscal year other than officer remuneration from the Company, nor an accounting auditor or contracted adviser of the Company (if a corporation, association or group, the person belonging to said organization) in the last three fiscal years
- viii ) Principal is not a person currently belonging to a non-profit organization that has received from the Company a contribution of 2% or more of total income or ordinary income in the last three fiscal years
- ix ) If the Principal has a history of belonging to an organization or business partner indicated in ( ii ) to (viii) above, he/she must be retired from said organization or business partner for three or more years
- x ) Principal is not a spouse or a relative within the second degree of kinship of ( ii ) to (ix) above
- xi ) In addition to the above, those with special circumstances preventing them from fulfilling their duties as external directors with independence, including possible conflicts of interest with the Company, etc.

(II) Status of cooperation between External Directors and Internal Audit Division

The Company’s two External Directors are both Directors serving as Audit & Supervisory Committee Members. As members of the Board of Directors, they supervise the execution of duties by Directors. As members of the Audit & Supervisory Committee, they exchange opinions and communicate with Directors, the Internal Audit Division, and the Internal Control Division in accordance with audit policies, standards and plans defined by the Committee itself. Further, in addition to gathering information, they maintain mutual cooperation with the accounting auditor and engage in systematic auditing utilizing the internal control system.

(III) Personal, capital, and trade relationships or other interests between External Directors and the Company

a) Relationship of interest between Masahiko Hirata and the Company

There are no personal, capital, or trade relationship, or other interests between Masahiko Hirata and the Company.

The status of Company shareholdings by Masahiko Hirata is listed under the “5. Directors and Audit & Supervisory Committee Members section in Part I: Information on the Company, IV. Information on the Company.”

b) Relationship of interest between Tsunekazu Umeda and the Company

Huis Ten Bosch Co., Ltd., for which Tsunekazu Umeda serves as corporate auditor, is a consolidated subsidiary of the Company. The Company’s Representative Director, Chairman and President Hideo Sawada is Huis Ten Bosch Co., Ltd.’s representative director and president, and the two companies have a trade relationship pertaining to the purchase and sales of domestic travel products. However, this trade relationship is not of the gravity that creates a relationship of special interest; nor are there other relationships of interest. Additionally, there are no personal, capital, or trade relationship between Tsunekazu Umeda and the Company.

The status of Company shareholdings by Tsunekazu Umeda is listed under the “5. Directors and Audit & Supervisory Committee Members section in Part I: Information on the Company, IV. Information on the Company.”

5) Executive Remuneration

(I) Total amounts of remuneration paid by officer category, amounts by type of remuneration, and numbers of eligible officers

| Officer Category  | Total amounts of remuneration (millions of yen) | Total amounts by type of remuneration (millions of yen) |               |       |  | Number of eligible officers |
|---|---|---|---------------|-------|--|-----------------------------|
|   |   | Basic remuneration                                      | Stock options | Bonus | Provision for Directors' retirement benefits |                             |
| Director<br>(excluding Audit & Supervisory Committee Members)<br>(excluding External Directors) | 319   | 187   | 12            | 81    | 38   | 11                          |
| Director<br>(Audit & Supervisory Committee Member)<br>(excluding External Directors)            | 10  | 8   | —             | 1     | 1  | 1                           |
| External Director<br>(Audit & Supervisory Committee Member)                                     | 81  | 79  | —             | 1     | 1  | 2                           |

(Notes)

1. The maximum amount of basic remuneration paid to Directors (excluding Audit & Supervisory Committee Members) was set at 500 million yen per year (includes executive bonuses, but excludes payments related to employee status) by a resolution approved at the 35th General Meeting of Shareholders held on January 27, 2016. In addition, a separate resolution to grant Directors (excluding Audit & Supervisory Committee Members) share subscription rights amounting up to 100 million yen per year as stock options was approved in the 36th General Meeting of Shareholders held on January 26, 2017.
2. The maximum amount of basic remuneration paid to Directors (Audit & Supervisory Committee Members) was set at 50 million yen per year (includes executive bonuses) by a resolution approved at the 35th General Meeting of Shareholders held on January 27, 2016.
4. The above remuneration amounts and number of officers includes two Directors who retired on October 31, 2017, and three Directors who retired at the conclusion of the preceding General Meeting of Shareholders.

(II) Breakdown of total amount of consolidated remuneration by officer

| Name         | Officer category | Company                  | Total amounts by category of consolidated remuneration (millions of yen) |               |       |  | Total amount of consolidated remuneration (millions of yen) |
|--------------|------------------|--------------------------|--|---------------|-------|--|---|
|              |                  |                          | Basic remuneration   | Stock options | Bonus | Provision for Directors' retirement benefits |   |
| Hideo Sawada | Director         | Filing Company           | 34   | 1             | 20    | 7  | 109   |
|              | Director         | Huis Ten Bosch Co., Ltd. | 46   | —             | —     | —  |   |

(Note) Only individuals with total consolidated remuneration of 100 million yen or more are stated above.

(III) The amounts of remuneration for officers and the policy and method of determining such amounts

As a Company with Audit and Supervisory Committee, remuneration is determined by distinguishing between Directors who are Audit and Supervisory Committee Members and those who are not.

Remuneration takes into consideration position, Company performance and the degree of contribution to that performance, and bonuses are based on Guidelines for Total Bonus Amounts Paid to Full-Time Directors (established by the Remuneration Committee attached to the Board of Directors) and is determined on the basis of Remuneration Committee reports on each, respectively.

The Consolidated Group Strategy Meeting presided over by the Consolidated Group Management HQ, becomes the Remuneration Committee in instances when such a Meeting exclusively deliberated on matters determined by the Remuneration Committee including individual remuneration for Company Directors (excluding Directors serving as Audit and Supervisory Committee Members), individual remuneration for Corporate Officers (including Senior Corporate Officers), the total amount of officers' bonuses, and other matters deemed appropriate. However, the Consolidated Group Strategy Meeting is considered a Remuneration Committee only when participating members are limited to Directors and Directors serving as Audit and Supervisory Committee Members (or External Directors).

The current Remuneration Committee is chaired by the Representative Director, Chairman and CEO and consists of five members (all of whom are Directors) including one Director serving as an Audit and Supervisory Committee Member (independent External Director). When necessary, an observer nominated each time by the chairman participates and deliberates, with the content of the report decided by consensus of opinion by the committee members in attendance.

6) Number of Directors

As stipulated in the Company's Articles of Incorporation, the number of Directors shall not exceed 16 people, of which no more than four shall be Directors serving as Audit and Supervisory Committee Members.

7) Requirements for a Resolution to Appoint Directors

As a company with an Audit and Supervisory Committee, Directors who serve as Audit and Supervisory Committee Members and other Directors are elected separately at the General Meeting of Shareholders. According to the Company's Articles of Incorporation, for both categories "a resolution of election shall be attended by shareholders holding shares representing one-third or more of total number of voting rights of shareholders who may exercise voting rights, and shall be adopted by a majority of the voting rights," and in addition, "election shall not depend on cumulative voting."

8) Year-end Dividend and Interim Dividend

(I) Year-end dividend

To enable the Company to maintain flexible capital and dividend policies, the Company's Articles of Incorporation prescribe that "matters specified in the items of Article 459, Paragraph 1 of the Companies Act, including those related to the payment of dividends, may be decided by the Board of Directors unless otherwise stipulated by laws and regulations." However, this provision does not exclude resolutions at the General Meeting of Shareholders.

(II) Interim dividend

Based on Article 454, Paragraph 5 of the Companies Act, the Articles of Incorporation stipulate that "through a resolution by the Board of Directors, shareholders listed on the final shareholders registry and registered pledgees as of April 30th each year are able to receive an interim dividend. The purpose of establishing this provision is to enable the return of profits to shareholders flexibly in accordance with the profit level.

9) Acquisition of Treasury Shares

Based on Article 165, Paragraph 2 of the Companies Act, the Articles of Incorporation stipulate that "through a resolution by the Board of Directors, treasury share can be acquired by market transaction, etc." The purpose of establishing this provision is to make it possible to flexibly carry out capital policies corresponding to changes in the business environment. The Board of Directors, in making a decision to acquire treasury shares, will comprehensively judge the status of business results including revenue trends, future performance forecasts, basic capital policies, etc., from the standpoint of continuous enhancement of corporate value and appropriate shareholder return.

10) Director and Accounting Auditors' Partial Exemption from Liability for Damages

Regarding Directors (including those who were Directors) and accounting auditors' (including those who were accounting auditors) liability for damages to the Company due to negligence, based on Article 426, Paragraph 1 of the Companies

Act, the Articles of Incorporation stipulate that “subject to the resolution of the Board of Directors, exemption from liability is possible to the limit the laws and regulations allow.” The purpose of this provision is to create an environment in which Directors and accounting auditors are able to make sufficient use of their capabilities and fulfill the role expected of them.

11) Special Resolution at the General Meeting of Shareholders

In regard to the resolution requirement for special resolution at the General Meeting of Shareholders stipulated in Article 309, Paragraph 2 of the Companies Act, the Company stipulates in its Articles of Incorporation that “a special resolution of General Meeting of Shareholders shall be attended by shareholders holding shares representing one-third or more of the total number of voting rights of shareholders who may exercise voting rights, and shall be adopted by two-thirds or more of the voting rights.” The purpose of this provision is to relax the requirements for a quorum for special resolutions of General Meeting of Shareholders so that these meetings can be operated smoothly.

12) Information on Shareholdings

(I) Of investment securities held for purposes other than pure investment, number of stock names and total value recorded in the balance sheet

There are no applicable matters to report.

(II) Of investment securities held for purposes other than pure investment, stock name, number of shares, amount recorded in the balance sheet, and purpose of holding

There are no applicable matters to report.

(III) Total amounts of stocks held solely for pure investment carried on the balance sheets for the fiscal years ended October 31, 2016 and October 31, 2017, and total amounts of dividends received associated with such stocks, and gains and losses on sale and valuation of such stocks for the fiscal year under review

|                         | Year ended October 31, 2016 (millions of yen) | Year ended October 31, 2017 (millions of yen) |                        |  |                                |
|-------------------------|---|---|------------------------|--|--------------------------------|
|                         | Total amount on balance sheet                 | Total amount on balance sheet                 | Total dividends income | Total realized gains (losses) on sales | Total valuation gains (losses) |
| Unlisted stocks         | 95  | 510   | —                      | —                                      | (Note)                         |
| Stocks other than above | 267   | 343   | 4                      | —                                      | 137                            |

(Note)

“Total valuation gains (losses)” are not stated because unlisted stocks have no market price and it is deemed extremely difficult to grasp their fair market value.

(2) Audit Fees

1) Details of fees paid to Certified Public Accountants

| Category                  | Year ended October 31, 2016                       |  | Year ended October 31, 2017                       |  |
|---------------------------|---|--|---|--|
|                           | Fees for audit certification<br>(millions of yen) | Fees for non-audit services<br>(millions of yen) | Fees for audit certification<br>(millions of yen) | Fees for non-audit services<br>(millions of yen) |
| Filing Company            | 71  | 15   | 101   | —  |
| Consolidated subsidiaries | 48  | 2  | 53  | —  |
| Total                     | 119   | 18   | 154   | —  |

2) Details of other significant fees

(Consolidated fiscal year ended October 31, 2016)

There are no applicable matters to report.

(Consolidated fiscal year ended October 31, 2017)

There are no applicable matters to report.

3) Details of non-audit services rendered to the Company

(Consolidated fiscal year ended October 31, 2016)

Non-audit service, for which the Company pays compensation to certified public accountants, etc., is financial due diligence operations.

(Consolidated fiscal year ended October 31, 2017)

There are no applicable matters to report.

4) Policy on determination of audit fees

Remuneration for certified public accountants, etc., is appropriately determined by the Company based on the consent of the Audit & Supervisory Committee, and taking into consideration the details of the audit work and the number of days required.

## V. Financial Information

### 1. Basis of presentation for consolidated and non-consolidated financial statements

(1) The Company's consolidated financial statements are prepared in conformity with the "Regulations Concerning Terminology, Forms, and Preparation Methods of Consolidated Financial Statements" (Ministry of Finance Regulation No.28, 1976).

(2) The non-consolidated financial statements are prepared in conformity with the "Regulations Concerning Terminology, Forms, and Preparation Methods of Financial Statements (Ministry of Finance Regulation No.59, 1963) (hereinafter, "Regulations on Financial Statements.")

As a company designated for the submission of financial statements prepared in accordance with special provision, the Company prepares its financial statements pursuant to Article 127 of the Regulations on Financial Statements.

### 2. Independent auditing of financial statements

Pursuant to the provisions of Article 193-2, Paragraph 1, of the Financial Instruments and Exchange Law, the Company arranged for the auditing firm Deloitte Touche Tohmatsu LLC to conduct independent audits of the consolidated and non-consolidated financial accounts of the Company for the fiscal year under review (November 1, 2016 to October 31, 2017; the 37th fiscal year).

### 3. Particular efforts to secure the appropriateness of the consolidated financial statements and other financial reports

The Company makes special efforts to ensure the appropriateness of the consolidated financial statements. Specifically, in order to accurately ascertain the content of the latest accounting standards and prepare appropriate consolidated financial statements, etc., it participates in the Financial Accounting Standards Foundation and educational opportunities provided by said Foundation, accounting firms and other institutions, as well as subscribing to accounting journals. The Company also instituted internal regulations and create manuals as appropriate.

1. Consolidated Financial Statements, etc.  
(1) Consolidated Financial Statements  
1) Consolidated Balance Sheets

(millions of yen)

|  | Year ended October 31, 2016<br>(As of October 31, 2016) | Year ended October 31, 2017<br>(As of October 31, 2017) |
|--|---|---|
| <b>Assets</b>  |   |   |
| Current assets   |   |   |
| Cash and deposits  | *1 159,011  | *1 193,039  |
| Accounts receivable - trade                                  | 24,063  | 34,801  |
| Operating accounts receivable                                | 8,084   | 6,194   |
| Securities   | 2,998   | 39  |
| Travel advance payments                                      | 24,387  | 28,062  |
| Prepaid expenses   | 2,583   | 2,909   |
| Deferred tax assets  | 2,628   | 2,328   |
| Short-term loans receivable                                  | 65  | *6 5,634  |
| Short-term loans receivable from subsidiaries and affiliates | 78  | 373   |
| Accounts receivable - other                                  | 3,001   | 2,381   |
| Other  | 6,705   | 7,954   |
| Allowance for doubtful accounts                              | (77)  | (234)   |
| Total current assets   | 233,531   | 283,485   |
| Non-current assets   |   |   |
| Property, plant and equipment                                |   |   |
| Buildings  | 27,324  | 37,312  |
| Accumulated depreciation                                     | (12,974)  | (15,297)  |
| Buildings, net   | *1, *5 14,349   | *1, *5 22,015   |
| Tools, furniture and fixtures                                | 12,222  | 15,793  |
| Accumulated depreciation                                     | (7,861)   | (10,351)  |
| Tools, furniture and fixtures, net                           | *5 4,360  | *5 5,442  |
| Vessels  | 2,127   | 455   |
| Accumulated depreciation                                     | (1,155)   | (392)   |
| Vessels, net   | 971   | 62  |
| Land   | *1, *3 23,441   | *1, *3 28,744   |
| Leased assets  | 5,067   | 5,127   |
| Accumulated depreciation                                     | (2,262)   | (2,426)   |
| Leased assets, net   | 2,804   | 2,701   |
| Construction in progress                                     | *1 11,083   | *1 18,086   |
| Other  | 13,771  | 14,913  |
| Accumulated depreciation                                     | (8,490)   | (8,964)   |
| Other, net   | *1, *5 5,280  | *1, *5 5,949  |
| Total property, plant and equipment                          | 62,291  | 83,001  |
| Intangible assets  |   |   |
| Goodwill   | 268   | 6,237   |
| Other  | 5,288   | 11,428  |
| Total intangible assets                                      | 5,556   | 17,666  |
| Investments and other assets                                 |   |   |
| Investment securities  | 1,704   | 10,957  |
| Shares of subsidiaries and affiliates                        | 6,681   | 1,681   |
| Investments in capital of subsidiaries and affiliates        | 74  | 632   |
| Long-term loans receivable                                   | *6 6,557  | *6 1,371  |
| Long-term loans receivable from subsidiaries and affiliates  | 85  | 128   |
| Net defined benefit asset                                    | 318   | 622   |
| Deferred tax assets  | 3,355   | 4,362   |
| Guarantee deposits   | 6,758   | 7,643   |
| Other  | 5,492   | 11,210  |
| Allowance for doubtful accounts                              | (206)   | (181)   |
| Total investments and other assets                           | 30,822  | 38,427  |
| Total non-current assets                                     | 98,670  | 139,095   |
| Deferred assets  | 183   | 227   |
| Total assets   | 332,385   | 422,809   |



(millions of yen)

|  | Year ended October 31, 2016<br>(As of October 31, 2016) | Year ended October 31, 2017<br>(As of October 31, 2017) |
|--|---|---|
| <b>Liabilities</b>   |   |   |
| Current liabilities  |   |   |
| Operating accounts payable                                 | 18,744  | 23,590  |
| Short-term loans payable                                   | *1, *4 8,915  | *4 7,474  |
| Current portion of long-term loans payable                 | *1 583  | *1 1,847  |
| Accounts payable - other                                   | 2,487   | 3,199   |
| Accrued expenses   | 3,004   | 10,049  |
| Income taxes payable                                       | 829   | 3,929   |
| Accrued consumption taxes                                  | 595   | 724   |
| Travel advance received                                    | 53,293  | 58,437  |
| Lease obligations  | 925   | 864   |
| Provision for bonuses                                      | 2,951   | 4,077   |
| Provision for directors' bonuses                           | 106   | 162   |
| Other  | *1 10,368   | *1 17,509   |
| <b>Total current liabilities</b>                           | <b>102,805</b>  | <b>131,866</b>  |
| Non-current liabilities                                    |   |   |
| Bonds payable  | 20,000  | 40,000  |
| Convertible bond-type bonds with share subscription rights | 20,113  | 20,073  |
| Long-term loans payable                                    | *1 77,042   | *1 101,603  |
| Deferred tax liabilities                                   | *3 4,754  | *3 4,786  |
| Net defined benefit liability                              | 6,886   | 7,588   |
| Provision for directors' retirement benefits               | 788   | 861   |
| Provision for repairs                                      | 761   | 159   |
| Lease obligations  | 2,283   | 2,211   |
| Other  | *1 1,808  | *1 2,410  |
| <b>Total non-current liabilities</b>                       | <b>134,440</b>  | <b>179,694</b>  |
| <b>Total liabilities</b>                                   | <b>237,245</b>  | <b>311,561</b>  |
| Net assets   |   |   |
| Shareholders' equity                                       |   |   |
| Capital stock  | 11,000  | 11,000  |
| Capital surplus  | 3,665   | 3,581   |
| Retained earnings  | 80,988  | 92,731  |
| Treasury shares  | (14,162)  | (23,875)  |
| <b>Total shareholders' equity</b>                          | <b>81,491</b>   | <b>83,437</b>   |
| Accumulated other comprehensive income                     |   |   |
| Valuation difference on available-for-sale securities      | (152)   | 283   |
| Deferred gains or losses on hedges                         | (546)   | 265   |
| Foreign currency translation adjustment                    | (744)   | 1,716   |
| Remeasurements of defined benefit plans                    | (455)   | 70  |
| <b>Total accumulated other comprehensive income</b>        | <b>(1,899)</b>  | <b>2,336</b>  |
| Share subscription rights                                  | 77  | 252   |
| Non-controlling interests                                  | 15,470  | 25,221  |
| <b>Total net assets</b>                                    | <b>95,139</b>   | <b>111,247</b>  |
| <b>Total liabilities and net assets</b>                    | <b>332,385</b>  | <b>422,809</b>  |

2) Consolidated Statements of Income and Comprehensive Income  
Consolidated Statements of Income

(millions of yen)

|   | Year ended October 31, 2016<br>(November 1, 2015 to<br>October 31, 2016) | Year ended October 31, 2017<br>(November 1, 2016 to<br>October 31, 2017) |
|---|--|--|
| Net sales   | 523,705  | 606,024  |
| Cost of sales   | 418,661  | 491,285  |
| Gross profit  | 105,044  | 114,738  |
| Selling, general and administrative expenses                  | *1 90,769  | *1 98,822  |
| Operating income  | 14,274   | 15,915   |
| Non-operating income  |  |  |
| Interest income   | 1,693  | 1,668  |
| Foreign exchange gains  | —  | 2,275  |
| Subsidy income  | 350  | 510  |
| Other   | 954  | 1,074  |
| Total non-operating income                                    | 2,998  | 5,529  |
| Non-operating expenses  |  |  |
| Interest expenses   | 337  | 458  |
| Foreign exchange losses                                       | 6,798  | —  |
| Share of loss of entities accounted for using equity method   | 751  | 69   |
| Loss (gain) on sales of stocks of subsidiaries and affiliates | —  | 216  |
| Other   | 737  | 1,052  |
| Total non-operating expenses                                  | 8,624  | 1,797  |
| Ordinary income   | 8,648  | 19,647   |
| Extraordinary income  |  |  |
| Gains on step acquisitions                                    | —  | 2,009  |
| Total extraordinary income                                    | —  | 2,009  |
| Extraordinary losses  |  |  |
| Loss on sales of non-current assets                           | —  | 642  |
| Impairment loss   | *2 3,541   | *2 284   |
| Total extraordinary losses                                    | 3,541  | 926  |
| Profit before income taxes                                    | 5,107  | 20,730   |
| Income taxes - current  | 4,103  | 5,970  |
| Income taxes - deferred                                       | (301)  | (1,074)  |
| Total income taxes  | 3,801  | 4,895  |
| Profit  | 1,305  | 15,835   |
| Profit attributable to non-controlling interests              | 1,038  | 2,575  |
| Profit attributable to owners of parent                       | 267  | 13,259   |

Consolidated Statements of Comprehensive Income

(millions of yen)

|   | Year ended October 31, 2016<br>(November 1, 2015 to<br>October 31, 2016) | Year ended October 31, 2017<br>(November 1, 2016 to<br>October 31, 2017) |
|---|--|--|
| Profit  | 1,305  | 15,835   |
| Other comprehensive income  |  |  |
| Valuation difference on available-for-sale securities                                   | (204)  | 439  |
| Deferred gains or losses on hedges  | (95)   | 811  |
| Foreign currency translation adjustment   | (5,906)  | 2,842  |
| Remeasurements of defined benefit plans   | (227)  | 582  |
| Share of other comprehensive income of affiliates<br>accounted for by the equity method | (799)  | (123)  |
| Total other comprehensive income  | * (7,234)  | * 4,551  |
| Comprehensive income  | (5,928)  | 20,386   |
| Comprehensive income attributable to  |  |  |
| Comprehensive income attributable to owners of parent                                   | (6,880)  | 17,494   |
| Comprehensive income attributable to non-controlling<br>interests                       | 951  | 2,891  |

### 3) Consolidated Statement of Changes in Equity

Consolidated fiscal year ended October 31, 2016 (November 1, 2015 to October 31, 2016)

(millions of yen)

|   | Shareholders' equity |                 |                   |                 |                            |
|---|----------------------|-----------------|-------------------|-----------------|----------------------------|
|   | Capital stock        | Capital surplus | Retained earnings | Treasury shares | Total shareholders' equity |
| Balance at start of the year  | 11,000               | 3,665           | 82,150            | (2,535)         | 94,280                     |
| Changes of items during the year  |                      |                 |                   |                 |                            |
| Dividends from surplus  |                      |                 | (1,426)           |                 | (1,426)                    |
| Profit attributable to owners of parent   |                      |                 | 267               |                 | 267                        |
| Acquisition of treasury shares  |                      |                 |                   | (11,763)        | (11,763)                   |
| Disposal of treasury shares   |                      |                 |                   | 136             | 136                        |
| Change of scope of consolidation  |                      |                 | (2)               |                 | (2)                        |
| Increase/decrease of share in relation to capital increase of consolidated subsidiaries   |                      | (0)             |                   |                 | (0)                        |
| Increase/decrease of share in relation to purchase of shares of consolidated subsidiaries |                      |                 |                   |                 | —                          |
| Change in ownership interest of parent due to transactions with non-controlling interests |                      | 0               |                   |                 | 0                          |
| Net changes of items other than shareholders' equity                                      |                      |                 |                   |                 | —                          |
| Total changes of items during the year  | —                    | (0)             | (1,161)           | (11,627)        | (12,788)                   |
| Balance at end of the year  | 11,000               | 3,665           | 80,988            | (14,162)        | 81,491                     |

|   | Accumulated other comprehensive income                |                                    |   |   |  | Share subscription rights | Non-controlling interests | Total net assets |
|---|---|------------------------------------|---|---|--|---------------------------|---------------------------|------------------|
|   | Valuation difference on available-for-sale securities | Deferred gains or losses on hedges | Foreign currency translation adjustment | Remeasurements of defined benefit plans | Total accumulated other comprehensive income |                           |                           |                  |
| Balance at start of the year  | 49  | (449)                              | 5,878                                   | (230)                                   | 5,248  | —                         | 14,461                    | 113,990          |
| Changes of items during the year  |   |                                    |   |   |  |                           |                           |                  |
| Dividends from surplus  |   |                                    |   |   | —  |                           |                           | (1,426)          |
| Profit attributable to owners of parent   |   |                                    |   |   | —  |                           |                           | 267              |
| Acquisition of treasury shares  |   |                                    |   |   | —  |                           |                           | (11,763)         |
| Disposal of treasury shares   |   |                                    |   |   | —  |                           |                           | 136              |
| Change of scope of consolidation  |   |                                    |   |   | —  |                           |                           | (2)              |
| Increase/decrease of share in relation to capital increase of consolidated subsidiaries   |   |                                    |   |   | —  |                           |                           | (0)              |
| Increase/decrease of share in relation to purchase of shares of consolidated subsidiaries |   |                                    |   |   | —  |                           |                           | —                |
| Change in ownership interest of parent due to transactions with non-controlling interests |   |                                    |   |   | —  |                           |                           | 0                |
| Net changes of items other than shareholders' equity                                      | (202)   | (96)                               | (6,623)                                 | (225)                                   | (7,147)                                      | 77                        | 1,008                     | (6,061)          |
| Total changes of items during the year  | (202)   | (96)                               | (6,623)                                 | (225)                                   | (7,147)                                      | 77                        | 1,008                     | (18,850)         |
| Balance at end of the year  | (152)   | (546)                              | (744)                                   | (455)                                   | (1,899)                                      | 77                        | 15,470                    | 95,139           |

## Consolidated fiscal year ended October 31, 2017 (November 1, 2016 to October 31, 2017)

(millions of yen)

|   | Shareholders' equity |                 |                   |                 |                            |
|---|----------------------|-----------------|-------------------|-----------------|----------------------------|
|   | Capital stock        | Capital surplus | Retained earnings | Treasury shares | Total shareholders' equity |
| Balance at start of the year  | 11,000               | 3,665           | 80,988            | (14,162)        | 81,491                     |
| Changes of items during the year  |                      |                 |                   |                 |                            |
| Dividends from surplus  |                      |                 | (1,361)           |                 | (1,361)                    |
| Profit attributable to owners of parent   |                      |                 | 13,259            |                 | 13,259                     |
| Acquisition of treasury shares  |                      |                 |                   | (9,999)         | (9,999)                    |
| Disposal of treasury shares   |                      | 0               |                   | 287             | 287                        |
| Change of scope of consolidation  |                      |                 | (155)             |                 | (155)                      |
| Increase/decrease of share in relation to capital increase of consolidated subsidiaries   |                      |                 |                   |                 | —                          |
| Increase/decrease of share in relation to purchase of shares of consolidated subsidiaries |                      | (83)            |                   |                 | (83)                       |
| Change in ownership interest of parent due to transactions with non-controlling interests |                      | 0               |                   |                 | 0                          |
| Net changes of items other than shareholders' equity                                      |                      |                 |                   |                 | —                          |
| Total changes of items during the year  | —                    | (83)            | 11,742            | (9,712)         | 1,946                      |
| Balance at end of the year  | 11,000               | 3,581           | 92,731            | (23,875)        | 83,437                     |

|   | Accumulated other comprehensive income                |                                    |   |   |  | Share subscription rights | Non-controlling interests | Total net assets |
|---|---|------------------------------------|---|---|--|---------------------------|---------------------------|------------------|
|   | Valuation difference on available-for-sale securities | Deferred gains or losses on hedges | Foreign currency translation adjustment | Remeasurements of defined benefit plans | Total accumulated other comprehensive income |                           |                           |                  |
| Balance at start of the year  | (152)   | (546)                              | (744)                                   | (455)                                   | (1,899)                                      | 77                        | 15,470                    | 95,139           |
| Changes of items during the year  |   |                                    |   |   |  |                           |                           |                  |
| Dividends from surplus  |   |                                    |   |   | —  |                           |                           | (1,361)          |
| Profit attributable to owners of parent   |   |                                    |   |   | —  |                           |                           | 13,259           |
| Acquisition of treasury shares  |   |                                    |   |   | —  |                           |                           | (9,999)          |
| Disposal of treasury shares   |   |                                    |   |   | —  |                           |                           | 287              |
| Change of scope of consolidation  |   |                                    |   |   | —  |                           |                           | (155)            |
| Increase/decrease of share in relation to capital increase of consolidated subsidiaries   |   |                                    |   |   | —  |                           |                           | —                |
| Increase/decrease of share in relation to purchase of shares of consolidated subsidiaries |   |                                    |   |   | —  |                           |                           | (83)             |
| Change in ownership interest of parent due to transactions with non-controlling interests |   |                                    |   |   | —  |                           |                           | 0                |
| Net changes of items other than shareholders' equity                                      | 435   | 811                                | 2,461                                   | 526                                     | 4,235  | 175                       | 9,750                     | 14,160           |
| Total changes of items during the year  | 435   | 811                                | 2,461                                   | 526                                     | 4,235  | 175                       | 9,750                     | 16,107           |
| Balance at end of the year  | 283   | 265                                | 1,716                                   | 70                                      | 2,336  | 252                       | 25,221                    | 111,247          |

## 4) Consolidated Statements of Cash Flows

(millions of yen)

|  | Year ended October 31, 2016<br>(November 1, 2015 to<br>October 31, 2016) | Year ended October 31, 2017<br>(November 1, 2016 to<br>October 31, 2017) |
|--|--|--|
| Cash flows from operating activities                                 |  |  |
| Profit before income taxes   | 5,107  | 20,730   |
| Depreciation   | 6,544  | 7,104  |
| Impairment loss  | 3,541  | 284  |
| Amortization of goodwill   | 201  | 354  |
| Increase (decrease) in provision for bonuses                         | (324)  | 1,046  |
| Increase (decrease) in provision for directors' bonuses              | (49)   | 54   |
| Increase (decrease) in net defined benefit liability                 | 619  | 1,412  |
| Increase (decrease) in provision for directors' retirement benefits  | 44   | 71   |
| Increase (decrease) in provision for repairs                         | (259)  | (592)  |
| Interest and dividend income   | (1,737)  | (1,699)  |
| Share of (profit) loss of entities accounted for using equity method | 751  | 69   |
| Foreign exchange losses (gains)                                      | 3,616  | (3,031)  |
| Interest expenses  | 337  | 458  |
| Loss (gain) on sales of property, plant and equipment                | —  | 642  |
| Loss (gain) on sales of shares of subsidiaries and affiliates        | —  | 216  |
| Loss (gain) on step acquisitions                                     | —  | (2,009)  |
| Other loss (gain)  | 33   | 179  |
| Decrease (increase) in notes and accounts receivable - trade         | (6,526)  | 1,121  |
| Decrease (increase) in travel advance payments                       | (2,911)  | (5,185)  |
| Decrease (increase) in other assets                                  | (1,230)  | (689)  |
| Increase (decrease) in notes and accounts payable - trade            | (1,593)  | (3,270)  |
| Increase (decrease) in accrued consumption taxes                     | (317)  | 271  |
| Increase (decrease) in accrued expenses                              | 150  | 3,061  |
| Increase (decrease) in travel advances received                      | 3,704  | 5,894  |
| Increase (decrease) in other liabilities                             | 1,508  | 7,849  |
| Subtotal   | 11,210   | 34,345   |
| Interest and dividend income received                                | 1,479  | 1,759  |
| Interest expenses paid   | (309)  | (442)  |
| Income taxes (paid) refund   | (7,229)  | (3,292)  |
| Net cash provided by (used in) operating activities                  | 5,149  | 32,369   |

(millions of yen)

|   | Year ended October 31, 2016<br>(November 1, 2015 to<br>October 31, 2016) | Year ended October 31, 2017<br>(November 1, 2016 to<br>October 31, 2017) |
|---|--|--|
| <b>Cash flows from investing activities</b>   |  |  |
| Payments into time deposits   | (57,392)   | (43,132)   |
| Proceeds from withdrawal of time deposits   | 49,732   | 51,799   |
| Purchase of securities  | (3,000)  | —  |
| Proceeds from redemption of securities  | 13,345   | 3,300  |
| Purchase of property, plant and equipment and intangible assets                                   | (13,309)   | (24,189)   |
| Proceeds from sales of property, plant and equipment and intangible assets                        | 133  | 642  |
| Purchase of investment securities   | (1,234)  | (8,366)  |
| Proceeds from sales of investment securities  | 969  | 48   |
| Purchase of shares of subsidiaries and affiliates   | (1,696)  | (808)  |
| Purchase of shares of subsidiaries resulting in change in scope of consolidation                  | *2 (180)   | *2 (5,856)   |
| Proceeds from purchase of subsidiaries' shares resulting in changes in the scope of consolidation | —  | *2 8,465   |
| Payments for sales of shares in subsidiaries resulting in change of scope of consolidation        | —  | *3 (224)   |
| Payments of loans receivable  | (1,632)  | (921)  |
| Collection of loans receivable  | 1,674  | 639  |
| Payments for guarantee deposits   | (837)  | (687)  |
| Proceeds from collection of guarantee deposits  | 512  | 612  |
| Other, net  | (2,524)  | (7,529)  |
| <b>Net cash provided by (used in) investing activities</b>  | <b>(15,440)</b>  | <b>(26,209)</b>  |
| <b>Cash flows from financing activities</b>   |  |  |
| Increase in short-term loans payable  | 80,055   | 55,640   |
| Decrease in short-term loans payable  | (78,000)   | (58,920)   |
| Proceeds from long-term loans payable   | 63,465   | 26,000   |
| Repayments of long-term loans payable   | (21,673)   | (876)  |
| Proceeds from issuance of bonds   | —  | 19,899   |
| Purchase of treasury shares   | (11,791)   | (10,001)   |
| Cash dividends paid   | (1,426)  | (1,361)  |
| Dividends paid to non-controlling interests   | (94)   | (22)   |
| Proceeds from share issuance to non-controlling shareholders                                      | 74   | —  |
| Other, net  | (426)  | (586)  |
| <b>Net cash provided by (used in) financing activities</b>  | <b>30,181</b>  | <b>29,769</b>  |
| Effect of exchange rate change on cash and cash equivalents                                       | (3,460)  | 2,886  |
| <b>Net increase (decrease) in cash and cash equivalents</b>                                       | <b>16,430</b>  | <b>38,816</b>  |
| Cash and cash equivalents at beginning of period  | 113,330  | 129,842  |
| Increase in cash and cash equivalents from newly consolidated subsidiary                          | 81   | —  |
| <b>Cash and cash equivalents at end of period</b>   | <b>*1 129,842</b>  | <b>*1 168,659</b>  |

## Notes to Consolidated Financial Statements

### [Going concern assumptions]

There are no applicable matters to report.

### [Significant matters that serve as the basis for preparation of the consolidated financial statements]

#### 1. Scope of consolidation

##### (1) Consolidated subsidiaries

The consolidated financial statements include the accounts of 124 subsidiaries of the Company. The names of the principal subsidiaries are listed in “3. Description of Business of I. Overview of the Company in Part I Information on the Company.”

From the consolidated fiscal year ended October 31, 2017, five companies including H.I.S. - MERIT TRAVEL INC. and another two companies including Green World Hotels Co., Ltd. were added to the scope of consolidation through share acquisitions.

H.S. Insurance Co., Ltd. and 29 companies that were previously included in the scope of equity-method applicable companies such as GROUP MIKI HOLDINGS LIMITED, were excluded from the scope of equity-method applicable companies and included in the scope of consolidation as a result of additional share acquisitions.

SYS, Inc. was included in the scope of consolidation owing to its increased significance.

The newly established H.I.S. Hotel Holdings Co., Ltd., H.I.S SUPER POWER Co., Ltd., H.I.S. Okinawa Co., Ltd., KASSE JAPAN Co., Ltd., Kyushu BM Service Co., Ltd., and Kyushu Sanko Planning Co., Ltd. were included in the scope of consolidation.

ASIA ATLANTIC AIRLINES CO., LTD. was excluded from the scope of consolidation as a result of share sale.

##### (2) Non-consolidated subsidiaries

The Company has 33 non-consolidated subsidiaries. The principle non-consolidated subsidiary is listed below.

• H.I.S TRAVEL EGYPT

##### (3) Reason for exclusion of non-consolidated subsidiaries from consolidation

The size of each non-consolidated subsidiary is small, and their total assets, net sales, profit/loss (amount corresponding to equity interest) and retained earnings (amount corresponding to equity interest), etc., do not have a material effect on the consolidated financial statements.

#### 2. Application of equity method

##### (1) Non-consolidated subsidiaries and affiliates accounted for by the equity method

The company applies the equity method to three affiliates. The names of the principle equity-method affiliates are listed in “3. Description of Business of I. Overview of the Company in Part I Information on the Company.”

ASIA ATLANTIC AIRLINES CO., LTD. was excluded from the scope of consolidation as a result of a share sale and included in the scope of equity-method applicable companies.

GROUP MIKI HOLDINGS LIMITED (MIKI GROUP) and H.S. Insurance Co., Ltd. were excluded from the scope of equity-method applicable companies and included in the scope of consolidation as a result of the acquisition of additional shares.

##### (2) Non-consolidated subsidiaries and affiliates not accounted for by the equity method

The profit/loss (amount corresponding to equity interest) and retained earnings (amount corresponding to equity interest), etc., of the 33 non-consolidated subsidiaries and the 14 affiliates not accounted for by the equity method are of such a level that removing them from the consolidated financial statements has only a negligible effect. Since they are not significant as a whole, they are excluded from the scope of equity-method applicable companies. The principle subsidiary in this category is listed below.

[Subsidiaries]

• H.I.S TRAVEL EGYPT

#### 3. Fiscal years, etc. of consolidated subsidiaries

WATERMARK HOTEL JAPAN CO., LTD., an overseas and domestic consolidated subsidiary, has a fiscal year ending on July 31.

Overseas consolidated subsidiary TEN BOSCH CRUISE PANAMA S.A. and domestic consolidated subsidiaries HTB CRUISE Co., Ltd. and SYS Inc. have fiscal years ending on August 31.

The following consolidated subsidiaries have fiscal years ending on September 30: (1) Overseas: Green World Hotels Co., Ltd.; Green World Hotel Zhonghua; (2) Domestic: Orion Tour Co., Ltd.; Travel Marche Co., Ltd.; O.T.B. Co., Ltd.; Japan Holiday Travel CO., LTD; H.I.S. ANA Navigation JAPAN Co. Ltd.; INTERPARK TOUR JAPAN Co., Ltd.; Activity Japan Co., Ltd., H.I.S. Okinawa Co., Ltd.; Huis Ten Bosch Co., Ltd.; Huis Ten Bosch Technical Center Co., Ltd.; HTB Tourism Co., Ltd.; HTB ENERGY CO., LTD.; LAGUNA TEN BOSCH CO., LTD.; H.I.S. Hotel Holdings Co., Ltd.; The Watermark Hotel Nagasaki Co., Ltd.; KYUSHU INDUSTRIAL TRANSPORTATION HOLDINGS CO., LTD.; Kyushu Sanko Bus Co.,



Ltd.; Kyushu Sanko Tourism Co., Ltd.; Kyushu Sanko Landmark Co., Ltd.; Kumamoto Ferry Co., Ltd.; Sanko Bus Co., Ltd.; Kyushu Sanko Seibi Co. Ltd.; Kumamoto Sakuramachi Development Co., Ltd.; Kyushu Sanko Retail Co. Ltd.; KASSE JAPAN Co., Ltd.; Kyushu BM Service Co., Ltd.; Kyushu Sanko Planning Co., Ltd.; H.S. Insurance Co., Ltd.; H.I.S. SUPER POWER Co., Ltd.

In preparing its consolidated financial statements, the Company uses the year-end financial statements of these companies. However, adjustments are made for any significant transactions taking place between the respective fiscal year-ends of the consolidated subsidiaries and the consolidated closing date.

#### 4. Accounting policies

##### (1) Valuation standard and method for significant assets

###### 1) Securities

###### Available-for-sale securities

###### Securities with a determinable fair market value

Stated at fair market value based on the market price, etc., at the fiscal year-end (with any unrealized gains or losses reported directly as a component of net assets and the cost of securities sold calculated by the moving average method).

###### Securities without a determinable fair market value

Generally stated at cost, with cost being determined by the moving average method.

###### 2) Derivatives

Stated at fair market value.

##### (2) Depreciation method for significant assets

###### 1) Property, plant and equipment (excluding lease assets)

The Company and its domestic consolidated subsidiaries mainly apply the straight-line method for buildings (excluding facilities attached to buildings) and structures and facilities attached to buildings acquired on or after April 1, 2016. For other tangible fixed assets, the declining balance method is applied. Overseas consolidated subsidiaries mainly apply the straight-line method.

In addition, the ranges of useful life for tangible fixed assets are mainly as shown below.

|                               |            |
|-------------------------------|------------|
| Buildings                     | 2–65 years |
| Tools, furniture and fixtures | 2–20 years |
| Vessels                       | 5–14 years |

###### 2) Intangible fixed assets (excluding lease assets)

The straight-line method is applied.

In addition, software used in-house is depreciated over its useful life (five years) based on the straight-line method.

###### 3) Lease assets

Lease assets are depreciated using the straight-line method with estimated useful lives equal to lease terms, and zero residual value.

##### (3) Accounting standards for significant provisions

###### 1) Allowance for doubtful accounts

To prepare for losses from uncollectible receivables, estimates of irrecoverable amounts are recorded based on historical loan-loss ratios for general receivables, and on consideration of feasibly recoverable amounts in individual cases of suspected bad debt or other specific receivables.

###### 2) Provision for bonuses

To provide for bonus payments to employees, a provision for bonuses is recorded based on estimated future payments.

###### 3) Provision for Directors' bonuses

To provide for bonus payments to Directors, a provision for bonuses is recorded based on estimated future payments.

###### 4) Provision for Directors' retirement benefits

To prepare for retirement benefit payments to Directors, a provision for directors' retirement benefits is recorded in the amount payable at each year-end in accordance with the Internal Rules on Directors' Retirement Benefits.

###### 5) Provision for repairs

To prepare for payment of future repair costs, a reserve is provided for repair costs.

##### (4) Accounting treatment method for retirement benefits

###### 1) Method for period attribution of retirement benefit estimates

In calculating the projected benefit obligation, the benefit formula standard is used as the basis for attributing projected retirement benefits to the period up to the year under review.

###### 2) Treatment method for actuarial gains (losses), expenses related to prior service costs, and transition obligations

Actuarial gains (losses) are mainly amortized collectively in the consolidated year following the year in which they were accrued.

Prior service is amortized on a straight-line basis over a specified number of years within the average remaining service period of employees when the liability is incurred.

Transition obligations are amortized on a straight-line basis over a specified number of years.

##### (5) Standard for translation of significant foreign-currency-denominated assets or liabilities into Japanese yen

Monetary assets and liabilities denominated in foreign currency are translated into yen at the spot exchange rate prevailing on the consolidated closing date, and the difference arising from such translation is recorded as profits or losses. The assets

and liabilities of overseas consolidated subsidiaries are translated into yen at the spot exchange rates prevailing on consolidated closing date, and their revenues and expenses are translated into yen at the average exchange rate during the year, with the differences arising from such translation included in the foreign currency translation adjustment account and non-controlling interests under consolidated net assets.

(6) Accounting method for significant hedging transactions

1) Hedging methods

The Company in principle accounts for hedging transactions on a deferred basis. It applies the designated hedge accounting treatment (*furiate shori*) to forward exchange contracts and other items that qualify for designated hedge accounting, and the exceptional accounting treatment (*tokurei shori*) to interest rate swaps and other items that qualify for exceptional accounting.

2) Hedging instruments and hedged items

a. Hedging instruments: Forward exchange contracts, currency options

Hedged items: Foreign currency-denominated accounts receivables, foreign currency-denominated operating accounts payable

b. Hedging instruments: Interest rate swaps

Hedged items: Loans

3) Hedging policy

The Company hedges against foreign exchange fluctuation risk and interest rate fluctuation risk in accordance with the Company's internal Financial Risk Management Regulations

4) Evaluation of hedge effectiveness

The effectiveness of hedging is assessed by comparing the cumulative total of the market fluctuations or the cash flow fluctuations for the hedged items with that of the market fluctuations or the cash flow fluctuations for the hedging instrument every six months, and analyzing the fluctuation amount, etc., for the two.

However, the effectiveness of hedging is not evaluated for interest rate swaps subject to exceptional accounting treatment.

(7) Scope of cash and cash equivalents in consolidated statement of cash flows

Cash and cash equivalents consist of cash in hand, deposits drawable at any time, and any short-term investments that are readily convertible, are only exposed to negligible risk of change in value, and are redeemable in three months or less from each acquisition date.

(8) Other significant matters that serve as the basis for preparation of the consolidated financial statements

1) Goodwill amortization and amortization periods

Goodwill is amortized using the straight-line method over a reasonable number of years, not exceeding 20 years.

2) Accounting for consumption taxes

All accounting transactions are booked exclusive of consumption taxes or local consumption taxes.

[Changes in presentation]

[Consolidated Balance Sheet]

“Construction in progress” (18,086 million yen in the consolidated fiscal year ended October 31, 2017), which was included in “Other” under “Property, plant and equipment” in the consolidated fiscal year ended October 31, 2016, is now reported as an independent item due to its increased monetary importance. To reflect this change in presentation, the Company has reconfigured its consolidated financial statements for the previous fiscal year. As a result, 16,363 million yen reported in “Other” under “Property, plant and equipment” in the previous fiscal year has been reclassified as 11,083 million yen for “Construction in progress” and 5,280 million yen for “Other.”

“Goodwill” (6,237 million yen in the fiscal year under review), which was combined with “Intangible assets” in the previous fiscal year, is now reported as an independent item due to its increased monetary importance. To reflect this change in presentation, the Company has reconfigured its consolidated financial statements for the previous fiscal year. As a result, 5,556 million yen reported as “Intangible assets” in the previous fiscal year has been reclassified as 268 million yen for “Goodwill” and 5,288 million yen for “Other.”

[Additional information]

[Application of Implementation Guidance on Recoverability of Deferred Tax Assets]

The Company has applied the “Implementation Guidance on Recoverability of Deferred Tax Assets” (ASBJ Guidance No. 26 issued on March 28, 2016) from the consolidated fiscal year ended October 31, 2017.

[Transactions that grant Company shares to employees, etc., via a trust]

With the aim of offering its employees an incentive to enhance corporate value over the medium to long term, the Company

engages in transactions that grant Company shares to an Employee Stock Ownership Association via a trust.

(1) Overview of transactions

The Company has established the H.I.S. Employee Stock Ownership Association Dedicated Trust (the “Trust”) for the benefit of the participating employee members of the H.I.S. Employee Stock Ownership Association (the “Association”). The Trust will acquire Company shares to the amount that is expected to be acquired by the Association over five years, and sell these to the Association. If the share price increases, accumulating gains in the Trust as of its termination, such funds will be distributed to those employees who qualify as beneficiaries. Conversely, if a decline in the share price gives rise to outstanding trust asset obligations resulting from losses on the sale of shares, the Company will repay the amount to the bank in a lump sum based on the guarantee provision in the loan agreement, so there is no additional burden on employees.

(2) Company shares held in the Trust

Company shares held in the Trust are recorded at their trust book value (but excluding ancillary expenses) in “Treasury shares” under “Net assets.” The total amount of such shares was 456,000 at the end of the consolidated fiscal year ended October 31, 2016, and 363,000 at the end of the consolidated fiscal year ended October 31, 2017 and their book value was 1,403 million yen and 1,116 million yen, respectively.

(3) Book value of loans payable recorded based on application of aggregate amount method

1,430 million yen at the end of the consolidated fiscal year ended October 31, 2016, and 1,136 million yen at the end of the consolidated fiscal year ended October 31, 2017.

[Consolidated balance sheet]

\*1. Pledged assets

Assets pledged as collateral are shown below.

|                                       | (millions of yen)                                       |   |
|---------------------------------------|---|---|
|                                       | Year ended October 31, 2016<br>(As of October 31, 2016) | Year ended October 31, 2017<br>(As of October 31, 2017) |
| Cash and deposits                     | 46  | 46  |
| Buildings                             | 198   | 485   |
| Land                                  | 18,329  | 18,329  |
| Construction in progress              | 1,956   | 1,956   |
| Property, plant and equipment (Other) | 5   | 2   |

Secured liabilities are shown below.

|  | (millions of yen)                                       |   |
|--|---|---|
|  | Year ended October 31, 2016<br>(As of October 31, 2016) | Year ended October 31, 2017<br>(As of October 31, 2017) |
| Short-term loans payable                   | 400   | —   |
| Current portion of long-term loans payable | 353   | 1,270   |
| Long-term loans payable                    | 609   | 6,609   |
| Current liabilities (Other)                | 5   | 4   |
| Fixed liabilities (Other)                  | 15  | 15  |

The Company pledged cash and cash deposits of 569 million yen as collateral for bank guarantees in the consolidated fiscal year ended October 31, 2016. In the consolidated fiscal year ended October 31, 2017, it pledged cash and cash deposits of 574 million yen as collateral for bank guarantees.

\*2. Liability guarantees

(1) The Company guarantees liabilities against bank guarantees for the following company up to the amount shown below.

| Year ended October 31, 2016<br>(As of October 31, 2016) | Year ended October 31, 2017<br>(As of October 31, 2017)                |
|---|--|
| _____   | ASIA ATLANTIC AIRLINES CO., LTD. 270,000 US dollar<br>(30 million yen) |

(2) The Company provides payment guarantees for business transactions for the following company.

| Year ended October 31, 2016<br>(As of October 31, 2016) | Year ended October 31, 2017<br>(As of October 31, 2017)                   |
|---|---|
| _____   | ASIA ATLANTIC AIRLINES CO., LTD. 7 million US dollar<br>(791 million yen) |

\*3 In accordance with the Act on Revaluation of Land, the Company revalued land owned for business use on March 31, 2000, and included the corresponding amounts in the items shown below.

|                          | (millions of yen)                                       |   |
|--------------------------|---|---|
|                          | Year ended October 31, 2016<br>(As of October 31, 2016) | Year ended October 31, 2017<br>(As of October 31, 2017) |
| Land                     | 13,532  | 13,532  |
| Deferred tax liabilities | 4,837   | 4,837   |

\*4. Overdraft agreements

Consolidated subsidiaries KYUSHU INDUSTRIAL TRANSPORTATION HOLDINGS CO., LTD., Kyushu Sanko Landmark Co., Ltd., Kumamoto Sakuramachi Development Co., Ltd., Japan Holiday Travel CO., LTD, and Miki Travel Agency E.U.R.L. have concluded overdraft agreements with 12 banks to ensure efficient procurement of working capital. Unexecuted borrowings based on such agreements at the end of the years ended October 31, 2016 and October 31, 2017 are shown below.

(millions of yen)

|                         | Year ended October 31, 2016<br>(As of October 31, 2016) | Year ended October 31, 2017<br>(As of October 31, 2017) |
|-------------------------|---|---|
| Maximum overdraft limit | 11,325  | 11,335  |
| Outstanding borrowings  | 8,875   | 5,595   |
| Difference              | 2,450   | 5,740   |

\*5. Reduction entries

The reduction entry amounts deducted from the acquisition cost of tangible fixed assets due to the acceptance of national subsidies, etc., and their corresponding breakdown are shown below.

(millions of yen)

|                               | Year ended October 31, 2016<br>(As of October 31, 2016) | Year ended October 31, 2017<br>(As of October 31, 2017) |
|-------------------------------|---|---|
| Buildings                     | 124   | 8   |
| Tools, furniture and fixtures | 9   | 16  |
| Other tangible fixed assets   | 638   | 538   |
| Total                         | 772   | 563   |

\*6. Other

Consolidated fiscal year ended October 31, 2016 (As of October 31, 2016)

Of the 6,557 million yen in long-term loans receivable, 6,271 million yen (60 million US dollar) is owed by the Mongolia-based bank Khan Bank LLC. The bank is a consolidated subsidiary of Sawada Holdings Co., Ltd. (Representative Director and Chairman Hideo Sawada).

Consolidated fiscal year ended October 31, 2017 (As of October 31, 2017)

In addition to 5,570 million yen (50 million US dollar) of the 5,634 million yen in short-term loans receivable, 1,130 million yen (10 million US dollar) of the 1,371 million yen in long-term loans receivable is owed by the Mongolia-based bank Khan Bank LLC. The bank is a consolidated subsidiary of Sawada Holdings Co., Ltd. (Representative Director and Chairman Hideo Sawada).

[Consolidated Statement of Income]

\*1. Selling, general and administrative expenses

The major cost items and amounts included under selling, general and administrative expenses are shown below.

(millions of yen)

|   | Year ended October 31, 2016<br>(November 1, 2015 to<br>October 31, 2016) | Year ended October 31, 2017<br>(November 1, 2016 to<br>October 31, 2017) |
|---|--|--|
| Salaries and allowances                                 | 31,278   | 34,953   |
| Bonuses   | 2,630  | 2,379  |
| Provision for bonuses                                   | 2,485  | 3,518  |
| Directors' bonuses                                      | 21   | 32   |
| Provision of reserve for directors' bonuses             | 105  | 159  |
| Retirement benefit expenses                             | 798  | 1,202  |
| Provision of reserve for directors' retirement benefits | 79   | 75   |
| Legal welfare expenses                                  | 5,112  | 5,733  |
| Advertising expenses                                    | 12,647   | 12,371   |
| Rent expenses   | 5,618  | 6,439  |
| Depreciation and amortization                           | 5,279  | 5,862  |
| Provision of allowance for doubtful accounts            | 7  | 32   |
| Provision of reserve for repairs                        | 15   | 21   |

\*2. Impairment losses

Consolidated fiscal year ended October 31, 2016 (November 1, 2015 and October 31, 2016)

The H.I.S. Group recorded an impairment loss for the following assets in the year ended October 31, 2016.

| Area               | Purpose of use | Type          | Impairment loss<br>(millions of yen) |
|--------------------|----------------|---------------|--------------------------------------|
| Republic of Panama | Business asset | Vessels, etc. | 3,541                                |

Based on the business segmentation, the H.I.S. Group groups assets by the smallest units that generate independent cash flow and for which income and expenditures can be continuously determined.

Consolidated subsidiary TEN BOSCH CRUISE PANAMA S.A. reduced the book value of vessels for which the anticipated revenue generation is no longer expected, thus resulting in reduced potential for investment recovery, to the recoverable amount and recorded an impairment loss equivalent to the reduction as an extraordinary loss. In addition, the recoverable amount of the assets has been determined based on their net realizable value and assessed based on a vessel value appraisal report.

Consolidated fiscal year ended October 31, 2017 (November 1, 2016 and October 31, 2017)

There were no significant impairment losses.

[Consolidated Statement of Comprehensive Income]

\* Reclassification adjustments and tax effects relating to other comprehensive income

(millions of yen)

|   | Year ended October 31, 2016<br>(November 1, 2015 to<br>October 31, 2016) | Year ended October 31, 2017<br>(November 1, 2016 to<br>October 31, 2017) |
|---|--|--|
| Valuation difference on available-for-sale securities:                                |  |  |
| Amount arising during the year  | (299)  | 685  |
| Reclassification adjustments  | 5  | (46)   |
| Before tax effect adjustment  | (294)  | 639  |
| Tax effect amount   | 89   | (200)  |
| Valuation difference on available-for-sale securities                                 | (204)  | 439  |
| Deferred gains or losses on hedges:   |  |  |
| Amount arising during the year  | (112)  | 1,171  |
| Reclassification adjustments  | —  | —  |
| Before tax effect adjustment  | (112)  | 1,171  |
| Tax effect amount   | 16   | (360)  |
| Deferred gains or losses on hedges  | (95)   | 811  |
| Foreign currency translation adjustment:  |  |  |
| Amount arising during the year  | (5,906)  | 2,842  |
| Reclassification adjustments  | —  | —  |
| Before tax effect adjustment  | (5,906)  | 2,842  |
| Tax effect amount   | —  | —  |
| Foreign currency translation adjustment   | (5,906)  | 2,842  |
| Remeasurements of defined benefit plans:  |  |  |
| Amount arising during the year  | (478)  | 228  |
| Reclassification adjustments  | 116  | 663  |
| Before tax effect adjustment  | (362)  | 891  |
| Tax effect amount   | 134  | (309)  |
| Remeasurements of defined benefit plans   | (227)  | 582  |
| Share of other comprehensive income of entities<br>accounted for using equity method: |  |  |
| Amount arising during the fiscal year   | (799)  | (123)  |
| Reclassification adjustments  | —  | —  |
| Share of other comprehensive income of entities<br>accounted for by the equity method | (799)  | (123)  |
| Total other comprehensive income  | (7,234)  | 4,551  |



[Consolidated statement of changes in equity]

Consolidated Fiscal Year ended October 31, 2016 (November 1, 2015 to October 31, 2016)

1. Types and number of issued shares and treasury shares

|                     | Number of shares as of November 1, 2015 | Increase during the year | Decrease during the year | Number of shares as of October 31, 2016 |
|---------------------|---|--------------------------|--------------------------|---|
| Issued shares       |   |                          |                          |   |
| Common stock        | 68,522,936                              | —                        | —                        | 68,522,936                              |
| Total               | 68,522,936                              | —                        | —                        | 68,522,936                              |
| Treasury shares     |   |                          |                          |   |
| Common stock (Note) | 3,673,816                               | 3,448,800                | 44,300                   | 7,078,316                               |
| Total               | 3,673,816                               | 3,448,800                | 44,300                   | 7,078,316                               |

(Notes)

1. The number of common stock of treasury shares includes the Company shares held by the H.I.S. Employee Stock Ownership Association Dedicated Trust. (456,400 as of October 31, 2016)
2. The increase of 3,448,800 shares in common stock of treasury shares reflects the acquisition of treasury shares by a resolution of the Board of Directors (increase of 2,948,100 shares) and the acquisition of Company shares by the H.I.S. Employee Stock Ownership Association Dedicated Trust (increase of 500,700 shares).
3. The decrease of 44,300 shares in common stock of treasury shares reflects the sale of shares from the H.I.S. Employee Stock Ownership Association Dedicated Trust to the H.I.S. Employee Stock Ownership Association.

2. Share subscription rights and treasury share subscription rights

| Classification                  | Breakdown of share subscription rights     | Type of shares subject to share subscription rights | Number of shares subject to share subscription rights |                          |                          |                        | Balance as of October 31, 2016 (millions of yen) |
|---------------------------------|--|---|---|--------------------------|--------------------------|------------------------|--|
|                                 |  |   | As of November 1, 2015                                | Increase during the year | Decrease during the year | As of October 31, 2016 |  |
| Filing Company (Parent company) | Share subscription rights as stock options | —   | —   | —                        | —                        | —                      | 77   |
| Total                           |  | —   | —   | —                        | —                        | —                      | 77   |

3. Dividends

(1) Dividends paid

| Resolution   | Type of shares | Total amount of dividends (millions of yen) | Dividend per share (yen) | Record date      | Effective Date   |
|--|----------------|---|--------------------------|------------------|------------------|
| General Meeting of Shareholders held on January 27, 2016 | Common stock   | 1,426                                       | 22.00                    | October 31, 2015 | January 28, 2016 |

(2) Dividends whose record date falls in the consolidated fiscal year ended October 31, 2016 and whose effective date falls in the next year

| Resolution  | Type of shares | Total amount of dividends (millions of yen) | Appropriated from | Dividend per share (yen) | Record date      | Effective Date   |
|---|----------------|---|-------------------|--------------------------|------------------|------------------|
| General Meeting of Shareholders on January 26, 2017 | Common stock   | 1,361                                       | Retained earnings | 22.00                    | October 31, 2016 | January 27, 2017 |

Note: The total amount of dividends approved by a resolution at the General Shareholders' Meeting on January 26, 2017 includes 10 million yen in dividends for Company shares held by the H.I.S. Employee Stock Ownership Association Dedicated Trust.

Consolidated fiscal year ended October 31, 2017 (November 1, 2016 to October 31, 2017)

1. Types and number of issued shares and treasury shares

|                     | Number of shares as of November 1, 2016 | Increase during the year | Decrease during the year | Number of shares as of October 31, 2017 |
|---------------------|---|--------------------------|--------------------------|---|
| Issued shares       |   |                          |                          |   |
| Common stock        | 68,522,936                              | —                        | —                        | 68,522,936                              |
| Total               | 68,522,936                              | —                        | —                        | 68,522,936                              |
| Treasury shares     |   |                          |                          |   |
| Common stock (Note) | 7,078,316                               | 3,034,500                | 93,310                   | 10,019,506                              |
| Total               | 7,078,316                               | 3,034,500                | 93,310                   | 10,019,506                              |

(Notes)

- The number of common stock of treasury shares includes the Company shares held by the H.I.S. Employee Stock Ownership Association Dedicated Trust. (363,100 as of October 31, 2017)
- The increase of 3,034,500 shares in common stock of treasury shares reflects the acquisition of treasury shares by a resolution of the Board of Directors.
- The decrease of 93,310 shares in common stock of treasury shares reflects a decline of 10 shares attributable to sales of shares less than one unit, and a decline of 93,300 shares from the sale of shares from the H.I.S. Employee Stock Ownership Association Dedicated Trust to the H.I.S. Employee Stock Ownership Association.

2. Share subscription rights and treasury share subscription rights

| Classification                  | Breakdown of share subscription rights     | Type of shares subject to share subscription rights | Number of shares subject to share subscription rights |                          |                          |                        | Balance as of October 31, 2017 (millions of yen) |
|---------------------------------|--|---|---|--------------------------|--------------------------|------------------------|--|
|                                 |  |   | As of November 1, 2016                                | Increase during the year | Decrease during the year | As of October 31, 2017 |  |
| Filing Company (Parent company) | Share subscription rights as stock options | —   | —   | —                        | —                        | —                      | 252  |
| Total                           |  | —   | —   | —                        | —                        | —                      | 252  |

3. Dividends

(1) Dividends paid

| Resolution   | Type of shares | Total amount of dividends (millions of yen) | Dividend per share (yen) | Record date      | Effective Date   |
|--|----------------|---|--------------------------|------------------|------------------|
| General Meeting of Shareholders held on January 26, 2017 | Common stock   | 1,361                                       | 22.00                    | October 31, 2016 | January 27, 2017 |

Note: The total amount of dividends approved by a resolution at the General Shareholders' Meeting on January 26, 2017 includes 10 million yen in dividends for Company shares held by the H.I.S. Employee Stock Ownership Association Dedicated Trust.

(2) Dividends whose record date falls in the consolidated fiscal year ended October 31, 2017 and whose effective date falls in the next year

| Resolution  | Type of shares | Total amount of dividends (millions of yen) | Appropriated from | Dividend per share (yen) | Record date      | Effective Date   |
|---|----------------|---|-------------------|--------------------------|------------------|------------------|
| General Meeting of Shareholders on January 25, 2018 | Common stock   | 1,707                                       | Retained earnings | 29.00                    | October 31, 2017 | January 26, 2018 |

Note: The total amount of dividends approved by a resolution at the General Shareholders' Meeting on January 25, 2018 includes 10 million yen in dividends for Company shares held by the H.I.S. Employee Stock Ownership Association Dedicated Trust.

[Consolidated Statement of Cash Flows]

\* 1. Reconciliation of year-end balance of cash and cash equivalents and items in the Consolidated Balance Sheet

(millions of yen)

|  | Year ended October 31, 2016<br>(November 1, 2015 to<br>October 31, 2016) | Year ended October 31, 2017<br>(November 1, 2016 to<br>October 31, 2017) |
|--|--|--|
| Cash and deposits account  | 159,011  | 193,039  |
| Marketable securities account                                      | 2,998  | 39   |
| Time deposits with maturities of more<br>than three months         | (29,168)   | (24,380)   |
| Marketable securities whose maturity date<br>falls within one year | (2,998)  | (39)   |
| Cash and cash equivalents  | 129,842  | 168,659  |

\* 2. Major breakdown of assets and liabilities of newly consolidated subsidiaries resulting from acquisition of shares

Consolidated fiscal year ended October 31, 2016 (November 1, 2015 to October 31, 2016)

A breakdown of assets and liabilities at the start of consolidation of Activity Japan Co. Ltd., a new subsidiary resulting from the acquisition of shares, along with details regarding the share acquisition price and related expenditures (net) are presented below.

|                                     | (millions of yen) |
|-------------------------------------|-------------------|
| Non-current assets                  | 56                |
| Goodwill                            | 146               |
| Non-controlling interests           | (22)              |
| Share acquisition cost              | 180               |
| Cash and cash equivalents           | —                 |
| Net: Share acquisition expenditures | 180               |

Consolidated fiscal year ended October 31, 2017 (November 1, 2016 to October 31, 2017)

A breakdown of assets and liabilities at the start of consolidation of H.I.S. - MERIT TRAVEL INC. and three other new subsidiaries resulting from the acquisition of shares, along with details regarding share acquisition prices and related expenditures (net) are presented below.

|  | (millions of yen) |
|--|-------------------|
| Current assets                             | 1,640             |
| Non-current assets                         | 1,546             |
| Goodwill                                   | 2,205             |
| Current liabilities                        | (1,362)           |
| Non-current liabilities                    | (50)              |
| Foreign currency translation<br>adjustment | 23                |
| Non-controlling interests                  | (396)             |
| Share acquisition cost                     | 3,607             |
| Cash and cash equivalents                  | (766)             |
| Net: Share acquisition expenditures        | 2,840             |

A breakdown of assets and liabilities at the start of consolidation of GROUP MIKI HOLDINGS LIMITED and 28 other former equity-method affiliates consolidated as a result of additional share acquisitions, along with details regarding share acquisition prices and related expenditures (net) are presented below.

|  | (millions of yen) |
|--|-------------------|
| Current assets                                 | 21,394            |
| Non-current assets                             | 3,220             |
| Goodwill                                       | 1,024             |
| Current liabilities                            | (11,793)          |
| Non-current liabilities                        | (759)             |
| Foreign currency translation adjustment        | 652               |
| Non-controlling interests                      | (3,595)           |
| Equity-method value prior to acquiring control | (5,101)           |
| Gains/losses on step acquisitions              | (1,773)           |
| Share acquisition price                        | 3,268             |
| Cash and cash equivalents                      | (11,713)          |
| Net: Share acquisition expenditures            | 8,444             |

A breakdown of assets and liabilities at the start of consolidation of Green World Hotels Co., Ltd. and another company, two new subsidiaries resulting from the acquisition of shares, along with details regarding the share acquisition price and related expenditures (net) are presented below.

|   | (millions of yen) |
|---|-------------------|
| Current assets                          | 1,504             |
| Non-current assets                      | 6,292             |
| Goodwill                                | 1,469             |
| Current liabilities                     | (2,114)           |
| Non-current liabilities                 | (493)             |
| Foreign currency translation adjustment | 7                 |
| Non-controlling interests               | (2,539)           |
| Share acquisition cost                  | 4,125             |
| Cash and cash equivalents               | (1,160)           |
| Net: Share acquisition expenditures     | 2,965             |

The value of assets and liabilities for other companies that were newly consolidated as result of the acquisition of shares is not significant, and has therefore been omitted.

- \* 3. Major breakdown of assets and liabilities of companies that ceased to be consolidated subsidiaries due to a share sale Consolidated fiscal year ended October 31, 2016 (from November 1, 2015 to October 31, 2016)  
There are no applicable matters to report.

Consolidated fiscal year ended October 31, 2017 (from November 1, 2016 to October 31, 2017)

A breakdown of assets and liabilities for ASIA ATLANTIC AIRLINES CO., LTD., a former consolidated subsidiary removed from the scope of consolidation due to the sale of shares, at the time of said share sale, along with details regarding the share sales price and related expenditures (net) are presented below.

|   | (millions of yen) |
|---|-------------------|
| Current assets  | 1,561             |
| Non-current assets  | 87                |
| Deferred assets   | 17                |
| Current liabilities   | (1,124)           |
| Non-current liabilities   | (46)              |
| Foreign currency translation adjustment                               | (161)             |
| Loss on sales of shares of subsidiaries and affiliates                | (190)             |
| Equity-method value when company ceased to be consolidated subsidiary | (143)             |
| Proceeds from the sale of shares                                      | 0                 |
| Cash and cash equivalents   | (224)             |
| Net: Share sale expenditures  | 224               |

[Lease transactions]

1. Finance leases

[Lessee]

Finance leases not involving transfer of ownership

1) Lease asset details

(a) Property, plant and equipment

Primarily equipment (machinery and devices) supplied for business purposes.

(b) Intangible fixed assets.

There are no applicable matters to report.

2) Depreciation method for lease assets

As stated in “(2) Depreciation method for significant assets of 4. Accounting Policies under Significant matters that serve as the basis for preparation of the consolidated financial statements.”

2. Operating leases

[Lessee]

Future lease payables related to non-cancelable operating leases

(millions of yen)

|                     | Year ended October 31, 2016<br>(As of October 31, 2016) | Year ended October 31, 2017<br>(As of October 31, 2017) |
|---------------------|---|---|
| Due within one year | 295   | 2,207   |
| Due after one year  | 1,449   | 17,591  |
| Total               | 1,745   | 19,798  |

[Lessor]

Future lease receivables related to non-cancelable operating leases

(millions of yen)

|                     | Year ended October 31, 2016<br>(As of October 31, 2016) | Year ended October 31, 2017<br>(As of October 31, 2017) |
|---------------------|---|---|
| Due within one year | 126   | 128   |
| Due after one year  | 1,270   | 1,169   |
| Total               | 1,396   | 1,298   |

[Financial instruments]

1. Conditions of financial instruments

(1) Policy for handling financial instruments

The H.I.S. Group primarily uses short-term deposits for fund management. In addition, it uses loans from financial institutions, corporate bonds, and convertible bond-type bonds with share subscription rights to procure funds. The Group's financial derivatives transactions include forward exchange contract transactions, etc., to mitigate the risks discussed below, crude oil price commodity swap transactions, and interest rate swap transactions to avoid fluctuation risk for interest rates on loans payable. There are no transactions entered into for speculative purposes.

(2) Type and risk of financial instruments

Accounts receivable (trade receivables) and other receivables are exposed to credit risk from customers.

Marketable and investment securities mainly consist of available-for-sale securities (bonds and stocks), which are exposed to the risk of market price fluctuations and credit risk from issuers.

Guarantee deposits are mainly held in connection with lease agreements for stores, and are exposed to credit risk from depositaries.

Operating accounts payable (trade payables), other accounts payable, and income taxes payable and accrued consumption taxes are in principle paid within three months.

Loans payable, corporate bonds, convertible bond-type bonds with share subscription rights, and lease obligations related to finance leases are mainly used to procure funding for working capital or capital expenditures. Loans payable with variable interest rates are exposed to risk from fluctuation in interest rates. In addition, long-term loans payable includes loans from financial institutions held in a trust account in connection with the adoption of a Trust-type Employee Shareholding Incentive Plan (E-Ship®).

Monetary assets and liabilities denominated in foreign currencies are exposed to the risk of foreign exchange fluctuations, but such risk is in principle hedged using forward exchange contracts.

Derivative transactions include forward exchange contracts, etc., aimed at mitigating the risk of foreign exchange fluctuations, crude oil price commodity swap transactions aimed at controlling the risk of fuel price fluctuations, and transactions to avoid the risk of fluctuations in interest rates paid on loans.

For details on hedging instruments, hedging items, hedging policy, and the method for evaluating hedging effectiveness concerning hedge accounting, please refer to the aforementioned "(6) Accounting method for significant hedging transactions of 4. Accounting policies."

(3) Risk management for financial instruments

1) Management of credit risk (risk that customers or counterparties may default)

In accordance with credit management policies, the Company periodically examines new customers and reviews credit limits, and aims to mitigate risk by conducting management of settlement dates and balances for various customers. A similar management is conducted by consolidated subsidiaries, and a management structure is adopted that requires transactions and events of certain degree of significance to be reported to, or approved by, the Company. Credit risk for derivatives transactions is recognized to be largely immaterial because these transactions are conducted only with financial institutions that have a high credit rating.

2) Management of market risk (risk of fluctuations in foreign exchange, interest rate, and fuel price)

For monetary assets and liabilities denominated in foreign currencies, the H.I.S. Group in principle uses forward exchange contracts to hedge against foreign exchange risk for major currencies.

For marketable and investment securities, the Group determines the current fair market value and the financial position of the issuers on a quarterly basis. It also reviews its holdings on a continuing basis, taking account of market conditions and the relationship with the issuer (counterparty).

The basic policy regarding derivatives transactions that take the form of forward exchange contract transactions, etc., is that such transactions must be approved by the Board of Directors, and the execution and management of such transactions handled by the Accounting Department of H.I.S. headquarters. The transaction balance and gains and losses must be periodically reported to the Board of Directors.

Derivatives transactions that take the form of crude oil price commodity swap transactions must be executed in accordance with internal regulations that describe transaction authority and other details.

3) Liquidity risk associated with capital procurement (risk of inability to make payments on due date)

The H.I.S. Group manages liquidity risk by preparing and updating a cash management plan as deemed appropriate and maintaining liquidity on hand in accordance with income and expenditure.

(4) Supplementary explanation of matters relating to fair value of financial instruments, etc.

Fair values of financial instruments include values based on market prices, and values obtained by a reasonable estimate when financial instruments do not have market prices. The fair value calculation reflects variable factors, and is therefore subject to change depending on different assumptions used. In addition, the derivatives contract amounts in the “Derivative transactions” section are not necessarily indicative of the actual market risk associated with derivative transactions.

2. Fair value of financial instruments, etc.

The amounts recorded on the balance sheet, fair values, and the differences between them are shown below. In addition, items for which it is extremely difficult to determine market values are not included. (Refer to “Note: 2”)

Consolidated fiscal year ended October 31, 2016 (As of October 31, 2016)

|   | Amount recorded on<br>balance sheet<br>(millions of yen) | Fair value<br>(millions of yen) | Difference<br>(millions of yen) |
|---|--|---------------------------------|---------------------------------|
| (1) Cash and deposits   | 159,011  | 159,011                         | —                               |
| (2) Accounts receivable - trade (*1)                                | 24,019   | 24,019                          | —                               |
| (3) Operating accounts receivable                                   | 8,084  | 8,084                           | —                               |
| (4) Marketable and investment<br>securities                         | 3,866  | 3,866                           | —                               |
| Available-for-sale securities                                       | 3,866  | 3,866                           | —                               |
| (5) Short-term loans receivable                                     | 65   | 65                              | —                               |
| (6) Short-term loans receivable from<br>subsidiaries and affiliates | 78   | 78                              | —                               |
| (7) Account receivable - other (*1)                                 | 2,978  | 2,978                           | —                               |
| (8) Long-term loans receivable                                      | 6,557  | 6,693                           | 135                             |
| (9) Long-term loans receivable from<br>subsidiaries and affiliate   | 85   | 85                              | —                               |
| (10) Guarantee deposits   | 4,945  | 4,998                           | 53                              |
| <b>Total assets</b>   | <b>209,693</b>   | <b>209,882</b>                  | <b>188</b>                      |
| (1) Operating accounts payable                                      | 18,744   | 18,744                          | —                               |
| (2) Short-term loans payable  | 8,915  | 8,915                           | —                               |
| (3) Accounts payable - other  | 2,487  | 2,487                           | —                               |
| (4) Income taxes payable  | 829  | 829                             | —                               |
| (5) Accrued consumption tax   | 595  | 595                             | —                               |
| (6) Corporate bonds   | 20,000   | 20,318                          | 318                             |
| (7) Convertible bond-type bonds with<br>share subscription rights   | 20,113   | 20,221                          | 108                             |
| (8) Long-term loans payable<br>(including within one year)          | 77,626   | 77,629                          | 3                               |
| (9) Lease obligations (including<br>within one year)                | 3,209  | 3,006                           | (202)                           |
| <b>Total liabilities</b>  | <b>152,521</b>   | <b>152,748</b>                  | <b>226</b>                      |
| Derivatives transactions (*2)                                       | (1,852)  | (1,852)                         | —                               |

(\*1) Allowances for doubtful accounts are excluded from “accounts receivable - trade” and “accounts receivable - other.”

(\*2) Assets and liabilities accrued from derivative transactions are presented on a net basis, and net liabilities are shown in parentheses.

Consolidated fiscal year ended October 31, 2017 (As of October 31, 2017)

|  | Amount recorded on<br>balance sheet<br>(millions of yen) | Fair value<br>(millions of yen) | Difference<br>(millions of yen) |
|--|--|---------------------------------|---------------------------------|
| (1) Cash and deposits  | 193,039  | 193,039                         | —                               |
| (2) Accounts receivable - trade (*1)                             | 34,667   | 34,667                          | —                               |
| (3) Operating accounts receivable                                | 6,194  | 6,194                           | —                               |
| (4) Marketable and investment securities                         | 9,521  | 9,521                           | —                               |
| Available-for-sale securities                                    | 9,521  | 9,521                           | —                               |
| (5) Short-term loans receivable                                  | 5,634  | 5,634                           | —                               |
| (6) Short-term loans receivable from subsidiaries and affiliates | 373  | 373                             | —                               |
| (7) Account receivable - other (*1)                              | 2,359  | 2,359                           | —                               |
| (8) Long-term loans receivable                                   | 1,371  | 1,409                           | 38                              |
| (9) Long-term loans receivable from subsidiaries and affiliate   | 128  | 128                             | —                               |
| (10) Guarantee deposits  | 5,630  | 5,646                           | 16                              |
| <b>Total assets</b>  | <b>258,919</b>   | <b>258,974</b>                  | <b>54</b>                       |
| (1) Operating accounts payable                                   | 23,590   | 23,590                          | —                               |
| (2) Short-term loans payable                                     | 7,474  | 7,474                           | —                               |
| (3) Accounts payable - other                                     | 3,199  | 3,199                           | —                               |
| (4) Income taxes payable   | 3,929  | 3,929                           | —                               |
| (5) Accrued consumption tax                                      | 724  | 724                             | —                               |
| (6) Corporate bonds  | 40,000   | 40,283                          | 283                             |
| (7) Convertible bond-type bonds with share subscription rights   | 20,073   | 20,114                          | 40                              |
| (8) Long-term loans payable (including within one year)          | 103,450  | 103,221                         | (228)                           |
| (9) Lease obligations (including within one year)                | 3,075  | 2,943                           | (132)                           |
| <b>Total liabilities</b>   | <b>205,517</b>   | <b>205,481</b>                  | <b>(36)</b>                     |
| Derivatives transactions (*2)                                    | 310  | 310                             | —                               |

(\*1) Allowances for doubtful accounts are excluded from “accounts receivable - trade” and “accounts receivable - other.”

(\*2) Assets and liabilities accrued from derivative transactions are presented on a net basis, and net liabilities are shown in parentheses.

Note: 1. Calculation of fair value of financial instruments; securities and derivative transactions

Assets

(1) Cash and deposits, (2) Accounts receivable - trade, (3) Operating accounts receivable, (5) Short-term loans receivable, (6) Short-term loans receivable from subsidiaries and affiliates, and (7) Accounts receivable - other  
As these items are settled in a short period of time, their fair value is roughly equal to their book value and therefore determined based on the relevant book value.

(4) Marketable and investment securities

The calculation of the fair value of stocks is based on prices at the stock exchange. The calculation of the market value of bonds is based on the prices at the securities exchange or the prices presented by the counterparty financial institution. In addition, for information on securities according to holding purpose, please see the “Marketable securities” section.

(8) Long-term loans receivable, and (9) Long-term loans receivable from subsidiaries and affiliates

The fair value of these items is the present value calculated by discounting future cash flows at an interest rate equal to an appropriate index such as the yield of government bonds plus the credit spread.



(10) Guarantee deposits

The fair value of guarantee deposits is the present value discounted by the risk-free rate.

Liabilities

(1) Operating accounts payable, (2) Short-term loans payable, (3) Accounts payable - other, (4) Income taxes payable, and (5) Accrued consumption tax

As these items are settled in a short period of time, their fair value is roughly equal to their book value and therefore determined based on the relevant book value.

(6) Corporate bonds, (7) Convertible bond-type bonds with share subscription rights, (8) Long-term loans payable (including within one year), and (9) Lease obligations (including within one year)

The fair value of these items is their present value calculated by discounting total amounts of principle and interests at an assumed rate used for similar new issuances, new borrowings, or lease transactions.

Because loans from financial institutions held in the trust account associated with the adoption of a Trust-type Employee Shareholding Incentive Plan (E-Ship®) are short-term and reflect market interest rates, their fair value is roughly equal to their book value and therefore determined based on the relevant book value.

Derivatives transactions

For information on derivatives transactions, please see the “Derivatives transactions” section.

Note: 2. Financial instruments for which fair values are extremely difficult to determine

(millions of yen)

| Classification   | Year ended October 31, 2016<br>(As of October 31, 2016) | Year ended October 31, 2017<br>(As of October 31, 2017) |
|--|---|---|
| Marketable and investment securities                       |   |   |
| Unlisted stocks, etc. (*1)                                 | 836   | 1,475   |
| Shares of subsidiaries and affiliates                      |   |   |
| Unlisted stocks, etc. (*2)                                 | 6,681   | 1,681   |
| Investments in capital of subsidiaries and affiliates (*3) | 74  | 632   |
| Guarantee deposits (*4)                                    | 1,813   | 2,013   |

(\*1) The “Unlisted stocks, etc.” under “Marketable and investment securities” have no market prices and it is deemed extremely difficult to determine their fair values. Accordingly, they are not included in “(4) Marketable and investment securities.”

(\*2) “Shares of subsidiaries and affiliates” are unlisted stocks, etc., without market prices and it is deemed extremely difficult to determine their fair values. Accordingly, they are not included in the previous table.

(\*3) Investments in capital of subsidiaries and affiliates have no market prices and it is deemed extremely difficult to determine their fair values. Accordingly, they are not included in the previous table.

(\*4) Guarantee deposits for which redemption schedules cannot be reasonably assessed and it is deemed extremely difficult to determine fair value, are not included in “(10) Guarantee deposits.”

Note: 3. Redemption schedule for monetary receivables and securities with maturity after the consolidated closing date  
Consolidated fiscal year ended October 31, 2016 (As of October 31, 2016)

|  | 1 year or less<br>(millions of yen) | 1-5 years<br>(millions of yen) | 5-10 years<br>(millions of yen) | Over 10 years<br>(millions of yen) |
|--|-------------------------------------|--------------------------------|---------------------------------|------------------------------------|
| Cash and deposits  | 159,011                             | —                              | —                               | —                                  |
| Accounts receivable - trade                                  | 24,063                              | —                              | —                               | —                                  |
| Operating accounts receivable                                | 8,084                               | —                              | —                               | —                                  |
| Marketable and investment securities                         |                                     |                                |                                 |                                    |
| Securities held to maturity                                  |                                     |                                |                                 |                                    |
| (1) Corporate bonds  | 300                                 | —                              | —                               | —                                  |
| Available-for-sale securities with maturities                |                                     |                                |                                 |                                    |
| (1) Corporate bonds  | 3,000                               | 50                             | —                               | —                                  |
| Short-term loans receivable                                  | 65                                  | —                              | —                               | —                                  |
| Short-term loans receivable from subsidiaries and affiliates | 78                                  | —                              | —                               | —                                  |
| Accounts receivable - other                                  | 3,001                               | —                              | —                               | —                                  |
| Long-term loans receivable                                   | —                                   | 6,373                          | 183                             | —                                  |
| Long-term loans receivable from subsidiaries and affiliates  | —                                   | 73                             | 12                              | —                                  |

Repayment dates for guarantee deposits are deemed extremely difficult to accurately determine. Accordingly, scheduled redemption amounts are not presented.

Consolidated fiscal year ended October 31, 2017 (As of October 31, 2017)

|  | 1 year or less<br>(millions of yen) | 1-5 years<br>(millions of yen) | 5-10 years<br>(millions of yen) | Over 10 years<br>(millions of yen) |
|--|-------------------------------------|--------------------------------|---------------------------------|------------------------------------|
| Cash and deposits  | 193,039                             | —                              | —                               | —                                  |
| Accounts receivable - trade                                  | 34,801                              | —                              | —                               | —                                  |
| Operating accounts receivable                                | 6,194                               | —                              | —                               | —                                  |
| Marketable and investment securities                         |                                     |                                |                                 |                                    |
| Available-for-sale securities with maturities                |                                     |                                |                                 |                                    |
| (1) Government and municipal bonds, etc.                     | —                                   | 12                             | —                               | —                                  |
| (2) Corporate bonds  | —                                   | 50                             | —                               | —                                  |
| Short-term loans receivable                                  | 5,634                               | —                              | —                               | —                                  |
| Short-term loans receivable from subsidiaries and affiliates | 373                                 | —                              | —                               | —                                  |
| Accounts receivable - other                                  | 2,381                               | —                              | —                               | —                                  |
| Long-term loans receivable                                   | —                                   | 1,371                          | —                               | —                                  |
| Long-term loans receivable from subsidiaries and affiliates  | —                                   | 124                            | 4                               | —                                  |

Repayment dates for guarantee deposits are deemed extremely difficult to accurately determine. Accordingly, scheduled redemption amounts are not presented.

Note: 4. Repayment schedule for corporate bonds, long-term loans and lease obligations after the consolidated closing date  
Consolidated fiscal year ended October 31, 2016 (As of October 31, 2016)

|   | 1 year or less<br>(millions of<br>yen) | 1-2 years<br>(millions of<br>yen) | 2-3 years<br>(millions of<br>yen) | 3-4 years<br>(millions of<br>yen) | 4-5 years<br>(millions of<br>yen) | Over 5 years<br>(millions of<br>yen) |
|---|--|-----------------------------------|-----------------------------------|-----------------------------------|-----------------------------------|--------------------------------------|
| Short-term loans payable                                      | 8,915                                  | —                                 | —                                 | —                                 | —                                 | —                                    |
| Corporate bonds   | —                                      | —                                 | 10,000                            | —                                 | 10,000                            | —                                    |
| Convertible bond-type bonds with<br>share subscription rights | —                                      | —                                 | 20,000                            | —                                 | —                                 | —                                    |
| Long-term loans payable<br>(including within one year) (*)    | 583                                    | 1,770                             | 10,728                            | 30,079                            | 1,465                             | 33,000                               |
| Lease obligations (including<br>within one year)              | 925                                    | 706                               | 605                               | 318                               | 288                               | 364                                  |
| Total   | 10,423                                 | 2,477                             | 41,333                            | 30,397                            | 11,754                            | 33,364                               |

(\*) Long-term loans payable associated with the Trust-type Employee Shareholding Incentive Plan (E-Ship®) total 1,430 million yen. Since there are no conditions for payment amounts by installment payment dates, the amount is listed on the assumption of a bulk payment of the year-end loan balance on the final payment date.

Consolidated fiscal year ended October 31, 2017 (As of October 31, 2017)

|   | 1 year or less<br>(millions of<br>yen) | 1-2 years<br>(millions of<br>yen) | 2-3 years<br>(millions of<br>yen) | 3-4 years<br>(millions of<br>yen) | 4-5 years<br>(millions of<br>yen) | Over 5 years<br>(millions of<br>yen) |
|---|--|-----------------------------------|-----------------------------------|-----------------------------------|-----------------------------------|--------------------------------------|
| Short-term loans payable                                      | 7,474                                  | —                                 | —                                 | —                                 | —                                 | —                                    |
| Corporate bonds   | —                                      | 10,000                            | —                                 | 10,000                            | —                                 | 20,000                               |
| Convertible bond-type bonds with<br>share subscription rights | —                                      | 20,000                            | —                                 | —                                 | —                                 | —                                    |
| Long-term loans payable<br>(including within one year) (*)    | 1,847                                  | 10,842                            | 36,193                            | 1,285                             | 3,114                             | 50,168                               |
| Lease obligations (including<br>within one year)              | 864                                    | 758                               | 448                               | 392                               | 292                               | 319                                  |
| Total   | 10,185                                 | 41,600                            | 36,641                            | 11,678                            | 3,406                             | 70,487                               |

(\*) Long-term loans payable associated with the Trust-type Employee Shareholding Incentive Plan (E-Ship®) total 1,136 million yen. Since there are no conditions for payment amounts by installment payment dates, the amount is listed on the assumption of a bulk payment of the year-end loan balance on the final payment date.

[Marketable securities]

1. Bonds held to maturity

Consolidated fiscal year ended October 31, 2016 (As of October 31, 2016)

There are no applicable matters to report.

In addition, corporate bonds (300 million recorded on the balance sheet) have no market prices, and it is deemed extremely difficult to determine their fair values. Accordingly, they are not presented.

Consolidated fiscal year ended October 31, 2017 (As of October 31, 2017)

There are no applicable matters to report.

2. Available-for-sale securities

year ended October 31, 2016 (As of October 31, 2016)

|  | Type       | Amount recorded on balance sheet (millions of yen) | Acquisition price (millions of yen) | Difference (millions of yen) |
|--|------------|--|-------------------------------------|------------------------------|
| Balance sheet amount above acquisition price | (1) Stocks | 161  | 99                                  | 61                           |
|  | (2) Bonds  | —  | —                                   | —                            |
|  | (3) Other  | 646  | 625                                 | 21                           |
|  | Subtotal   | 807  | 724                                 | 82                           |
| Balance sheet amount below acquisition price | (1) Stocks | —  | —                                   | —                            |
|  | (2) Bonds  | 2,698  | 3,000                               | (301)                        |
|  | (3) Other  | 360  | 364                                 | (4)                          |
|  | Subtotal   | 3,058  | 3,364                               | (305)                        |
| Total  |            | 3,866  | 4,089                               | (222)                        |

Note: Unlisted stocks (536 million yen recorded on the balance sheet) have no market prices, and it is deemed extremely difficult to determine their fair values. Accordingly, they are not included in “Available-for-sale securities” in the previous table.

Consolidated fiscal year ended October 31, 2017 (As of October 31, 2017)

|  | Type       | Amount recorded on balance sheet (millions of yen) | Acquisition price (millions of yen) | Difference (millions of yen) |
|--|------------|--|-------------------------------------|------------------------------|
| Balance sheet amount above acquisition price | (1) Stocks | 237  | 99                                  | 137                          |
|  | (2) Bonds  | —  | —                                   | —                            |
|  | (3) Other  | 7,903  | 7,480                               | 423                          |
|  | Subtotal   | 8,140  | 7,579                               | 560                          |
| Balance sheet amount below acquisition price | (1) Stocks | —  | —                                   | —                            |
|  | (2) Bonds  | 12   | 12                                  | —                            |
|  | (3) Other  | 1,368  | 1,430                               | (62)                         |
|  | Subtotal   | 1,380  | 1,443                               | (62)                         |
| Total  |            | 9,521  | 9,022                               | 498                          |

Note: Unlisted stocks (1,475 million yen recorded on the balance sheet) have no market prices, and it is deemed extremely difficult to determine their fair values. Accordingly, they are not included in “Available-for-sale securities” in the previous table.

3. Available-for-sale securities that were sold

Consolidated fiscal year ended October 31, 2016 (November 1, 2015 to October 31, 2016)

| Type       | Proceeds from sales<br>(millions of yen) | Gains on sales<br>(millions of yen) | Losses on sales<br>(millions of yen) |
|------------|--|-------------------------------------|--------------------------------------|
| (1) Stocks | 9  | 0                                   | —                                    |
| (2) Bonds  | 1,008                                    | 48                                  | —                                    |
| (3) Other  | 0  | —                                   | —                                    |
| Total      | 1,017                                    | 48                                  | —                                    |

Consolidated fiscal year ended October 31, 2017 (November 1, 2016 to October 31, 2017)

There are no applicable matters to report.

[Derivatives transactions]

1. Derivatives transactions for which hedge accounting is not applied

(1) Currency-related transactions

Consolidated fiscal year ended October 31, 2016 (As of October 31, 2016)

| Classification          | Transaction type           | Contract amount,<br>etc.<br>(millions of yen) | Contract<br>amount, etc. /<br>over one year<br>(millions of yen) | Fair value<br>(millions of yen) | Unrealized gain<br>(loss)<br>(millions of yen) |
|-------------------------|----------------------------|---|--|---------------------------------|--|
| Off-market transactions | Forward exchange contracts |   |  |                                 |  |
|                         | Sold                       |   |  |                                 |  |
|                         | USD                        | 1,854   | —  | (25)                            | (25)   |
|                         | EUR                        | 300   | —  | (0)                             | (0)  |
|                         | GBP                        | 38  | —  | 2                               | 2  |
|                         | Bought                     |   |  |                                 |  |
|                         | USD                        | 221   | 88   | (10)                            | (10)   |
|                         | EUR                        | 18  | —  | (1)                             | (1)  |
|                         | SGD                        | 24  | 24   | (0)                             | (0)  |
|                         | AUD                        | 58  | 40   | 0                               | 0  |
| CAD                     | 1,783                      | 11  | (13)   | (13)                            |  |
| Currency options        |                            |   |  |                                 |  |
| Sold                    |                            |   |  |                                 |  |
| USD                     | 14,236                     | —   | (871)  | (871)                           |  |
| Bought                  |                            |   |  |                                 |  |
| USD                     | 14,236                     | —   | 64   | 64                              |  |
| Total                   |                            | 32,771  | 164  | (856)                           | (856)  |

Note: Calculation method of fair value

Fair value is calculated based on the price provided by counterparty financial institutions, etc.

Consolidated fiscal year ended October 31, 2017 (As of October 31, 2017)

| Classification          | Transaction type           | Contract amount, etc.<br>(millions of yen) | Contract amount, etc. /<br>over one year<br>(millions of yen) | Fair value<br>(millions of yen) | Unrealized gain<br>(loss)<br>(millions of yen) |
|-------------------------|----------------------------|--|---|---------------------------------|--|
| Off-market transactions | Forward exchange contracts |  |   |                                 |  |
|                         | Sold                       |  |   |                                 |  |
|                         | USD                        | 676  | —   | (1)                             | (1)  |
|                         | EUR                        | 1,565                                      | —   | 21                              | 21   |
|                         | Bought                     |  |   |                                 |  |
|                         | USD                        | 362  | 86  | 14                              | 14   |
|                         | SGD                        | 32   | 8   | 2                               | 2  |
|                         | AUD                        | 179  | 138   | 12                              | 12   |
|                         | CAD                        | 11   | —   | 1                               | 1  |
|                         | NZD                        | 27   | 27  | (1)                             | (1)  |
| Total                   |                            | 2,855                                      | 260   | 49                              | 49   |

Note: Calculation method of fair value

Fair value is calculated based on the price provided by counterparty financial institutions, etc.

(2) Commodity-related transactions

Consolidated fiscal year ended October 31, 2016 (As of October 31, 2016)

| Classification          | Transaction type                | Contract amount, etc.<br>(millions of yen) | Contract amount, etc. /<br>over one year<br>(millions of yen) | Fair value<br>(millions of yen) | Unrealized gain<br>(loss)<br>(millions of yen) |
|-------------------------|---------------------------------|--|---|---------------------------------|--|
| Off-market transactions | Crude oil price commodity swaps | 604  | 432   | (198)                           | (198)  |
| Total                   |                                 | 604  | 432   | (198)                           | (198)  |

Note: Calculation method of fair value

Fair value is calculated based on the price provided by counterparty banks with which the Company has concluded commodity swap transaction contracts.

Consolidated fiscal year ended October 31, 2017 (As of October 31, 2017)

| Classification          | Transaction type                | Contract amount, etc.<br>(millions of yen) | Contract amount, etc. /<br>over one year<br>(millions of yen) | Fair value<br>(millions of yen) | Unrealized gain<br>(loss)<br>(millions of yen) |
|-------------------------|---------------------------------|--|---|---------------------------------|--|
| Off-market transactions | Crude oil price commodity swaps | 432  | 259   | (113)                           | (113)  |
| Total                   |                                 | 432  | 259   | (113)                           | (113)  |

Note: Calculation method of fair value

Fair value is calculated based on the price provided by counterparty banks with which the Company has concluded commodity swap transaction contracts.

2. Derivative transactions for which hedge accounting is applied

Currency-related transaction

Consolidated fiscal year ended October 31, 2016 (As of October 31, 2016)

| Hedge accounting method   | Transaction type           | Major hedged items          | Year ended October 31, 2016 (As of October 31, 2016) |  |                                 |
|---|----------------------------|-----------------------------|--|--|---------------------------------|
|   |                            |                             | Contract amount, etc.<br>(millions of yen)           | Contract amount, etc. / over one year<br>(millions of yen) | Fair value<br>(millions of yen) |
| Principle method  | Forward exchange contracts |                             |  |  |                                 |
|   | Sold                       |                             |  |  |                                 |
|   | JPY                        | Accounts receivable - trade | 261  | —  | (6)                             |
|   | USD                        |                             | 363  | —  | 4                               |
|   | THB                        |                             | 182  | —  | (1)                             |
|   | Bought                     |                             |  |  |                                 |
|   | USD                        |                             | 4,274  | —  | (190)                           |
|   | EUR                        |                             | 632  | —  | (10)                            |
|   | GBP                        |                             | 15   | —  | (2)                             |
|   | SGD                        | Operating accounts payable  | 70   | —  | (1)                             |
|   | AUD                        |                             | 219  | —  | 1                               |
|   | CAD                        |                             | 12   | —  | (0)                             |
|   | THB                        |                             | 23   | —  | 0                               |
|   | NZD                        |                             | 13   | —  | 0                               |
|   | Currency options           |                             |  |  |                                 |
|   | Sold                       |                             |  |  |                                 |
|   | USD                        | Operating accounts payable  | 9,256  | —  | (608)                           |
|   | Bought                     |                             |  |  |                                 |
|   | USD                        |                             | 9,256  | —  | 20                              |
| Designated hedge accounting ( <i>furiate shori</i> ) for forward exchange contracts, etc. | Forward exchange contracts |                             |  |  |                                 |
|   | Sold                       |                             |  |  |                                 |
|   | JPY                        | Accounts receivable-trade   | 173  | —  |                                 |
|   | USD                        |                             | 163  | —  |                                 |
|   | THB                        |                             | 79   | —  |                                 |
|   | Bought                     |                             |  |  |                                 |
|   | USD                        |                             | 2,478  | —  |                                 |
|   | EUR                        |                             | 384  | —  |                                 |
|   | SGD                        |                             | 4  | —  |                                 |
|   | AUD                        | Operating accounts payable  | 39   | —  | Note 2                          |
|   | CAD                        |                             | 2  | —  |                                 |
|   | THB                        |                             | 3  | —  |                                 |
|   | CNY                        |                             | 0  | —  |                                 |
|   | CHF                        |                             | 2  | —  |                                 |
|   | Currency options           |                             |  |  |                                 |
|   | Sold                       |                             |  |  |                                 |
|   | USD                        | Operating accounts payable  | 910  | —  |                                 |
|   | Bought                     |                             |  |  |                                 |
|   | USD                        |                             | 910  | —  |                                 |
| Total   |                            |                             | 29,735   | —  | (797)                           |

(Notes)

1. Calculation method of fair value

Fair value is calculated based on the price, etc., provided by counterparty financial institutions, etc.

2. Those items subject to designated hedge accounting (*furiate shori*) for forward exchange contracts are treated together with

hedged “Accounts receivable – trade” and “Operating accounts payable.” Accordingly, their fair values are included in the fair values of the related “Accounts receivable – trade” and “Operating accounts payable.”

Consolidated fiscal year ended October 31, 2017 (As of October 31, 2017)

| Hedge accounting method   | Transaction type           | Major hedged items          | Year ended October 31, 2017 (As of October 31, 2017) |   |                              |
|---|----------------------------|-----------------------------|--|---|------------------------------|
|   |                            |                             | Contract amount, etc. (millions of yen)              | Contract amount, etc. / over one year (millions of yen) | Fair value (millions of yen) |
| Principle method  | Forward exchange contracts |                             |  |   |                              |
|   | Sold                       |                             |  |   |                              |
|   | JPY                        | Accounts receivable - trade | 228  | —   | 0                            |
|   | USD                        |                             | 94   | —   | 0                            |
|   | THB                        |                             | 165  | —   | (2)                          |
|   | Bought                     |                             |  |   |                              |
|   | USD                        |                             | 12,165   | —   | 369                          |
|   | EUR                        |                             | 1,488  | —   | 4                            |
|   | GBP                        |                             | 2  | —   | 0                            |
|   | SGD                        | Operating accounts payable  | 13   | —   | 0                            |
|   | AUD                        |                             | 0  | —   | (0)                          |
|   | CAD                        |                             | 9  | —   | 0                            |
| THB   |                            | 17                          | —  | 0   |                              |
| NZD   |                            | 13                          | —  | (0)   |                              |
| Designated hedge accounting ( <i>furiate shori</i> ) for forward exchange contracts, etc. | Forward exchange contracts |                             |  |   |                              |
|   | Sold                       |                             |  |   |                              |
|   | JPY                        | Accounts receivable-trade   | 59   | —   |                              |
|   | USD                        |                             | 70   | —   |                              |
|   | THB                        |                             | 64   | —   |                              |
|   | Bought                     |                             |  |   |                              |
|   | USD                        |                             | 4,136  | —   | Note 2                       |
|   | EUR                        |                             | 464  | —   |                              |
|   | GBP                        |                             | 0  | —   |                              |
|   | SGD                        | Operating accounts payable  | 9  | —   |                              |
|   | AUD                        |                             | 77   | —   |                              |
|   | THB                        |                             | 7  | —   |                              |
| CNY   |                            | 0                           | —  |   |                              |
| CHF   |                            | 2                           | —  |   |                              |
| Total   |                            |                             | 19,091   | —   | 374                          |

Notes)

1. Calculation method of fair value  
Fair value is calculated based on the price, etc., provided by counterparty financial institutions, etc.
2. Those items subject to designated hedge accounting (*furiate shori*) for forward exchange contracts are treated together with hedged “Accounts receivable – trade” and “Operating accounts payable.” Accordingly, their fair values are included in the fair values of the related “Accounts receivable – trade” and “Operating accounts payable.”



[Provision for employee retirement benefits]

1. Outline of adopted employee retirement benefit plans

The Company and some of its consolidated subsidiaries have adopted funded and unfunded defined benefit and defined contribution plans to cover retirement benefits for its employees.

Defined benefit corporate pension plans provide lump-sum retirement benefits or pension benefits based on salary and years of service.

Retirement lump-sum plans provide lump-sum retirement benefits based on salary and years of service.

In addition, the retirement lump-sum plans adopted by some consolidated subsidiaries calculate liabilities and expenses for retirement benefits using the simplified method.

2. Defined benefit plan

(1) Reconciliation of balance of retirement benefit obligation at beginning and end of the year (millions of yen)

|  | Year ended October 31, 2016<br>(November 1, 2015 to<br>October 31, 2016) | Year ended October 31, 2017<br>(November 1, 2016 to<br>October 31, 2017) |
|--|--|--|
| Retirement benefit obligation at beginning of year | 7,299  | 8,159  |
| Service cost                                       | 844  | 961  |
| Interest cost                                      | 48   | 24   |
| Actuarial differences                              | 459  | (227)  |
| Retirement benefits paid                           | (468)  | (636)  |
| Increase from new consolidation                    | —  | 1,382  |
| Foreign currency translation gains                 | (24)   | 10   |
| <b>Projected benefit obligation at end of year</b> | <b>8,159</b>   | <b>9,673</b>   |

Note: Certain consolidated subsidiaries use the simplified method to calculate projected benefit obligation.

(2) Reconciliation of balance of pension assets at beginning and end of the year (millions of yen)

|                                      | Year ended October 31, 2016<br>(November 1, 2015 to<br>October 31, 2016) | Year ended October 31, 2017<br>(November 1, 2016 to<br>October 31, 2017) |
|--------------------------------------|--|--|
| Pension assets at beginning of year  | 1,645  | 1,590  |
| Expected return on plan assets       | 32   | 47   |
| Actuarial differences                | (98)   | 124  |
| Amount of employer contribution      | 122  | 115  |
| Retirement benefits paid             | (112)  | (118)  |
| Increase from new consolidation      | —  | 947  |
| <b>Pension assets at end of year</b> | <b>1,590</b>   | <b>2,707</b>   |

(3) Reconciliation of balance of retirement benefit obligation and pension assets at end of year and net defined benefit liability and asset recorded on the consolidated balance sheet (millions of yen)

|   | Year ended October 31, 2016<br>(As of October 31, 2016) | Year ended October 31, 2017<br>(As of October 31, 2017) |
|---|---|---|
| Retirement benefit obligation for funded plans                        | 1,272   | 2,571   |
| Pension assets  | (1,590)   | (2,707)   |
|   | (318)   | (135)   |
| Retirement benefit obligation for unfunded plans                      | 6,886   | 7,101   |
| <b>Net liability and asset recorded on consolidated balance sheet</b> | <b>6,568</b>  | <b>6,966</b>  |
| Net defined benefit liability   | 6,886   | 7,588   |
| Net defined benefit asset   | (318)   | (622)   |
| <b>Net liability and asset recorded on consolidated balance sheet</b> | <b>6,568</b>  | <b>6,966</b>  |

(4) Retirement benefit expenses and breakdown (millions of yen)

|   | Year ended October 31, 2016<br>(November 1, 2015 to<br>October 31, 2016) | Year ended October 31, 2017<br>(November 1, 2016 to<br>October 31, 2017) |
|---|--|--|
| Service cost  | 844  | 961  |
| Interest cost   | 48   | 24   |
| Expected return on plan assets                              | (32)   | (47)   |
| Amortization of actuarial differences                       | 195  | 540  |
| Amortization of prior service cost                          | (2)  | —  |
| Retirement benefit expenses related to defined-benefit plan | 1,052  | 1,478  |

Note: The retirement benefit expenses incurred by consolidated subsidiaries that adopt a simplified method of calculation are included under service costs.

(5) Adjustments related to retirement benefits

A breakdown of items (prior to tax effect deduction) recorded as adjustments related to retirement benefits is shown below.

|                    | Year ended October 31, 2016<br>(November 1, 2015 to<br>October 31, 2016) | Year ended October 31, 2017<br>(November 1, 2016 to<br>October 31, 2017) |
|--------------------|--|--|
| Prior service cost | 2  | —  |
| Actuarial gain     | 360  | (891)  |
| Total              | 362  | (891)  |

(6) Cumulative adjustments related to retirement benefits

A breakdown of items (prior to tax effect deduction) recorded as cumulative adjustments related to retirement benefits is shown below.

|                                    | Year ended October 31, 2016<br>(As of October 31, 2016) | Year ended October 31, 2017<br>(As of October 31, 2017) |
|------------------------------------|---|---|
| Unrecognized actuarial differences | 695   | (195)   |
| Total                              | 695   | (195)   |

(7) Items related to pension assets

1) Breakdown of principal pension assets

The main categories by percentage of total pension assets are shown below.

|                  | Year ended October 31, 2016<br>(As of October 31, 2016) | Year ended October 31, 2017<br>(As of October 31, 2017) |
|------------------|---|---|
| Bonds            | 25%   | 16%   |
| Stocks           | 34%   | 24%   |
| Regular accounts | 40%   | 59%   |
| Other            | 1%  | 1%  |
| Total            | 100%  | 100%  |

2) Method for setting long-term expected rate of return

The current and projected allocation of pension assets and the current and future long-term rates of return for the diverse assets that comprise the pool of pension assets are considered when determining the long-term expected rate of return on pension assets.

(8) Basis for calculating actuarial differences

Basis for calculating principal actuarial differences

|  | Year ended October 31, 2016<br>(As of October 31, 2016) | Year ended October 31, 2017<br>(As of October 31, 2017) |
|--|---|---|
| Discount rate                                    | 0.1% - 0.4%   | 0.2% - 0.6%   |
| Long-term expected rate of return on plan assets | 2.0%  | 2.0%  |

3. Defined contribution plan

The defined contribution of the Company and its consolidated subsidiaries was 94 million yen for the consolidated fiscal year ended October 31, 2016 and 103 million yen for the consolidated fiscal year ended October 31, 2017.

[Stock options]

1. Stock option expenses and items

(millions of yen)

|  | Year ended October 31, 2016<br>(November 1, 2015 to October 31, 2016) | Year ended October 31, 2017<br>(November 1, 2016 to October 31, 2017) |
|--|---|---|
| Selling, general and administrative expenses | 77  | 175   |

2. Stock options description, scale, and changes

(1) Description of stock options

|   | First Series of Stock Options  | Second Series of Stock Options  |
|---|--|---|
| Category and number of grantees                 | Company employees: 1,322<br>Subsidiary employees: 261  | Directors (excluding Directors serving as Audit & Supervisory Committee Members, non-Executive Directors, non-Permanent Directors, and External Directors): 10<br>Directors of subsidiaries: 34   |
| Number of stock options by stock type<br>(Note) | Common stock: 793,700  | Common stock: 117,000   |
| Grant date                                      | May 23, 2016   | February 28, 2017   |
| Conditions for vesting                          | 1) Persons to whom share subscription rights have been issued (hereinafter, "Rights Holders"), must be Directors or employees of the Company or its subsidiaries upon the time of exercise. However, this restriction shall not apply if so approved by Board of Directors in any of the following cases or based on other justifiable reasons: resignations of Directors who have served out their term, resignations in conjunction with an appointment as a Director, mandatory retirement for employees, and transfer prompted by administrative order.<br>2) If a Rights Holder has died, the corresponding heir will not be permitted to exercise the rights.<br>3) Other conditions are prescribed in share subscription rights allotment agreement entered into by the Company and the Rights Holders. | 1) Persons to whom share subscription rights have been issued (hereinafter, "Rights Holders"), must be Directors or employees of the Company or its subsidiaries upon the time of exercise. However, this shall not apply in the case of resignations of Directors who have served out their term, or when there are deemed to be other justifiable grounds by the Board of Directors.<br>2) If a Rights Holder has died, the corresponding heir will not be permitted to exercise the rights.<br>3) Other conditions are prescribed in share subscription rights allotment agreement entered into by the Company and the Rights Holders. |
| Requisite service period                        | Not specified.   | Same as left  |
| Exercisable period                              | May 1, 2019 – July 31, 2019  | Same as left  |

Note: The number of stock options is shown after conversion into the number of shares.

(2) Stock options scale and related changes

Changes in the scale of stock options that existed in the year ended October 31, 2017 are shown below. The number of stock options is converted into the number of shares.

1) Number of stock options

|                        | First Series of Stock Options | Second Series of Stock Options |
|------------------------|-------------------------------|--------------------------------|
| Non-vested (shares):   |                               |                                |
| As of October 31, 2016 | 793,700                       | —                              |
| Granted                | —                             | 117,000                        |
| Forfeited              | —                             | —                              |
| Vested                 | —                             | —                              |
| Unvested               | 793,700                       | 117,000                        |

2) Price information

|   | First Series of Stock Options | Second Series of Stock Options |
|---|-------------------------------|--------------------------------|
| Exercise price (yen)                          | 2,817                         | 2,978                          |
| Average share price at time of exercise (yen) | —                             | —                              |
| Fair value per share at grant date (yen)      | 619                           | 581                            |

3. Method for estimating per share fair value of stock options

The per share fair value of the stock options granted in the year ended October 31, 2017 is estimated as follows.

1) Valuation method: Black-Scholes model

2) Key inputs and estimation method

|  | Second Series of Stock Options |
|--|--------------------------------|
| Volatility of the share price (Note 1) | 34.66%                         |
| Expected remaining term (Note 2)       | 2.30 years                     |
| Expected dividend (Note 3)             | 0.74%                          |
| Risk-free interest rate (Note 4)       | -0.237%                        |

Notes:

1. Volatility is calculated based on the share price for the period that corresponds to the expected remaining term.
2. The remaining term is estimated based on the assumption that the options are exercised at the midway point of the exercise period.
3. The expected dividend is estimated based on the dividend payment for the year ended October 2016.
4. The risk-free interest rate is the yield on government bonds for the period that corresponds to the expected remaining term.

4. Method for estimating the number of stock options vested

Only the actual number of forfeited stock options is reflected because it is difficult to rationally estimate the actual number of stock options that will be forfeited in the future.

[Tax effect accounting]

1. The principal components of deferred tax assets and deferred tax liabilities are shown below.

(1) Current assets and liabilities

|                                  | (millions of yen)                                       |   |
|----------------------------------|---|---|
|                                  | Year ended October 31, 2016<br>(As of October 31, 2016) | Year ended October 31, 2017<br>(As of October 31, 2017) |
| [Deferred tax assets]            |   |   |
| Provision for bonuses            | 818   | 1,131   |
| Accrued enterprise tax           | 30  | 141   |
| Travel advances received         | 215   | 228   |
| Unsettled gift certificates      | 269   | 316   |
| Unpaid social insurance premiums | 86  | 129   |
| Loss carried forward             | 487   | 30  |
| Other                            | 735   | 360   |
| Deferred tax assets subtotal     | <u>2,643</u>  | <u>2,339</u>  |
| Valuation allowance              | <u>(15)</u>   | <u>(10)</u>   |
| Deferred tax assets total        | <u>2,628</u>  | <u>2,328</u>  |
| [Deferred tax liabilities]       |   |   |
| Deferred losses on hedges        | (1)   | (116)   |
| Other                            | <u>(5)</u>  | <u>110</u>  |
| Deferred tax liabilities total   | <u>(7)</u>  | <u>(5)</u>  |
| Deferred tax assets, net         | <u>2,621</u>  | <u>2,323</u>  |

## (2) Fixed assets and liabilities

|   | (millions of yen)                                       |   |
|---|---|---|
|   | Year ended October 31, 2016<br>(As of October 31, 2016) | Year ended October 31, 2017<br>(As of October 31, 2017) |
| [Deferred tax assets]                                 |   |   |
| Net defined benefit liability                         | 1,527   | 1,752   |
| Provision for Directors' retirement benefits          | 221   | 235   |
| Depreciation  | 3,303   | 3,406   |
| Non-deductible asset retirement obligation expenses   | 100   | 98  |
| Provision for repairs                                 | 227   | 34  |
| Loss on valuation of land                             | 1,028   | 1,028   |
| Loss carried forward                                  | 27  | 807   |
| Other   | 425   | 367   |
| Deferred tax assets subtotal                          | 6,861   | 7,729   |
| Valuation allowance                                   | (3,456)   | (3,367)   |
| Deferred tax assets total                             | 3,405   | 4,362   |
| [Deferred tax liabilities]                            |   |   |
| Valuation difference on available-for-sale securities | (18)  | 122   |
| Other   | (31)  | (122)   |
| Deferred tax liabilities total                        | (50)  | —   |
| Deferred tax assets, net                              | 3,355   | 4,362   |
| [Deferred tax liabilities]                            |   |   |
| Revaluation reserve for land                          | 4,837   | 4,837   |
| Other   | 101   | (30)  |
| Deferred tax liabilities total                        | 4,938   | 4,807   |
| [Deferred tax assets]                                 |   |   |
| Retirement benefit liability                          | (326)   | (349)   |
| Provision for Directors' retirement benefits          | (10)  | (13)  |
| Loss carried forward                                  | (68)  | (70)  |
| Other   | (158)   | 4   |
| Deferred tax assets subtotal                          | (564)   | (429)   |
| Valuation allowance                                   | 380   | 409   |
| Deferred tax assets total                             | (183)   | (20)  |
| Deferred tax liabilities, net                         | 4,754   | 4,786   |

2. Major components of significant differences arising between the effective statutory tax rate and effective income tax rate, after application of tax-effect accounting

|   | Year ended October 31, 2016<br>(As of October 31, 2016) | Year ended October 31, 2017<br>(As of October 31, 2017) |
|---|---|---|
| Effective statutory tax rate  | 33.06%  | 30.86%  |
| [Adjustments]   |   |   |
| Inhabitant tax on per capita basis  | 3.62%   | —   |
| Loss on debt waiver for subsidiaries  | —   | -6.36%  |
| Adjustment to reduce the amount of deferred tax assets at the end of the year due to changes in tax rates | 3.33%   | —   |
| Tax rate differences with overseas consolidated subsidiaries  | 31.32%  | 2.62%   |
| Share of profit (loss) of investments accounted for using the equity method                               | 4.86%   | —   |
| Decline in valuation allowance  | -4.13%  | -3.71%  |
| Non-taxable permanent differences such as dividends income  | -1.23%  | —   |
| Non-deductible permanent differences such as entertainment expenses                                       | 3.50%   | —   |
| Other   | 0.11%   | 0.21%   |
| Actual effective tax rate after adoption of tax effect accounting   | 74.44%  | 23.62%  |

[Business combinations]

Business combination through acquisition

1. Overview of business combination

(1) Name of acquired company and description of business

Name of acquired company: Merit Holdings Inc., and others

Description of business: Travel business

(2) Main reason for business combination

The purpose of the business combination is to further strengthen travel operations and explore business expansion in North America.

(3) Date of business combination

December 27, 2016

(4) Legal form of business combination

Acquisition of shares through cash payment

(5) Name of the company after the business combination

H.I.S. - MERIT TRAVEL INC.

(6) Percentage of voting rights acquired

89.9%

(7) Grounds for determining acquiring company

The Company acquired shares in compensation for cash.

2. Period for which acquired company's business results are included in the consolidated financial statements

From January 1, 2017 to July 31, 2017

3. Breakdown of acquisition cost for the acquired company and each type of payment

|                                 |                          |
|---------------------------------|--------------------------|
| <u>Acquisition price (cash)</u> | <u>3,607 million yen</u> |
| Acquisition cost                | 3,607 million yen        |

4. Main details and amount of acquisition-related expenses

Advisory expenses, etc. 82 million yen

5. Amount of goodwill that arose, reasons for incidence, and amortization method and period

(1) Amount of goodwill that arose

2,205 million yen

(2) Reasons for incidence

The goodwill mainly reflects excess earnings power expected going forward.

(3) Amortization method and period

Amortized using the straight-line method over a period of 15 years.

6. Amount of assets received and liabilities undertaken on the date of the business combination, and their breakdown

|                         | (millions of yen) |
|-------------------------|-------------------|
| Current assets          | 1,640             |
| Non-current assets      | <u>1,546</u>      |
| Total assets            | <u>3,187</u>      |
| Current liabilities     | 1,362             |
| Non-current liabilities | <u>50</u>         |
| Total liabilities       | <u>1,413</u>      |

7. Estimated amount and calculation method for hypothetical impact on consolidated statements of income for the fiscal year under review assuming business combination was completed on the first day of the fiscal year under review

This information has been omitted owing to difficulties in calculating the estimated amount of such impact for the consolidated fiscal year ended October 31, 2017.

Business combination through acquisition

1. Overview of business combination

(1) Name of acquired company and description of business

Name of acquired company: GROUP MIKI HOLDINGS LIMITED, and others

Description of business: Travel business

(2) Main reason for business combination

The purpose of the business combination is to further strengthen collaborative partnerships in travel bound for Europe.

(3) Date of business combination

May 10, 2017

(4) Legal form of business combination

Acquisition of shares through cash payment

(5) Name of the company after the business combination

There is no change.

(6) Percentage of voting rights acquired

Voting rights prior to business combination 46.67%

Additional voting rights acquired on the business combination date 23.63%

Voting rights after business combination 70.30%

(7) Grounds for determining acquiring company

The Company acquired shares in compensation for cash.

2. Period for which acquired company's business results are included in the consolidated financial statements

From May 1, 2017 to July 31, 2017

3. Breakdown of acquisition cost for the acquired company and each type of payment

|  |                          |
|--|--------------------------|
| Cash value of holdings in GROUP MIKI HOLDINGS LIMITED prior to business combination                            | 6,453 million yen        |
| Cash value of additional common stock in GROUP MIKI HOLDINGS LIMITED acquired on the business combination date | 3,268 million yen        |
| Acquisition cost   | <u>9,721 million yen</u> |



4. Difference between the acquisition cost and the total amount of the acquisition costs of the respective transactions leading to the acquisition

Gains on step acquisitions 1,773 million yen

5. Main details and amount of acquisition-related expenses

Advisory expenses, etc. 16 million yen

6. Amount of goodwill that arose, reasons for incidence, and amortization method and period

(1) Amount of goodwill that arose

1,024 million yen

(2) Reasons for incidence

The goodwill mainly reflects excess earnings power expected going forward.

(3) Amortization method and period

Amortized using the straight-line method over a period of 12 years

7. Amount of assets received and liabilities undertaken on the date of the business combination and their breakdown

(millions of yen)

|                         |               |
|-------------------------|---------------|
| Current assets          | 21,394        |
| Non-current assets      | <u>3,220</u>  |
| Total assets            | <u>24,615</u> |
| Current liabilities     | 11,793        |
| Non-current liabilities | <u>759</u>    |
| Total liabilities       | <u>12,552</u> |

8. Estimated amount and calculation method for hypothetical impact on consolidated statements of income for the fiscal year under review assuming business combination was completed on the first day of the fiscal year under review

This information has been omitted owing to difficulties in calculating the estimated amount of such impact for the consolidated fiscal year ended October 31, 2017.

#### Business combination through acquisition

1. Overview of business combination

(1) Name of acquired company and description of business

Name of acquired company: Green World Hotels Co., Ltd. and others

Description of business: Hotel operations

(2) Main reason for business combination

The purpose of the business combination is to further strengthen and expand hotel and other operations in Chinese-speaking countries.

(3) Date of business combination

May 23, 2017

(4) Legal form of business combination

Acquisition of shares through third-party allotment

(5) Name of the company after the business combination

There is no change.

(6) Percentage of voting rights acquired

Voting rights prior to business combination 33.32%

Additional voting rights acquired on the business combination date 17.68%

Voting rights after business combination 51.00%

(7) Grounds for determining acquiring company

The Company acquired shares in compensation for cash.

2. Period for which acquired company's business results are included in the consolidated financial statements

From May 1, 2017 to July 31, 2017

3. Breakdown of acquisition cost for the acquired company and each type of payment

|   |                   |
|---|-------------------|
| Cash value of holdings in Green World Hotels Co., Ltd. prior to business combination                            | 1,986 million yen |
| Cash value of additional common stock in Green World Hotels Co., Ltd. acquired on the business combination date | 2,151 million yen |
| Acquisition cost  | 4,138 million yen |

4. Difference between the acquisition cost and the total amount of the acquisition costs of the respective transactions leading to the acquisition

|                            |                |
|----------------------------|----------------|
| Gains on step acquisitions | 23 million yen |
|----------------------------|----------------|

5. Content and amount of main acquisition-related expenses

|                         |               |
|-------------------------|---------------|
| Advisory expenses, etc. | 7 million yen |
|-------------------------|---------------|

6. Amount of goodwill that arose, reasons for incidence, and amortization method and period

(1) Amount of goodwill that arose

1,469 million yen

(2) Reasons for incidence

The goodwill mainly reflects excess earnings power expected going forward.

(3) Amortization method and period

Amortized using the straight-line method over a period of 18 years

7. Amount of assets received and liabilities undertaken on the date of the business combination and their breakdown

(millions of yen)

|                         |       |
|-------------------------|-------|
| Current assets          | 1,504 |
| Non-current assets      | 6,292 |
| Total assets            | 7,796 |
| Current liabilities     | 2,114 |
| Non-current liabilities | 493   |
| Total liabilities       | 2,607 |

8. Estimated amount and calculation method for hypothetical impact on consolidated statements of income for the fiscal year under review assuming business combination was completed on the first day of the fiscal year under review

This information has been omitted owing to difficulties in calculating the estimated amount of such impact for the consolidated fiscal year ended October 31, 2017.

## Business Divestiture

1. Overview of business divestiture

(1) Name of receiver of divested business

Aerolance Co., Ltd.

(A company based in Bangkok, Thailand that handles legal procedures covering a range of aspects from the establishment of airline companies to operation of such companies, and provides related advisory and consulting services)

(2) Description of the divested business

Consolidated subsidiary: ASIA ATLANTIC AIRLINES CO., LTD.

Description of business: Transportation business

(3) Main reason for business divestiture

ASIA ATLANTIC AIRLINES CO., LTD., was sold to Aerolance Co., Ltd. so that the former can rapidly strengthen its position as a regular flight service company in Thailand. Going forward, ASIA ATLANTIC AIRLINES CO., LTD. plans to raise funds through a third-party allotment to Aerolance Co., Ltd. and Sky Cruiser Holding Co., Ltd., a company involved in aircraft leasing, aircraft component leasing, and consulting for related operations. These capital increases are not merely intended to strengthen the financial base of the company, but also aim to (1) reinforce the management foundation through backing from Aerolance Co., Ltd., (2) procure additional equipment through Sky Cruiser Holding

Co., Ltd., and (3) promote the establishment of (and corresponding sales for) new routes to Asia centered on China by leveraging the existing network of Sky Cruiser Holding Co., Ltd.

(4) Date of divestiture

June 12, 2017

(5) Other matters related to transaction overview, including legal framework

Consideration for transfer of business limited to assets including cash and cash equivalents.

2. Summary of accounting measures taken

(1) Loss from transfer

Loss of 190 million yen

(2) Appropriate book value and details of assets and liabilities related to transferred business

|                         | (millions of yen) |
|-------------------------|-------------------|
| Current assets          | 1,561             |
| Non-current assets      | 87                |
| Deferred assets         | 17                |
| Total assets            | <u>1,666</u>      |
| Current liabilities     | 1,124             |
| Non-current liabilities | 46                |
| Total liabilities       | <u>1,170</u>      |

(3) Accounting

The difference in the sale price for the shares of ASIA ATLANTIC AIRLINES CO., LTD. and its consolidated book value was booked as “Loss on sales of stocks of subsidiaries and affiliates” under non-operating expenses.

3. Name of the reportable segment that included the divested business

Transportation Business

4. Approximate amount of profit and loss related to the divested business reported in the consolidated statement of income for the fiscal year under review

|                |                   |
|----------------|-------------------|
| Net sales      | 3,180 million yen |
| Operating loss | 840 million yen   |

[Asset retirement obligations]

The overall value of asset retirement obligations is not significant, and is therefore omitted.

[Segment information, etc.]

Segment information

1. Outline of reportable segments

H.I.S. Group’s reportable segments are constituent units of the Group for which separate financial information is available and which are evaluated regularly by the chief decision-making authority to determine the allocation of management resources and assess performance. The Group is composed of five businesses, namely the Travel Business, the Huis Ten Bosch Group, the Hotel Business, the Transportation Business, and the Kyushu Sanko Group, and is engaged in business activities by developing comprehensive domestic and overseas strategies. Accordingly, the Group designates the Travel Business, the Huis Ten Bosch Group, the Hotel Business, the Transportation Business, and the Kyushu Sanko Group as its reportable segments.

The Travel Business engages in the arrangement, planning, and sales of overseas and domestic travel products, and peripheral operations. The Huis Ten Bosch Group owns and manages theme parks in Sasebo City, Nagasaki Prefecture and Gamagori City, Aichi Prefecture. It also develops renewable energy and other new energy sources, and is engaged in incidental businesses. The Hotel Business engages in hotel operations in Australia, Guam, Indonesia, Taiwan, and Japan, as well as in incidental businesses. The Transportation Business is engaged in international passenger operations such as international charter, and engages in peripheral operations. The Kyushu Sanko Group, whose holding company is KYUSHU INDUSTRIAL TRANSPORTATION HOLDINGS CO., LTD., is a segment of the H.I.S. Group that engages in vehicle transportation, real estate rental, and other operations.

2. Calculation methods for net sales, profit (loss), assets, and other items for each reportable segment

The accounting methods used for reportable segments are roughly the same as those discussed under “Significant matters that serve as the basis for preparation of the consolidated financial statements.”

Segment income figures are the same as operating income figures.

Intersegment internal income and transfers are based on market prices.

3. Information about net sales, profit (loss), assets, and other items for each reportable segment

Consolidated fiscal year ended October 31, 2016 (November 1, 2015 to October 31, 2016)

(millions of yen)

|   | Reportable segments |                            |                   |                            |                          |          | Other<br>Businesses<br>*1 | Total   | Adjustments<br>*2 | Amount on<br>consolidated<br>financial<br>statements *3 |
|---|---------------------|----------------------------|-------------------|----------------------------|--------------------------|----------|---------------------------|---------|-------------------|---|
|   | Travel<br>Business  | Huis Ten<br>Bosch<br>Group | Hotel<br>Business | Transportation<br>Business | Kyushu<br>Sanko<br>Group | Subtotal |                           |         |                   |   |
| Net sales   |                     |                            |                   |                            |                          |          |                           |         |                   |   |
| Sales to outside customers                                      | 465,536             | 30,283                     | 5,563             | 2,045                      | 20,230                   | 523,660  | 45                        | 523,705 | —                 | 523,705   |
| Inter-segment sales/transfers                                   | 235                 | 1,580                      | 1,045             | 1,279                      | 17                       | 4,158    | —                         | 4,158   | (4,158)           | —   |
| Total   | 465,772             | 31,863                     | 6,609             | 3,325                      | 20,248                   | 527,819  | 45                        | 527,864 | (4,158)           | 523,705   |
| Segment incomes (losses)  | 9,038               | 7,485                      | 556               | (834)                      | 89                       | 16,334   | 30                        | 16,364  | (2,090)           | 14,274  |
| Segment assets  | 190,723             | 37,733                     | 12,197            | 1,017                      | 41,367                   | 283,039  | 2,035                     | 285,075 | 47,309            | 332,385   |
| Others  |                     |                            |                   |                            |                          |          |                           |         |                   |   |
| Depreciation  | 2,284               | 1,827                      | 839               | 29                         | 1,009                    | 5,990    | 15                        | 6,005   | 499               | 6,504   |
| Investment in equity method affiliates                          | 5,004               | —                          | —                 | —                          | —                        | 5,004    | 404                       | 5,408   | —                 | 5,408   |
| Increase in property, plant and equipment and intangible assets | 3,740               | 6,332                      | 166               | 5                          | 3,475                    | 13,721   | 680                       | 14,401  | 99                | 14,500  |

(Notes)

1. “Other Businesses” refer to business segments such as the real estate business, etc., not included in the reportable segments.
2. The details of “Adjustments” are as follows:
  - (1) Adjustment on segment incomes (losses) amounting to -2,090 million yen reflects corporate-wide expenses not allocated to each reportable segment, and refers to expenses at the headquarter administration division, which are not attributable to reportable segments.
  - (2) Adjustment on segment assets amounting to 47,309 million yen includes -2,007 million yen in elimination of intersegment transactions, and corporate-wide assets of 49,317 million yen not allocated to each reportable segment. Corporate-wide assets refer to surplus fund management (cash and cash equivalents, and securities) at the parent company, and assets of the headquarter administration division.
  - (3) Adjustment on depreciation amounting to 499 million yen is corporate-wide expenses not allocated to each reportable segment and refers to depreciation expense at the parent company’s headquarter administration division, which is not attributable to the reportable segments.
  - (4) Adjustment on increase in property, plant and equipment and intangible assets amounting to 99 million yen is capital investment at the parent company, which is not attributable to the reportable segments.
3. Segment incomes (losses) are adjusted under operating income in the consolidated financial statements.

4. EBITDA for each reportable segment is presented below.

(millions of yen)

|                          | Travel Business | Huis Ten Bosch Group | Hotel Business | Transportation Business | Kyushu Sanko Group | Other | Total  |
|--------------------------|-----------------|----------------------|----------------|-------------------------|--------------------|-------|--------|
| Segment incomes (losses) | 9,038           | 7,485                | 556            | (834)                   | 89                 | 30    | 16,364 |
| Depreciation             | 2,348           | 1,831                | 839            | 29                      | 1,142              | 15    | 6,206  |
| EBITDA (Note)            | 11,387          | 9,316                | 1,395          | (805)                   | 1,231              | 45    | 22,571 |

Note: EBITDA reflects segment incomes (losses) plus depreciation and goodwill amortization.

Consolidated fiscal year ended October 31, 2017 (November 1, 2016 to October 31, 2017)

(millions of yen)

|   | Reportable segments |                      |                |                         |                    |          | Other Businesses *1 | Total   | Adjustments *2 | Amount on consolidated financial statements *3 |
|---|---------------------|----------------------|----------------|-------------------------|--------------------|----------|---------------------|---------|----------------|--|
|   | Travel Business     | Huis Ten Bosch Group | Hotel Business | Transportation Business | Kyushu Sanko Group | Subtotal |                     |         |                |  |
| Net sales   |                     |                      |                |                         |                    |          |                     |         |                |  |
| Sales to outside customers                                      | 535,512             | 35,239               | 7,213          | 3,180                   | 22,259             | 603,406  | 2,617               | 606,024 | —              | 606,024  |
| Inter-segment sales/transfers                                   | 1,313               | 1,541                | 963            | 92                      | 22                 | 3,933    | 1                   | 3,934   | (3,934)        | —  |
| Total   | 536,826             | 36,780               | 8,177          | 3,272                   | 22,282             | 607,339  | 2,618               | 609,958 | (3,934)        | 606,024  |
| Segment incomes (losses)  | 9,900               | 7,688                | 764            | (840)                   | 564                | 18,077   | 1                   | 18,078  | (2,162)        | 15,915   |
| Segment assets  | 210,271             | 46,723               | 31,525         | 385                     | 49,186             | 338,091  | 9,652               | 347,743 | 75,065         | 422,809  |
| Others  |                     |                      |                |                         |                    |          |                     |         |                |  |
| Depreciation  | 2,693               | 1,869                | 928            | 17                      | 958                | 6,468    | 90                  | 6,558   | 468            | 7,027  |
| Investment in equity method affiliates                          | 201                 | —                    | —              | —                       | —                  | 201      | —                   | 201     | —              | 201  |
| Increase in Property, plant and equipment and intangible assets | 2,762               | 3,137                | 5,744          | 9                       | 8,713              | 20,368   | 5,419               | 25,788  | 19             | 25,807   |

(Notes)

- “Other Businesses” refer to business segments such as the non-life insurance business and real estate business, etc., not included in the reportable segments.
- The details of “Adjustments” are as follows:
  - Adjustment on segment incomes (losses) amounting to -2,162 million yen reflects corporate-wide expenses not allocated to each reportable segment, and refers to expenses at the parent company’s headquarter administration division, which are not attributable to reportable segments.
  - Adjustment on segment assets amounting to 75,065 million yen includes -1,532 million yen in elimination of intersegment transactions, and corporate-wide assets of 76,598 million yen not allocated to each reportable segment. Corporate-wide assets refer to surplus fund management (cash and deposits, and securities) at the parent company, and assets of the administration division.
  - Adjustment on depreciation amounting to 468 million yen is corporate-wide expenses not allocated to each reportable segment, and refers to depreciation at the parent company’s headquarter administration division, which is not attributable to the reportable segments.
  - Adjustment on increase in property, plant and equipment and intangible assets amounting to 19 million yen is capital investment at the parent company, which is not attributable to the reportable segments.
- Segment incomes (losses) are adjusted with operating incomes in the consolidated financial statements.

4. EBITDA for each reportable segment is presented below.

(millions of yen)

|                          | Travel Business | Huis Ten Bosch Group | Hotel Business | Transportation Business | Kyushu Sanko Group | Other | Total  |
|--------------------------|-----------------|----------------------|----------------|-------------------------|--------------------|-------|--------|
| Segment incomes (losses) | 9,900           | 7,688                | 764            | (840)                   | 564                | 1     | 18,078 |
| Depreciation             | 2,868           | 1,869                | 949            | 17                      | 1,058              | 149   | 6,913  |
| EBITDA (Note)            | 12,768          | 9,558                | 1,713          | (822)                   | 1,622              | 150   | 24,991 |

Note: EBITDA reflects segment incomes (or losses) plus depreciation and goodwill amortization.

[Related information]

Consolidated fiscal year ended October 31, 2016 (November 1, 2015 to October 31, 2016)

1. Information by product and service

This information has been omitted because similar information is included under Segment information, etc.

2. Information by region

(1) Net sales

(millions of yen)

| Japan   | U.S.   | Asia   | Oceania | Europe, Middle East, Africa | Total   |
|---------|--------|--------|---------|-----------------------------|---------|
| 476,719 | 11,388 | 21,520 | 4,119   | 9,957                       | 523,705 |

(2) Property, plant and equipment

(millions of yen)

| Japan  | U.S.  | Asia  | Oceania | Europe, Middle East, Africa | Total  |
|--------|-------|-------|---------|-----------------------------|--------|
| 53,620 | 2,352 | 1,535 | 4,736   | 45                          | 62,291 |

3. Information by major customer

This information has been omitted as there were no sales from a single external customer accounting for 10% or more of net sales on the consolidated income statement.

Consolidated fiscal year ended October 31, 2017 (November 1, 2016 to October 31, 2017)

1. Information by product and service

This information has been omitted because similar information is included under Segment information, etc.

2. Information by region

(1) Net sales

(millions of yen)

| Japan   | U.S.   | Asia   | Oceania | Europe, Middle East, Africa | Total   |
|---------|--------|--------|---------|-----------------------------|---------|
| 523,134 | 28,218 | 24,753 | 4,499   | 25,417                      | 606,024 |

(2) Property, plant and equipment

(millions of yen)

| Japan  | U.S.  | Asia  | Oceania | Europe, Middle East, Africa | Total  |
|--------|-------|-------|---------|-----------------------------|--------|
| 69,822 | 1,265 | 6,505 | 5,077   | 330                         | 83,001 |

3. Information by major customer

This information has been omitted as there were no sales from a single external customer accounting for 10% or more of net sales on the consolidated income statement.

[Information regarding impairment losses on fixed assets by reportable segment]

Consolidated fiscal year ended October 31, 2016 (November 1, 2015 to October 31, 2016)

(millions of yen)

|                   | Reportable segment |                      |                |                         |                    |          | Other Businesses (Note) | Eliminations & Corporate | Total |
|-------------------|--------------------|----------------------|----------------|-------------------------|--------------------|----------|-------------------------|--------------------------|-------|
|                   | Travel Business    | Huis Ten Bosch Group | Hotel Business | Transportation Business | Kyushu Sanko Group | Subtotal |                         |                          |       |
| Impairment losses | —                  | 3,541                | —              | —                       | —                  | 3,541    | —                       | —                        | 3,541 |

Note: "Other Businesses" indicate figures for the real estate business, etc.

Consolidated fiscal year ended October 31, 2017 (November 1, 2016 to October 31, 2017)

(millions of yen)

|                   | Reportable segment |                      |                |                         |                    |          | Other Businesses (Note) | Eliminations & Corporate | Total |
|-------------------|--------------------|----------------------|----------------|-------------------------|--------------------|----------|-------------------------|--------------------------|-------|
|                   | Travel Business    | Huis Ten Bosch Group | Hotel Business | Transportation Business | Kyushu Sanko Group | Subtotal |                         |                          |       |
| Impairment losses | 284                | —                    | —              | —                       | —                  | 284      | —                       | —                        | 284   |

Note: "Other Businesses" indicate figures for the non-life insurance and real estate businesses, etc.

[Information regarding amortization of goodwill and unamortized balance by reportable segment]

Consolidated fiscal year ended October 31, 2016 (November 1, 2015 to October 31, 2016)

(millions of yen)

|   | Reportable segment |                      |                |                         |                    |          | Other Businesses (Note) | Eliminations & Corporate | Total |
|---|--------------------|----------------------|----------------|-------------------------|--------------------|----------|-------------------------|--------------------------|-------|
|   | Travel Business    | Huis Ten Bosch Group | Hotel Business | Transportation Business | Kyushu Sanko Group | Subtotal |                         |                          |       |
| Amortization for the year ended October 31, 2016        | 64                 | 3                    | —              | —                       | 133                | 201      | —                       | —                        | 201   |
| Unamortized balance for the year ended October 31, 2016 | 168                | —                    | —              | —                       | 99                 | 268      | —                       | —                        | 268   |

Note: "Other Businesses" indicate figures for the real estate business, etc.

Fiscal year ended October 31, 2017 (November 1, 2016 to October 31, 2017)

(millions of yen)

|   | Reportable segment |                      |                |                         |                    |          | Other Businesses (Note) | Eliminations & Corporate | Total |
|---|--------------------|----------------------|----------------|-------------------------|--------------------|----------|-------------------------|--------------------------|-------|
|   | Travel Business    | Huis Ten Bosch Group | Hotel Business | Transportation Business | Kyushu Sanko Group | Subtotal |                         |                          |       |
| Amortization for the year ended October 31, 2017        | 174                | —                    | 20             | —                       | 99                 | 295      | 59                      | —                        | 354   |
| Unamortized balance for the year ended October 31, 2017 | 3,390              | —                    | 1,461          | —                       | —                  | 4,851    | 1,385                   | —                        | 6,237 |

Note: "Other Businesses" indicate figures for the non-life insurance and real estate businesses, etc.

[Information regarding gains on negative goodwill by reportable segment]

Consolidated fiscal year ended October 31, 2016 (November 1, 2015 to October 31, 2016)

There are no applicable matters to report.

Consolidated fiscal year ended October 31, 2017 (November 1, 2016 to October 31, 2017)

There are no applicable matters to report.



[Related parties]

1. Transactions with related parties

(1) Transactions between the Company and related parties

Directors and major shareholders of the Company, etc. (only in the case of individuals)

Consolidated fiscal year ended October 31, 2016 (November 1, 2015 to October 31, 2016)

There are no applicable matters to report.

Consolidated fiscal year ended October 31, 2017 (November 1, 2016 to October 31, 2017)

There are no applicable matters to report.

(2) Transactions between consolidated subsidiaries of the Company and related parties

Directors and major shareholders of the Company, etc. (only in the case of individuals)

Consolidated fiscal year ended October 31, 2016 (November 1, 2015 to October 31, 2016)

| Category  | Company name       | Location            | Paid-in capital or investment (millions of yen) | Business description | Share of voting rights held (%) | Relationship with related parties         | Nature of transactions                    | Transaction value (millions of yen) | Item                        | Balance at yearend (millions of yen) |
|---|--------------------|---------------------|---|----------------------|---------------------------------|---|---|-------------------------------------|-----------------------------|--------------------------------------|
| Entities in which Directors of the Company or their relatives hold a majority of voting rights. (including subsidiaries of such entities) | Best1.com Co. Ltd. | Shibuya Ward, Tokyo | 83  | Travel business      | —                               | Sales of cruise travel and other products | Sales of cruise travel and other products | 115                                 | Accounts receivable - trade | 7                                    |

(Notes)

1. Conditions of transactions and policy for determining such conditions

Sales of cruise travel and other products are governed by the same conditions as sales to unrelated parties.

2. The Company's representative director Hideo Sawada and his near relative own 100% of the voting rights of Best1.com Co. Ltd.

Consolidated fiscal year ended October 31, 2017 (November 1, 2016 to October 31, 2017)

| Category  | Company name       | Location            | Paid-in capital or investment (millions of yen) | Business description | Share of voting rights held (%) | Relationship with related parties         | Nature of transactions                    | Transaction value (millions of yen) | Item                        | Balance at yearend (millions of yen) |
|---|--------------------|---------------------|---|----------------------|---------------------------------|---|---|-------------------------------------|-----------------------------|--------------------------------------|
| Entities in which Directors of the Company or their relatives hold a majority of voting rights. (including subsidiaries of such entities) | Best1.com Co. Ltd. | Shibuya Ward, Tokyo | 132   | Travel business      | —                               | Sales of cruise travel and other products | Sales of cruise travel and other products | 91                                  | Accounts receivable - trade | 2                                    |

(Notes)

1. Conditions of transactions and policy for determining such conditions

Sales of cruise travel and other products are governed by the same conditions as sales to unrelated parties.

2. The Company's representative director Hideo Sawada and his near relative own 100% of the voting rights of Best1.com Co. Ltd.

2. Notes concerning the parent company and significant affiliates

(1) Information regarding the parent company

There are no applicable matters to report.

(2) Summary of financial information for significant affiliates

There are no applicable matters to report.

[Per share information]

|                            | Year ended October 31, 2016<br>(November 1, 2015 to<br>October 31, 2016) | Year ended October 31, 2017<br>(November 1, 2016 to<br>October 31, 2017) |
|----------------------------|--|--|
| Net assets per share       | 1,295.35 yen   | 1,466.13 yen   |
| Earnings per share         | 4.25 yen   | 219.52 yen   |
| Diluted earnings per share | 3.58 yen   | 204.60 yen   |

(Notes)

- The Company has adopted a Trust-type Employee Shareholding Incentive Plan (E-Ship<sup>®</sup>), and the Company shares held in the H.I.S. Employee Stock Ownership Association Dedicated Trust are recorded under “Treasury shares” in the consolidated financial statements. Accordingly, the “number of common stock of treasury shares at fiscal yearend” applied in the calculation of net asset per share includes such shares held in the H.I.S. Employee Stock Ownership Association Dedicated Trust (456,000 shares in the consolidated fiscal year ended October 31, 2016; 363,000 shares in the consolidated fiscal year ended October 31, 2017).
- The basis of calculation for earnings per share and diluted earnings per share is shown below.

|   | Year ended October 31, 2016<br>(November 1, 2015 to<br>October 31, 2016) | Year ended October 31, 2017<br>(November 1, 2016 to<br>October 31, 2017) |
|---|--|--|
| Earnings per share  |  |  |
| Profit attributable to owners of the parent<br>(millions of yen)                              | 267  | 13,259   |
| Amount not attributable to common shareholders<br>(millions of yen)                           | —  | —  |
| Profit attributable to owners of the parent with<br>respect to common stock (millions of yen) | 267  | 13,259   |
| Average number of shares during the fiscal year<br>(thousand shares)                          | 62,881   | 60,401   |
| Diluted earnings per share  |  |  |
| Adjustment on profit attributable to owners of the<br>parent (millions of yen)                | (26)   | (27)   |
| [of which, interest income after tax adjustments<br>(millions of yen)]                        | (26)   | (27)   |
| Increase in common stock (thousand shares)  | 4,262  | 4,268  |
| [of which, convertible bonds (thousand shares)]   | 4,262  | 4,268  |

(Note)

Earnings per share and diluted earnings per share are calculated based on the “Average number of shares during the fiscal year,” with Company shares held by the H.I.S. Employee Stock Ownership Association Dedicated Trust included under “Treasury shares.” (181,000 shares in the consolidated fiscal year ended October 31, 2016; 405,000 shares in the consolidated fiscal year ended October 31, 2017).

[Significant subsequent events]

[Issuance of Euro-yen denominated convertible bonds with share subscription rights]

At the Board of Directors meeting held on October 31, 2017, the Company resolved to issue Euro-yen denominated convertible bonds with stock with share subscription rights due 2024. The proceeds were received on November 16, 2017. The details are outlined below.

1. Total issuance amount  
25,000 million yen plus aggregate principal amount of the bonds in respect of replacement bond certificates with share subscription rights
2. Paid-in amount: 100.5% of the principal amount of each bond (principal amount of each bond: 10 million yen)
3. Offer price (issue price): 103.0% of the principal amount of each bond
4. Interest rate: No interest.
5. Redemption price: 100.0% of the principal amount of each bond
6. Maturity date: November 15, 2024 (London time)
7. Details of share subscription rights:
  - (1) Type of shares subject to share subscription rights  
Common stock
  - (2) Aggregate number of the share subscription rights  
2,500 units plus the units of the aggregate principal amount of the bonds in respect of replacement bond certificates with share subscription rights divided by 10 million yen
  - (3) Conversion price  
5,616 yen per share
  - (4) Exercise period  
From November 30, 2017 to November 1, 2024 (local time where exercise request was received)
8. Payment date and issue date: November 16, 2017 (London time)
9. Security or guarantee: None.
10. Use of proceeds:
  - (1) Approx. 1,500 million yen of the proceeds will be used through October 2019 to fund system investments aimed at developing and upgrading travel systems.
  - (2) Approx. 6,000 million yen of the proceeds will be used through October 2019 to fund capital investments aimed at enhancing theme park value (mainly strengthening and enhancing hotels and event-related facilities at Huis Ten Bosch) and further expanding the theme park business (Huis Ten Bosch and Laguna Ten Bosch) in the Huis Ten Bosch Group.
  - (3) Approx. 3,500 million yen of the proceeds will be used through October 2019 to fund capital investments aimed at expanding the business foundations of the Hotel Business.
  - (4) Approx. 9,000 million yen of the proceeds will be used through October 2019 to fund capital investments aimed at getting the electric power sales business off the ground.
  - (5) Approx. 5,000 million yen of the proceeds will be used through October 2019 to fund the acquisition of treasury shares and accordingly enhance shareholder returns and capital efficiency.

[Acquisition of treasury shares]

At the Board of Directors meeting held on October 31, 2017, the Company resolved matters related to the acquisition of treasury shares under the provisions of Article 156 of the Companies Act as applied by replacing terms and phrases pursuant to the provisions of Article 165-3 of said Act.

1. Details of transaction

- (1) Class of shares subject to acquisition: Common stock of the Company
- (2) Total number of shares acquirable: Up to 1.35 million shares
- (3) Total value of shares acquired: Up to 5,000 million yen  
(Percentage of shares issued and outstanding [excluding treasury shares]: 2.29%)
- (4) Acquisition period: November 1, 2017 to December 29, 2017
- (5) Acquisition method: Market purchases on the Tokyo Stock Exchange

## 2. Purpose of treasury share acquisition

The aim of the treasury share acquisition is to enhance shareholder returns and capital efficiency, and allow for flexible capital policies in response to changes in the operating environment.

### [Transfer of significant assets]

Consolidated subsidiary WATERMARK HOTEL JAPAN CO., LTD. concluded a sale agreement for property holdings on December 20, 2017.

#### 1. Reason for transfer

The fixed assets subject to the transfer were used as facilities by the WATERMARK HOTEL JAPAN CO., LTD. The transfer of these assets was decided following a review of the asset holdings from the standpoint of efficient utilization of management resources.

#### 2. Buyer details

- |                        |   |
|------------------------|---|
| (1) Name:              | Nomura Real Estate Master Fund, Inc.    |
| (2) Location:          | 8-5-1 Nishishinjuku, Shinjuku-ku, Tokyo |
| (3) Representative:    | Shuhei Yoshida, Executive Director      |
| (4) Main business:     | Real estate investment                  |
| (5) Investment amount: | 162,592 million yen                     |
| (6) Established:       | October 1, 2015                         |

#### 3. Assets scheduled to be transferred

- |                    |   |
|--------------------|---|
| (1) Name:          | Watermark Hotel Sapporo                               |
| (2) Location:      | Minami Sanjo Nishi 5-16-2, Chuo-ku, Sapporo, Hokkaido |
| (3) Type:          | Land, building, etc.                                  |
| (4) Present usage: | Accommodation facilities                              |

#### 4. Transfer period

- |                             |                        |
|-----------------------------|------------------------|
| (1) Basic agreement date:   | December 20, 2017      |
| (2) Property transfer date: | March 2018 (scheduled) |

#### 5. Other

As a result of the transfer outlined above, the Company expects to record 2,600 million yen in the next fiscal year as gains on sales of noncurrent assets under extraordinary income.

## 5) [Consolidated supplementary financial schedule]

## [Schedule of corporate bonds]

| Company          | Issue   | Issue date        | Balance at start of year<br>(millions of yen) | Balance at end of year<br>(millions of yen) | Interest rate (%) | Collateral | Maturity date     |
|------------------|---|-------------------|---|---|-------------------|------------|-------------------|
| H.I.S. Co., Ltd. | Euro-yen denominated convertible bond type bonds with share subscription rights due 2019 (Note 1) | August 15, 2014   | 20,113  | 20,073                                      | —                 | None       | August 30, 2019   |
| H.I.S. Co., Ltd. | First series unsecured convertible bond   | October 23, 2014  | 10,000  | 10,000                                      | 0.363             | None       | October 23, 2019  |
| H.I.S. Co., Ltd. | Second series unsecured convertible bond  | October 23, 2014  | 10,000  | 10,000                                      | 0.645             | None       | October 22, 2021  |
| H.I.S. Co., Ltd. | Third series unsecured convertible bond   | February 20, 2017 | —   | 15,000                                      | 0.440             | None       | February 20, 2024 |
| H.I.S. Co., Ltd. | Fourth series unsecured convertible bond  | February 20, 2017 | —   | 5,000                                       | 0.580             | None       | February 19, 2027 |
| Total            | —   | —                 | 40,113  | 60,073                                      | —                 | —          | —                 |

(Notes)

1. An overview of bonds with share subscription rights are shown below.

| Shares to be issued   | Common stock                            |
|---|---|
| Issue price of share subscription rights (yen)  | No charges                              |
| Issue price of new shares (yen)   | 4,685                                   |
| Total issue amount (millions of yen)  | 20,000                                  |
| Total issue amount for shares issued upon the exercise of share subscription rights (millions of yen) | —                                       |
| Percentage of share subscription rights granted   | 100%                                    |
| Share subscription rights exercise period   | From August 29, 2014 to August 16, 2019 |

When receiving a request from a person who intends to exercise the share subscription rights above, in place of a payment owed to such person at maturity of bonds attached to the share subscription rights, it will be deemed that such person has paid in full the amount payable upon exercise of the rights. When share subscription rights are exercised, it shall be deemed that such a request has been received.

2. Redemption amounts within five years of the consolidated closing date are shown below.

| Within one year<br>(millions of yen) | 1 – 2 years<br>(millions of yen) | 2 – 3 years<br>(millions of yen) | 3 – 4 years<br>(millions of yen) | 4 – 5 years<br>(millions of yen) |
|--------------------------------------|----------------------------------|----------------------------------|----------------------------------|----------------------------------|
| —                                    | 30,000                           | —                                | 10,000                           | —                                |

[Schedule of borrowings, etc.]

| Classification                                      | Balance at start of year<br>(millions of yen) | Balance at end of year<br>(millions of yen) | Average interest rate<br>(%) | Repayment term |
|---|---|---|------------------------------|----------------|
| Short-term loans payable                            | 8,915   | 7,474                                       | 0.64                         | —              |
| Current portion of long-term loans                  | 583   | 1,847                                       | 0.56                         | —              |
| Current portion of lease obligations                | 925   | 864   | —                            | —              |
| Long-term loans payable (excluding current portion) | 77,042  | 101,603                                     | 0.30                         | 2018 – 2024    |
| Lease obligations (excluding current portion)       | 2,283   | 2,211                                       | —                            | 2018 – 2027    |
| Other interest-bearing debt                         | —   | —   | —                            | —              |
| Total   | 89,750  | 114,000                                     | —                            | —              |

(Notes)

1. The average interest rate represents the weighted-average rate applicable to the balance at the end of the year. Furthermore, 1,136 million yen in long-term loans is attributable to the Trust-type Employee Shareholding Incentive Plan (E-Ship<sup>®</sup>). As interest on loans is not recorded as interest expenses, it is not included in the average interest rate.
2. The average interest rate for lease obligations is not shown as lease obligations are recorded on the consolidated balance sheet before deduction of interest expenses included in the total lease amount.
3. Repayment amounts within five years of the consolidated closing date for long-term loans payable and lease obligations (excluding current portions) are shown below.

|                          | 1 to 2 years<br>(millions of yen) | 2 to 3 years<br>(millions of yen) | 3 to 4 years<br>(millions of yen) | 4 to 5 years<br>(millions of yen) |
|--------------------------|-----------------------------------|-----------------------------------|-----------------------------------|-----------------------------------|
| Long-term loans payable* | 10,842                            | 36,193                            | 1,285                             | 3,114                             |
| Lease obligations        | 758                               | 448                               | 392                               | 292                               |

\* 1,136 million yen in long-term loans is attributable to the Trust-type Employee Shareholding Incentive Plan (E-Ship<sup>®</sup>). Since scheduled repayment amounts do not have to be paid in installments on designated dates, they are presented on the assumption that the year-end loan balance is repaid as a lump sum on the final repayment date.

[Schedule of asset retirement obligations]

The asset retirement obligation amount at the start and end of the consolidated fiscal year ended October 31, 2017 are below 1% of the total liabilities and net assets at the start and end of the fiscal year, and the information is therefore omitted in accordance with the provisions in Article 92, Paragraph 2 of the Consolidated Financial Statement Regulations.

(2) Others

Quarterly information for the consolidated fiscal year ended October 31, 2017

| [Cumulative period]   | First quarter | Second quarter | Third quarter | Full year |
|---|---------------|----------------|---------------|-----------|
| Net sales (millions of yen)                                   | 125,022       | 271,825        | 415,115       | 606,024   |
| Profit before income taxes (millions of yen)                  | 7,174         | 9,894          | 13,666        | 20,730    |
| Profit attributable to owners of the parent (millions of yen) | 3,997         | 5,172          | 8,763         | 13,259    |
| Earnings per share (yen)                                      | 65.04         | 84.14          | 143.72        | 219.52    |

| [Quarterly period]       | First quarter | Second quarter | Third quarter | Fourth quarter |
|--------------------------|---------------|----------------|---------------|----------------|
| Earnings per share (yen) | 65.04         | 19.11          | 59.62         | 76.87          |

(Note)

1. Profit attributable to owners of the parent (cumulative), and earnings per share (cumulative) are calculated based on the “Average number of common stock during the year,” with Company shares held by the H.I.S. Employee Stock Ownership

Association Dedicated Trust included under “Treasury shares.”

2. In the fourth quarter of the consolidated fiscal year ended October 31, 2017, the Company finalized a provisional accounting treatment for business combinations, and quarterly figures for the second and third quarter reflect a corresponding review.

2. Non-consolidated Financial Statements, etc.

(1) Non-consolidated Financial Statements

1) Non-consolidated Balance Sheet

(millions of yen)

|  | Year ended October 31, 2016<br>(As of October 31, 2016) | Year ended October 31, 2017<br>(As of October 31, 2017) |
|--|---|---|
| <b>Assets</b>  |   |   |
| Current assets   |   |   |
| Cash and deposits  | 105,921   | 119,518   |
| Accounts receivable - trade  | 17,537  | 18,161  |
| Operating accounts receivable  | 7,246   | 5,237   |
| Securities   | 2,698   | —   |
| Travel advance payments  | 23,433  | 23,606  |
| Prepaid expenses   | 1,391   | 1,125   |
| Deferred tax assets  | 1,890   | 1,384   |
| Accrued income   | 188   | 147   |
| Short-term loans receivable  | 39  | *2 2,306  |
| Short-term loans receivable from subsidiaries and affiliates               | 758   | 7,672   |
| Accounts receivable - other  | 2,615   | 2,156   |
| Other  | 4,012   | 3,721   |
| <b>Total current assets</b>  | <b>167,734</b>  | <b>185,036</b>  |
| Non-current assets   |   |   |
| Property, plant and equipment  |   |   |
| Buildings  | 1,913   | 3,418   |
| Vehicles   | 244   | 129   |
| Tools, furniture and fixtures  | 574   | 469   |
| Land   | 302   | 1,083   |
| Other  | 744   | 56  |
| <b>Total property, plant and equipment</b>                                 | <b>3,778</b>  | <b>5,158</b>  |
| Intangible assets  |   |   |
| Trademark right  | 16  | 17  |
| Telephone subscription right   | 82  | 82  |
| Software   | 3,776   | 3,140   |
| Other  | 98  | 43  |
| <b>Total intangible assets</b>   | <b>3,974</b>  | <b>3,283</b>  |
| Investments and other assets   |   |   |
| Investment securities  | 413   | 8,650   |
| Shares of subsidiaries and affiliates                                      | 43,882  | 51,324  |
| Investments in capital of subsidiaries and affiliates                      | 668   | 638   |
| Long-term loans receivable   | *2 3,186  | *2 1,130  |
| Long-term loans receivable from subsidiaries and affiliates                | 4,872   | 4,632   |
| Long-term prepaid expenses   | 58  | 44  |
| Deferred tax assets  | 1,307   | 1,478   |
| Guarantee deposits   | 4,777   | 4,702   |
| Claims provable in bankruptcy, claims provable in rehabilitation and other | 168   | 179   |
| Other  | 1,049   | 262   |
| Allowance for doubtful accounts  | (1,463)   | (1,785)   |
| <b>Total investments and other assets</b>                                  | <b>58,921</b>   | <b>71,258</b>   |
| <b>Total non-current assets</b>  | <b>66,675</b>   | <b>79,700</b>   |
| Deferred assets  |   |   |
| Bond issuance cost   | 79  | 149   |
| <b>Total deferred assets</b>   | <b>79</b>   | <b>149</b>  |
| <b>Total assets</b>  | <b>234,489</b>  | <b>264,887</b>  |



(millions of yen)

|   | Year ended October 31, 2016<br>(As of October 31, 2016) | Year ended October 31, 2017<br>(As of October 31, 2017) |
|---|---|---|
| <b>Liabilities</b>  |   |   |
| Current liabilities   |   |   |
| Operating accounts payable  | 16,123  | 16,748  |
| Current portion of long-term loans payable to subsidiaries and affiliates | —   | 2,261   |
| Accounts payable - other  | 1,081   | 1,037   |
| Accrued expenses  | 1,568   | 1,736   |
| Income taxes payable  | —   | 660   |
| Travel advance received   | 46,601  | 51,456  |
| Insurance fee deposits received   | 380   | 382   |
| Gift certificates   | 2,039   | 2,842   |
| Provision for bonuses   | 1,476   | 2,384   |
| Provision for directors' bonuses  | 50  | 80  |
| Other   | 4,160   | 2,088   |
| Total current liabilities   | 73,482  | 81,679  |
| Non-current liabilities   |   |   |
| Bonds payable   | 20,000  | 40,000  |
| Convertible bond-type bonds with share subscription rights                | 20,113  | 20,073  |
| Long-term loans payable   | 74,430  | 94,136  |
| Long-term loans payable to subsidiaries and affiliates                    | 2,096   | —   |
| Provision for retirement benefits   | 3,256   | 3,980   |
| Provision for directors' retirement benefits                              | 549   | 590   |
| Long-term guarantee deposited   | 35  | 126   |
| Other   | 703   | 707   |
| Total non-current liabilities   | 121,184   | 159,614   |
| Total liabilities   | 194,666   | 241,294   |
| Net assets  |   |   |
| Shareholders' equity  |   |   |
| Capital stock   | 11,000  | 11,000  |
| Capital surplus   |   |   |
| Legal capital surplus   | 3,661   | 3,661   |
| Other capital surplus   | 4   | 4   |
| Total capital surplus   | 3,665   | 3,665   |
| Retained earnings   |   |   |
| Legal retained earnings   | 246   | 246   |
| Other retained earnings   |   |   |
| General reserve   | 27,565  | 27,565  |
| Retained earnings brought forward   | 12,149  | 4,228   |
| Total retained earnings   | 39,960  | 32,039  |
| Treasury shares   | (14,162)  | (23,875)  |
| Total shareholders' equity  | 40,462  | 22,828  |
| Valuation and translation adjustments                                     |   |   |
| Valuation difference on available-for-sale securities                     | (165)   | 257   |
| Deferred gains or losses on hedges  | (551)   | 254   |
| Total valuation and translation adjustments                               | (716)   | 512   |
| Share subscription rights   | 77  | 252   |
| Total net assets  | 39,822  | 23,593  |
| Total liabilities and net assets  | 234,489   | 264,887   |

## 2) Non-consolidated Statement of Income

(millions of yen)

|  | Year ended October 31, 2016<br>(November 1, 2015 to<br>October 31, 2016) | Year ended October 31, 2017<br>(November 1, 2016 to<br>October 31, 2017) |
|--|--|--|
| Net sales  |  |  |
| Sales from overseas travel business                        | 339,277  | 370,480  |
| Sales from domestic travel business                        | 51,730   | 53,152   |
| Other  | 4,270  | 5,101  |
| Total net sales  | *2 395,278   | *2 428,734   |
| Cost of sales  |  |  |
| Cost of sales from overseas travel business                | 294,831  | 325,769  |
| Cost of sales from domestic travel business                | 46,261   | 47,363   |
| Other  | 232  | 352  |
| Total cost of sales  | *2 341,325   | *2 373,486   |
| Gross profit   | 53,953   | 55,248   |
| Selling, general and administrative expenses               | *1 51,551  | *1 52,665  |
| Operating income   | 2,402  | 2,582  |
| Non-operating income                                       |  |  |
| Interest income  | 751  | 666  |
| Dividend income  | 800  | 862  |
| Foreign exchange gains                                     | —  | 1,304  |
| Other  | 122  | 264  |
| Total non-operating income                                 | *2 1,673   | *2 3,098   |
| Non-operating expenses                                     |  |  |
| Interest expenses  | 444  | 577  |
| Loss on valuation of shares of subsidiaries and affiliates | —  | 187  |
| Foreign exchange losses                                    | 4,188  | —  |
| Other  | 79   | 273  |
| Total non-operating expenses                               | *2 4,712   | *2 1,038   |
| Ordinary income (loss)                                     | (636)  | 4,642  |
| Extraordinary losses                                       |  |  |
| Loss on valuation of shares of subsidiaries and affiliates | 399  | —  |
| Provision of allowance for doubtful accounts               | 1,295  | 316  |
| Loss on debt waiver for subsidiaries and affiliates        | —  | 4,275  |
| Total extraordinary losses                                 | 1,695  | 4,592  |
| Profit (loss) before income taxes                          | (2,331)  | 50   |
| Income taxes - current                                     | 228  | 370  |
| Income taxes - deferred                                    | (200)  | (211)  |
| Total income taxes   | 27   | 158  |
| Profit (loss)  | (2,358)  | (108)  |

### 3) Non-consolidated Statement of Changes in Equity

Year ended October 31, 2016 (November 1, 2015 to October 31, 2016)

(millions of yen)

|  | Shareholders' equity |                       |                       |                       |                         |                   |                                   |                         |
|--|----------------------|-----------------------|-----------------------|-----------------------|-------------------------|-------------------|-----------------------------------|-------------------------|
|  | Capital stock        | Capital surplus       |                       |                       | Legal retained earnings | Retained earnings |                                   | Total retained earnings |
|  |                      | Legal capital surplus | Other capital surplus | Total capital surplus |                         | General reserve   | Retained earnings brought forward |                         |
| Balance at start of the year                         | 11,000               | 3,661                 | 4                     | 3,665                 | 246                     | 27,565            | 15,934                            | 43,745                  |
| Changes of items during the year                     |                      |                       |                       |                       |                         |                   |                                   |                         |
| Dividends from surplus                               |                      |                       |                       | —                     |                         |                   | (1,426)                           | (1,426)                 |
| Loss   |                      |                       |                       | —                     |                         |                   | (2,358)                           | (2,358)                 |
| Decrease by corporate division-split-off type        |                      |                       |                       | —                     |                         |                   |                                   | —                       |
| Acquisition of treasury shares                       |                      |                       |                       | —                     |                         |                   |                                   | —                       |
| Disposal of treasury shares                          |                      |                       |                       | —                     |                         |                   |                                   | —                       |
| Net changes of items other than shareholders' equity |                      |                       |                       | —                     |                         |                   |                                   | —                       |
| Total changes of items during the year               | —                    | —                     | —                     | —                     | —                       | —                 | (3,785)                           | (3,785)                 |
| Balance at end of the year                           | 11,000               | 3,661                 | 4                     | 3,665                 | 246                     | 27,565            | 12,149                            | 39,960                  |

|  | Shareholders' equity |                            | Valuation and translation adjustments                 |                                    |   | Share subscription rights | Total net assets |
|--|----------------------|----------------------------|---|------------------------------------|---|---------------------------|------------------|
|  | Treasury shares      | Total shareholders' equity | Valuation difference on available-for-sale securities | Deferred gains or losses on hedges | Total valuation and translation adjustments |                           |                  |
| Balance at start of the year                         | (2,535)              | 55,875                     | 52  | (461)                              | (409)                                       | —                         | 55,465           |
| Changes of items during the year                     |                      |                            |   |                                    |   |                           |                  |
| Dividends from surplus                               |                      | (1,426)                    |   |                                    | —   |                           | (1,426)          |
| Loss   |                      | (2,358)                    |   |                                    | —   |                           | (2,358)          |
| Decrease by corporate division-split-off type        |                      | —                          |   |                                    | —   |                           | —                |
| Acquisition of treasury shares                       | (11,763)             | (11,763)                   |   |                                    | —   |                           | (11,763)         |
| Disposal of treasury shares                          | 136                  | 136                        |   |                                    | —   |                           | 136              |
| Net changes of items other than shareholders' equity |                      | —                          | (217)   | (89)                               | (307)                                       | 77                        | (230)            |
| Total changes of items during the year               | (11,627)             | (15,412)                   | (217)   | (89)                               | (307)                                       | 77                        | (15,642)         |
| Balance at end of the year                           | (14,162)             | 40,462                     | (165)   | (551)                              | (716)                                       | 77                        | 39,822           |

Year ended October 31, 2017 (November 1, 2016 to October 31, 2017)

(millions of yen)

|  | Shareholders' equity |                       |                       |                       |                         |                   |                                   |                         |
|--|----------------------|-----------------------|-----------------------|-----------------------|-------------------------|-------------------|-----------------------------------|-------------------------|
|  | Capital stock        | Capital surplus       |                       |                       | Legal retained earnings | Retained earnings |                                   | Total retained earnings |
|  |                      | Legal capital surplus | Other capital surplus | Total capital surplus |                         | General reserve   | Retained earnings brought forward |                         |
| Balance at start of the year                         | 11,000               | 3,661                 | 4                     | 3,665                 | 246                     | 27,565            | 12,149                            | 39,960                  |
| Changes of items during the year                     |                      |                       |                       |                       |                         |                   |                                   |                         |
| Dividends from surplus                               |                      |                       |                       | —                     |                         |                   | (1,361)                           | (1,361)                 |
| Loss   |                      |                       |                       | —                     |                         |                   | (108)                             | (108)                   |
| Decrease by corporate division-split-off type        |                      |                       |                       | —                     |                         |                   | (6,450)                           | (6,450)                 |
| Acquisition of treasury shares                       |                      |                       |                       | —                     |                         |                   |                                   | —                       |
| Disposal of treasury shares                          |                      |                       | 0                     | 0                     |                         |                   |                                   | —                       |
| Net changes of items other than shareholders' equity |                      |                       |                       | —                     |                         |                   |                                   | —                       |
| Total changes of items during the year               | —                    | —                     | 0                     | 0                     | —                       | —                 | (7,921)                           | (7,921)                 |
| Balance at end of the year                           | 11,000               | 3,661                 | 4                     | 3,665                 | 246                     | 27,565            | 4,228                             | 32,039                  |

|  | Shareholders' equity |                            | Valuation and translation adjustments                 |                                    |   | Share subscription rights | Total net assets |
|--|----------------------|----------------------------|---|------------------------------------|---|---------------------------|------------------|
|  | Treasury shares      | Total shareholders' equity | Valuation difference on available-for-sale securities | Deferred gains or losses on hedges | Total valuation and translation adjustments |                           |                  |
| Balance at start of the year                         | (14,162)             | 40,462                     | (165)   | (551)                              | (716)                                       | 77                        | 39,822           |
| Changes of items during the year                     |                      |                            |   |                                    |   |                           |                  |
| Dividends from surplus                               |                      | (1,361)                    |   |                                    | —   |                           | (1,361)          |
| Loss   |                      | (108)                      |   |                                    | —   |                           | (108)            |
| Decrease by corporate division-split-off type        |                      | (6,450)                    |   |                                    | —   |                           | (6,450)          |
| Acquisition of treasury shares                       | (9,999)              | (9,999)                    |   |                                    | —   |                           | (9,999)          |
| Disposal of treasury shares                          | 287                  | 287                        |   |                                    | —   |                           | 287              |
| Net changes of items other than shareholders' equity |                      | —                          | 422   | 806                                | 1,228                                       | 175                       | 1,404            |
| Total changes of items during the year               | (9,712)              | (17,634)                   | 422   | 806                                | 1,228                                       | 175                       | (16,229)         |
| Balance at end of the year                           | (23,875)             | 22,828                     | 257   | 254                                | 512   | 252                       | 23,593           |

## Notes to Non-consolidated Financial Statements

### [Going concern assumptions]

There are no applicable matters to report.

### [Significant accounting policies]

1. Valuation standard and method for securities
  - (1) Shares in subsidiaries and affiliates and investments in capital of subsidiaries and affiliates  
Stated at cost using the moving average method
  - (2) Available-for-sale securities
    - 1) Securities with a determinable fair market value  
Stated at fair market value based on the market price, etc., on the closing date (with any unrealized gains or losses reported directly as a component of net assets and the cost of securities sold calculated by the moving average method).
    - 2) Securities without a determinable fair market value  
Stated at cost using the moving average method
2. Valuation standard and method for derivatives  
Stated at fair market value.
3. Depreciation method for fixed assets
  - (1) Property, plant and equipment (excluding lease assets)  
The straight-line method is applied for buildings (excluding facilities attached to buildings) and facilities attached to buildings acquired on or after April 1, 2016, and the declining balance method for other tangible fixed assets.  
In addition, the ranges of useful life for tangible fixed assets are mainly as shown below.

|                               |            |
|-------------------------------|------------|
| Buildings                     | 3–49 years |
| Tools, furniture and fixtures | 3–20 years |
  - (2) Intangible fixed assets (excluding lease assets)  
The straight-line method is applied.  
In addition, software used in-house is depreciated over its useful life (five years) based on the straight-line method.
  - (3) Lease assets  
Lease assets are depreciated using the straight-line method with estimated useful lives equal to lease terms, and zero residual value.
  - (4) Long-term prepaid expenses  
The straight-line method is applied.
4. Accounting method for deferred assets  
Bond issuance costs  
Bond issuance costs are amortized in equal amounts over the period through redemption.
5. Standard for translation of foreign-currency-denominated assets or liabilities into Japanese yen  
Assets and liabilities denominated in foreign currency are translated into yen at the spot exchange rate prevailing on the closing date, and the difference arising from such translation is recorded as profits or losses.
6. Accounting standards for provisions
  - (1) Allowance for doubtful accounts  
To prepare for losses from uncollectible receivables, estimates of irrecoverable amounts are recorded based on historical loan-loss ratios for general receivables, and on consideration of feasibly recoverable amounts in individual cases of suspected bad debt or other specific receivables.
  - (2) Provision for bonuses  
To provide for bonus payments to employees, a provision for bonuses is recorded based on estimated future payments.
  - (3) Provision for directors' bonuses  
To provide for bonus payments to Directors, a provision for bonuses is recorded based on estimated future payments.
  - (4) Provision for retirement benefits  
To prepare for retirement benefit payments to employees, a provision for retirement benefits is recorded in the amount payable at each year-end.  
Actuarial gains or losses are treated as a lump-sum expense in the year following the year in which they arise.
  - (5) Provision for directors' retirement benefits  
To prepare for retirement benefit payments to Directors, a provision for Directors' retirement benefits is recorded in the amount payable at each year-end in accordance with the Internal Rules on Directors' Retirement Benefits.
7. Accounting standard for recognition of revenues and expenses  
Net sales and travel-related sales costs are recorded on the departure date.

## 8. Hedging methods

### (1) Hedging methods

The Company in principle accounts for hedging transactions on a deferred basis. It applies the designated hedge accounting treatment (*furiate shori*) to forward exchange contracts and other items that qualify for designated hedge accounting, and the exceptional accounting treatment (*tokurei shori*) to interest rate swaps and other items that qualify for exceptional accounting.

### (2) Hedging instruments and hedged items

- a. Hedging instruments: Forward exchange contracts, currency options  
Hedged items: Foreign currency-denominated operating accounts payable
- b. Hedging instruments: Interest rate swaps  
Hedged items: Loans

### (3) Hedging policy

The Company hedges against foreign exchange fluctuation risk in accordance with its internal Financial Risk Management Regulations.

### (4) Evaluation of hedge effectiveness

The effectiveness of hedging is assessed by comparing the cumulative total of the market fluctuations or the cash flow fluctuations for the hedged items with that of the market fluctuations or the cash flow fluctuations for the hedging instrument every six months, and analyzing the fluctuation amount, etc., for the two. However, the effectiveness of hedging is not evaluated for interest rate swaps subject to exceptional accounting treatment.

## 9. Other significant matters for the preparation of non-consolidated financial statements

### (1) Accounting method for retirement benefits

Unrecognized actuarial differences, unrecognized prior service cost, and unsettled differences arising from transitional obligations related to retirement benefits are accounted for using a different method than in the consolidated financial statements.

### (2) Accounting for consumption taxes

All accounting transactions are booked exclusive of consumption taxes or local consumption taxes.

## [Additional information]

### [Application of Implementation Guidance on Recoverability of Deferred Tax Assets]

The Company has applied the “Implementation Guidance on Recoverability of Deferred Tax Assets” (ASBJ Guidance No. 26 issued on March 28, 2016) from the consolidated fiscal year ended October 31, 2017.

### [Transactions that issue Company shares to employees, etc., via a trust]

Notes related to transactions that issue Company shares to an Employee Stock Ownership Association via a trust are omitted as they are identical to those in the “Additional information” section in the consolidated financial statements.

[Non-consolidated balance sheet]

1. Contingent liabilities

(1) The Company guarantees bank loans, etc., for the following companies up to the amounts shown below.

| Year ended October 31, 2016<br>(As of October 31, 2016) |                                 | Year ended October 31, 2017<br>(As of October 31, 2017)                      |  |
|---|---------------------------------|--|--|
| ASIA ATLANTIC AIRLINES CO., LTD.                        | 290,000 USD<br>(30 million yen) | ASIA ATLANTIC AIRLINES CO., LTD.<br>SYS Inc.<br>Green World Hotels Co., Ltd. | 270,000 USD<br>(30 million yen)<br>900 million yen<br>470,000 TWD<br>(1,757 million yen) |

(2) The Company guarantees business transaction payments for the following companies up to the amounts shown below.

| Year ended October 31, 2016<br>(As of October 31, 2016)           |  | Year ended October 31, 2017<br>(As of October 31, 2017)  |  |
|---|--|--|--|
| • Guarantee with specified amount                                 |  | • Guarantee with specified amount  |  |
| QUALITA Co., Ltd.   | 30 million yen   | QUALITA Co., Ltd.  | 35 million yen   |
| Japan Holiday Travel CO., LTD                                     | 20 million yen   | Japan Holiday Travel CO., LTD  | 40 million yen   |
| HIS ULUSLARARASI<br>TURIZM SEYAHAT<br>ACENTASI LIMITED<br>SIRKETI | 2 million USD<br>(209 million yen)                       | HIS ULUSLARARASI<br>TURIZM SEYAHAT<br>ACENTASI LIMITED<br>SIRKETI<br>ASIA ATLANTIC AIRLINES<br>CO., LTD. | 2 million USD<br>(226 million yen)<br>7 million USD<br>(791 million yen) |
| • Guarantee without specified amount                              |  | • Guarantee without specified amount   |  |
| QUALITA Co., Ltd.   | Payment guarantee for notes and accounts payable - trade | QUALITA Co., Ltd.  | Payment guarantee for notes and accounts payable - trade                 |
| LY-HIS TRAVEL Co., Ltd.,  | Payment guarantee for notes and accounts payable - trade | LY-HIS TRAVEL Co. Ltd.   | Payment guarantee for notes and accounts payable - trade                 |
| Japan Holiday Travel CO., LTD                                     | Payment guarantee for notes and accounts payable - trade | Japan Holiday Travel CO., LTD  | Payment guarantee for notes and accounts payable - trade                 |
|   |  | H.I.S. Hotel Holdings Co., Ltd.  | Payment guarantee for business-use leasehold interest                    |
|   |  | H.I.S. Okinawa Co., Ltd.   | Payment guarantee for office rent, etc.                                  |

\*2. Other

Year ended October 31, 2016 (As of October 31, 2016)

Of the 3,186 million yen in long-term loans receivable, 3,144 million yen (30 million US dollar) is owed by Mongolia-based bank Khan Bank LLC. The bank is a consolidated subsidiary of Sawada Holdings Co., Ltd. (Representative Director and President Hideo Sawada).

Year ended October 31, 2017 (As of October 31, 2017)

In addition to 2,261 million yen (20 million US dollar) of the 2,306 million yen in short-term loans receivable, 1,130 million (10 million US dollar) yen of the 1,130 million yen in long-term loans receivable is owed by Mongolia-based bank Khan Bank LLC. The bank is a consolidated subsidiary of Sawada Holdings Co., Ltd. (Representative Director and Chairman Hideo Sawada).

[Non-consolidated statements of Income]

- \*1. Selling, general and administrative expenses comprised 86.5% selling expenses and 13.6% general and administrative expenses in the year ended October 31, 2016, and 87.5% and 12.5%, respectively, in the year ended October 31, 2017. The major cost items and amounts are shown below.

(millions of yen)

|   | Year ended October 31, 2016<br>(November 1, 2015 to<br>October 31, 2016) | Year ended October 31, 2017<br>(November 1, 2016 to<br>October 31, 2017) |
|---|--|--|
| Advertising expenses                                    | 7,242  | 6,375  |
| Salaries and bonuses                                    | 20,776   | 21,257   |
| Provision of reserve for bonuses                        | 1,339  | 2,250  |
| Provision of reserve for directors' bonuses             | 49   | 80   |
| Retirement benefit expenses                             | 524  | 875  |
| Provision of reserve for directors' retirement benefits | 37   | 40   |
| Provision of allowance for doubtful accounts            | 0  | 5  |
| Depreciation and amortization                           | 2,139  | 2,218  |

- \*2. Amount of transactions with affiliates

(millions of yen)

|   | Year ended October 31, 2016<br>(November 1, 2015 to<br>October 31, 2016) | Year ended October 31, 2017<br>(November 1, 2016 to<br>October 31, 2017) |
|---|--|--|
| Amount of operating transactions                  |  |  |
| Net sales   | 11,483   | 14,386   |
| Purchase of goods                                 | 80,607   | 96,464   |
| Transaction amount for non-operating transactions |  |  |
| Non-operating income                              | 794  | 896  |
| Non-operating expenses                            | 157  | 207  |

[Marketable securities]

Year ended October 31, 2016 (As of October 31, 2016)

Shares of subsidiaries and affiliates (amount recorded on balance sheet: shares of subsidiaries 39,324 million yen, shares of affiliates 4,557 million yen) have no market prices and it is deemed extremely difficult to determine their fair value. Accordingly, they are not presented here.

Year ended October 31, 2017 (As of October 31, 2017)

Shares of subsidiaries and affiliates (amount recorded on balance sheet: shares of subsidiaries 51,191 million yen, shares of affiliates 133 million yen) have no market prices and it is deemed extremely difficult to determine their fair value. Accordingly, they are not presented here.



[Tax effect accounting]

1. The principal components of deferred tax assets and deferred tax liabilities are shown below.

(1) Current assets and liabilities

|  | (millions of yen)                                       |   |
|--|---|---|
|  | Year ended October 31, 2016<br>(As of October 31, 2016) | Year ended October 31, 2017<br>(As of October 31, 2017) |
| [Deferred tax assets]                  |   |   |
| Provision for bonuses                  | 471   | 760   |
| Travel advances received               | 215   | 228   |
| Unpaid social insurance premiums       | 60  | 100   |
| Excess allowance for doubtful accounts | 52  | 53  |
| Accrued business office taxes          | 20  | 22  |
| Deferred gains or losses on hedges     | 246   | —   |
| Loss carried forward                   | 445   | —   |
| Other                                  | 378   | 218   |
| Deferred tax assets total              | <u>1,890</u>  | <u>1,384</u>  |

(2) Non-current assets and liabilities

|   | (millions of yen)                                       |   |
|---|---|---|
|   | Year ended October 31, 2016<br>(As of October 31, 2016) | Year ended October 31, 2017<br>(As of October 31, 2017) |
| [Deferred tax assets]                                 |   |   |
| Provision for retirement benefits                     | 997   | 1,219   |
| Excess allowance for doubtful accounts                | 396   | 493   |
| Provision for directors' retirement benefits          | 168   | 180   |
| Non-deductible asset retirement obligations           | 100   | 98  |
| Other   | 76  | 186   |
| Deferred tax assets subtotal                          | <u>1,739</u>  | <u>2,177</u>  |
| Valuation allowance                                   | <u>(412)</u>  | <u>(576)</u>  |
| Deferred tax assets total                             | <u>1,326</u>  | <u>1,601</u>  |
| [Deferred tax liabilities]                            |   |   |
| Valuation difference on available-for-sale securities | <u>(18)</u>   | <u>(122)</u>  |
| Deferred tax liabilities total                        | <u>(18)</u>   | <u>(122)</u>  |
| Deferred tax assets, net                              | <u>1,307</u>  | <u>1,478</u>  |

2. Major components of significant differences arising between the effective statutory tax rate and effective income tax rate, after application of tax-effect accounting

|  | Year ended October 31, 2016<br>(As of October 31, 2016) | Year ended October 31, 2017<br>(As of October 31, 2017) |
|--|---|---|
| Effective statutory tax rate   | Notes omitted due to<br>posting of pretax net loss.     | 30.86%  |
| [Adjustments]  |   |   |
| Non-deductible permanent differences such as<br>entertainment expenses |   | 345.57  |
| Non-taxable permanent differences such as dividends<br>income          |   | (490.77)  |
| Inhabitant tax on per capita basis                                     |   | 336.59  |
| Income taxes receivable  |   | (300.05)  |
| Increase in valuation allowance  |   | 327.21  |
| Tax credits  |   | 36.42   |
| Other  |   | 31.16   |
| Actual effective tax rate after adoption of tax effect<br>accounting   |   | 316.99  |

[Business combinations]

Transactions under Common Control

1. Overview of business divestiture

(1) Description of the divested business

Rights and obligations related to the hotel business and hotel affiliate management business operated in Japan.

(2) Date of business combination

September 1, 2017

(3) Legal form of business combination

Absorption-type demerger under which the Company spins off part of its business and H.I.S. Hotel Holdings Co., Ltd. (a consolidated subsidiary of the Company) serves as the succeeding company.

(4) Name of succeeding company following business combination

H.I.S. Hotel Holdings Co., Ltd.

(5) Other matters related to transaction overview

H.I.S. Hotel Holdings Co., Ltd. (hereinafter, "HHH") was established by the Company in November 2016 against the backdrop of (1) rapidly growing overseas travel demand in Asia driven by economic growth, and (2) a corresponding increase in the number of inbound travelers to Japan. From its inception, the mission of HHH has been to assume responsibility for overall management of existing hotels on behalf of the Company, while accelerating development of the Hotel Business and working to enhance profitability.

Under the absorption-type demerger, the Company will transfer all rights and obligations related to the Hotel Business and hotel affiliate management business operated in Japan to HHH. In accordance with HHH's founding objectives, HHH will aim to accelerate decision-making processes related to hotel operation (undertaking contracted hotel management, engaging in M&A activity, acquisition of own properties).

(6) Summary of accounting measures taken

The transfer was treated as a transaction under common control in accordance with the "Revised Accounting Standard for Business Combinations" (ASBJ Statement No. 21 issued on September 13, 2013) and the "Revised Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures" (ASBJ Guidance No. 10 issued on September 13, 2013).

[Significant subsequent events]

These notes have been omitted as they are identical to those in the "Significant subsequent events" section in the consolidated financial statements.

4) Supplementary schedule

Schedule for property, plant and equipment

(millions of yen)

| Classification                | Asset type                    | Balance at start of the year | Increase during the year | Decrease during the year | Depreciation during the year | Balance at end of the year | Accumulated depreciation |
|-------------------------------|-------------------------------|------------------------------|--------------------------|--------------------------|------------------------------|----------------------------|--------------------------|
| Property, plant and equipment | Buildings                     | 1,913                        | 4,374                    | 2,465                    | 404                          | 3,418                      | 1,779                    |
|                               | Vehicles                      | 244                          | 2                        | 39                       | 77                           | 129                        | 390                      |
|                               | Tools, furniture and fixtures | 574                          | 417                      | 310                      | 211                          | 469                        | 2,205                    |
|                               | Land                          | 302                          | 2,987                    | 2,205                    | —                            | 1,083                      | —                        |
|                               | Other                         | 744                          | 30                       | 691                      | 27                           | 56                         | 71                       |
|                               | Total                         | 3,778                        | 7,812                    | 5,711                    | 720                          | 5,158                      | 4,446                    |
| Intangible fixed assets       | Trademarks                    | 16                           | 4                        | —                        | 4                            | 17                         | —                        |
|                               | Telephone subscription right  | 82                           | —                        | —                        | —                            | 82                         | —                        |
|                               | Software                      | 3,776                        | 948                      | 107                      | 1,477                        | 3,140                      | —                        |
|                               | Other                         | 98                           | 44                       | 98                       | 1                            | 43                         | —                        |
|                               | Total                         | 3,974                        | 997                      | 206                      | 1,482                        | 3,283                      | —                        |

Notes:

1. The 4,374 million yen increase for buildings in the fiscal year under review mainly reflects a 2,379 million yen increase for hotel buildings and a 1,604 million yen increase for property purchases.
2. The 2,987 million yen increase for land in the fiscal year under review reflects a 2,151 million yen increase for hotel buildings and an 836 million yen increase for property purchases.
3. The 5,711 million yen decrease for property, plant and equipment in the fiscal year under review is mainly attributable to a succession by H.I.S. Hotel Holdings Co., Ltd. accompanying an absorption-type demerger.

Schedule for provisions

(millions of yen)

| Classification                               | Balance at start of the year | Increase during the year | Decrease during the year (intended usage) | Decrease during the year (other) | Balance at end of the year |
|--|------------------------------|--------------------------|---|----------------------------------|----------------------------|
| Allowance for doubtful accounts (Note)       | 1,466                        | 1,785                    | —   | 1,466                            | 1,785                      |
| Provision for bonuses                        | 1,476                        | 2,384                    | 1,476                                     | —                                | 2,384                      |
| Provision for directors' bonuses             | 50                           | 80                       | 50  | —                                | 80                         |
| Provision for directors' retirement benefits | 549                          | 40                       | —   | —                                | 590                        |

Note: The 1,466 million yen decrease (other) in the allowance for doubtful accounts is attributable to reversals.

(2) Major Assets and Liabilities

Notes are omitted as consolidated financial statements were prepared.

(3) Others

There are no applicable matters to report.

## VI. Stock-related Administration for the Company

|   |  |
|---|--|
| Fiscal Year                                     | From November 1 to October 31  |
| General Meeting of Shareholders                 | January  |
| Record date                                     | October 31   |
| Record date for dividend of surplus             | April 30<br>October 31   |
| Number of shares constituting one unit          | 100 shares   |
| Purchase and sales of shares less than one unit |  |
| Handling office                                 | (Special account)<br>Stock Transfer Agent Department, Sumitomo Mitsui Trust Bank, Limited<br>4-1, Marunouchi, 1-chome, Chiyoda-ku, Tokyo   |
| Transfer agent                                  | (Special account)<br>Sumitomo Mitsui Trust Bank, Limited<br>4-1, Marunouchi, 1-chome, Chiyoda-ku, Tokyo  |
| Forward office                                  | —  |
| Purchasing and selling fee                      | none   |
| Method of public notice                         | Public notice of the Company is given by electronic means. However, in the event accidents or other unavoidable reasons prevent public notice by electronic means, the notice can be made by publication in The Nihon Keizai Shimbun.<br>URL for public notice: <a href="http://www.his.co.jp">http://www.his.co.jp</a>  |
| Special benefit for shareholders                | Every year, at the end of April and October, the company issues shareholder benefits to all shareholders who own at least 100 shares and are recorded in the Shareholder Registry, based on the following criteria.<br><br>Shareholders owning between 100 and 500 shares<br>Two shareholder benefit coupons (corresponding to 2,000 yen)<br><br>Shareholders owning between 500 and 1,000 shares<br>Four shareholder benefit coupons (corresponding to 4,000 yen)<br><br>Shareholders owning at least 1,000 shares<br>Six shareholder benefit coupons (corresponding to 6,000 yen)<br><br>Shareholders owning at least 100 shares<br>One discounted admission ticket for Huis Ten Bosch and for Laguna Ten Bosch (500-yen discount per person; tickets can be used by up to five people). |

## VII. Reference Information on the Company

### 1. Information on the Parent Company, etc. of the Company

The Company has no parent company.

### 2. Other Reference Information

The Company filed the following documents between the start of the fiscal year under review and the submittal of the Japanese version of this Securities Report.

(1) Annual Securities Report and documents attached thereto, and Confirmation Letter thereof

For the 36th fiscal year (from November 1, 2015 to October 31, 2016)

Submitted to Director, Kanto Local Finance Bureau on January 27, 2017

(2) Amended Annual Securities Report and documents attached thereto, and Confirmation Letter thereof

Submitted to Director, Kanto Local Finance Bureau on March 6, 2017

Amendment to Annual Securities Report and Confirmation Letter thereof submitted on January 27, 2017

(3) Internal Control Report and documents attached thereto

Submitted to Director, Kanto Local Finance Bureau on January 27, 2017

(4) Quarterly Securities Report and Confirmation Letter thereof

For the first quarter of the 37th fiscal year (from November 1, 2016 to January 31, 2017)

Submitted to Director, Kanto Local Finance Bureau on February 28, 2017

For the second quarter of the 37th fiscal year (from February 1, 2017 to April 30, 2017)

Submitted to Director, Kanto Local Finance Bureau on May 31, 2017

For the third quarter of the 37th fiscal year (from May 1, 2017 to July 31, 2017)

Submitted to Director, Kanto Local Finance Bureau on August 30, 2017

(5) Extraordinary Report

Submitted to Director, Kanto Local Finance Bureau on January 27, 2017

According to the provision of Article 19, Paragraph 2, Item 9-2 (resolution of matters resolved at the General Meeting of Shareholders) of the Cabinet Office Ordinance on Disclosure of Corporate Affairs, etc.

Submitted to Director, Kanto Local Finance Bureau on March 21, 2017

According to the provision of Article 19, Paragraph 2, Item 3 (transfer of specified subsidiary) of the Cabinet Office Ordinance on Disclosure of Corporate Affairs, etc.

Submitted to Director, Kanto Local Finance Bureau on May 26, 2017

According to the provision of Article 19, Paragraph 2, Item 3 (transfer of specified subsidiary) of the Cabinet Office Ordinance on Disclosure of Corporate Affairs, etc.

Submitted to Director, Kanto Local Finance Bureau on May 26, 2017

According to the provision of Article 19, Paragraph 2, Item 12 (booking of extraordinary loss) of the Cabinet Office Ordinance on Disclosure of Corporate Affairs, etc.

Submitted to Director, Kanto Local Finance Bureau on July 28, 2017

According to the provision of Article 19, Paragraph 2, Item 7 (absorption-type demerger) of the Cabinet Office Ordinance on Disclosure of Corporate Affairs, etc.

Submitted to Director, Kanto Local Finance Bureau on August 30, 2017

According to the provision of Article 19, Paragraph 2, Item 19 (booking of extraordinary profit) of the Cabinet Office Ordinance on Disclosure of Corporate Affairs, etc.

Submitted to Director, Kanto Local Finance Bureau on October 31, 2017

According to the provision of Article 19, Paragraph 2, Item 1 (issuance of euro-yen denominated convertible bonds with share subscription rights due 2024) of the Cabinet Office Ordinance on Disclosure of Corporate Affairs, etc.

Submitted to Director, Kanto Local Finance Bureau on December 19, 2017  
According to the provision of Article 19, Paragraph 2, Item 19 (booking of extraordinary profit) of the Cabinet Office Ordinance on Disclosure of Corporate Affairs, etc.

(6) Amendment to Extraordinary Report

Submitted to Director, Kanto Local Finance Bureau on November 1, 2017

Amendment to Extraordinary Report (issuance of euro-yen denominated convertible bonds with share subscription rights due 2024) submitted on October 31, 2017

(7) Securities Registration Statement and documents attached thereto

Submitted to Director, Kanto Local Finance Bureau on January 26, 2017

(8) Amendment to Securities Registration Statement

Submitted to Director, Kanto Local Finance Bureau on January 27, 2017 and on March 1, 2017

Amendment to Securities Registration Statement concerning the Securities Registration Statement submitted on January 26, 2017

(9) Shelf Registration Statement and documents attached thereto

Submitted to Director, Kanto Local Finance Bureau on January 16, 2017

(10) Amendments to Shelf Registration Statement

Submitted to Director, Kanto Local Finance Bureau on

February 2, 2017,

March 7, 2017,

March 22, 2017,

May 29, 2017,

July 31, 2017,

August 30, 2017,

October 31, 2017,

November 1, 2017, and

December 19, 2017

Amendment to Shelf Registration Statement submitted on January 16, 2017

(11) Supplemental Document to Shelf Registration Statement

Submitted to Director, Kanto Local Finance Bureau on February 14, 2017

Supplemental Document to Shelf Registration Statement submitted on January 16, 2017

(12) Reports on Purchase of Treasury Shares

(From May 1, 2017 to May 31, 2017)

Submitted to Director, Kanto Local Finance Bureau on June 8, 2017

(From June 1, 2017 to June 30, 2017)

Submitted to Director, Kanto Local Finance Bureau on July 4, 2017

(From July 1, 2017 to July 31, 2017)

Submitted to Director, Kanto Local Finance Bureau on August 7, 2017

(From October 1, 2017 to October 30, 2017)

Submitted to Director, Kanto Local Finance Bureau on November 13, 2017

(From November 1, 2017 to November 30, 2017)

Submitted to Director, Kanto Local Finance Bureau on December 8, 2017

(From December 1, 2017 to December 31, 2017) Submitted to Director, Kanto Local Finance Bureau on January 9, 2018

## **Part II Information on Guarantors, etc. for the Company**

Not applicable.

[English Translation of the Independent Auditor's Report Originally Issued in Japanese]

Independent Auditor's Report and Internal Control Audit Report

January 25, 2018

To the Board of Directors of  
H.I.S. Co., Ltd.

Deloitte Touche Tohmatsu LLC

Designated Limited Liability Partner  
and Engagement Partner

Certified Public Accountant: Akemi Mochizuki (Seal)

Designated Limited Liability Partner  
and Engagement Partner

Certified Public Accountant: Toshihiro Kuchiki (Seal)

[Audit of Financial Statements]

Pursuant to the first paragraph of Article 193-2 of the Financial Instruments and Exchange Act, we have audited the accompanying consolidated financial statements of H.I.S. Co., Ltd. and its subsidiaries included in "Financial Information" for the fiscal year from November 1, 2016 to October 31, 2017, which comprise the consolidated balance sheets, the consolidated statements of income, the consolidated statements of comprehensive income, the consolidated statements of changes in equity, the consolidated statements of cash flows, significant accounting policies for the preparation of consolidated financial statements, and other notes and supplementary schedules.

*Management's Responsibility for the Consolidated Financial Statements*

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting standards generally accepted in Japan, and for designing and operating such internal control as management determines is necessary to enable the preparation and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

*Auditor's Responsibility*

Our responsibility is to express an opinion from an independent perspective on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. The purpose of an audit of the consolidated financial statements is not to express an opinion on the effectiveness of the entity's internal control, but in making these risk assessments the auditor considers internal controls relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

*Opinion*

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of H.I.S. Co., Ltd. and consolidated subsidiaries as of October 31, 2017, and the consolidated results of their operations and their cash flows for the year then ended in conformity with accounting standards generally accepted in Japan.

[Audit of Internal Control]

Pursuant to the second paragraph of Article 193-2 of the Financial Instruments and Exchange Act, we have audited the accompanying Management's Report on Internal Control Over Financial Reporting of H.I.S. Co., Ltd. as of October 31, 2017 (the "Management's Report").

#### *Management's Responsibility for the Management's Report*

Management is responsible for designing and operating internal control over financial reporting, and for the preparation and fair presentation of the Management's Report in accordance with standards for assessment of internal control over financial reporting generally accepted in Japan.

Internal control over financial reporting may not completely prevent or detect financial reporting misstatements.

#### *Auditor's Responsibility*

Our responsibility is to express an opinion from an independent perspective on the Management's Report based on our internal control audit. We conducted our internal control audit in accordance with auditing standards for internal control over financial reporting generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Management's Report is free from material misstatement.

An internal audit involves performing procedures to obtain audit evidence about the assessment of internal control over financial reporting in the Management Report. The procedures selected depend on the auditor's judgment, including the assessment of the significance of effect on the reliability of financial reporting. An internal control audit also includes evaluating the scope, procedures, and conclusions of the assessment of internal control over financial reporting determined and presented by management and the overall presentation of the Management's Report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit.

#### *Opinion*

In our opinion, the Management's Report referred to above, which represents that the internal control over financial reporting as of October 31, 2017 of H.I.S. Co., Ltd. is effective, present fairly, in all material respects, the result of management's assessment on internal control over financial reporting in conformity with standards for assessment of internal control over financial reporting generally accepted in Japan.

#### *Conflicts of Interest*

We have no interest in the Company which should be disclosed in compliance with the Certified Public Accountants Act.

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- Note 1. The above is a digitization of the text contained in the original copy of the Audit Report, which is in custody of the Company.  
2. XBRL data is excluded from the scope of the audit.



Independent Auditor's Report

January 25, 2018

To the Board of Directors of  
H.I.S. Co., Ltd.

Deloitte Touche Tohmatsu LLC

Designated Limited Liability Partner  
and Engagement Partner

Certified Public Accountant: Akemi Mochizuki (Seal)

Designated Limited Liability Partner  
and Engagement Partner

Certified Public Accountant: Toshihiro Kuchiki (Seal)

Pursuant to the first paragraph of Article 193-2 of the Financial Instruments and Exchange Act, we have audited the accompanying non-consolidated financial statements of H.I.S. Co., Ltd. included in "Financial Information" for the fiscal year from November 1, 2016 to October 31, 2017, which comprise the non-consolidated balance sheet, the non-consolidated statement of income, the non-consolidated statement of changes in equity, significant accounting policies, and other notes and supplementary schedules.

*Management's Responsibility for the Non-Consolidated Financial Statements*

Management is responsible for the preparation and fair presentation of these non-consolidated financial statements in accordance with accounting standards generally accepted in Japan, and for designing and operating such internal control as management determines is necessary to enable the preparation and fair presentation of the non-consolidated financial statements that are free from material misstatement, whether due to fraud or error.

*Auditor's Responsibility*

Our responsibility is to express an opinion from an independent perspective on these non-consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the non-consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the non-consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the non-consolidated financial statements, whether due to fraud or error. The purpose of an audit of the non-consolidated financial statements is not to express an opinion on the effectiveness of the entity's internal control, but in making these risk assessments the auditor considers internal controls relevant to the entity's preparation and fair presentation of the non-consolidated financial statements in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the non-consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit

*Opinion*

In our opinion, the non-consolidated financial statements referred to above present fairly, in all material respects, the financial position of H.I.S. Co., Ltd. as of October 31, 2017, and the results of their operations and their cash flows for the year then ended in conformity with accounting standards generally accepted in Japan.

*Conflicts of Interest*

We have no interest in the Company which should be disclosed in compliance with the Certified Public Accountants Act.

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- Note 1. The above is a digitization of the text contained in the original copy of the Audit Report, which is in custody of the Company.  
2. XBRL data is excluded from the scope of the audit.