

Annual Securities Report

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

(The 38th Fiscal Year)

From November 1, 2017 to October 31, 2018

H.I.S. Co., Ltd.

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

(E04358)

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Part I Information on the Company

I. Overview of the Company

1. Key Financial Data and Trends

(1) Consolidated financial data

Fiscal year		34th	35th	36th	37th	38th
Year end		October 2014	October 2015	October 2016	October 2017	October 2018
Net sales	(millions of yen)	523,246	537,456	523,705	606,024	728,554
Ordinary income	(millions of yen)	19,016	22,685	8,648	19,647	19,440
Profit attributable to owners of parent	(millions of yen)	9,050	10,890	267	13,259	10,971
Comprehensive income	(millions of yen)	13,040	14,583	(5,928)	20,386	11,525
Net assets	(millions of yen)	102,295	113,990	95,139	111,247	115,559
Total assets	(millions of yen)	281,332	308,245	332,385	422,809	515,792
Net assets per share	(yen)	1,366.04	1,534.77	1,295.35	1,466.13	1,538.56
Earnings per share	(yen)	139.56	167.94	4.25	219.52	191.30
Diluted earnings per share	(yen)	137.61	157.22	3.58	204.60	165.42
Shareholders' equity ratio	(%)	31.5	32.3	23.9	20.3	17.1
Return on equity	(%)	10.8	11.6	0.3	16.0	12.6
Price-earnings ratio	(times)	20.5	24.4	674.8	17.3	17.9
Cash flows from operating activities	(millions of yen)	23,701	12,597	5,149	32,369	20,397
Cash flows from investing activities	(millions of yen)	(12,703)	(28,177)	(15,440)	(26,209)	(44,841)
Cash flows from financing activities	(millions of yen)	37,033	16,253	30,181	29,769	48,304
Cash and cash equivalents at end of fiscal year	(millions of yen)	110,145	113,330	129,842	168,659	191,440
Number of employees		9,652	10,143	10,845	13,510	13,875
[Average number of temporary employees not included in the above]	(persons)	[3,071]	[3,469]	[3,535]	[3,422]	[3,179]

(Notes)

- Consumption taxes, etc. are not included in net sales.
- 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."
- On May 1, 2014, the Company conducted a 2-for-1 stock split of common stock.
- 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, 37th, and 38th 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, 37th, and 38th 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.
- Both interest-bearing debt (corporate bonds, convertible bond-type bonds with share acquisition 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 41.1% in the 34th fiscal year, 44.2% in the 35th fiscal year, 38.7% in the 36th fiscal year, 34.1% in the 37th fiscal year, and 30.6% in the 38th fiscal year.

(2) Non-consolidated financial data

Fiscal year		34th	35th	36th	37th	38th
Year end		October 2014	October 2015	October 2016	October 2017	October 2018
Net sales	(millions of yen)	407,835	402,112	395,278	428,734	459,627
Ordinary income (loss)	(millions of yen)	5,845	5,730	(636)	4,642	6,557
Profit (loss)	(millions of yen)	3,404	2,461	(2,358)	(108)	2,038
Capital stock	(millions of yen)	6,882	11,000	11,000	11,000	11,000
Shares issued and outstanding	(shares)	68,522,936	68,522,936	68,522,936	68,522,936	68,522,936
Net assets	(millions of yen)	55,377	55,465	39,822	23,593	19,099
Total assets	(millions of yen)	194,308	209,435	234,489	264,887	322,107
Net assets per share	(yen)	853.94	855.30	646.86	398.96	325.85
Total dividends per share (interim dividend amount)	(yen)	18.00 (—)	22.00 (—)	22.00 (—)	29.00 (—)	29.00 (—)
Earnings (loss) per share	(yen)	52.50	37.96	(37.51)	(1.80)	35.53
Diluted earnings per share	(yen)	51.73	35.25	—	—	30.25
Shareholders' equity ratio	(%)	28.5	26.5	16.9	8.8	5.8
Return on equity	(%)	6.3	4.4	—	—	9.7
Price-earnings ratio	(times)	54.6	107.7	—	—	96.4
Dividend payout ratio	(%)	34.3	58.0	—	—	81.6
Number of employees [Average number of temporary employees not included in the above]	(persons)	4,617 [1,055]	4,910 [1,060]	5,353 [1,041]	5,581 [897]	5,498 [722]

(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.
- 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, 37th, and 38th 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 earnings (loss) per share for the 36th, 37th, and 38th 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.
- Although there were dilutive shares in the 36th and 37th fiscal years, diluted earnings per share 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 acquisition 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 41.3% in the 34th fiscal year, 41.4% in the 35th fiscal year, 33.8% in the 36th fiscal year, 21.5% in the 37th fiscal year, and 15.5% in the 38th 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
December 1983	Obtained Retail Agency License (No. 3034) from Ministry of Transportation
September 1984	Opened Fukuoka Branch (currently Fukuoka Tenjin Head Office) in Chuo-ku, Fukuoka
May 1985	Opened Nagoya Branch (currently Sakae Head Office) in Nakamura-ku, Nagoya
June 1986	Established HIS (HONG KONG) COMPANY LIMITED
January 1988	Obtained General Travel Agency License (No. 724) from Ministry of Transportation
October 1989	Established H.I.S. INTERNETIONAL TOURS (NY) INC.
April 1990	Established H.I.S. Deutschland Touristik GmbH
August 1990	Changed Company name to H.I.S. Co., Ltd.
September 1990	Established Passaporte Co., Ltd. (currently QUALITA Co., Ltd.)
December 1990	Established No. 1 Travel Shibuya Co., Ltd.
April 1991	Received approval as a certified International Air Transport Association (IATA) agent
November 1991	Established H.I.S. AUSTRALIA PTY. LTD.
August 1992	Established H.I.S. KOREA CO., LTD.
April 1993	Established Central Sales Division as a headquarters organization; established Kanto, Chubu, Kansai and Kyushu Area Sales Divisions as regional organizations
May 1993	Established H.I.S. INTERNATIONAL TOURS FRANCE SARL (currently HIS INTERNATIONAL TOURS FRANCE)
September 1993	Established H.I.S. INTERNATIONAL TRAVEL PTE LTD
January 1994	Opened Shinjuku Headquarters Branch (currently Shinjuku Head Office) at Southgate Shinjuku 5-33-8 Sendagaya, Shibuya-ku, Tokyo
September 1994	Acquired equity stake in HAWAII HIS CORPORATION
October 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
March 1995	Established H.I.S. AUSTRALIA HOLDINGS PTY LTD
May 1995	Established H.I.S. INVESTMENTS PTY LTD
September 1995	Consolidated the Fukuoka Branch, Tenjin Branch, and Head Office Branch in Hakata-ku, Fukuoka, to establish Travel Wonderland Kyushu as a large retail branch
December 1995	Moved and expanded the Osaka Branch to establish Travel Wonderland Kansai (currently Umeda Head Office) as a large retail branch
January 1996	Shares registered with Japan Securities Dealers Association for over-the-counter sales
March 1996	Established H.I.S. INTERNATIONAL TOURS (BC) INC. (currently H.I.S. CANADA INC.)
November 1996	Established THE WATERMARK HOTEL GROUP PTY LTD
March 1997	Established PT. HARUM INDAH SARI TOURS & TRAVEL
July 1997	Established H.I.S. INTERNATIONAL TOURS KOREA INC.
October 1997	Established H.I.S. ITALIA S.R.L. (currently H.I.S. EUROPE ITALY S.R.L.)
April 1998	Opened THE WATERMARK HOTEL, GOLD COAST
June 1998	Established H.I.S. Tours Co., Ltd.
October 1999	Moved Yokohama Branch to Nishi-ku, Yokohama and established Travel Wonderland Yokohama (currently Yokohama Head Office) as a large retail branch
December 1999	Established H.I.S. GUAM, INC.
March 2000	Established H.I.S. SAIPAN, INC.
April 2000	Opened large retail branch Travel Wonderland Shibuya (currently Shibuya Head Office) in Shibuya-ku, Tokyo
June 2000	Opened large retail branch Travel Wonderland Omiya (currently Omiya Head Office) in Omiya-ku, Saitama
October 2000	Opened large retail branch Travel Wonderland Sapporo (currently Sapporo Head Office) in Chuo-ku, Sapporo
December 2000	Acquired equity stake in H.I.S. TAIWAN COMPANY LIMITED
March 2001	Made H.I.S. Kyoritsu Securities Co., Ltd. (currently Sawada Holdings Co., Ltd.) a subsidiary
April 2001	Moved headquarters function and Kanto Area Sales Division to the Shibuya Mark City West Building, 1-12-1 Dogenzaka, Shibuya-ku, Tokyo

Month/Year	Events
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 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 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 Co., Ltd. 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 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 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
November 2016	Established H.I.S. Hotel Holdings Co., Ltd.
December 2016	Made Merit Holdings Inc. a subsidiary Made H.S. Insurance Co., Ltd. a subsidiary
March 2017	Established H.I.S. SUPER POWER Co., Ltd. Opened Henn-na Hotel Maihama Tokyo Bay

Month/Year	Events
May 2017	Established H.I.S. OKINAWA Co., Ltd.
	Made GROUP MIKI HOLDINGS LIMITED a subsidiary
	Made Green World Hotels Co., Ltd. a subsidiary
August 2017	Opened Henn-na Hotel Laguna Ten Bosch
November 2017	Made JONVIEW CANADA INC. a subsidiary
December 2017	Opened Henn-na Hotel Tokyo Nishikasai
January 2018	Opened Henn-na Hotel Tokyo Ginza
April 2018	Opened Henn-na Hotel Tokyo Hamamatsucho
May 2018	Established H.I.S. Energy Holdings Co., Ltd.
July 2018	Opened Henn-na Hotel Tokyo Asakusabashi
	Opened Henn-na Hotel Tokyo Akasaka

3. Description of Business

The H.I.S. Group (H.I.S. Co., Ltd., and associated companies; hereinafter, the “H.I.S. Group” or the “Group”) comprises H.I.S. Co., Ltd. (hereinafter, the “Company”), 171 subsidiaries and 20 associated companies. The main businesses operated by the H.I.S. Group and the positioning of the Company and associated companies in these businesses are as follows.

In the third quarter of the consolidated fiscal year ended October 31, 2017, the Company sold a portion of its shares in ASIA ATLANTIC AIRLINES CO., LTD., as a result of which the company ceased to be a consolidated subsidiary and became an equity-method affiliate. Consequently, the Company discontinued the Transportation Business from the first quarter of the consolidated fiscal year ended October 31, 2018.

The five business groupings of Travel Business, Huis Ten Bosch Group, Hotel 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.

[Associated Companies]

HAWAII HIS CORPORATION	H.I.S. EUROPE LIMITED
H.I.S. INTERNATIONAL TOURS (NY) INC.	HIS INTERNATIONAL TOURS FRANCE
H.I.S. GUAM, INC.	H.I.S. Deutschland Touristik GmbH
H.I.S. CANADA INC.	H.I.S. EUROPE ITALY S.R.L.
H.I.S. – MERIT TRAVEL INC.	HIS ULUSLARARASI TURIZM SEYAHAT ACENTASI
JONVIEW CANADA 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.	

and 99 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.

[Associated Companies]

Huis Ten Bosch Co., Ltd.	LAGUNA TEN BOSCH CO., LTD.
HTB ENERGY CO., LTD.	and 13 other companies

(3) Hotel Business

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

[Associated Companies]

H.I.S. Hotel Holdings Co., Ltd.	HHH. USA. INC.
The Watermark Hotel Nagasaki Co., Ltd.	PT. HARUM INDAH SARI INDONESIA
Green World Hotels Co., Ltd.	
GUAM REEF HOTEL, INC.	and 9 other companies

(4) Kyushu Sanko Group

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

[Associated Companies]

KYUSHU INDUSTRIAL TRANSPORTATION and 16 other companies
HOLDINGS CO., LTD.

(5) Other businesses

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

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

H.I.S. Energy Holdings Co. Ltd. and H.I.S. SUPER POWER Co., Ltd. operate energy-related businesses.

ASIA ATLANTIC AIRLINES CO., LTD. previously operated passenger route transport, including international charters, and other ancillary businesses, but it has ceased operations and is currently undergoing liquidation proceedings.

[Associated Companies]

H.S. Insurance Co., Ltd.

SYS Inc.

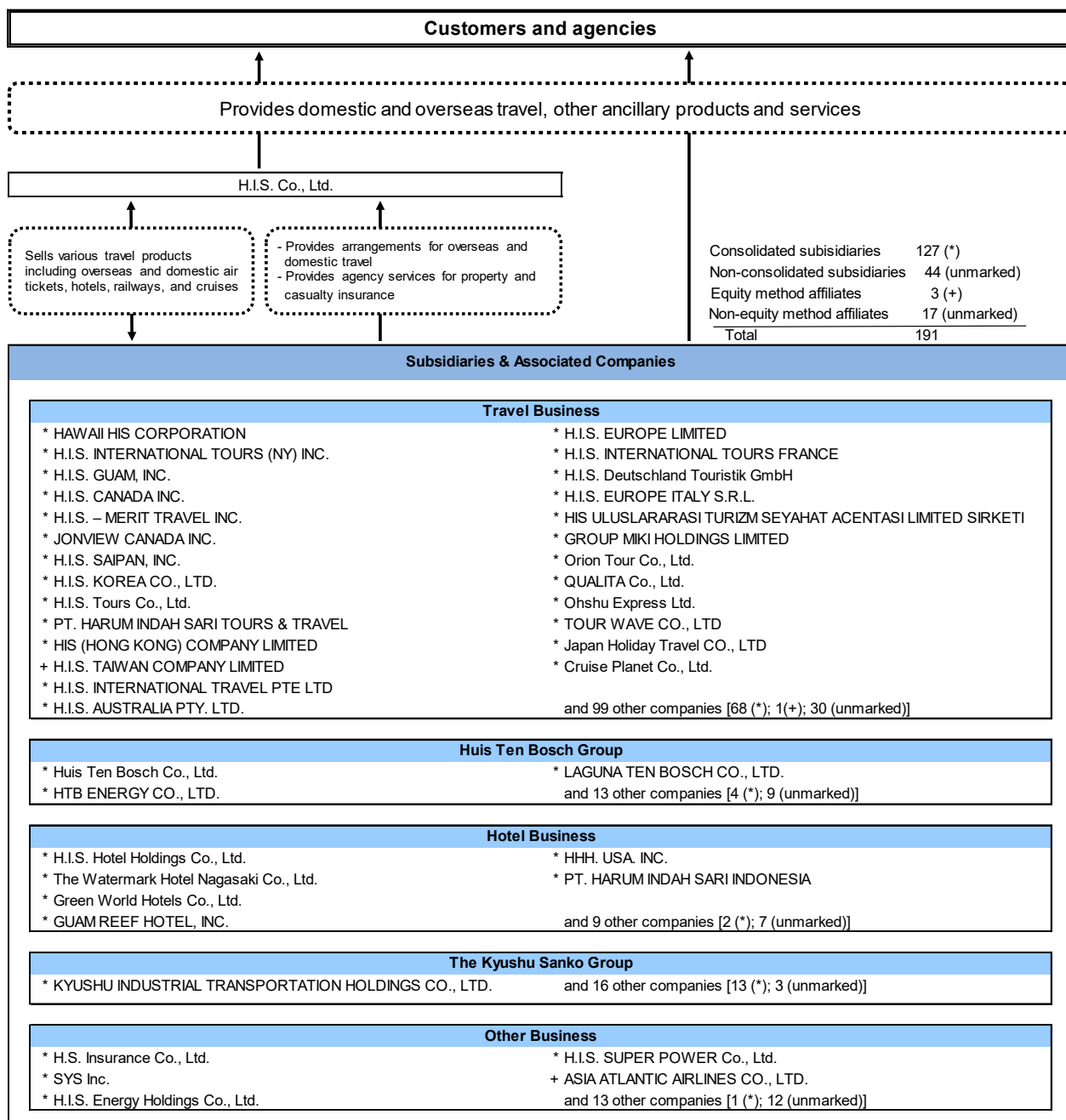
H.I.S. Energy Holdings Co., Ltd.

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

ASIA ATLANTIC AIRLINES CO., LTD.

and 13 other companies

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



4. Information on Subsidiaries and Associates

(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 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 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 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 One concurrent director at said company 2) Business Transaction Purchasing of travel products from 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 Purchasing and sales of travel products between the companies
H.I.S. CANADA INC.	Yukon Territory, Canada	100 thousand CAD	Travel Business	100.0	1) Business Transaction 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	100.0	1) Concurrent Director One concurrent director at said company
JONVIEW CANADA INC. (Note 3)	Toronto, Ontario, Canada	50,200 thousand CAD	Travel Business	100.0	1) Concurrent Director One concurrent director at 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 Two concurrent directors at said company
H.I.S. KOREA CO., LTD.	Seoul, Republic of Korea	425,000 thousand KRW	Travel Business	58.8	1) Business Transaction 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 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) Concurrent Director One concurrent director at said company 2) Business Transaction Purchasing and sales of travel products between the companies

Company name	Location	Capital	Main business	Ownership of voting rights (%)	Relationship
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 Two concurrent directors at said company 2) Business Transaction 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 Purchasing of travel products from said company
H.I.S. INTERNATIONAL TRAVEL PTE LTD (Note 2)	Republic of Singapore	400 thousand SGD	Travel Business	100.0 (100.0)	1) Business Transaction Purchasing and sales of travel products between the companies
H.I.S. AUSTRALIA PTY. LTD. (Note 2)	Queensland, Australia	25 thousand AUD	Travel Business	100.0 (100.0)	1) Concurrent Director One concurrent director at said company 2) Business Transaction Purchasing and sales of travel products between the companies
H.I.S. EUROPE LIMITED (Note 2)	London, England	100 thousand GBP	Travel Business	100.0 (100.0)	1) Business Transaction Purchasing and sales of travel products between the companies
GROUP MIKI HOLDINGS LIMITED (Note 3)	London, England	116 thousand EUR	Travel Business	70.3	1) Business Transaction Purchasing and sales of travel products between the companies
HIS INTERNATIONAL TOURS FRANCE (Note 2)	Paris, France	2,030 thousand EUR	Travel Business	100.0 (100.0)	1) Concurrent Director One concurrent director at said company 2) Business Transaction Purchasing and sales of travel products between the companies
H.I.S. Deutschland Touristik GmbH (Note 2)	Frankfurt, Germany	25 thousand EUR	Travel Business	100.0 (100.0)	1) Business Transaction Purchasing and sales of travel products between the companies
H.I.S. EUROPE ITALY S.R.L. (Note 2)	Rome, Italy	83 thousand EUR	Travel Business	100.0 (100.0)	1) Business Transaction Purchasing and sales of travel products between the companies
HIS ULUSLARARASI TURIZM SEYAHAT ACENTASI LIMITED SIRKETI (Note 2)	Istanbul, Turkey	9,132 thousand TRY	Travel Business	100.0 (96.9)	1) Business Transaction Purchasing and sales of travel products between the companies 2) Capital Assistance 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 Two concurrent directors at said company 2) Business Transaction Purchasing and sales of travel products between the companies

Company name	Location	Capital	Main business	Ownership of voting rights (%)	Relationship
QUALITA Co., Ltd.	Shinjuku-ku, Tokyo	51 million yen	Travel Business	100.0	1) Concurrent Director One concurrent director at said company 2) Business Transaction Purchasing and sales of travel products between the companies 3) Capital Assistance The Company provides payment guarantee (up to 35 million yen) for notes and accounts payable – trade
Ohshu Express Ltd.	Shibuya-ku, Tokyo	132 million yen	Travel Business	100.0	1) Concurrent Director Two concurrent directors at said company 2) Business Transaction 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 One concurrent director at said company 2) Business Transaction 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 One concurrent director at said company 2) Business Transaction Purchasing and sales of travel products between the companies 3) Capital Assistance 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 Two concurrent directors at said company 2) Business Transaction 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 Two concurrent directors at said company 2) Business Transaction 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	100.0 (100.0)	1) Concurrent Director Two concurrent directors at said company 2) Business Transaction Sales of travel products to said company 3) Capital Assistance The Company loans 3,100 million yen in working capital

Company name	Location	Capital	Main business	Ownership of voting rights (%)	Relationship
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 Three concurrent directors at said company 2) Business Transaction Purchasing and sales of travel products between the companies
H.I.S. Hotel Holdings Co., Ltd. (Note 3)	Shinjuku-ku, Tokyo	10 million yen	Hotel Business	100.0	1) Concurrent Director Two concurrent directors at said company 2) Business Transaction Purchasing and sales of hotel products between the companies 3) Capital Assistance The Company guarantees liabilities (up to 235 million yen) against bank guarantees. In addition, it loans 19,540 million yen in capital expenditure funding
The Watermark Hotel Nagasaki Co., Ltd. (Note 2)	Shinjuku-ku, Tokyo	250 million yen	Hotel Business	100.0 (100.0)	1) Concurrent Director Two concurrent directors at said company 2) Business Transaction Purchasing and sales of hotel products between the companies
HHH. USA. INC. (Note 2) (Note 3)	New York City, New York, U.S.A.	10,000 thousand USD	Hotel Business	100.0 (100.0)	_____
GUAM REEF HOTEL, INC. (Note 2)	Guam, U.S. Territory	10 thousand USD	Hotel Business	100.0 (100.0)	_____
PT. HARUM INDAH SARI INDONESIA (Note 2) (Note 3)	Badung, Bali, Republic of Indonesia	180 billion IDR	Hotel Business	100.0 (1.0)	_____
Green World Hotels Co., Ltd. (Note 2) (Note 3)	Taipei City, Taiwan	1,097 million TWD	Hotel Business	51.0 (51.0)	1) Capital Assistance The Company guarantees liabilities (up to 1,569 million yen) against bank guarantees
KYUSHU INDUSTRIAL TRANSPORTATION HOLDINGS CO., LTD. (Note 3) (Note 4)	Chuo-ku, Kumamoto, Kumamoto Prefecture	1,065 million yen	Kyushu Sanko Group	84.6	1) Business Transaction Purchasing and sales of travel products between the companies 2) Capital Assistance The Company loans 2,000 million yen in capital expenditure funding
H.S. Insurance Co., Ltd. (Note 3)	Minato-ku, Tokyo	1,612 million yen	Other Business	82.0	1) Business Transaction The Company is a sales representative for travel insurance

Company name	Location	Capital	Main business	Ownership of voting rights (%)	Relationship
H.I.S Energy Holdings Co. Ltd.	Shinjuku-ku, Tokyo	105 million yen	Other Business	100.0	1) Concurrent Director Two concurrent directors at said company
H.I.S. SUPER POWER Co., Ltd. (Note 2)	Shinjuku-ku, Tokyo	50 million yen	Other Business	100.0 (100.0)	1) Concurrent Director Three concurrent directors at said company 2) Capital Assistance The Company loans 5,215 million yen in capital expenditure funding
SYS Inc.	Minato-ku, Tokyo	100 million yen	Other Business	91.4	1) Concurrent Director Two concurrent directors at said company 2) Business Transaction The Company outsources development of accommodation reservation systems, etc. 3) Capital Assistance The Company guarantees liabilities (up to 900 million yen) against bank guarantees. In addition, it loans 415 million yen in working capital
And 85 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 One concurrent director at said company 2) Business Transaction Purchasing and sales of travel products between the companies
ASIA ATLANTIC AIRLINES CO., LTD. (Note 2)	Bangkok, Thailand	249,500 thousand THB	Other Business	28.9 (27.9)	1) Capital Assistance The Company guarantees liabilities (up to 30 million yen) against bank guarantees. In addition, the Company provides payment guarantee (up to 792 million yen) for notes and accounts payable – trade
And 1 other company					

(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.

5. Employees

(1) Consolidated Companies

As of October 31, 2018

Name of business segment	Number of employees	
Travel Business	10,936	[1,119]
Huis Ten Bosch Group	694	[1,265]
Hotel Business	578	[417]
Kyushu Sanko Group	1,491	[361]
Reportable segments total	13,699	[3,162]
Other	83	[12]
Corporate-wide (shared)	93	[5]
Total	13,875	[3,179]

(Notes)

1. “Number of employees” represents full-time employees only. An additional figure for the average number of temporary 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.

(2) The Filing Company

As of October 31, 2018

Number of employees	Average age	Average length of service	Average annual pay (yen)
5,498 [722]	32.3 years old	8.1 years	4,514,552

Name of business segment	Number of employees	
Travel Business	5,405	[717]
Reportable segments total	5,405	[717]
Other	—	[—]
Corporate-wide (shared)	93	[5]
Total	5,498	[722]

(Notes)

1. “Number of employees” represents full-time employees only. An additional figure for the average number of temporary 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. 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 allow it to 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, the 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 achieve sustainable growth and improved profitability, thereby securing a solid position to amass growing travel demand in the world.

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

The H.I.S. Group will leverage its expertise in the Travel Business, and implement organizational reforms across the Group to address needs in expanding business domains. At the same time, it will work to build new business models through active pursuit of growth markets including travel, theme parks, hotels, electricity, and robotics, with a view to establishing the Group’s dominance in global markets.

(4) Issues to be Addressed

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. Through optimized use of the Group’s global network and infrastructure, the company intends to further provide products, services, and information that are safe, secure, and high-quality, by creating new experience-driven value and offering expanded services. An effort will also be made to please and gain the support of customers throughout the world by working to improve the level of Group’s services in Japan and overseas.

- Response to evolving business models

The market environment surrounding the H.I.S. Group is changing rapidly due to direct air ticket sales outlets and travel agencies in Japan and overseas, the rise of online travel agents, and the expansion of new travel-related services. Against this backdrop, the Group must keep up with the evolution of business models and act with speed as necessary. It will work to advance into growth markets and enhance productivity by achieving greater efficiency through technology.

- Promotion of globalization

As new businesses and services are rolled out on the global stage, the H.I.S. Group will pursue business expansion with a global outlook and develop human resources who can lead global businesses with the aim of advancing into new business areas and further developing existing businesses going forward.

2. 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 28, 2019) and business risks are not limited to those discussed below.

1) Business development regionality

The Travel Business accounts for 89.4% of Group net sales, and 83.0% 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 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 and infrastructure due to natural disasters; outbreak of an infectious disease; or global disorder caused by a sudden turbulence in the currency market. This could affect the Group’s financial position and operating results.

3) Flight operations

If an airplane accident were to happen, the demand for air travel will likely slump. This could also affect the Group's financial position and operating results.

4) 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.

5) Changes in fuel surcharges

Net sales of the Company account for 61.0% of Group net sales, and overseas travel comprises 86.6% 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 travel demand and adversely affect the Group's financial position and operating results.

6) 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 converts figures in 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.

7) 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.

8) 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.

9) 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.

10) 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 providing 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.

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-related problems such as food poisoning could affect the Group's reputation, and impact its financial position and operating results.

12) 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.

13) 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.

14) 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.

15) 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.

3. Analyses of Financial Position, Business Results, and Cash Flows

The following is an overview, management perspective, analysis, and examination of the Company's financial position, business results, and cash flows in the consolidated fiscal year ended October 31, 2018.

(1) Business Results

In the consolidated fiscal year ended October 31, 2018, the management environment was affected by geopolitical risk factors in the international arena such as economic impact from trade issues and successive natural disasters, but the Japanese economy gradually recovered 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 and promoted work style 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 allow it to 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, 2018, the travel market expanded as easing concerns over public order and security at major tourist destinations outweighed notable weather-related risks such as torrential rains, flooding, and heat waves. The number of outbound travelers from Japan rose 4.8% year on year to 18,660,000, reaching the highest level alongside fiscal year ended October 31, 2012. The number of inbound travelers to Japan slowed temporarily in September but held firm over the full year, rising 11.9% year on year to 31,000,000 (source: Japan National Tourism Organization [JNTO]).

Travel business in Japan was strong as adverse impact from weak travel to Guam due to reduced flight services and other factors, the temporary shutdown of Kansai International Airport, and earthquakes and typhoons, was offset by continued demand for travel to Europe, a recovery in travel to South Korea (which had previously languished) due to conditions in East Asia, and an

expansion in the Okinawa business driven by stronger original content such as a dedicated lounge. Inbound travel to Japan also remained firm due to successful initiatives such as expanded merchandise to capture the ongoing shift to individual travel. The online business was steady thanks to the rollout of improvements to accommodate search trends such as the addition of a new destination page. The corporate business promoted solutions business, and aimed to transition to a business model that supports higher margins.

In overseas travel, the Company made JONVIEW CANADA INC., a leading tour operator based in Canada, a subsidiary to further strengthen and expand its business in North America. JONVIEW CANADA INC. is delivering major contributions to the overseas business, as are Merit Holdings Inc. and GROUP MIKI HOLDINGS LIMITED, which were turned into subsidiaries in the consolidated fiscal year ended October 31, 2017. As for subsidiaries in other countries, the Company aimed to strengthen its organization by establishing Central Sales Divisions in major regions such as Southeast Asia and Europe with an eye toward accelerating development of the overseas business going forward.

After factoring in new, scrapped, and consolidated outlets, the H.I.S. Group's global sales network comprised 276 locations in Japan, and 272 overseas in 157 cities across 70 countries (as of October 31, 2018).

Consequently, the Travel Business recorded net sales of 651,303 million yen (an increase of 21.3% from a year earlier) and operating income of 12,146 million yen (an increase of 22.7%).

[Huis Ten Bosch Group]

At Huis Ten Bosch, the Company concentrated on improving experience-driven value, delivering one-of-a-kind theme park content that can be enjoyed by three generations at its six themed areas of "Kingdom of Flowers," "Kingdom of Light," "Kingdom of Music and Shows," "Kingdom of Games," "Kingdom of Health and Beauty," and "Kingdom of Robots."

At the same time, the Company worked to develop attractions on uninhabited islands. In July 2018, it opened Jurassic Island, the first Japanese theme park attraction located on uninhabited island, where visitors can take part in an augmented reality shootout with dinosaurs or simply enjoy a stroll through the island. The attraction was well received as a theme park experience that can be enjoyed across all generations. While theme park content proved popular with visitors, impact from adverse weather on traditionally busy days in the first half of the year and from a heat wave during the busy months in the second half of the year drove a 5.5% year on year decline in total visitors to 2,722,000.

As a result of the above, the Huis Ten Bosch Group recorded net sales of 43,690 million yen (an increase of 18.8% from a year earlier) and operating income of 7,273 million yen (a decrease of 5.4%). The decline in operating income was attributable to a fall in total theme park visitors and an increase in fuel costs at HTB ENERGY CO., LTD., which operates an electricity retail business.

[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 continued to expand operations centered on its Henn-na Hotels, which aim to be the world's most efficient hotels. In July 2018, it opened Henn-na Hotel Tokyo Asakusabashi and Henn-na Hotel Tokyo Akasaka. In addition, the year-round contribution from Green World Hotels Co., Ltd. (Taiwan), which was made a consolidated subsidiary in the third quarter of the consolidated fiscal year ended October 31, 2017, boosted earnings significantly.

Based on the above, the Hotel Business reported net sales of 12,039 million yen (an increase of 47.2% from a year earlier), operating income of 808 million yen (a 5.7% increase), and EBITDA of 2,117 million yen (an increase of 23.6%). In addition, the Company sold the Watermark Hotel Sapporo and Watermark Hotel Australia properties, which were included under the Hotel Business.

[Kyushu Sanko Group]

The Kyushu Sanko Group was adversely affected by a reactionary decline in reconstruction demand associated with the 2016 Kumamoto earthquake and by impact from soaring diesel prices. As a result, it recorded net sales of 21,641 million yen (a decrease of 2.9% from a year earlier) and operating income of 398 million yen (a decrease of 29.3%). In the Sakuramachi Redevelopment Project, the Kyushu Sanko Group made steady progress with construction work.

Based on the above, the Company's consolidated results for the consolidated fiscal year ended October 31, 2018 were 728,554 million yen in net sales (an increase of 20.2% from a year earlier), a record high, 18,024 million yen in operating income (an

increase of 13.3%), 19,440 million yen in ordinary income (a decrease of 1.1%), and 10,971 million yen in profit attributable to owners of parent (a decrease of 17.3%).

(2) Cash Flows

The amount of cash and cash equivalents (hereinafter, “funds”) at the end of the consolidated fiscal year ended October 31, 2018 was 191,440 million yen, an increase of 22,781 million yen compared to the end of the previous fiscal year. Cash flows from operating activities increased 20,397 million yen, cash flows from investing activities decreased 44,841 million yen, and cash flows from financing activities increased 48,304 million yen.

The status of each cash flow item is presented in detail below.

[Cash flows from operating activities]

Funds from operating activities saw an increase of 20,397 million yen in the fiscal year under review. This mainly reflected an increase in funds from the booking of profit before income taxes (20,695 million yen) and an increase in travel advances received (9,676 million yen), alongside a decrease in funds resulting from income taxes paid (8,009 million yen).

In the previous fiscal year, funds saw an increase of 32,369 million yen. This was largely attributable to 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), as well as a decrease in funds due to an increase in travel advance payments (5,185 million yen).

As a result, in the fiscal year under review, cash flows from operating activities declined 11,972 million yen compared to the previous fiscal year.

[Cash flows from investing activities]

Funds from investing activities saw a decrease of 44,841 million yen in the fiscal year under review. This was mainly because purchases of property, plant and equipment and intangible assets (45,440 million yen) and purchases of investment securities (6,973 million yen) exceeded the proceeds from sales of property, plant and equipment and intangible assets (9,709 million yen).

In the previous fiscal year, funds saw a decrease of 26,209 million yen. 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).

As a result, in the fiscal year under review, cash flows from investing activities declined 18,631 million yen compared to the previous fiscal year.

[Cash flows from financing activities]

Funds from financing activities saw an increase of 48,304 million yen in the fiscal year under review. This mainly reflected an increase in funds from proceeds from long- and short-term loans payable (59,020 million yen), proceeds from issuance of bonds with share acquisition rights (25,100 million yen [Note]), alongside a decrease in funds from repayments of long- and short-term loans payable (27,646 million yen), purchases of treasury shares (5,001 million yen), and cash dividends paid (1,707 million yen).

In the previous fiscal year, funds saw an increase of 29,769 million yen. This mainly reflected an increase in funds from proceeds from long- and short-term loans payable (81,640 million yen) and 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).

As result, in the fiscal year under review, cash flows from financing activities increased 18,534 million yen compared to the previous fiscal year.

(Note) Amount after subtracting issuance-related costs from issuance proceeds.

(3) Production, Orders Received, and Sales

1) Purchasing

Purchasing by segment during the consolidated fiscal year ended October 31, 2018 is as follows.

Segment name	Year ended October 31, 2018 [November 1, 2017 to October 31, 2018] (millions of yen)	Versus previous fiscal year (%)
Travel Business	552,472	121.9
Huis Ten Bosch Group	17,553	169.9
Hotel Business	4,379	134.1
Kyushu Sanko Group	19,330	97.9
Reportable segment total	593,737	121.1
Other	1,448	151.3
Total	595,185	121.1

(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, 2018 are as follows.

Segment name	Year ended October 31, 2018 [November 1, 2017 to October 31, 2018] (millions of yen)	Versus previous fiscal year (%)
Travel Business	649,650	121.3
Huis Ten Bosch Group	41,892	118.9
Hotel Business	11,153	154.6
Kyushu Sanko Group	21,626	97.2
Reportable segment total	724,322	120.0
Other	4,231	161.6
Total	728,554	120.2

(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.

(4) 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, 2018 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

(i) Current assets

The balance of current assets at the end of the fiscal year under review was 323,116 million yen, an increase of 39,630 million yen from the end of previous fiscal year.

This was mainly due to an increase in cash and deposits (up 20,921 million yen from the end of the previous fiscal year) and an increase in notes and accounts receivable - trade (up 9,574 million yen).

(ii) Non-current assets

The balance of non-current assets at the end of the fiscal year under review was 192,243 million yen, an increase of 53,147 million yen from the end of previous fiscal year.

This was mainly due to an increase in property, plant and equipment (up 33,101 million yen from the end of previous fiscal year), an increase in investment securities (up 4,938 million yen), and increase in goodwill (up 2,487 million yen).

(iii) Current liabilities

The balance of current liabilities at the end of the fiscal year under review was 213,937 million yen, an increase of 82,070 million yen from the end of previous fiscal year.

This was mainly due to an increase in the current portion of convertible bond-type bonds with share acquisition rights (up 20,033 million yen from the end of the previous fiscal year), an increase in operating accounts payable (up 13,342 million yen), an increase in short-term loans payable (up 10,518 million yen), an increase in the current portion of bonds (up 10,000 million yen), and an increase in travel advances received (up 9,907 million yen).

(iv) Non-current liabilities

The balance of non-current liabilities at the end of the fiscal year under review was 186,295 million yen, an increase of 6,600 million yen from the end of previous fiscal year.

This was mainly due to an increase in long-term loans payable (up 11,706 million yen from the end of the previous fiscal year), an increase in convertible bond-type bonds with share acquisition rights (up 5,035 million yen), alongside a decrease in bonds (down 10,000 million yen).

(v) Net assets

The balance of net assets at the end of the fiscal year under review was 115,559 million yen, an increase of 4,312 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 9,256 million yen from the end of the previous fiscal year), alongside 4,999 million yen in purchases of treasury shares by a resolution of the Board of Directors meeting held on October 31, 2017.

3) Analysis of operating results

(i) Net sales

In the fiscal year under review, net sales were 728,554 million yen, an increase of 122,529 million yen (up 20.2%) from the previous fiscal year. By reportable segment, Travel Business net sales were 651,303 million yen (up 21.3%), Huis Ten Bosch Group net sales were 43,690 million yen (up 18.8%), Hotel Business net sales were 12,039 million yen (up 47.2%), and the Kyushu Sanko Group net sales were 21,641 million yen (down 2.9%). The figures for each reportable segment represent amounts before the elimination of transactions among segments.

(ii) Operating expenses

Operating expenses in the fiscal year under review were 710,529 million yen, an increase of 120,420 million yen (up 20.4%) from the previous fiscal year.

Within operating expenses, cost of sales was 595,185 million yen, an increase of 103,899 million yen (up 21.1%) from the previous fiscal year.

Selling, general and administrative expenses was 115,343 million yen, an increase of 16,521 million yen (up 16.7%) from the previous fiscal year. The ratio of selling, general and administrative expenses to sales declined 0.5 points compared to the previous fiscal year, to 15.8%.

(iii) Operating income

Operating income in the fiscal year under review was 18,024 million yen, an increase of 2,109 million yen (up 13.3%)

from the previous fiscal year. The ratio of operating income to sales decreased 0.2 points compared to the previous fiscal year, to 2.5%.

(iv) Ordinary income

Ordinary income in the fiscal year under review was 19,440 million yen, a decrease of 207 million yen (down 1.1%) from the previous fiscal year. The ratio of ordinary income to sales fell 0.6 points compared to the previous year, to 2.7%.

Main non-operating income included interest income (1,638 million yen) and subsidy income (368 million yen), and non-operating expenses included interest expenses (595 million yen) and foreign exchange losses (564 million yen).

(v) Profit attributable to owners of parent

Profit before income taxes in the fiscal year under review was 20,695 million yen, a decrease of 35 million yen (down 0.2%) from the previous fiscal year.

Total income taxes in the fiscal year under review were 7,064 million yen, an increase of 2,168 million yen (up 44.3%) from the previous fiscal year.

As a result, profit attributable to owners of parent in the fiscal year under review was 10,971 million yen, a decline of 2,288 million yen (down 17.3%) from the previous fiscal year.

4) Analysis of cash flows

For an analysis of cash flows, see “(2) Cash Flows section in 3. Analyses of Financial Position, Business Results, and Cash Flows under Part I Information on the Company, II. Business Overview.”

[Capital resources and liquidity of funds]

The H.I.S. Group mainly needs funding for working capital, capital expenditures, and M&A. It uses cash flows from operating activities, loans from financial institutions, corporate bonds, and convertible bond-type bonds with share acquisition rights to procure funds.

4. 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.

5. Research and Development Activities

In the consolidated fiscal year ended October 31, 2018, the H.I.S. Group booked 176 million yen in R&D expenses in connection with the development of a reservation system for accommodation facilities by consolidated subsidiary SYS Inc.

SYS Inc. develops and manages guest room reservation systems and operates other ancillary businesses, which fall under the Other businesses. Its operations are not included under the reportable segments.

III. Equipment and Facilities

1. Capital Expenditures

In the Travel business, the H.I.S Group works to expand its sales network while saving labor and streamlining operations, and makes investments to improve profitability. In addition, the Group is also focusing on investments in the Huis Ten Bosch Group, the Hotel Business, and the Kyushu Sanko Group, which are expected to grow over the long term.

The breakdown of capital expenditures during the consolidated fiscal year ended October 31, 2018 (based on the amounts recorded as tangible fixed assets, guarantee deposits, and hardware/software; figures do not include consumption tax, etc.) is as follows.

Segment name	Capital expenditure amount (millions of yen)
Travel Business	2,769
Huis Ten Bosch Group	4,948
Hotel Business	11,491
Kyushu Sanko Group	16,585
Reportable segment total	35,795
Other	11,291
Corporate-wide (shared)	47
Total	47,133

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

Travel Business:	The Company used funds to develop and improve travel reservation systems, etc. (1,540 million yen) and invest in branch and office facilities (465 million yen). At overseas subsidiaries, funds were used to expand the number of branch locations and conduct in-branch refurbishment (305 million yen).
Huis Ten Bosch Group:	Investment at Huis Ten Bosch Co., Ltd. totaled 4,639 million yen, with the bulk directed toward theme park facilities such as the “Yasuragi-no-Yakata” (1,464 million yen), Henn-na Hotel Huis Ten Bosch South Arm (Building No. 3) (492 million yen), and the “Golden Hall” (469 million yen). In addition, LAGUNA TEN BOSCH CO., LTD. invested 282 million yen to expand and enhance theme park facilities.
Hotel Business:	Investment at the Hotel Business totaled 11,491 million yen. Funds were used to construct Henn-na Hotels in Japan for launch in 2019 (6,033 million yen), and to purchase a property for a new hotel in New York (4,852 million yen).
Kyushu Sanko Group:	Investments were made in the Sakuramachi Redevelopment Project (14,779 million yen, including associated expenses). Funds were also used to acquire buses and auxiliary equipment (1,258 million yen).
Other:	The Company purchased three properties (6,725 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 (Location)	Segment	Facility type	Book value (millions of yen)							Number of employees (persons)	Number of temporary employees (persons)
			Buildings	Tools, furniture and fixtures	Land (thousand m ²)	Leased assets	Construction in progress	Guarantee deposits	Other		
Headquarters/ East Japan Regional Office (Shinjuku-ku, Tokyo)	Travel Business	Branch facilities; reservation systems	1,118	350	—	5	83	1,671	2,580	5,810	3,647 (456)
West Japan Regional Office (Kita-ku, Osaka)	Travel Business	Branch facilities; reservation systems	557	124	—	32	—	989	5	1,708	1,758 (261)
Headquarters (Shinjuku-ku, Tokyo)	Other	Real estate	3,012	—	6,342 (9)	—	—	—	—	9,354	— (—)
Headquarters (Shinjuku-ku, Tokyo)	Corporate- wide	Office facilities; software	5	10	2 (0)	1	500	379	65	965	93 (5)

(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 3,690 million yen.

(2) Domestic subsidiaries

Company name Facility name (Location)	Segment	Facility type	Book value (millions of yen)							Number of employees (persons) Number of temporary employees (persons)	
			Buildings	Tools, furniture and fixtures	Land (thousand m ²)	Leased assets	Construction in progress	Guarantee deposits	Other		Total
Huis Ten Bosch Co., Ltd. (Sasebo, Nagasaki Prefecture)	Huis Ten Bosch Group	Theme park facilities	4,373	2,770	402 (1,181)	38	1,405	9	4,831	13,831	514 (993)
H.I.S. Hotel Holdings Co., Ltd. (Shinjuku-ku, Tokyo)	Hotel Business	Hotel facilities	2,341	205	4,173 (6)	—	4,902	19	73	11,716	70 (6)
Kyushu Sanko Bus Co., Ltd. (Nishi-ku, Kumamoto, Kumamoto Prefecture)	Kyushu Sanko Group	Business facilities, etc.	901	68	7,379 (194)	1,968	42	—	51	10,411	469 (53)
Kumamoto Sakuramachi Development Co., Ltd., etc. (Chuo-ku, Kumamoto, Kumamoto Prefecture)	Kyushu Sanko Group	Business facilities	—	0	12,124 (30)	—	40,734	—	—	52,858	17 (—)

(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 1,261 million yen.
4. Facility names of domestic subsidiaries are consistent with company names.
5. The “Kumamoto Sakuramachi Development Co., Ltd., etc.” row states the combined book value 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 Facility name (Location)	Segment	Facility type	Book value (millions of yen)							Number of employees (persons) Number of temporary employees (persons)	
			Buildings	Tools, furniture and fixtures	Land (thousand m ²)	Leased assets	Construction in progress	Guarantee deposits	Other		Total
Green World Hotels Co., Ltd. (Taipei City, Taiwan)	Hotel Business	Hotel facilities	3,365	1,136	393 (0)	—	2	557	13	5,469	446 (33)

(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 3,186 million yen.

3. Plans for Additions and Disposals of Facilities

Plans for addition of a major facility as of the end of the fiscal year ended October 31, 2018 are listed below. Amounts do not include consumption tax, etc.

Company name Facility name	Segment name	Facility details	Planned investment amount		Scheduled commencement/completion		Increased capacity after completion
			Total amount (millions of yen)	Amount already paid (millions of yen)	Commencement	Completion	
H.I.S. Hotel Holdings Co., Ltd. (Shinjuku-ku, Tokyo)	Hotel Business	Hotel facilities, etc. in the East Japan area	6,532	1,709	February 2018	August 2019	240 guest rooms
H.I.S. Hotel Holdings Co., Ltd. (Shinjuku-ku, Tokyo)	Hotel Business	Hotel facilities, etc. in the West Japan area	11,058	4,734	September 2017	August 2020	715 guest rooms
Kyushu Sanko Landmark Co., Ltd.	Kyushu Sanko Group	Sakuramachi development project facilities	26,780	678	February 2017	September 2019	Commercial facilities Around 150 stores, etc.

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, 2018)	Number of shares issued as of filing date (January 28, 2019)	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 acquisition rights, etc.

1) Details of stock option program

Share acquisition 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, are presented below.

First series of share acquisition rights

Resolution date	April 22, 2016
Category and number of grantees	Company employees: 1,322 Subsidiary employees: 261
Number of share acquisition rights (*)	7,937 units
Class, content, and number of shares subject to share acquisition rights (*)	Common shares, 793,700 (Notes 1, 2)
Amount payable on the exercise of share acquisition rights (*)	2,817 yen (Note 3)
Exercise period of share acquisition rights (*)	From May 1, 2019 to July 31, 2019
Share issue price and additional paid-in capital per share in the event of issuance of shares upon exercise of share acquisition rights (*)	Issue price: 3,436 yen Additional paid-in capital per share: 1,718 yen
Conditions for exercise of share acquisition rights (*)	(Note 4)
Matters regarding transfer of share acquisition rights (*)	Approval of the Board of Directors is required for the acquisition of any share acquisition rights by means of transfer.
Matters regarding grant of share acquisition rights accompanying corporate reorganization (*)	(Note 5)

(*) The information above is as of the end of the fiscal year under review (October 31, 2018). The information as of the end of the month preceding the filing date (December 31, 2018) has been omitted as it had not changed from the end of the fiscal year under review.

(Notes)

1. The number of shares to be granted upon exercise of each share acquisition 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 acquisition rights, the Number of Shares to be Granted with respect to the share acquisition rights not exercised at that time will be adjusted in accordance with the following formula.

Number of Shares to be Granted post-adjustment =

$$\text{Number of Shares to be Granted pre-adjustment} \times \text{Stock split or consolidation ratio}$$

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 its common stock, the amount payable on the exercise of share acquisition 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 exercise of share acquisition rights), the exercise price shall be adjusted in accordance with the following formula, with any fractional amounts under 1 yen rounded up.

$$\text{Post-adjustment exercise price} = \frac{\text{Pre-adjustment exercise price} \times \left(\frac{\text{Number of shares already issued} + \frac{\text{Number of newly issued shares} \times \text{Amount payable per share}}{\text{Market price per share}}}{\text{Number of shares already issued} + \text{Number of newly issued shares}} \right)}{1}$$

“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 if other such situations occur, the Company reserves the right to adjust the exercise price within a reasonable range.

4. The exercise conditions of the share acquisition rights are as follows.

- (1) Persons granted an allotment of the share acquisition rights (hereinafter, “Rights Holders”) must be Directors or employees of the Company or one of its subsidiaries at the time the share acquisition 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 acquisition 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 become a wholly-owned subsidiary) (hereafter all of which are collectively referred to as “Reorganization”), then the Rights Holders of share acquisition rights remaining in effect (the “Remaining Share Acquisition 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 a share transfer) shall be granted share acquisition 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 acquisition rights shall be granted only if provisions for issuing the share acquisition 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 acquisition rights of the Reorganized Company to be issued
The number of share acquisition rights equal to the number of Remaining Share Acquisition Rights held by respective Rights Holders shall be issued.
- (2) Class of shares of the Reorganized Company subject to share acquisition rights
Common stock of the Reorganized Company
- (3) Number of shares of the Reorganized Company subject to share acquisition 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 acquisition 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 acquisition rights
The exercise period of share acquisition rights shall be from the latter of the first day of the aforementioned “Exercise period of share acquisition rights” or the effective date of the Reorganization, to the expiration date of the “Exercise period of share acquisition rights.”
- (6) Increase in capital stock and capital reserve in the case of issuing shares upon exercise of share acquisition 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 acquisition rights.”
- (7) Restrictions on acquisition of share acquisition rights through transfer
The acquisition of share acquisition rights through transfer shall be subject to the approval of the Reorganized Company’s Board of Directors.
- (8) Conditions for the exercise of share acquisition rights

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

(9) Matters concerning the acquisition of share acquisition rights

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

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

- If the Rights Holder, prior to exercising his/her share acquisition rights, loses the eligibility to exercise such rights pursuant to the provisions prescribed in the above “Exercise conditions of the share acquisition rights,” the Company reserves the right to acquire subject share acquisition 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 acquisition 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

Share acquisition 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 are presented below.

Second series of share acquisition rights

Resolution date	January 26, 2017
Category and number of grantees	Directors (excluding Directors serving as Audit & Supervisory Committee Members, non-Executive Directors, non-Permanent Directors, and External Directors): 10 Directors of subsidiaries: 34
Number of share acquisition rights (*)	1,170 units
Class, content, and number of shares subject to share acquisition rights (*)	Common shares, 117,000 (Notes 1, 2)
Amount payable on the exercise of share acquisition rights (*)	2,978 yen (Note 3)
Exercise period of share acquisition rights (*)	From May 1, 2019 to July 31, 2019
Share issue price and additional paid-in capital per share in the event of issuance of shares upon exercise of share acquisition rights (*)	Issue price: 3,559 yen Additional paid-in capital per share: 1,780 yen
Conditions for exercise of share acquisition rights (*)	(Note 4)
Matters regarding transfer of share acquisition rights (*)	Approval of the Board of Directors is required for the acquisition of any share acquisition rights by means of transfer.
Matters regarding grant of share acquisition rights accompanying corporate reorganization (*)	(Note 5)

(*) The information above is as of the end of the fiscal year under review (October 31, 2018). The information as of the end of the month preceding the filing date (December 31, 2018) has been omitted as it had not changed from the end of the fiscal year under review.

(Notes)

1. The number of shares to be granted upon exercise of each share acquisition 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 acquisition rights, the Number of Shares to be Granted with respect to the share acquisition rights not exercised at that time will be adjusted in accordance with the following formula.

$$\text{Number of Shares to be Granted post-adjustment} = \text{Number of Shares to be Granted pre-adjustment} \times \text{Stock split or consolidation ratio}$$

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 its common stock, the amount payable on the exercise of share acquisition rights (hereinafter, “exercise price”) shall be adjusted in accordance with the following formula, with any fractional amounts under 1 yen rounded up.

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

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 exercise of share acquisition rights), the exercise price shall be adjusted in accordance with the following formula, with any fractional amounts under 1 yen rounded up.

$$\text{Post-adjustment exercise price} = \frac{\text{Pre-adjustment exercise price} \times \left(\frac{\text{Number of shares already issued}}{\text{Number of newly issued shares} \times \text{Amount payable per share}} + \frac{1}{\text{Market price per share}} \right)}{\text{Number of shares already issued} + \text{Number of newly issued shares}}$$

“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 if other such situations occur, the Company reserves the right to adjust the exercise price within a reasonable range.

4. The exercise conditions of the share acquisition rights are as follows.

- (1) Persons granted an allotment of the share acquisition rights (hereinafter, “Rights Holders”) must be Directors or employees of the Company or one of its subsidiaries at the time the share acquisition 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 acquisition 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 become a wholly-owned subsidiary) (hereafter all of which are collectively referred to as “Reorganization”), then the Rights Holders of share acquisition rights remaining in effect (the “Remaining Share Acquisition 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 a share transfer) shall be granted share acquisition 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 acquisition rights shall be granted only if provisions for issuing the share acquisition 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 acquisition rights of the Reorganized Company to be issued

The number of share acquisition rights equal to the number of Remaining Share Acquisition Rights held by respective Rights Holders shall be issued.

- (2) Class of shares of the Reorganized Company subject to share acquisition rights

Common stock of the Reorganized Company

- (3) Number of shares of the Reorganized Company subject to share acquisition 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 acquisition 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 acquisition rights
The exercise period of share acquisition rights shall be from the latter of the first day of the aforementioned “Exercise period of share acquisition rights” or the effective date of the Reorganization, to the expiration date of the “Exercise period of share acquisition rights.”
- (6) Increase in capital stock and capital reserve in the case of issuing shares upon exercise of share acquisition 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 acquisition rights.”
- (7) Restrictions on acquisition of share acquisition rights through transfer
The acquisition of share acquisition rights through transfer shall be subject to the approval of the Reorganized Company’s Board of Directors.
- (8) Conditions for the exercise of share acquisition rights
Determined in accordance with aforementioned “Exercise conditions of the share acquisition rights.”
- (9) Matters concerning the acquisition of share acquisition rights
Determined in accordance with the following “Conditions for acquisition of own share acquisition rights and reason for acquisition.”
- Conditions for acquisition of own share acquisition rights and reason for acquisition
- If the Rights Holder, prior to exercising his/her share acquisition rights, loses the eligibility to exercise such rights pursuant to the provisions prescribed in the above “Exercise conditions of the share acquisition rights,” the Company reserves the right to acquire subject share acquisition 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 acquisition 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

2) Details of rights plans

There are no applicable matters to report.

3) Status of other share acquisition rights, etc.

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

Euro-Yen Denominated Convertible Bond-Type Bonds with Share Acquisition Rights due 2019

Resolution date	July 30, 2014
Number of share acquisition rights (*)	2,000 units
Of which, number of share acquisition rights held by the Company (*)	—
Class, content, and number of shares subject to share acquisition rights (*)	Common shares, 4,282,288 [4,295,348] (Notes 1, 7)
Amount payable on the exercise of share acquisition rights (*)	4,670.4 [4,656.2] yen (Notes 2, 7)
Exercise period of share acquisition rights (*)	From August 29, 2014 to August 16, 2019 (local time for reception of exercise request) (Note 3)
Share issue price and additional paid-in capital per share in the event of issuance of shares upon exercise of share acquisition rights (*)	Issue price: 4,670.4 [4,656.2] yen Additional paid-in capital per share: 2,336 [2,329] yen (Notes 4, 7)
Conditions for exercise of share acquisition rights (*)	Partial exercise of each share acquisition right is not possible.
Matters regarding transfer of share acquisition rights (*)	Subject share acquisition rights are attached to convertible bond-type bonds with share acquisition rights and cannot be transferred separately.
Matters regarding grant of share acquisition rights accompanying corporate reorganization (*)	(Note 5)
Description and value of assets contributed upon the exercise of share acquisition rights (*)	(Note 6)
Balance of bonds with share acquisition rights (*)	20,000 million yen

(*) The information above is as of the end of the fiscal year under review (October 31, 2018). For items for which the information had changed by the end of the month preceding the filing date (December 31, 2018), the information as of the end of the month preceding the filing date is presented in square brackets ([]). For other items, there is no change from the end of the fiscal year under review.

(Notes)

- The number of shares of the Company's common stock to be delivered upon the exercise of the share acquisition 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.
- Initially, the conversion price will be 4,697 yen.
 - Regarding the conversion price, following the issuance of bonds with share acquisition rights, in the event the Company issues or disposes of shares of its 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 acquisition rights (including those attached to bonds with share acquisition 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.

- The period during which share acquisition 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 acquisition 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 acquisition 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 it necessary not to permit the exercise of share acquisition rights in light of conducting a corporate reorganization, the exercise of subject share acquisition 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 days) 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 acquisition 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 acquisition rights will not be possible. However, in the event laws or practices related to the issuance of shares pertaining to the exercise of share acquisition 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 acquisition 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 acquisition 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. (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 acquisition rights in lieu of these share acquisition 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 acquisition rights.

- (2) The details of the share acquisition 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 acquisition rights

A number equal to the number of share acquisition 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 acquisition rights

Common stock of the Succeeding Company

- 3) Number of shares subject to share acquisition rights

The number of shares of the Succeeding Company's common stock delivered upon exercise of such company's share acquisition 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 acquisition 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 acquisition 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 acquisition 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 acquisition rights immediately prior to the effective date of such reorganization.
 - 4) Assets to be contributed upon exercise of share acquisition rights and their value
Upon the exercise of the share acquisition 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 acquisition rights of the Succeeding Company
The exercise period of share acquisition 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 acquisition rights as outlined in (Note 3) above.
 - 6) Other conditions for exercising share acquisition rights
Partial exercise of each share acquisition 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 acquisition rights
The increase in capital stock arising from the issuance of shares upon exercise of share acquisition 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 acquisition rights of the Succeeding Company shall be rounded down and no adjustment in cash shall be made. Share acquisition 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.
6. Upon the exercise of each share acquisition right, the bonds attached to the subject share acquisition rights shall be contributed, and the price of the bond shall be the same as the par value thereof.
 7. At the 38th General Meeting of Shareholders held on January 25, 2019, 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 31, 2018, and in accordance with conversion price adjustment provisions of bond terms of the Euro-yen Denominated Convertible Bond-Type Bonds with Share Acquisition Rights due 2019, the Company adjusted the conversion price from 4,670.4 yen to 4,656.2 yen dating back to November 1, 2018. 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.

Euro-Yen Denominated Convertible Bond-Type Bonds with Share Acquisition Rights due 2024

Resolution date	October 31, 2017
Number of share acquisition rights (*)	2,500 units
Of which, number of share acquisition rights held by the Company (*)	—
Class, content, and number of shares subject to share acquisition rights (*)	Common shares, 4,451,566 [4,452,756] (Notes 1, 8)
Amount payable on the exercise of share acquisition rights (*)	5,616 [5,614.5] yen (Notes 2, 8)
Exercise period of share acquisition rights (*)	From November 30, 2017 to November 1, 2024 (local time for reception of exercise request) (Note 3)
Share issue price and additional paid-in capital per share in the event of issuance of shares upon exercise of share acquisition rights (*)	Issue price: 5,616 [5,614.5] yen Additional paid-in capital per share: 2,808 [2,808] yen (Notes 4, 8)
Conditions for exercise of share acquisition rights (*)	(Note 5)
Matters regarding transfer of share acquisition rights (*)	Subject share acquisition rights are attached to convertible bond-type bonds with share acquisition rights and cannot be transferred separately.
Matters regarding grant of share acquisition rights accompanying corporate reorganization (*)	(Note 6)
Description and value of assets contributed upon the exercise of the share acquisition rights (*)	(Note 7)
Balance of bonds with share acquisition rights (*)	25,000 million yen

(*) The information above is as of the end of the fiscal year under review (October 31, 2018). For items for which the information had changed by the end of the month preceding the filing date (December 31, 2018), the information as of the end of the month preceding the filing date is presented in square brackets ([]). For other items, there is no change from the end of the fiscal year under review.

(Notes)

- The number of shares of the Company's common stock to be delivered upon the exercise of the share acquisition 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 5,616 yen.
(2) Regarding the conversion price, following the issuance of bonds with share acquisition rights, in the event the Company issues or disposes of shares of its 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, issues share acquisition rights (including those attached to bonds with share acquisition 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 pays dividends exceeding a certain limit, or upon occurrence of certain other events, the conversion price will be adjusted as appropriate.

- The period during which share acquisition rights can be exercised shall be November 30, 2017 through November 1, 2024 (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 acquisition 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 acquisition rights will not be possible after November 1, 2024 (local time for reception of exercise request).

Notwithstanding the above, in the event the Company reasonably determines it necessary not to permit the exercise of share acquisition rights in light of conducting a corporate reorganization, the exercise of subject share acquisition 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 days) 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 acquisition 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 acquisition rights will not be possible. However, in the event laws or practices related to the issuance of shares pertaining to the exercise of share acquisition 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 acquisition 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 acquisition 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. (1) Partial exercise of each share acquisition right is not possible.
(2) Until August 15, 2024 (inclusive), if the closing prices of the Company's common shares over the 20 consecutive Trading Days ending on the last Trading Day (defined below) of any particular quarter (referring to the three-month periods that make up a calendar year; same herebelow within this (2)) are each more than 130% of the conversion price in effect on the last Trading Day of such quarter, the holders of subject bonds may exercise the share acquisition rights on or after the first day of the immediately following quarter until the end of such quarter (or, in the case of the quarter starting from July 1, 2024, until August 15, 2024); provided, however, that the condition for the exercise of share acquisition rights specified in this (2) shall not apply to the periods set forth in 1), 2), and 3) below.
 - 1) (i) periods during which the Company is assigned an issuer rating of BB+ or lower by the Japan Credit Rating Agency or its successors (hereinafter, "JCR"), (ii) periods during which the Company is no longer assigned an issuer rating by JCR, or (iii) periods during which the Company's issuer rating by JCR has been suspended or withdrawn.
 - 2) Period starting from the date on which the company announces an 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 acquisition 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).
 - 3) In the case of a reorganization, unless the exercise of the share acquisition rights is suspended by the Company as outlined in (Note 3) above, the period from the date on which the Company announces the reorganization to the holders of the subject bonds prescribed in the terms of subject bonds to the effective date of the reorganization. "Trading Day" means a day on which the Tokyo Stock Exchange, Inc. is open for business, but does not include days on which no closing price for shares is reported.
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 acquisition rights in lieu of these share acquisition 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 acquisition rights.

- (2) The details of the share acquisition rights of the Succeeding Company that are to be issued pursuant to the above provisions in (Note 7 (1)) are as follows.
- 1) Number of share acquisition rights
A number equal to the number of share acquisition 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 acquisition rights
Common stock of the Succeeding Company
 - 3) Number of shares subject to share acquisition rights
The number of shares of the Succeeding Company's common stock delivered upon exercise of such company's share acquisition 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 acquisition 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 acquisition 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 acquisition 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 acquisition rights immediately prior to the effective date of such reorganization.
 - 4) Assets to be contributed upon exercise of share acquisition rights and their value
Upon the exercise of the share acquisition 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 acquisition rights of the Succeeding Company
The exercise period of share acquisition 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 acquisition rights as outlined in (Note 3) above.
 - 6) Other conditions for exercising share acquisition rights
Partial exercise of each share acquisition right of the Succeeding Company is not possible. The exercise of share acquisition rights of the Succeeding Company is subject to the same limitations described in (Note 5 (2)) above.
 - 7) Increase in capital stock and capital reserve in the case of issuing shares upon exercise of share acquisition rights
The increase in capital stock arising from the issuance of shares upon exercise of share acquisition 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 acquisition rights of the Succeeding Company shall be rounded down and no adjustment in cash shall be made. Share acquisition 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 7 (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. Upon the exercise of each share acquisition right, the bonds attached to the subject share acquisition rights shall be contributed, and the price of the bond shall be the same as the par value thereof.
8. At the 38th General Meeting of Shareholders held on January 25, 2019, 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 31, 2018, and in accordance with conversion price adjustment provisions of bond terms of the Euro-yen Denominated Convertible Bond Type-Bonds with Share Acquisition Rights due 2024, the Company adjusted the conversion price from 5,616 yen to 5,614.5 yen dating back to November 1, 2018. 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.

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

There are no applicable matters to report.

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

Date	Increase/ decrease in total number of issued shares (shares)	Balance of issued shares (shares)	Increase/decrease in capital stock (millions of yen)	Balance of capital stock (millions of yen)	Increase/ decrease in capital reserve (millions of yen)	Balance of capital reserve (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.

(5) Composition of issued shares by type of shareholders

As of October 31, 2018

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 operators	Other corporations	Foreign corporations, etc.		Individuals and others	Total	
					Non- individuals	Individuals			
Number of shareholders	—	40	36	90	260	26	12,043	12,495	—
Share ownership (units)	—	105,538	7,929	40,114	144,119	140	386,966	684,806	42,336
Ownership percentage of shares (%)	—	15.41	1.16	5.86	21.05	0.02	56.50	100.00	—

(Notes)

1. Of the 10,949,440 treasury shares, 109,494 units are included in the “Individuals and others” column, while 40 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.

(6) Major shareholders

As of October 31, 2018

Name	Address	Share Ownership (thousands of shares)	Ownership percentage to the total number of issued shares (excluding treasury shares) (%)
Hideo Sawada	Shibuya-ku, Tokyo	19,138	33.24
Japan Trustee Services Bank, Ltd.	1-8-11 Harumi, Chuo-ku, Tokyo	6,949	12.07
Hide Inter Ltd.	1-7-26 Shoto, Shibuya-ku, Tokyo	3,458	6.00
The Master Trust Bank of Japan, Ltd.	2-11-3 Hamamatsucho, Minato-ku, Tokyo	1,830	3.18
The Bank of New York Mellon (Standing proxy: Mizuho Bank, Ltd., Settlement & Clearing Services Department)	225 LIBERTY STREET, NEW YORK, NY 10286, U.S.A. (2-15-1 Konan, Minato-ku, Tokyo)	1,711	2.97
JPMorgan Chase Bank (Standing proxy: Mizuho Bank, Ltd., Settlement & Clearing Services Department)	25 BANK STREET, CANARY WHARF, LONDON, E14 5JP, UNITED KINGDOM (2-15-1 Konan, Minato-ku, Tokyo)	1,273	2.21
SSBTC Client Omnibus Account (Standing proxy: The Hong Kong and Shanghai Banking Corporation Limited, Tokyo Branch, Custody Services Department)	ONE LINCOLN STREET, BOSTON, MASSACHUSETTS 02111, U.S.A. (3-11-1 Nihonbashi, Chuo-ku, Tokyo)	1,077	1.87
Trust & Custody Services Bank, Ltd.	2-7-9, Hirakawacho, Chiyoda-ku, Tokyo	1,060	1.84
CB New York Orbis SICAV (Standing proxy: Citibank, N.A., Tokyo Branch)	31, Z.A. BOURMICH, L-8070 BERTRANGE, LUXEMBOURG (6-27-30, Shinjuku, Shinjuku-ku, Tokyo)	1,048	1.82
Kazumasa Namekata	Ageo, Saitama Prefecture	1,022	1.78
Total	—	38,570	66.99

(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.	6,949,000 shares
The Master Trust Bank of Japan, Ltd.	1,830,000 shares
Trust & Custody Services Bank, Ltd.	1,060,000 shares

2. A Change Report as stipulated in Article 27-26 (1) of the Financial Instruments and Exchange Act was submitted on July 18, 2018 (date reporting obligation arose: July 13, 2018), by Baillie Gifford & Co and joint holder Baillie Gifford Overseas Limited. Although their holdings of 4,217,000 shares (ownership ratio: 6.15%) have been made public through the Report, the Company could not confirm the actual status of shareholdings as of October 31, 2018; thus they are not included in the above "Major Shareholders." The details of the Change Report are as follows.

Entities	Address or location of main office	Number of shares held (thousands of shares)	Percentage of share certificates held (%)
Baillie Gifford & Co	Calton Square, 1 Greenside Row, Edinburgh, EH1 3AN, Scotland	2,240	3.27
Baillie Gifford Overseas Limited	Calton Square, 1 Greenside Row, Edinburgh, EH1 3AN, Scotland	1,977	2.89

(7) Information on voting rights

1) Issued shares

As of October 31, 2018

Classification	Number of shares (shares)	Number of voting rights	Description
Shares without voting rights	—	—	—
Shares with restricted voting rights (treasury shares, etc.)	—	—	—
Shares with restricted voting rights (others)	—	—	—
Shares with full voting rights (treasury shares, etc.)	Common stock: 10,949,400	—	—
Shares with full voting rights (others)	Common stock: 57,531,200	575,312	—
Shares less than one unit	Common stock: 42,336	—	—
Total number of issued shares	68,522,936	—	—
Total number of voting rights held by all shareholders	—	575,312	—

(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, 2018

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, Shinjuku-ku, Tokyo	10,949,400	—	10,949,400	15.98
Total	—	10,949,400	—	10,949,400	15.98

(Note) In addition to the above, the H.I.S. Employee Stock Ownership Association Dedicated Trust holds 282,100 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.

(8) Details of stock ownership plan for officers and employees

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 the 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 October 31, 2017 (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	1,298,800	4,999,814,000
Of the total number of shares resolved by the Board of Director, total remaining number and value	51,200	186,000
Unexercised shares at the end of the current fiscal year (%)	3.8	0.0
Treasury shares acquired during the current period	—	—
Unexercised shares on filing date (%)	3.8	0.0

(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	171	0
Treasury shares acquired during the current period	—	—

(Note) Fractional shares less than one trading unit purchased between January 1, 2019 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, 2018		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 (disposal of treasury shares as restricted stock remuneration)	5,937	24	—	—
Total number of treasury shares held	10,949,440	—	10,949,440	—

(Notes)

- Fractional shares less than one trading unit purchased between January 1, 2019 and the filing date of the Annual Securities Report 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 intends to 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 and 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, 2018. Furthermore, as part of its effort to return profits to shareholders, the Company also acquired treasury shares amounting to 4,999 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, 2018 is as follows.

Authorizing resolution	Total dividends (millions of yen)	Dividend per share (yen)
Resolution at the General Meeting of Shareholders on January 25, 2019	1,669	29.00

4. Stock Prices

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

Fiscal year	34th	35th	36th	37th	38th
Year-end	October 2014	October 2015	October 2016	October 2017	October 2018
Highest (yen)	6,060 □3,480	4,765	4,340	3,935	4,250
Lowest (yen)	4,955 □2,472	2,491	2,524	2,465	2,970

(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 2018	June	July	August	September	October
Highest (yen)	3,875	3,825	3,520	3,660	3,920	3,850
Lowest (yen)	3,580	3,250	2,970	3,165	3,325	3,270

(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 10.0%)

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>March 2003 Director and Chairman, Agricultural Bank of Mongolia (currently Khan Bank) (current)</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)	19,138
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; Head 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)	14

Title	Position	Name	Date of birth	Career summary	Term of office	Share ownership (thousands)
Director	Managing Executive Officer; In charge of Corporate Planning Division, Global Business Strategy Division, Affiliate Management Division	Masayuki Oda	January 1, 1966	<p>Jun. 1996 Mar. 2014</p> <p>Jan. 2016</p> <p>Nov. 2016</p> <p>Jan. 2018</p> <p>Feb. 2018</p> <p>Nov. 2018</p> <p>Jan. 2019</p> <p>Joined the Company Corporate Officer of the Company; Head of Kansai Area Sales Division 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 Director of the Company; Vice President of H.I.S. Japan Director and Managing Executive Officer of the Company; Vice President of H.I.S. Japan & Head of Domestic Travel Division Director of the Company; Managing Executive Officer; In charge of Corporate Planning Division, Global Business Strategy Division, Global System Development Division; Head of Affiliate Management Division Director of the Company; Managing Executive Officer; In charge of Corporate Planning Division, Global Business Strategy Division; Head of Affiliate Management Division Director of the Company; Managing Executive Officer; In charge of Corporate Planning Division, Global Business Strategy Division, and Affiliate Management Division (current)</p>	(Note 2)	1
Director	<p>Managing Executive Officer; In charge of HR (Consolidated), CS & ES, General Affairs, CSR; Head of HQ HR; Chief Human Resources Officer (CHO);</p> <p>Also in charge of General Affairs and Management HQ, Human Resources Officer (CHO) at Huis Ten Bosch Co., Ltd.</p>	Katsuhiko Sakaguchi	April 30, 1955	<p>Dec. 2014 Mar. 2015</p> <p>Jan. 2016</p> <p>Nov. 2016</p> <p>Aug. 2017</p> <p>Jan. 2018</p> <p>Jan. 2019</p> <p>Joined the Company Senior Corporate Officer of the Company; In charge of HR Strategy (Japan & Overseas) Director of the Company; In charge of HR Strategy (Japan & Overseas) Director of the Company; In charge of HR (Consolidated), CS & ES, HR & Labor, General Affairs, CSR; Chief Human Resources Officer (CHO) Director of the Company; In charge of HR (Consolidated), CS & ES, HR & Labor, General Affairs, CSR; Chief Human Resources Officer (CHO) & Gen. Mgr. of HQ HR Director of the Company; Senior Executive Officer; In charge of HR (Consolidated), CS & ES, General Affairs, CSR; Head of HQ HR; Chief Human Resources Officer (CHO) Director of the Company; Managing Executive Officer; In charge of HR (Consolidated), CS & ES, General Affairs, CSR; Head of HQ HR; Chief Human Resources Officer (CHO); also in charge of General Affairs and Management HQ, Human Resources Officer (CHO) at Huis Ten Bosch Co., Ltd. (current)</p>	(Note 2)	10

Title	Position	Name	Date of birth		Career summary	Term of office	Share ownership (thousands)
Director	Senior Executive Officer; H.I.S. Japan Vice President & Head of Corporate Travel Sales Division	Atsushi Yamanobe	March 18, 1970	Apr. 1993 Mar. 2014	Joined the Company 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	(Note 2)	1
				Jan. 2016	Director of the Company; In charge of East Japan Area Sales; Head of Kanto Area - Overseas Travel Division		
				Nov. 2016	Director of the Company; Vice President of H.I.S. Japan		
				Jan. 2018	Director and Senior Executive Officer of the Company; Vice President of H.I.S. Japan & Head of Kansai Area Sales Division		
				Mar. 2018	Director of the Company; Senior Executive Officer; H.I.S. Japan Vice President & Head of Corporate Travel Sales Division (current)		
Director	Senior Executive Officer; In Charge of Southeast and South Asia & Corporate Information Officer (CIO)	Mutsumi Gomi	June 6, 1968	Apr. 1992 May. 2002	Joined the Company Manager of Marketing Section, Kansai Area Sales Division	(Note 2)	3
				Jan. 2004	Manager of Central Purchasing/Marketing, Kansai Area Sales Division		
				Apr. 2008	Group Leader for America & Oceania Travel Business Group (Kanto)		
				May. 2010	Gen. Mgr. of East Japan FIT Department		
				Sep. 2012	Seconded to PT. HARUM INDAH SARI TOURS & TRAVEL, President and Director; Head of Jakarta Central Branch		
				Jan. 2016	Officer of the Company; Seconded to PT. HARUM INDAH SARI TOURS & TRAVEL, President and Director; Head of the Jakarta Central Branch		
				Nov. 2017	Corporate Officer of the Company; Seconded to PT. HARUM INDAH SARI TOURS & TRAVEL, President and Director; Head of Southeast Asia Central Sales Division & Head of Jakarta Central Branch		
				Jan. 2018	Director and Senior Executive Officer of the Company; Head of Southeast Asia Central Sales Division & Head of Jakarta Central Branch		
				Nov. 2018	Director of the Company; Senior Executive Officer; In Charge of Southeast and South Asia & Corporate Information Officer (CIO) (current)		

Title	Position	Name	Date of birth	Career summary	Term of office	Share ownership (thousands)
Director	Director of the Company; In charge of Finance & Accounting (Consolidated), Legal & Internal Control, Compliance; Head of Financing Judgement Department	Shigeru Nakatani	October 19, 1948	<p>Jul. 2010 Jan. 2012</p> <p>Joined the Company Director of the Company; In charge of Accounting & Finance; Head of HQ Accounting Division</p> <p>Nov. 2016</p> <p>Director of the Company; In charge of Finance & Accounting (Consolidated), Legal & Internal Control, Compliance; Head of HQ Accounting Division & Head of Corporate Loan Audit Office; Chief Financial Officer (CFO)</p> <p>Nov. 2017</p> <p>Director of the Company; In charge of Finance & Accounting (Consolidated), Legal & Internal Control, Compliance; Head of Corporate Loan Audit Office; Chief Financial Officer (CFO)</p> <p>Jan. 2018</p> <p>Director of the Company; Senior Executive Officer; In charge of Finance & Accounting (Consolidated), Legal & Internal Control, Compliance; Head of Corporate Loan Audit Office; Chief Financial Officer (CFO)</p> <p>Jan. 2019</p> <p>Director of the Company; In charge of Finance & Accounting (Consolidated), Legal & Internal Control, Compliance; Head of Financing Judgement Department (current)</p>	(Note 2)	7
Director, Audit & Supervisory Committee Member (Note 1)	—	Tsunekazu Umeda	August 22, 1945	<p>Mar. 1974</p> <p>Registered as a certified public accountant</p> <p>Sep. 1987</p> <p>Partner, Arthur Andersen LLP and Eiwa Audit Corporation (currently KPMG AZSA LLC)</p> <p>Apr. 1995</p> <p>Director, Umeda Certified Public Accountant Office (current)</p> <p>Jun. 1995</p> <p>Director and Executive Vice President, Nippon Kaiheiki Kogyo (currently NKK Switches Co., Ltd.)</p> <p>Jan. 1999</p> <p>External Corporate Auditor of the Company</p> <p>Jun. 2000</p> <p>External Corporate Auditor, HABA Laboratories, Inc.</p> <p>Jun. 2000</p> <p>External Corporate Auditor, TOMY Company (currently Takara Tomy Co., Ltd.) (current)</p> <p>Jun. 2007</p> <p>External Corporate Auditor, Sawada Holdings Co., Ltd. (current)</p> <p>Mar. 2010</p> <p>External Corporate Auditor, Huis Ten Bosch Co., Ltd.</p> <p>Jun. 2010</p> <p>External Director, Suzuden Corporation</p> <p>Jun. 2015</p> <p>Director serving as Audit & Supervisory Committee Member (external director), HABA Laboratories, Inc. (current)</p> <p>Dec. 2015</p> <p>Corporate Auditor, Huis Ten Bosch Co., Ltd. (current)</p> <p>Jan. 2016</p> <p>Director serving as Audit & Supervisory Committee Member of the Company (current)</p>	(Note 3)	21

Title	Position	Name	Date of birth	Career summary	Term of office	Share ownership (thousands)
Director, Audit & Supervisory Committee Member (Note 1)	—	Yasuo Katsura	September 19, 1947	<p>Apr. 1970 Joined Matsushita Electric Industrial Co., Ltd. (currently Panasonic Corporation)</p> <p>Jun. 2001 Director and President, Matsushita Communication Industrial Co., Ltd. (currently Panasonic Mobile Communications Co., Ltd.)</p> <p>Jun. 2003 Officer, Matsushita Electric Industrial Co., Ltd. (currently Panasonic Corporation)</p> <p>Jun. 2004 Managing Officer, Matsushita Electric Industrial Co., Ltd.; Tokyo Branch Manager</p> <p>Jun. 2007 Managing Director, Matsushita Electric Industrial Co., Ltd.</p> <p>Apr. 2009 Representative Director, Senior Managing Director, Tokyo Representative, Head of Public Relations Headquarters, Matsushita Electric Industrial Co., Ltd.</p> <p>Apr. 2010 Representative Director, Executive Vice President, Matsushita Electric Industrial Co., Ltd.</p> <p>Jun. 2013 Advisor, Matsushita Electric Industrial Co., Ltd.</p> <p>Mar. 2015 External Director, Cyberlinks Co., Ltd. (current)</p> <p>Jan. 2019 Director, Audit & Supervisory Committee Member of the Company (current)</p>	(Note 4)	—
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 & Supervisory Committee Member of the Company (current)</p>	(Note 3)	25
Total						19,224

(Notes)

1. Directors serving as Audit & Supervisory Committee Members Tsunekazu Umeda and Yasuo Katsura are External Directors.
2. One-year period beginning at the conclusion of the General Meeting of Shareholders held on January 25, 2019.
3. Two-year period beginning at the conclusion of the General Meeting of Shareholders held on January 25, 2018.
4. The Audit & Supervisory Committee Member was appointed as a replacement for a resigning Audit & Supervisory Committee Member at the General Meeting of Shareholders held on January 25, 2019. Consequently, the term of appointment extends until the expiration of the original term of the Audit & Supervisory Committee Member who resigned (two years from the conclusion of the General Meeting of Shareholders held on January 25, 2018) in accordance with the Articles of Incorporation.
5. 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	Chief Financial Officer (CFO)	Tomoshi Kobayashi
Senior Corporate Officer	Chairman of Streamlining Committee; General Manager of CS/ES Division; In charge of General Affairs Group	Hikaru Wada
Corporate Officer	General Manager of Global Information System Development Division	Kiyoshi Takano
Corporate Officer	General Manager of Corporate Planning Division & Head of PR/IR Office	Ken Fukushima
Corporate Officer	Representative Director and President of H.I.S. Hotel Holdings Co., Ltd.	Yuji Iwama
Corporate Officer	General Manager of Global Business Strategy Division	Hideo Hatano
Corporate Officer	General Manager of Overseas Travel Sales Division	Kozo Arita
Corporate Officer	General Manager of Accounting & Finance 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. Group Europe Headquarters	Konosuke Oda
Corporate Officer	General Manager of Southeast Asia Regional Sales Division & General Director of H.I.S. Song Han Viet Nam Tourist Co., Ltd	Shintaro Sudo
Corporate Officer	General Manager of Web Sales & Marketing Division	Kenji Iida
Corporate Officer	President of H.I.S. BRASIL TURISMO LTDA	Katsumi Hine
Corporate Officer	Director of GROUP MIKI HOLDINGS LIMITED	Osamu Hanazaki
Corporate Officer	General Manager of Affiliate Management Division & Head of Corporate Planning Office	Katsu Segawa
Corporate Officer	General Manager of Domestic Travel Business Division	Tomohisa Kumamoto
Corporate Officer	General Manager of Information System & Software Development Division	Naoyuki Kado

6. Corporate Governance, etc.

(1) Corporate Governance

Basic policy on corporate governance

Fully embracing its founding intention, the H.I.S. 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”).

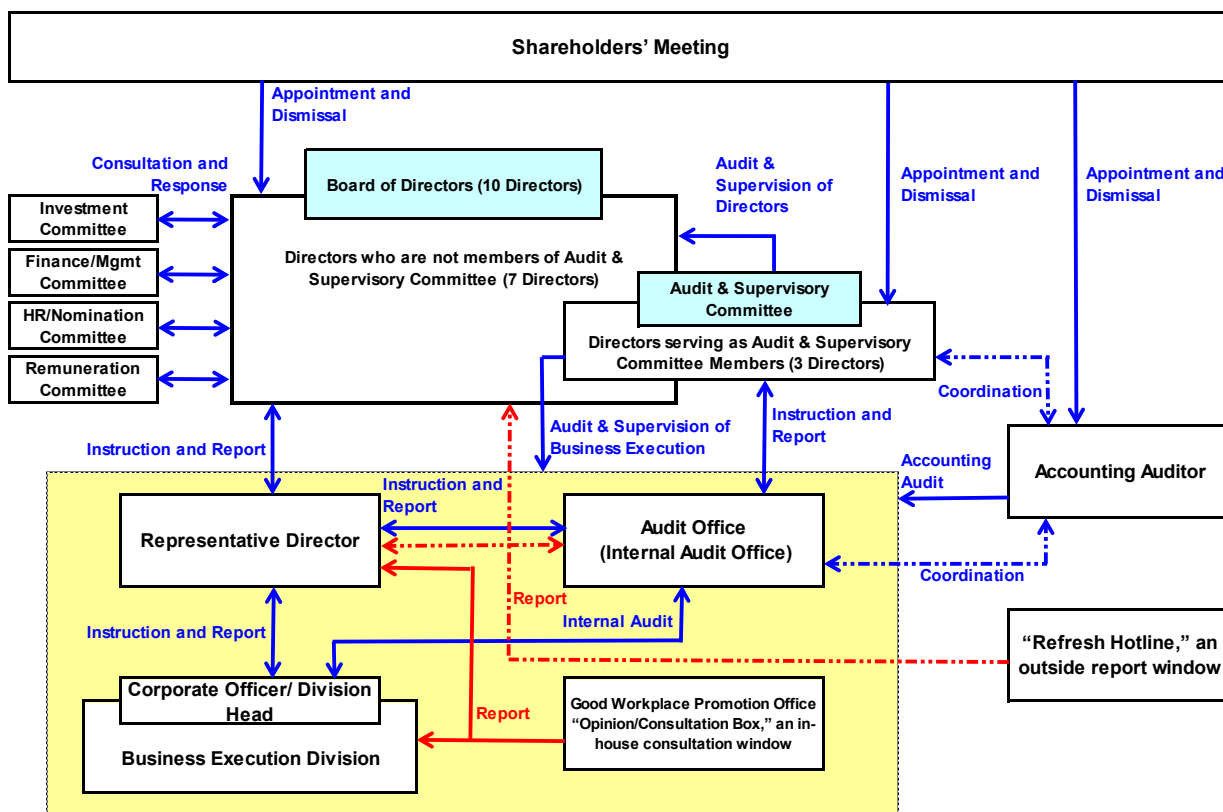
The 78 principles of the TSE CG code are replete with major principles contributing to the realization of “proactive governance” as a best practice employing a principles-based approach. H.I.S. will work to fully understand the purpose and essence of each of these principles, and comply with them to 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 28, 2019) indicates the reciprocal relationships of each institution.

Corporate Governance Structure (as of January 28, 2019)



(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 consolidated 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 of 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 associated 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) A pocket-sized credo card (compliance card) listing and explaining the H.I.S. Group corporate philosophy, the H.I.S. corporate philosophy, H.I.S. policies, and the H.I.S. Corporate Behavior Charter are 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 “2. 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 has concluded with the three non-Executive Directors (who are Directors serving as Audit & Supervisory Committee Members) and with the accounting auditors such 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 (nine members) under direct supervision of the Representative Director, Chairman and President.

The Internal Audit Office provides recommendations regarding auditing results and improvements, reporting to the Representative Director, Chairman and President, 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 Yasuo Katsura’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: Koichi Kuse and Toshihiro Kuchiki
- Accounting audit assistant composition: 10 certified public accountants, eight accountant assistants, and 17 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 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.

Director and Audit & Supervisory Committee Member Yasuo Katsura, formerly representative director and vice president of Matsushita Electric Industrial Co., Ltd. (currently Panasonic Corporation) began serving as an External Director on January 25, 2019. Possessing a wealth of management experience and knowledge with outstanding insight into corporate ethics and corporate governance, Mr. Katsura was appointed Director and Audit & Supervisory Committee Member as he is expected to provide advice and recommendations regarding the Company’s management based on his accumulated experiences, knowledge, and insight from an independent and objective perspective.

The Company’s current External Directors both satisfy the independence requirement stipulated by the Tokyo Stock Exchange (TSE) provision on independent directors. 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 associated 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 has 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 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 “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 Yasuo Katsura and the Company

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

The status of Company shareholdings by Yasuo Katsura is listed under “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	Restricted stock Compensation	Bonus	Provision for directors' retirement benefits	
Director (excluding Audit & Supervisory Committee Members) (excluding External Directors)	317	179	14	18	99	6	10
Director (Audit & Supervisory Committee Member) (excluding External Directors)	12	10	—	—	1	0	1
External Director (Audit & Supervisory Committee Member)	19	17	—	—	1	0	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 acquisition 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. At the General Meeting of Shareholders held on January 25, 2018, a resolution was approved to cap monetary claims payable corresponding to restricted stock compensation for Directors (excluding Audit & Supervisory Committee Members) at 100 million yen per year.
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.
3. The above remuneration amounts and number of officers includes those Directors who retired at the conclusion of the General Meeting of Shareholders held on January 25, 2018.
4. At the conclusion of the 37th General Meeting of Shareholders held on January 25, 2018, the Company abolished the directors' retirement benefits system. "Provision for directors' retirement benefits" above refers to amounts recorded prior to the abolishment of the directors' retirement benefits system.

(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	Restricted stock compensation	Bonus	Provision for directors' retirement benefits	
Hideo Sawada	Director	Filing Company	35	2	5	27	1	121
	Director	Huis Ten Bosch Co., Ltd.	49	—	—	—	—	

(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 per subject.

The current Remuneration Committee is chaired by the Representative Director, Chairman and CEO and consists of six 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 profit levels.

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 shares can be acquired through a 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 earnings 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, 2017 and October 31, 2018, 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, 2017 (millions of yen)	Year ended October 31, 2018 (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	510	1,735	—	—	(Note)
Stocks other than above	343	1,808	4	—	103

(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, 2017		Year ended October 31, 2018	
	Fees for audit certification (millions of yen)	Fees for non-audit services (millions of yen)	Fees for audit certification (millions of yen)	Fees for non-audit services (millions of yen)
Filing Company	101	—	102	4
Consolidated subsidiaries	53	—	56	2
Total	154	—	159	6

2) Details of other significant fees

(Consolidated fiscal year ended October 31, 2017)

There are no applicable matters to report.

(Consolidated fiscal year ended October 31, 2018)

There are no applicable matters to report.

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

(Consolidated fiscal year ended October 31, 2017)

There are no applicable matters to report.

(Consolidated fiscal year ended October 31, 2018)

Non-audit services for which the Company pays compensation to certified public accountants, etc., include the drafting of comfort letters.

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, 2017 to October 31, 2018).

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 maintains membership in the Financial Accounting Standards Foundation and participates in educational opportunities provided by said Foundation, accounting firms, and other institutions, as well as subscribes to accounting journals. The Company also reviews its internal regulations and manuals as appropriate.

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

(millions of yen)

	Year ended October 31, 2017 (As of October 31, 2017)	Year ended October 31, 2018 (As of October 31, 2018)
Assets		
Current assets		
Cash and deposits	*1 193,039	*1 213,960
Notes and accounts receivable - trade	34,801	44,376
Operating accounts receivable	6,194	5,048
Securities	39	89
Travel advance payments	28,062	34,347
Prepaid expenses	2,909	2,423
Deferred tax assets	2,328	3,187
Short-term loans receivable	*6 5,634	1,391
Short-term loans receivable from subsidiaries and associates	373	196
Accounts receivable - other	2,381	5,604
Other	7,954	12,942
Allowance for doubtful accounts	(234)	(451)
Total current assets	283,485	323,116
Non-current assets		
Property, plant and equipment		
Buildings	37,312	32,888
Accumulated depreciation	(15,297)	(13,224)
Buildings, net	*1, *5 22,015	*1, *5 19,663
Tools, furniture and fixtures	15,793	17,066
Accumulated depreciation	(10,351)	(10,902)
Tools, furniture and fixtures, net	*5 5,442	*5 6,163
Land	*1, *3 28,744	*1, *3 32,685
Leased assets	5,127	5,196
Accumulated depreciation	(2,426)	(2,171)
Leased assets, net	2,701	3,025
Construction in progress	*1 18,086	*1 48,455
Other	15,368	15,848
Accumulated depreciation	(9,356)	(9,739)
Other, net	*1, *5 6,011	*1, *5 6,108
Total property, plant and equipment	83,001	116,102
Intangible assets		
Goodwill	6,237	8,725
Other	11,428	10,795
Total intangible assets	17,666	19,520
Investments and other assets		
Investment securities	10,957	15,895
Shares of subsidiaries and associates	1,681	2,434
Investments in capital of subsidiaries and associates	632	179
Long-term loans receivable	*6 1,371	*6 4,479
Long-term loans receivable from subsidiaries and associates	128	1,218
Net defined benefit asset	622	551
Deferred tax assets	4,362	3,874
Guarantee deposits	7,643	9,125
Other	11,210	19,050
Allowance for doubtful accounts	(181)	(190)
Total investments and other assets	38,427	56,620
Total non-current assets	139,095	192,243
Deferred assets	227	432
Total assets	422,809	515,792

(millions of yen)

	Year ended October 31, 2017 (As of October 31, 2017)	Year ended October 31, 2018 (As of October 31, 2018)
Liabilities		
Current liabilities		
Operating accounts payable	23,590	36,933
Short-term loans payable	*4 7,474	*1, *4 17,992
Current portion of bonds	—	10,000
Current portion of convertible bond-type bonds with share acquisition rights	—	20,033
Current portion of long-term loans payable	*1 1,847	*1 11,008
Accounts payable - other	3,199	3,704
Accrued expenses	10,049	3,643
Income taxes payable	3,929	3,752
Accrued consumption taxes	724	1,019
Travel advance received	58,437	68,344
Lease obligations	864	935
Provision for bonuses	4,077	4,915
Provision for directors' bonuses	162	177
Provision for loss on liquidation of subsidiaries and associates	—	2,163
Other	*1 17,509	29,314
Total current liabilities	131,866	213,937
Non-current liabilities		
Bonds payable	40,000	30,000
Convertible bond-type bonds with share acquisition rights	20,073	25,108
Long-term loans payable	*1 101,603	*1 113,309
Deferred tax liabilities	*3 4,786	*3 4,957
Net defined benefit liability	7,588	7,036
Provision for directors' retirement benefits	861	343
Lease obligations	2,211	2,406
Other	*1 2,569	3,133
Total non-current liabilities	179,694	186,295
Total liabilities	311,561	400,232
Net assets		
Shareholders' equity		
Capital stock	11,000	11,000
Capital surplus	3,581	3,451
Retained earnings	92,731	101,987
Treasury shares	(23,875)	(28,611)
Total shareholders' equity	83,437	87,827
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	283	283
Deferred gains or losses on hedges	265	166
Foreign currency translation adjustment	1,716	(82)
Remeasurements of defined benefit plans	70	(49)
Total accumulated other comprehensive income	2,336	318
Share acquisition rights	252	431
Non-controlling interests	25,221	26,982
Total net assets	111,247	115,559
Total liabilities and net assets	422,809	515,792

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

(millions of yen)

	Year ended October 31, 2017 (November 1, 2016 to October 31, 2017)	Year ended October 31, 2018 (November 1, 2017 to October 31, 2018)
Net sales	606,024	728,554
Cost of sales	491,285	595,185
Gross profit	114,738	133,368
Selling, general and administrative expenses	*1 98,822	*1, *2 115,343
Operating income	15,915	18,024
Non-operating income		
Interest income	1,668	1,638
Foreign exchange gains	2,275	—
Share of profit of entities accounted for using equity method	—	10
Subsidy income	510	368
Other	1,074	1,774
Total non-operating income	5,529	3,791
Non-operating expenses		
Interest expenses	458	595
Foreign exchange losses	—	564
Share of loss of entities accounted for using equity method	69	—
Loss (gain) on sales of stocks of subsidiaries and associates	216	—
Other	1,052	1,214
Total non-operating expenses	1,797	2,375
Ordinary income	19,647	19,440
Extraordinary income		
Gain on step acquisitions	2,009	—
Gain on sales of non-current assets	—	*3 4,230
Gain on revision of retirement benefit plan	—	282
Foreign currency translation adjustment account reversal gain	—	595
Total extraordinary income	2,009	5,107
Extraordinary losses		
Loss on sales of non-current assets	642	—
Impairment loss	284	—
Loss on valuation of investment securities	—	330
Provision for loss on liquidation of subsidiaries and associates	—	*4 2,163
Loss on disposal of affiliate receivables	—	*4 1,359
Total extraordinary losses	926	3,853
Profit before income taxes	20,730	20,695
Income taxes - current	5,970	7,104
Income taxes - deferred	(1,074)	(40)
Total income taxes	4,895	7,064
Profit	15,835	13,630
Profit attributable to non-controlling interests	2,575	2,659
Profit attributable to owners of parent	13,259	10,971

Consolidated Statements of Comprehensive Income

(millions of yen)

	Year ended October 31, 2017 (November 1, 2016 to October 31, 2017)	Year ended October 31, 2018 (November 1, 2017 to October 31, 2018)
Profit	15,835	13,630
Other comprehensive income		
Valuation difference on available-for-sale securities	439	0
Deferred gains or losses on hedges	811	(98)
Foreign currency translation adjustment	2,842	(1,842)
Remeasurements of defined benefit plans, net of tax	582	(163)
Share of other comprehensive income of entities accounted for by the equity method	(123)	(1)
Total other comprehensive income	* 4,551	* (2,105)
Comprehensive income	20,386	11,525
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	17,494	8,953
Comprehensive income attributable to non-controlling interests	2,891	2,571

3) Consolidated Statement of Changes in Equity

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 beginning of current period	11,000	3,665	80,988	(14,162)	81,491
Changes of items during the year					
Dividends of surplus			(1,361)		(1,361)
Profit attributable to owners of parent			13,259		13,259
Purchase of treasury shares				(9,999)	(9,999)
Disposal of treasury shares		0		287	287
Change of scope of consolidation			(155)		(155)
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 period	—	(83)	11,742	(9,712)	1,946
Balance at end of current period	11,000	3,581	92,731	(23,875)	83,437

	Accumulated other comprehensive income					Share acquisition 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 beginning of current period	(152)	(546)	(744)	(455)	(1,899)	77	15,470	95,139
Changes of items during the year								
Dividends of surplus					—			(1,361)
Profit attributable to owners of parent					—			13,259
Purchase of treasury shares					—			(9,999)
Disposal of treasury shares					—			287
Change of scope of consolidation					—			(155)
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 period	435	811	2,461	526	4,235	175	9,750	16,107
Balance at end of current period	283	265	1,716	70	2,336	252	25,221	111,247

Consolidated fiscal year ended October 31, 2018 (November 1, 2017 to October 31, 2018)

(millions of yen)

	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at beginning of current period	11,000	3,581	92,731	(23,875)	83,437
Changes of items during the year					
Dividends of surplus			(1,707)		(1,707)
Profit attributable to owners of parent			10,971		10,971
Purchase of treasury shares				(5,000)	(5,000)
Disposal of treasury shares		9		264	273
Change of scope of consolidation			(7)		(7)
Purchase of shares of consolidated subsidiaries					—
Change in ownership interest of parent due to transactions with non-controlling interests		(139)			(139)
Net changes of items other than shareholders' equity					—
Total changes of items during period	—	(130)	9,256	(4,736)	4,389
Balance at end of current period	11,000	3,451	101,987	(28,611)	87,827

	Accumulated other comprehensive income					Share acquisition 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 beginning of current period	283	265	1,716	70	2,336	252	25,221	111,247
Changes of items during the year								
Dividends of surplus					—			(1,707)
Profit attributable to owners of parent					—			10,971
Purchase of treasury shares					—			(5,000)
Disposal of treasury shares					—			273
Change of scope of consolidation					—			(7)
Purchase of shares of consolidated subsidiaries					—			—
Change in ownership interest of parent due to transactions with non-controlling interests					—			(139)
Net changes of items other than shareholders' equity	0	(98)	(1,799)	(120)	(2,017)	178	1,761	(77)
Total changes of items during period	0	(98)	(1,799)	(120)	(2,017)	178	1,761	4,312
Balance at end of current period	283	166	(82)	(49)	318	431	26,982	115,559

4) Consolidated Statements of Cash Flows

(millions of yen)

	Year ended October 31, 2017 (November 1, 2016 to October 31, 2017)	Year ended October 31, 2018 (November 1, 2017 to October 31, 2018)
Cash flows from operating activities		
Profit before income taxes	20,730	20,695
Depreciation	7,104	8,214
Impairment loss	284	—
Amortization of goodwill	354	1,051
Increase (decrease) in provision for bonuses	1,046	843
Increase (decrease) in provision for directors' bonuses	54	15
Increase (decrease) in net defined benefit liability	1,412	48
Increase (decrease) in provision for directors' retirement benefits	71	(527)
Increase (decrease) in provision for loss on liquidation of subsidiaries and associates	—	2,163
Interest and dividend income	(1,699)	(1,789)
Share of loss (profit) of entities accounted for using equity method	69	(10)
Foreign exchange losses (gains)	(3,031)	252
Interest expenses	458	595
Loss (gain) on sales of property, plant and equipment	642	(4,230)
Loss (gain) on valuation of investment securities	—	330
Gain on revision of retirement benefit plan	—	(282)
Reversal of foreign currency translation adjustment	—	(595)
Loss on disposal of affiliate receivables	—	1,359
Loss (gain) on sales of shares of subsidiaries and associates	216	—
Loss (gain) on step acquisitions	(2,009)	—
Other loss (gain)	179	435
Decrease (increase) in notes and accounts receivable - trade	1,121	(7,684)
Decrease (increase) in travel advance payments	(5,185)	(7,320)
Decrease (increase) in other assets	(689)	(7,652)
Increase (decrease) in notes and accounts payable - trade	(3,270)	12,665
Increase (decrease) in accrued consumption taxes	271	429
Increase (decrease) in accrued expenses	3,061	(6,511)
Increase (decrease) in travel advances received	5,894	9,676
Increase (decrease) in other liabilities	7,849	5,073
Subtotal	34,345	27,247
Interest and dividend income received	1,759	1,712
Interest expenses paid	(442)	(553)
Income taxes (paid) refund	(3,292)	(8,009)
Net cash provided by (used in) operating activities	32,369	20,397

(millions of yen)

	Year ended October 31, 2017 (November 1, 2016 to October 31, 2017)	Year ended October 31, 2018 (November 1, 2017 to October 31, 2018)
Cash flows from investing activities		
Payments into time deposits	(43,132)	(40,280)
Proceeds from withdrawal of time deposits	51,799	40,791
Proceeds from redemption of securities	3,300	—
Purchase of property, plant and equipment and intangible assets	(24,189)	(45,440)
Proceeds from sales of property, plant and equipment and intangible assets	642	9,709
Purchase of investment securities	(8,366)	(6,973)
Proceeds from sales of investment securities	48	1,751
Purchase of shares of subsidiaries and associates	(808)	(385)
Purchase of shares of subsidiaries resulting in changes in the scope of consolidation	*2 (5,856)	*2 (3,420)
Proceeds from purchase of shares of subsidiaries resulting in changes in the scope of consolidation	*2 8,465	*2 10
Payments for sales of shares in subsidiaries resulting in change of scope of consolidation	*3 (224)	*3 (73)
Payments of loans receivable	(921)	(6,975)
Collection of loans receivable	639	6,948
Payments for guarantee deposits	(687)	(1,973)
Proceeds from collection of guarantee deposits	612	657
Proceeds from redevelopment operations	—	5,766
Other, net	(7,529)	(4,954)
Net cash provided by (used in) investing activities	(26,209)	(44,841)
Cash flows from financing activities		
Increase in short-term loans payable	55,640	33,970
Decrease in short-term loans payable	(58,920)	(23,464)
Proceeds from long-term loans payable	26,000	25,049
Repayments of long-term loans payable	(876)	(4,181)
Proceeds from issuance of bonds	19,899	—
Proceeds from issuance of bonds with share acquisition rights	—	25,100
Purchase of treasury shares	(10,001)	(5,001)
Cash dividends paid	(1,361)	(1,707)
Dividends paid to non-controlling interests	(22)	(473)
Proceeds from share issuance to non-controlling shareholders	—	14
Other, net	(586)	(1,002)
Net cash provided by (used in) financing activities	29,769	48,304
Effect of exchange rate change on cash and cash equivalents	2,886	(947)
Net increase (decrease) in cash and cash equivalents	38,816	22,913
Cash and cash equivalents at beginning of period	129,842	168,659
Increase (decrease) in cash and cash equivalents resulting from change of scope of consolidation	—	(132)
Cash and cash equivalents at end of period	*1 168,659	*1 191,440

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 127 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, 2018, JONVIEW CANADA INC. and four other companies were added to the scope of consolidation through share acquisitions.

HHH.USA. INC. and H.I.S. Energy Holdings Co., Ltd. were added to the scope of consolidation as newly established companies.

H.I.S. GLOBAL BUSINESS, INC. and four other companies were added to the scope of consolidation owing to their increased significance.

Consolidated subsidiaries H.I.S. AUSTRALIA HOLDINGS PTY LTD, H.I.S. INVESTMENTS PTY LTD, and nine other companies were removed from the scope of consolidation as a result of capital reductions with compensation, completed liquidation proceedings, or other factors.

(2) Non-consolidated subsidiaries

The Company has 44 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.”

(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 44 non-consolidated subsidiaries and the 17 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

The Watermark Hotel Japan Co., Ltd., an overseas and domestic consolidated subsidiary, has a fiscal year ending on July 31.

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; 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.; Nishinohon Engineering 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.; Higo Liquor Co., Ltd.; Hanamarudo Co., Ltd.; H.S. Insurance Co., Ltd.; H.I.S. SUPER POWER Co., Ltd.; H.I.S. Energy Holdings Co., Ltd.; G-Bio Kakuda Kajika GK.

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

Bonds held to maturity

Stated at amortized cost.

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

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 loss on liquidation of subsidiaries and affiliates

To prepare for losses from the liquidation of subsidiaries and affiliates, a provision is recorded based on estimated future losses.

(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 claims and liabilities denominated in foreign currency are translated into yen at the spot exchange rate prevailing on the fiscal closing date, and the difference arising from such translation is recorded as profits or losses. The assets and liabilities of overseas subsidiaries are translated into yen at the spot exchange rates prevailing on the fiscal closing date, and their revenues and expenses are translated into yen at the average exchange rate during the fiscal 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.

[Accounting standards not yet applied]

Company and domestic consolidated subsidiaries

[Implementation Guidance on Accounting Standard for Tax Effect Accounting, etc.]

- Implementation Guidance on Accounting Standard for Tax Effect Accounting (ASBJ Guidance No. 28, Revised on February 16, 2018, Accounting Standards Board of Japan)
- Implementation Guidance on Recoverability of Deferred Tax Assets (ASBJ Guidance No. 26, Final revision on February 16, 2018, Accounting Standards Board of Japan)

(1) Overview

Upon transferring the practical guidelines on accounting standards for tax effect accounting of the Japanese Institute of Certified Public Accountants (JIPCA) to the Accounting Standards Board of Japan (ASBJ), the ASBJ made necessary changes presented below to the practical guidelines while maintaining the basic framework and issued the "Implementation Guidance on Accounting Standard for Tax Effect Accounting," etc.

(2) Scheduled date of application

Scheduled to be applied from the start of the fiscal year ending October 31, 2019.

(3) Effect of application of the aforementioned accounting standards

The Company is currently evaluating the effect of applying the “Implementation Guidance of Accounting Standards for Tax Effect Accounting” and the “Revised Implementation Guidance on Recoverability of Deferred Tax Assets” on its consolidated financial statements.

[Accounting standard for revenue recognition, etc.]

- “Accounting Standard for Revenue Recognition” (ASBJ Statement No. 29 issued on March 30, 2018, Accounting Standards Board of Japan)
- “Implementation Guidance on Accounting Standard for Revenue Recognition” (ASBJ Guidance No. 30 issued on March 30, 2018 Accounting Standards Board of Japan)

(1) Overview

The International Accounting Standards Board (IASB) and the Financial Accounting Standards Board (FASB) in the U.S. jointly developed comprehensive accounting standards for revenue recognition, and in May 2014 published “Revenue from Contracts with Customers” (IFRS 15 at IASB, Topic 606 at FASB). Given that IFRS 15 will be applied to fiscal years beginning on or after January 1, 2018 and Topic 606 will be applied to fiscal years beginning after December 15, 2017, the Accounting Standards Board of Japan (ASBJ) has developed comprehensive accounting standards for revenue recognition and published them along with the Implementation Guidance.

The basic policy of the ASBJ in developing accounting standards for revenue recognition is thought to be setting accounting standards, with the incorporation of the basic principles of IFRS 15 as a starting point, from a standpoint of comparability between financial statements, which is one of the benefits of ensuring consistency with IFRS 15, and to add alternative accounting treatments without losing comparability if there is an item that should be taken into account in practices, etc. that have been conducted in Japan.

(2) Scheduled date of application

Scheduled to be applied from the start of the fiscal year ending October 31, 2022.

(3) Effect of application of the aforementioned accounting standards

The Company is currently evaluating the effect of applying the “Accounting Standard for Revenue Recognition”, etc. on its consolidated financial statements.

Overseas consolidated subsidiaries

Newly established or revised accounting standards, etc., published up to October 31, 2018, which have yet to be applied are presented below. In addition, the Company is currently evaluating the effect of applying these standards, etc., on its consolidated financial statements.

Name of accounting standard, etc.	Summary	Scheduled date of application
“Financial Instruments” (IFRS 9)	Amendments with regard to financial instrument classification, measurement, impairment, etc.	From the fiscal year ending October 31, 2019
“Revenue from Contracts with Customers” (IFRS 15)	Amendments with regard to accounting treatment for revenue recognition	From the fiscal year ending October 31, 2019
“Leases” (IFRS 16)	Amendments with regard to accounting treatment for lease accounting	From the fiscal year ending October 31, 2020

[Changes in presentation]

[Consolidated balance sheet]

“Vessels” (55 million yen in the consolidated fiscal year ended October 31, 2018), which was included under “Property, plant and equipment” in the consolidated fiscal year ended October 31, 2017, is now included in “Other” under “Property, plant and equipment” because its amount has become immaterial. To reflect this change in presentation, the Company has reconfigured its consolidated financial statements for the previous fiscal year. As a result, 62 million yen reported in “Vessels” under “Property, plant and equipment” in the previous fiscal year has been reclassified under “Other.”

“Provision for repairs” (15 million yen in the consolidated fiscal year ended October 31, 2018), which was included under “Non-current liabilities” in the consolidated fiscal year ended October 31, 2017, is now included in “Other” under “Non-current liabilities” because its amount has become immaterial. To reflect this change in presentation, the Company has reconfigured its consolidated financial statements for the previous fiscal year. As a result, 159 million yen reported in “Provision for repairs” under “Non-current liabilities” in the previous fiscal year has been reclassified under “Other.”

[Consolidated Statement of Cash Flows]

“Increase (decrease) in provision for repairs” (-149 million yen in the consolidated fiscal year ended October 31, 2018), which was included under cash flows from operating activities in the consolidated fiscal year ended October 31, 2017, is now included in “Increase (decrease) in other liabilities” because its amount has become immaterial. To reflect this change in presentation, the Company has reconfigured its consolidated financial statements for the previous fiscal year. As a result, -592 million yen in “Increase (decrease) in provision for repairs” reported under cash flows from operating activities in the previous fiscal year has been reclassified under “Increase (decrease) in other liabilities.”

[Additional information]

[Abolishment of the provision for directors' retirement benefits]

To prepare for retirement benefit payments to directors, the Company has thus far recorded necessary amounts to provide for directors' retirement benefits in accordance with internal rules. However, the directors' retirement benefits system was abolished after a proposal to abolish the system and discontinue related payments was approved at the 37th General Meeting of Shareholders held on January 25, 2018. Consequently, the company reversed the provision for directors' retirement benefits, and included the unpaid 352 million yen in “Other” under “Non-current liabilities.”

In addition, some consolidated subsidiaries will continue to record necessary amounts under “Provision for directors' retirement benefits” to provide for directors' retirement benefits in accordance with internal rules.

[Transfer of retirement benefit plans]

The Company has transferred a part of its retirement lump-sum plans to defined contribution pension plans on April 1, 2018, and applied “Accounting for Transfer between Retirement Benefit Plans” (ASBJ Guidance No. 1 issued on December 16, 2016) and “Practical Solution on Accounting for Transfer between Retirement Benefit Plans” (PITF No. 2 issued on February 7, 2007). It has recorded a partial termination of its retirement benefit plans for the portion transferred to defined contribution plans.

Consequently, in the consolidated fiscal year ended October 31, 2018, the Company has recorded a 282 million yen gain on revision of retirement benefit plan as extraordinary income.

[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 363,000 at the end of the consolidated fiscal year ended October 31, 2017, and 282,000 at the end of the consolidated fiscal year ended October 31, 2018 and their book value was 1,116 million yen and 867 million yen, respectively.

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

1,136 million yen at the end of the consolidated fiscal year ended October 31, 2017, and 828 million yen at the end of the consolidated fiscal year ended October 31, 2018.

[Consolidated balance sheet]

*1. Pledged assets

Assets pledged as collateral are shown below.

	(millions of yen)	
	Year ended October 31, 2017 (As of October 31, 2017)	Year ended October 31, 2018 (As of October 31, 2018)
Cash and deposits	46	—
Buildings	485	462
Land	18,329	19,077
Construction in progress	1,956	1,956
Property, plant and equipment (Other)	2	1

Secured liabilities are shown below.

	(millions of yen)	
	Year ended October 31, 2017 (As of October 31, 2017)	Year ended October 31, 2018 (As of October 31, 2018)
Short-term loans payable	—	1,050
Current portion of long-term loans payable	1,270	609
Long-term loans payable	6,609	6,000
Current liabilities (Other)	4	—
Non-current liabilities (Other)	15	—

The Company pledged cash and cash deposits of 574 million yen as collateral for bank guarantees in the consolidated fiscal year ended October 31, 2017. In the consolidated fiscal year ended October 31, 2018, it pledged cash and cash deposits of 538 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, 2017 (As of October 31, 2017)		Year ended October 31, 2018 (As of October 31, 2018)
ASIA ATLANTIC AIRLINES CO., LTD.	270,000 US dollar (30 million yen)	ASIA ATLANTIC AIRLINES CO., LTD.	270,000 US dollar (30 million yen)

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

	Year ended October 31, 2017 (As of October 31, 2017)		Year ended October 31, 2018 (As of October 31, 2018)
ASIA ATLANTIC AIRLINES CO., LTD.	7 million US dollar (791 million yen)	ASIA ATLANTIC AIRLINES CO., LTD.	7 million US dollar (792 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, 2017 (As of October 31, 2017)	Year ended October 31, 2018 (As of October 31, 2018)
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, SYS Inc., H.I.S. - MERIT TRAVEL INC., and Miki Travel Agency E.U.R.L. have concluded overdraft agreements with 15 banks to ensure efficient procurement of working capital. Unexecuted borrowings based on such agreements at the end of the years ended October 31, 2017 and October 31, 2018 are shown below.

(millions of yen)

	Year ended October 31, 2017 (As of October 31, 2017)	Year ended October 31, 2018 (As of October 31, 2018)
Maximum overdraft limit	11,335	28,433
Outstanding borrowings	5,595	16,256
Difference	5,740	12,177

*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, 2017 (As of October 31, 2017)	Year ended October 31, 2018 (As of October 31, 2018)
Buildings	8	15
Tools, furniture and fixtures	16	17
Other tangible fixed assets	538	405
Total	563	437

*6. Other

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 fiscal year ended October 31, 2018 (as of October 31, 2018)

Of the 4,479 million yen in long-term loans receivable, 4,460 million yen (40 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 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, 2017 (November 1, 2016 to October 31, 2017)	Year ended October 31, 2018 (November 1, 2017 to October 31, 2018)
Salaries and allowances	34,953	42,714
Bonuses	2,379	3,083
Provision for bonuses	3,518	4,271
Directors' bonuses	32	18
Provision of reserve for directors' bonuses	159	181
Retirement benefit expenses	1,202	633
Provision of reserve for directors' retirement benefits	75	68
Legal welfare expenses	5,733	6,800
Advertising expenses	12,371	11,847
Rent expenses	6,439	8,208
Depreciation and amortization	5,862	6,816
Provision of allowance for doubtful accounts	32	271
R&D expenses	—	176

*2. Total R&D expenses included under selling, general and administrative expenses are shown below.

(millions of yen)

	Year ended October 31, 2017 (November 1, 2016 to October 31, 2017)	Year ended October 31, 2018 (November 1, 2017 to October 31, 2018)
	—	176

*3. Gain on sales of non-current assets

The gain on sales of non-current assets recorded in the consolidated fiscal year ended October 31, 2018 reflects the sales of the Watermark Hotel Sapporo property (land and buildings) and Watermark Hotel Australia property (land and buildings).

*4. Provision for loss on liquidation of subsidiaries and associates, loss on disposal of affiliate receivables

The provision for loss on liquidation of subsidiaries and associates and the loss on disposal of affiliate receivables recorded in the current fiscal year reflect claims against ASIA ATLANTIC AIRLINES CO., LTD.

[Consolidated Statement of Comprehensive Income]

* Reclassification adjustments and tax effects relating to other comprehensive income

(millions of yen)

	Year ended October 31, 2017 (November 1, 2016 to October 31, 2017)	Year ended October 31, 2018 (November 1, 2017 to October 31, 2018)
Valuation difference on available-for-sale securities:		
Amount arising during the year	685	23
Reclassification adjustments	(46)	(33)
Before tax effect adjustment	639	(9)
Tax effect amount	(200)	10
Valuation difference on available-for-sale securities	439	0
Deferred gains or losses on hedges:		
Amount arising during the year	1,171	(146)
Reclassification adjustments	—	—
Before tax effect adjustment	1,171	(146)
Tax effect amount	(360)	48
Deferred gains or losses on hedges	811	(98)
Foreign currency translation adjustment:		
Amount arising during the year	2,842	(1,184)
Reclassification adjustments	—	(657)
Before tax effect adjustment	2,842	(1,842)
Tax effect amount	—	—
Foreign currency translation adjustment	2,842	(1,842)
Remeasurements of defined benefit plans:		
Amount arising during the year	228	(41)
Reclassification adjustments	663	(210)
Before tax effect adjustment	891	(251)
Tax effect amount	(309)	88
Remeasurements of defined benefit plans	582	(163)
Share of other comprehensive income of entities accounted for using equity method:		
Amount arising during the fiscal year	(123)	(1)
Reclassification adjustments	—	—
Share of other comprehensive income of entities accounted for by the equity method	(123)	(1)
Total other comprehensive income	4,551	(2,105)

[Consolidated statement of changes in equity]

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 treasury shares (common stock) includes the Company shares held by the H.I.S. Employee Stock Ownership Association Dedicated Trust. (363,100 shares as of October 31, 2017)
- The increase of 3,034,500 treasury shares (common stock) reflects the acquisition of treasury shares by a resolution of the Board of Directors.
- The decrease of 93,310 treasury shares (common stock) 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 acquisition rights and treasury share acquisition rights

Classification	Breakdown of share acquisition rights	Type of shares subject to share acquisition rights	Number of shares subject to share acquisition 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 acquisition 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 held 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 consolidated fiscal 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 held 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 held 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 fiscal year ended October 31, 2018 (November 1, 2017 to October 31, 2018)

1. Types and number of issued shares and treasury shares

	Number of shares as of November 1, 2017	Increase during the year	Decrease during the year	Number of shares as of October 31, 2018
Issued shares				
Common stock	68,522,936	—	—	68,522,936
Total	68,522,936	—	—	68,522,936
Treasury shares				
Common stock (Note)	10,019,506	1,298,971	86,937	11,231,540
Total	10,019,506	1,298,971	86,937	11,231,540

(Notes)

- The number of treasury shares (common stock) includes the Company shares held by the H.I.S. Employee Stock Ownership Association Dedicated Trust. (282,100 as of October 31, 2018)
- The increase of 1,298,971 treasury shares (common stock) reflects an increase of 1,298,800 shares from the acquisition of treasury shares by a resolution of the Board of Directors, and an increase of 171 shares attributable to purchases of shares less than one unit.
- The decrease of 86,937 treasury shares (common stock) reflects a decline of 5,937 shares from the disposal of treasury shares as restricted stock compensation, and a decline of 81,000 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 acquisition rights and treasury share acquisition rights

Classification	Breakdown of share acquisition rights	Type of shares subject to share acquisition rights	Number of shares subject to share acquisition rights				Balance as of October 31, 2018 (millions of yen)
			As of November 1, 2017	Increase during the year	Decrease during the year	As of October 31, 2018	
Filing Company (Parent company)	Share acquisition rights as stock options	—	—	—	—	—	431
Total		—	—	—	—	—	431

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 25, 2018	Common stock	1,707	29.00	October 31, 2017	January 26, 2018

(Note) The total amount of dividends approved by a resolution at the General Shareholders' Meeting held 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.

(2) Dividends whose record date falls in the consolidated fiscal year ended October 31, 2018 and whose effective date falls in the next consolidated fiscal 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 held on January 25, 2019	Common stock	1,669	Retained earnings	29.00	October 31, 2018	January 28, 2019

(Note) The total amount of dividends approved by a resolution at the General Shareholders' Meeting held on January 25, 2019 includes 8 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, 2017 (November 1, 2016 to October 31, 2017)	Year ended October 31, 2018 (November 1, 2017 to October 31, 2018)
Cash and deposits account	193,039	213,960
Marketable securities account	39	89
Time deposits with maturities of more than three months	(24,380)	(22,520)
Marketable securities whose maturity date falls within one year	(39)	(89)
Cash and cash equivalents	168,659	191,440

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

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 the share acquisition price and related expenditure (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 adjustment	23
Non-controlling interests	(396)
Share acquisition price	3,607
Cash and cash equivalents	(766)
Net expenditure on share acquisition	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 the share acquisition price and related proceeds (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 proceeds from share acquisition	8,444

A breakdown of assets and liabilities at the start of consolidation of Green World Hotels Co., Ltd. and another company resulting from the acquisition of shares, along with details regarding the share acquisition price and related expenditure (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 price	4,125
Cash and cash equivalents	(1,160)
Net expenditure on share acquisition	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.

Consolidated fiscal year ended October 31, 2018 (November 1, 2017 to October 31, 2018)

A breakdown of assets and liabilities at the start of consolidation of JONVIEW CANADA INC., a new subsidiary resulting from the acquisition of shares, along with details regarding the share acquisition price and related expenditure (net) are presented below.

	(millions of yen)
Current assets	2,488
Non-current assets	514
Goodwill	3,088
Current liabilities	(1,602)
Non-current liabilities	(18)
Foreign currency translation adjustment	(99)
Share acquisition price	4,370
Cash and cash equivalents	(1,353)
Net expenditure on share acquisition	3,017

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, 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 expenditure (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 associates	(190)
Equity-method value when company ceased to be consolidated subsidiary	(143)
Share sales price	0
Cash and cash equivalents	(224)
Net expenditure on sales of shares	224

Consolidated fiscal year ended October 31, 2018 (from November 1, 2017 to October 31, 2018)

Amounts for assets and liabilities for companies removed from the scope of consolidation due to the sale of shares in the consolidated fiscal year ended October 31, 2018 are not significant, and have therefore been omitted.

[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, 2017 (As of October 31, 2017)	Year ended October 31, 2018 (As of October 31, 2018)
Due within one year	2,207	2,288
Due after one year	17,591	16,197
Total	19,798	18,485

[Lessor]

Future lease receivables related to non-cancelable operating leases

(millions of yen)

	Year ended October 31, 2017 (As of October 31, 2017)	Year ended October 31, 2018 (As of October 31, 2018)
Due within one year	128	128
Due after one year	1,169	1,040
Total	1,298	1,169

[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 acquisition 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

Notes and 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 acquisition 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, hedged 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 claims 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 customers and business partners.

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 are 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, 2017 (As of October 31, 2017)

	Amount recorded on balance sheet (millions of yen)	Fair value (millions of yen)	Difference (millions of yen)
(1) Cash and deposits	193,039	193,039	—
(2) Notes and 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 associate	128	128	—
(10) Guarantee deposits	5,630	5,646	16
Total assets	258,919	258,974	54
(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 acquisition 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)
Total liabilities	205,517	205,481	(36)
Derivatives transactions (*2)	310	310	—

(*1) Allowances for doubtful accounts are excluded from “notes and 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, 2018 (As of October 31, 2018)

	Amount recorded on balance sheet (millions of yen)	Fair value (millions of yen)	Difference (millions of yen)
(1) Cash and deposits	213,960	213,960	—
(2) Notes and accounts receivable - trade (*1)	44,024	44,024	—
(3) Operating accounts receivable	5,048	5,048	—
(4) Marketable and investment securities	11,999	11,999	(0)
Securities held to maturity	10	9	(0)
Available-for-sale securities	11,989	11,989	—
(5) Short-term loans receivable	1,391	1,391	—
(6) Short-term loans receivable from subsidiaries and associates	196	196	—
(7) Account receivable - other (*2)	3,420	3,420	—
(8) Long-term loans receivable	4,479	4,549	70
(9) Long-term loans receivable from subsidiaries and associate	1,218	1,218	—
(10) Guarantee deposits	6,879	6,888	8
Total assets	292,618	292,697	78
(1) Operating accounts payable	36,933	36,933	—
(2) Short-term loans payable	17,992	17,992	—
(3) Accounts payable - other	3,704	3,704	—
(4) Income taxes payable	3,752	3,752	—
(5) Accrued consumption tax	1,019	1,019	—
(6) Corporate bonds (including within one year)	40,000	40,227	227
(7) Convertible bond-type bonds with share acquisition rights (including within one year)	45,141	45,022	(119)
(8) Long-term loans payable (including within one year)	124,317	124,037	(280)
(9) Lease obligations (including within one year)	3,342	3,189	(152)
Total liabilities	276,203	275,879	(324)
Derivatives transactions (*3)	235	235	—

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

(*2) Allowances for doubtful accounts and the provision for loss on liquidation of subsidiaries and associates are excluded from “Accounts receivable - other.”

(*3) 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) Notes and accounts receivable - trade, (3) Operating accounts receivable, (5) Short-term loans receivable, (6) Short-term loans receivable from subsidiaries and associates, 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. For information on securities based on purpose of holdings, please see the “Marketable securities”

section.

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

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 (including within one year), (7) Convertible bond-type bonds with share acquisition rights (including within one year), (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 value is extremely difficult to determine

(millions of yen)

Classification	Year ended October 31, 2017 (As of October 31, 2017)	Year ended October 31, 2018 (As of October 31, 2018)
Marketable and investment securities		
Unlisted stocks, etc. (*1)	1,475	3,985
Shares of subsidiaries and associates		
Unlisted stocks, etc. (*2)	1,681	2,434
Investments in capital of subsidiaries and associates (*3)	632	179
Guarantee deposits (*4)	2,013	2,246

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

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

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

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

(Note) 3. Redemption schedule for monetary claims and securities with maturity after the consolidated closing date

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

	1 year or less (millions of yen)	1-5 years (millions of yen)	5-10 years (millions of yen)	Over 10 years (millions of yen)
Cash and deposits	193,039	—	—	—
Notes and 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 associates	373	—	—	—
Accounts receivable - other	2,381	—	—	—
Long-term loans receivable	—	1,371	—	—
Long-term loans receivable from subsidiaries and associates	—	124	4	—

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, 2018 (As of October 31, 2018)

	1 year or less (millions of yen)	1-5 years (millions of yen)	5-10 years (millions of yen)	Over 10 years (millions of yen)
Cash and deposits	213,960	—	—	—
Notes and accounts receivable - trade	44,376	—	—	—
Operating accounts receivable	5,048	—	—	—
Marketable and investment securities				
Bonds held to maturity				
(1) Corporate bonds	—	—	10	—
Available-for-sale securities with maturities				
(1) Government and municipal bonds, etc.	12	—	—	—
(2) Corporate bonds	50	—	—	—
(3) Other	20	—	—	—
Short-term loans receivable	1,391	—	—	—
Short-term loans receivable from subsidiaries and associates	196	—	—	—
Accounts receivable - other	5,604	—	—	—
Long-term loans receivable	—	4,479	—	—
Long-term loans receivable from subsidiaries and associates	—	1,214	3	—

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, 2017 (As of October 31, 2017)

	1 year or less (millions of yen)	1-2 years (millions of yen)	2-3 years (millions of yen)	3-4 years (millions of yen)	4-5 years (millions of yen)	Over 5 years (millions of yen)
Short-term loans payable	7,474	—	—	—	—	—
Corporate bonds	—	10,000	—	10,000	—	20,000
Convertible bond-type bonds with share acquisition rights	—	20,000	—	—	—	—
Long-term loans payable (including within one year) (*)	1,847	10,842	36,193	1,285	3,114	50,168
Lease obligations (including 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 installment payment amounts, the amount is listed assuming a bulk payment of the year-end loan balance on the designated final payment date.

Consolidated fiscal year ended October 31, 2018 (As of October 31, 2018)

	1 year or less (millions of yen)	1-2 years (millions of yen)	2-3 years (millions of yen)	3-4 years (millions of yen)	4-5 years (millions of yen)	Over 5 years (millions of yen)
Short-term loans payable	17,992	—	—	—	—	—
Corporate bonds (including within one year)	10,000	—	10,000	—	—	20,000
Convertible bond-type bonds with share acquisition rights (including within one year)	20,000	—	—	—	—	25,000
Long-term loans payable (including within one year) (*)	11,008	36,709	994	3,130	30,122	42,354
Lease obligations (including within one year)	935	642	561	431	475	294
Total	59,936	37,352	11,556	3,561	30,597	87,648

(*) Long-term loans payable associated with the Trust-type Employee Shareholding Incentive Plan (E-Ship[®]) total 828 million yen. Since there are no conditions for installment payment amounts, the amount is listed assuming a bulk payment of the year-end loan balance on the designated final payment date

[Marketable securities]

1. Bonds held to maturity

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

There are no applicable matters to report.

Consolidated fiscal year ended October 31, 2018 (As of October 31, 2018)

	Type	Amount recorded on balance sheet (millions of yen)	Market value (millions of yen)	Difference (millions of yen)
Market value above balance sheet amount	(1) Bonds	—	—	—
	(2) Other	—	—	—
	Subtotal	—	—	—
Market value below balance sheet amount	(1) Bonds	10	9	(0)
	(2) Other	—	—	—
	Subtotal	10	9	(0)
Total		10	9	(0)

2. Available-for-sale securities

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

	Type	Amount recorded on balance sheet (millions of yen)	Acquisition cost (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 are 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, 2018 (As of October 31, 2018)

	Type	Amount recorded on balance sheet (millions of yen)	Acquisition cost (millions of yen)	Difference (millions of yen)
Balance sheet amount above acquisition price	(1) Stocks	207	99	107
	(2) Bonds	13	12	0
	(3) Other	6,959	6,493	465
	Subtotal	7,180	6,606	574
Balance sheet amount below acquisition price	(1) Stocks	1,495	1,499	(4)
	(2) Bonds	—	—	—
	(3) Other	3,313	3,386	(72)
	Subtotal	4,809	4,886	(77)
Total		11,989	11,492	497

(Note) Unlisted stocks (3,985 million yen recorded on the balance sheet) have no market prices and are deemed extremely difficult to determine their fair values. Accordingly, they are not included in “Available-for-sale securities” in the previous table.

3. Securities for which an impairment loss was recognized

In the consolidated fiscal year ended October 31, 2017, no impairment loss was recognized for investment securities.

In the consolidated fiscal year ended October 31, 2018, an impairment loss of 330 million yen was recognized for investment securities.

Impairment losses are recorded when the market value of the investment securities drops below 50% of the acquisition cost, except in cases where the market value is expected to recover.

[Derivatives transactions]

1. Derivatives transactions for which hedge accounting is not applied

(1) Currency-related transactions

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

Classification	Transaction type	Contract amount, etc. (millions of yen)	Contract amount, etc. / over one year (millions of yen)	Fair value (millions of yen)	Unrealized gain (loss) (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.

Consolidated fiscal year ended October 31, 2018 (As of October 31, 2018)

Classification	Transaction type	Contract amount, etc. (millions of yen)	Contract amount, etc. / over one year (millions of yen)	Fair value (millions of yen)	Unrealized gain (loss) (millions of yen)
Off-market transactions	Forward exchange contracts				
	Bought				
	USD	107	10	5	5
	SGD	27	—	0	0
	AUD	155	92	(1)	(1)
	CAD	10	—	0	0
	NZD	27	—	(1)	(1)
	Total	327	102	2	2

(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, 2017 (As of October 31, 2017)

Classification	Transaction type	Contract amount, etc. (millions of yen)	Contract amount, etc. / over one year (millions of yen)	Fair value (millions of yen)	Unrealized gain (loss) (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.

Consolidated fiscal year ended October 31, 2018 (As of October 31, 2018)

Classification	Transaction type	Contract amount, etc. (millions of yen)	Contract amount, etc. / over one year (millions of yen)	Fair value (millions of yen)	Unrealized gain (loss) (millions of yen)
Off-market transactions	Crude oil price commodity swaps	259	86	4	4
Total		259	86	4	4

(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, 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.”

Consolidated fiscal year ended October 31, 2018 (As of October 31, 2018)

Hedge accounting method	Transaction type	Major hedged items	Year ended October 31, 2018 (As of October 31, 2018)		
			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	215	—	5
	USD		11	—	(0)
	Bought				
	JPY		84	—	(0)
	USD		9,713	—	208
	EUR		1,565	—	(4)
	GBP	Operating accounts payable	5	—	(0)
	SGD		17	—	0
	CAD		12	—	0
	THB		12	—	0
	NZD		11	—	0
	Currency options				
Sold					
USD	Accounts receivable - trade	1,093	—	(2)	
EUR		256	—	(4)	
Bought					
USD	Operating accounts payable	1,093	—	23	
EUR		256	—	2	
Designated hedge accounting (<i>furiate shori</i>) for forward exchange contracts, etc.	Forward exchange contracts				
	Sold				
	USD	Accounts receivable-trade	11	—	
	Bought				
	JPY		51	—	
	USD		2,313	—	
	EUR		647	—	Note 2
	GBP		0	—	
	SGD	Operating accounts payable	27	—	
	AUD		37	—	
	THB		1	—	
	CNY		0	—	
	CHF		1	—	
	IDR		0	—	
Currency options					
Sold					
USD	Accounts receivable - trade	1,093	—		
EUR		64	—		
Bought					
USD	Operating accounts payable	1,093	—		
EUR		64	—		
Total			19,755	—	228

(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.

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, 2017 (November 1, 2016 to October 31, 2017)	Year ended October 31, 2018 (November 1, 2017 to October 31, 2018)
Retirement benefit obligation at beginning of year	8,159	9,673
Service cost	961	981
Interest cost	24	36
Actuarial differences	(227)	59
Retirement benefits paid	(636)	(598)
Increase from new consolidation	1,382	9
Decline accompanying the transfer to defined contribution pension plans	—	(905)
Foreign currency translation gains	10	19
Projected benefit obligation at end of year	9,673	9,276

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, 2017 (November 1, 2016 to October 31, 2017)	Year ended October 31, 2018 (November 1, 2017 to October 31, 2018)
Pension assets at beginning of year	1,590	2,707
Expected return on plan assets	47	36
Actuarial differences	124	17
Amount of employer contribution	115	124
Retirement benefits paid	(118)	(95)
Increase from new consolidation	947	—
Pension assets at end of year	2,707	2,790

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

	Year ended October 31, 2017 (As of October 31, 2017)	Year ended October 31, 2018 (As of October 31, 2018)
Retirement benefit obligation for funded plans	2,571	2,591
Pension assets	(2,707)	(2,790)
Retirement benefit obligation for unfunded plans	(135)	(199)
Net liability and asset recorded on consolidated balance sheet	7,101	6,684
	6,966	6,485
Defined benefit liability	7,588	7,036
Defined benefit asset	(622)	(551)
Net liability and asset recorded on consolidated balance sheet	6,966	6,485

(4) Retirement benefit expenses and breakdown

(millions of yen)

	Year ended October 31, 2017 (November 1, 2016 to October 31, 2017)	Year ended October 31, 2018 (November 1, 2017 to October 31, 2018)
Service cost	961	981
Interest cost	24	36
Expected return on plan assets	(47)	(36)
Amortization of actuarial differences	540	(197)
Retirement benefit expenses related to defined-benefit plan	1,478	784

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

In addition to the above, in the consolidated fiscal year ended October 31, 2018, the Company booked 282 million yen in extraordinary income in conjunction with a partial transfer from defined benefit to defined contribution plans.

(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.

(millions of yen)

	Year ended October 31, 2017 (November 1, 2016 to October 31, 2017)	Year ended October 31, 2018 (November 1, 2017 to October 31, 2018)
Actuarial differences	(891)	251
Total	(891)	251

(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.

(millions of yen)

	Year ended October 31, 2017 (As of October 31, 2017)	Year ended October 31, 2018 (As of October 31, 2018)
Unrecognized actuarial differences	(195)	56
Total	(195)	56

(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, 2017 (As of October 31, 2017)	Year ended October 31, 2018 (As of October 31, 2018)
Bonds	16%	16%
Stocks	24%	25%
Regular accounts	59%	58%
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, 2017 (As of October 31, 2017)	Year ended October 31, 2018 (As of October 31, 2018)
Discount rate	0.2%–0.6%	0.3%–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 103 million yen for the consolidated fiscal year ended October 31, 2017 and 189 million yen for the consolidated fiscal year ended October 31, 2018.

[Stock options]

1. Stock option expenses and items

(millions of yen)

	Year ended October 31, 2017 (November 1, 2016 to October 31, 2017)	Year ended October 31, 2018 (November 1, 2017 to October 31, 2018)
Selling, general and administrative expenses	175	178

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 Subsidiary employees: 261	Directors (excluding Directors serving as Audit & Supervisory Committee Members, non-Executive Directors, non-Permanent Directors, and External Directors): 10 Directors of subsidiaries: 34
Number of stock options by stock type (Note)	Common stock: 793,700	Common stock: 117,000
Grant date	May 23, 2016	February 28, 2017
Conditions for vesting	Note 2	Note 2
Requisite service period	Not specified.	Same as left
Exercisable period	May 1, 2019 – July 31, 2019	Same as left

(Notes)

1. The number of stock options is shown after conversion to the number of shares.
2. For more information about conditions to exercise rights, see “(1) Details of stock option program in 2) Information on share acquisition rights, etc. under IV. Information on the Company, 1. Information on the Company’s Shares.”

(2) Stock options scale and related changes

Changes in the scale of stock options that existed in the year ended October 31, 2018 are shown below. The number of stock options is converted to 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, 2017	793,700	117,000
Granted	—	—
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 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

	Year ended October 31, 2017 (As of October 31, 2017)	Year ended October 31, 2018 (As of October 31, 2018)
		(millions of yen)
[Deferred tax assets]		
Provision for bonuses	1,131	1,254
Accrued enterprise tax	141	107
Travel advances received	228	250
Unsettled gift certificates	316	401
Unpaid social insurance premiums	129	152
Provision for loss on liquidation of subsidiaries and associates	—	662
Loss carried forward	30	4
Other	360	406
Deferred tax assets subtotal	<u>2,339</u>	<u>3,240</u>
Valuation allowance	<u>(10)</u>	<u>(53)</u>
Deferred tax assets total	<u>2,328</u>	<u>3,187</u>
[Deferred tax liabilities]		
Deferred losses on hedges	(116)	(68)
Other	110	63
Deferred tax liabilities total	<u>(5)</u>	<u>(4)</u>
Deferred tax assets, net	<u>2,323</u>	<u>3,182</u>

(2) Fixed assets and liabilities

	(millions of yen)	
	Year ended October 31, 2017 (As of October 31, 2017)	Year ended October 31, 2018 (As of October 31, 2018)
[Deferred tax assets]		
Net defined benefit liability	1,752	1,557
Provision for directors' retirement benefits	235	67
Depreciation	3,406	2,992
Non-deductible asset retirement obligation expenses	98	126
Long-term accounts payable - other	—	107
Loss on valuation of land	1,028	1,028
Loss carried forward	807	121
Other	402	2,059
Deferred tax assets subtotal	7,729	8,060
Valuation allowance	(3,367)	(4,185)
Deferred tax assets total	4,362	3,874
[Deferred tax liabilities]		
Valuation difference on available-for-sale securities	122	93
Other	(122)	(93)
Deferred tax liabilities total	—	—
Deferred tax assets, net	4,362	3,874
[Deferred tax liabilities]		
Revaluation reserve for land	4,837	4,837
Other	(30)	139
Deferred tax liabilities subtotal	4,807	4,976
Valuation allowance	—	5
Deferred tax liabilities total	4,807	4,982
[Deferred tax assets]		
Retirement benefit liability	(349)	(361)
Provision for directors' retirement benefits	(13)	(17)
Loss carried forward	(70)	(104)
Other	4	6
Deferred tax assets subtotal	(429)	(476)
Valuation allowance	409	451
Deferred tax assets total	(20)	(25)
Deferred tax liabilities, net	4,786	4,957

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, 2017 (As of October 31, 2017)	Year ended October 31, 2018 (As of October 31, 2018)
Effective statutory tax rate	30.86%	30.86%
[Adjustments]		
Inhabitant tax on per capita basis	—	0.95
Amortization of goodwill	—	1.57
Loss on disposal of affiliate receivables	(6.36)	—
Non-deductible permanent differences such as entertainment expenses	0.79	1.03
Tax rate differences with overseas consolidated subsidiaries	2.62	(1.39)
Increase in valuation allowance	(3.71)	0.81
Other	(0.58)	0.30
Actual effective tax rate after adoption of tax effect accounting	23.62	34.13

[Business combinations]

Business combination through acquisition

1. Overview of business combination

(1) Name of acquired company and description of business

Name of acquired company: JONVIEW CANADA INC.

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

November 30, 2017

(4) Legal form of business combination

Acquisition of shares through cash payment

(5) Name of the company after the business combination

JONVIEW CANADA INC.

(6) Percentage of voting rights acquired

100.0%

(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 December 1, 2017 to July 31, 2018

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

<u>Acquisition price (cash)</u>	4,370 million yen
Acquisition cost	4,370 million yen

4. Main details and amount of acquisition-related expenses

Advisory expenses, etc. 72 million yen

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

(1) Amount of goodwill that arose

3,088 million yen

This amount is a provisional estimate as the allocation of the acquisition cost has yet to be completed because the company's assets and liabilities had not been marked to market at the end of the consolidated fiscal year ended October 31, 2018.

(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 six years.

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

	(millions of yen)
Current assets	2,488
Non-current assets	<u>514</u>
Total assets	<u>3,002</u>
Current liabilities	1,602
Non-current liabilities	<u>18</u>
Total liabilities	<u>1,620</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, 2018.

[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 four businesses, namely the Travel Business, the Huis Ten Bosch Group, the Hotel 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, 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 Japan, Taiwan, the U.S., and Indonesia, as well as in incidental businesses. 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.

In the third quarter of the consolidated fiscal year ended October 31, 2017, the Company sold a portion of its shares in ASIA ATLANTIC AIRLINES CO., LTD., as a result of which the company ceased to be a consolidated subsidiary and became an equity-method affiliate. Consequently, the Company discontinued the Transportation Business from the first quarter of the consolidated fiscal year ended October 31, 2018.

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

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 income (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
Amortization of goodwill	174	—	20	—	99	295	59	354	—	354
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)

1. “Other Businesses” refer to business segments such as the non-life insurance business and real estate business, etc., not included in the reportable segments.

2. The details of “Adjustments” are as follows:

- (1) Adjustment on segment income (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.
- (2) 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.
- (3) 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.
- (4) 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.

3. Segment income (losses) is adjusted with the 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 income (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 income (or losses) plus depreciation and goodwill amortization.

Consolidated fiscal year ended October 31, 2018 (November 1, 2017 to October 31, 2018)

(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	Kyushu Sanko Group	Subtotal				
Net sales									
Sales to outside customers	649,650	41,892	11,153	21,626	724,322	4,231	728,554	—	728,554
Inter-segment sales/transfers	1,653	1,797	886	15	4,353	64	4,417	(4,417)	—
Total	651,303	43,690	12,039	21,641	728,676	4,295	732,971	(4,417)	728,554
Segment income (losses)	12,146	7,273	808	398	20,626	(364)	20,262	(2,237)	18,024
Segment assets	253,196	54,613	40,345	65,762	413,917	23,328	437,245	78,546	515,792
Others									
Depreciation	3,162	2,090	1,227	959	7,439	162	7,602	395	7,997
Amortization of goodwill	638	5	81	38	764	287	1,051	—	1,051
Investment in equity method affiliates	224	—	—	—	224	—	224	—	224
Increase in Property, plant and equipment and intangible assets	2,595	5,125	10,748	16,700	35,171	11,419	46,591	543	47,134

(Notes)

- “Other Businesses” refer to business segments such as the non-life insurance business, real estate business, and the energy-related business, etc., not included in the reportable segments.
- The details of “Adjustments” are as follows:
 - Adjustment on segment income (losses) amounting to -2,237 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 78,546 million yen includes -1,457 million yen in elimination of intersegment transactions, and corporate-wide assets of 80,004 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 395 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 543 million yen is capital investment at the parent company, which is not attributable to the reportable segments.
- Segment income (losses) are adjusted with the operating income in the consolidated financial statements.
- EBITDA for each reportable segment is presented below.

(millions of yen)

	Travel Business	Huis Ten Bosch Group	Hotel Business	Kyushu Sanko Group	Other	Total
Segment income (losses)	12,146	7,273	808	398	(364)	20,262
Depreciation	3,800	2,096	1,309	997	450	8,653
EBITDA (Note)	15,946	9,369	2,117	1,395	85	28,916

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

[Related information]

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
529,245	28,218	30,368	4,499	13,692	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.

Consolidated fiscal year ended October 31, 2018 (November 1, 2017 to October 31, 2018)

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
605,052	52,138	51,139	4,229	15,994	728,554

(Changes in presentation)

Sales for GROUP MIKI HOLDINGS LIMITED, included in the scope of consolidation from the end of the third quarter of the consolidated fiscal year ended October 31, 2017, and its consolidated subsidiaries were presented in full under "Europe, Middle East, Africa" in the consolidated fiscal year ended October 31, 2017. However, because such sales have increased in significance in the consolidated fiscal year ended October 31, 2018, they have been reclassified under "Japan," "Asia," and "Europe, Middle East, Africa." To reflect this change in presentation, the amounts in "2. Information by region (1) Net sales" for the consolidated fiscal year ended October 31, 2017 have been restated.

(2) Property, plant and equipment (millions of yen)

Japan	U.S.	Asia	Oceania	Europe, Middle East, Africa	Total
102,817	6,061	6,343	578	302	116,102

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, 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.

Consolidated fiscal year ended October 31, 2018 (November 1, 2017 to October 31, 2018)

Information on impairment losses has been omitted as their value was not significant.

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

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			
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.

Consolidated fiscal year ended October 31, 2018 (November 1, 2017 to October 31, 2018)

(millions of yen)

	Reportable segment					Other Businesses (Note)	Eliminations & Corporate	Total
	Travel Business	Huis Ten Bosch Group	Hotel Business	Kyushu Sanko Group	Subtotal			
Amortization for the year ended October 31, 2018	638	5	81	38	764	287	—	1,051
Unamortized balance for the year ended October 31, 2018	5,623	71	1,389	—	7,085	1,640	—	8,725

(Notes)

1. "Other Businesses" indicate figures for the non-life insurance, real estate, and energy-related businesses, etc.
2. The Travel Business generated goodwill from the acquisition of shares in JONVIEW CANADA INC. The recorded amount of goodwill as a result of the acquisition was 3,088 million yen. This amount is a provisional estimate as the allocation of the acquisition cost has yet to be completed.

[Information regarding gains on negative goodwill by reportable segment]

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

There are no applicable matters to report.

Consolidated fiscal year ended October 31, 2018 (November 1, 2017 to October 31, 2018)

There are no applicable matters to report.

[Related parties]

1. Transactions with related parties

(1) Transactions between the Company and related parties

(a) Non-consolidated subsidiaries of the Company

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

There are no applicable matters to report.

Consolidated fiscal year ended October 31, 2018 (November 1, 2017 to October 31, 2018)

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)
Associate	ASIA ATLANTIC AIRLINES CO., LTD.	Bangkok, Thailand	672	Transportation business	Direct 1.0 Indirect 27.9	Purchasing of travel products, etc.	Debt waiver	2,088	—	—

(Note) Conditions of transaction and policy for determining such conditions

The debt waiver was approved by a resolution of the Board of Directors.

The Company recorded a 2,163 million yen allowance for loss on liquidation of subsidiaries and associates, and booked a provision of allowance for loss on liquidation of subsidiaries and associates in the fiscal year under review.

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

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

There are no applicable matters to report.

Consolidated fiscal year ended October 31, 2018 (November 1, 2017 to October 31, 2018)

Category	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)
Director	Hideo Sawada	—	—	Representative director of the Company	(Held) Direct 33.2	—	Sale of investment stake	11	—	—

(Note) Conditions of transaction and policy for determining such conditions

The selling price of the investment stake was determined through mutual consultation.

(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, 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 transaction	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 100.0% of the voting rights of Best1.com Co. Ltd.

Consolidated fiscal year ended October 31, 2018 (November 1, 2017 to October 31, 2018)

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)
Director	Hideo Sawada	—	—	Representative director of the Company	(Held) Direct 33.2	—	Loan of funds	1,054	Short-term loans receivable	1,054
							Receipt of interest	0	Current assets (other)	0
							Sale of non-current assets	46	—	—
Entities in which Directors of the Company or their relatives hold a majority of voting rights. (including subsidiaries of such entities)	Hide Inter Ltd.	Shibuya-ku, Tokyo	5	Real estate rental management	—	—	Acquisition of shares	13	—	—
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.	Shinjuku-ku, Tokyo	281	Travel business	—	Sales of cruise travel and other products	Sales of cruise travel and other products	94	Accounts receivable - trade	66

(Notes)

1. Conditions of transactions and policy for determining such conditions

- (1) The loan rate was determined through individual negotiations while taking into consideration market rates.
 - (2) The selling price for the current assets was determined using the same conditions as for general transactions, based on a contract concluded following mutual consultation.
 - (3) The share acquisition price was determined based on the share value calculated by a third-party appraiser.
 - (4) The sales of cruise travel and other products are governed by the same conditions as sales for unrelated parties.
2. The Company's representative director Hideo Sawada and his near relative own 100.0% of the voting rights of Hide Inter Ltd.
 3. The Company's representative director Hideo Sawada and his near relative own 58.2% of the voting rights of Best1.com Co. Ltd.

2. Notes concerning the parent company and significant associates

(1) Information regarding the parent company

There are no applicable matters to report.

(2) Summary of financial information for significant associates

There are no applicable matters to report.

[Per share information]

	Year ended October 31, 2017 (November 1, 2016 to October 31, 2017)	Year ended October 31, 2018 (November 1, 2017 to October 31, 2018)
Net assets per share	1,466.13 yen	1,538.56 yen
Earnings per share	219.52 yen	191.30 yen
Diluted earnings per share	204.60 yen	165.42 yen

(Notes)

- The Company has adopted a Trust-type Employee Shareholding Incentive Plan (E-Ship®), 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 (363,000 shares in the consolidated fiscal year ended October 31, 2017; 282,000 shares in the consolidated fiscal year ended October 31, 2018).
- The basis of calculation for earnings per share and diluted earnings per share is shown below.

	Year ended October 31, 2017 (November 1, 2016 to October 31, 2017)	Year ended October 31, 2018 (November 1, 2017 to October 31, 2018)
Earnings per share		
Profit attributable to owners of the parent (millions of yen)	13,259	10,971
Amount not attributable to common shareholders (millions of yen)	—	—
Profit attributable to owners of the parent with respect to common stock (millions of yen)	13,259	10,971
Average number of shares during the fiscal year (thousand shares)	60,401	57,352
Diluted earnings per share		
Adjustment on profit attributable to owners of the parent (millions of yen)	(27)	(39)
[of which, interest income after tax adjustments (millions of yen)]	[(27)]	[(39)]
Increase in common stock (thousand shares)	4,268	8,733
[of which, convertible bonds (thousand shares)]	[4,268]	[8,733]

(Note)

Earnings per share and diluted earnings per share are calculated based on the “Average number of shares during the fiscal year,” whereby Company shares held by the H.I.S. Employee Stock Ownership Association Dedicated Trust are included in “Treasury shares.” (405,000 shares in the consolidated fiscal year ended October 31, 2017; 321,000 shares in the consolidated fiscal year ended October 31, 2018).

[Significant subsequent events]

[Establishment of subsidiary]

Based on a resolution at its Board of Directors meeting held on November 22, 2018, H.I.S. Hotel Holdings Co., Ltd., a consolidated subsidiary of the Company, jointly established the following subsidiary with Sumitomo Forestry Co., Ltd.

1. Purpose of establishing subsidiary

The subsidiary in question is a holding company for accommodation facilities centered on the commercial complex AQUAIGNIS Taki under development in Taki-cho, Mie Prefecture. It will aim to take advantage of H.I.S. Hotel Holdings' expertise in operating accommodation facilities, utilize Sumitomo Forestry's expertise in creating spaces that feature abundant greenery, and generate strong synergies with the Travel Business of the H.I.S. Group.

2. Overview of established subsidiary

- (1) Name: Aquaignis Taki Hotel Assets Co., Ltd.
- (2) Location: 6-8-1 Nishishinjuku, Shinjuku-ku, Tokyo
- (3) Businesses: Ownership, management, and rental of accommodation facilities
- (4) Capital: 325 million yen (Note)
- (5) Date of establishment: December 25, 2018
- (6) Shareholding ratios: H.I.S. Hotel Holdings Co., Ltd. (50.0%)
Sumitomo Forestry Co., Ltd. (50.0%)

(Note) H.I.S. Hotel Holdings Co., Ltd. and Sumitomo Forestry Co., Ltd. plan to gradually increase investment in the subsidiary in accordance with their respective shareholding ratios, targeting total capital and capital reserves of 6,780 million yen.

[Purchase of companies through share acquisitions]

At the Board of Directors meeting held on January 8, 2019, the Company resolved the acquisition of assets and shares of Red Label Vacations Inc. by its subsidiary H.I.S.-Red Label Vacations Inc. (Note), and on the same day entered into an asset and share transfer agreement.

1. Purpose of acquisition

Further strengthen and expand Travel Business in North America.

2. Timing of acquisition

March 2019 (scheduled)

3. Name of counterparty to asset and share transfer agreement

Red Label Holdings Inc.

4. Name, business, and size of company to be acquired

- (1) Name: Red Label Vacations Inc.
- (2) Businesses: Travel business
- (3) Size: Sales of 1,319 million Canadian dollars (fiscal year ended October 31, 2018)

5. Acquisition cost and post-acquisition shareholding

- (1) Acquisition price: About 131 million Canadian dollars
- (2) Shareholding: 100.0% owned by the Company

(Note) Application to change trade name to H.I.S.-Red Label Vacations Inc. currently underway.

[Changes to reportable segments]

The Company plans to expand its energy business by constructing a biomass power plant in Kakuda-shi, Miyagi Prefecture, and will add an Energy Business in the consolidated fiscal year ending October 31, 2019.

Consequently, it will change its reportable segment classification from "Travel Business," "Huis Ten Bosch Group," "Hotel Business," and "Kyushu Sanko Group" in the consolidated fiscal year ended October 31, 2018, to "Travel Business," "Huis Ten Bosch Group," "Hotel Business," "Kyushu Sanko Group," and "Energy Business" in the consolidated fiscal year ending October 31, 2019. In addition, the Company is currently calculating the monetary amounts for net sales, profit/losses, assets, and other items in the consolidated fiscal year ended October 31, 2018 based on the new classification.

5) Consolidated Supplementary Financial Schedule

Schedule of corporate bonds

Company	Issue	Issue date	Balance at start of year (millions of yen)	Balance at end of year (millions of yen)	Interest rate (%)	Collateral	Maturity date
H.I.S. Co., Ltd.	Euro-yen denominated convertible bond-type bonds with share acquisition rights due 2019 (Note 2)	August 15, 2014	20,073	20,033 (20,033)	—	None	August 30, 2019
H.I.S. Co., Ltd.	Euro-yen denominated convertible bond-type bonds with share acquisition rights due 2024 (Note 2)	November 16, 2017	—	25,108	—	None	November 15, 2024
H.I.S. Co., Ltd.	First series unsecured bonds	October 23, 2014	10,000	10,000 (10,000)	0.363	None	October 23, 2019
H.I.S. Co., Ltd.	Second series unsecured bonds	October 23, 2014	10,000	10,000	0.645	None	October 22, 2021
H.I.S. Co., Ltd.	Third series unsecured bonds	February 20, 2017	15,000	15,000	0.440	None	February 20, 2024
H.I.S. Co., Ltd.	Fourth series unsecured bonds	February 20, 2017	15,000	5,000	0.580	None	February 19, 2027
Total	—	—	60,073	85,141	—	—	—

(Notes)

1. Amounts in parentheses in the “Balance at end of year” column reflect the current portion of the bonds.
2. An overview of bonds with share acquisition rights are shown below.

Shares to be issued	Common stock	Common stock
Issue price of share acquisition rights (yen)	No charges	No charge
Issue price of new shares (yen)	4,670.4	5,616
Total issue amount (millions of yen)	20,000	25,000
Total issue amount for shares issued upon the exercise of share acquisition rights (millions of yen)	—	—
Percentage of share acquisition rights granted	100%	100%
Share acquisition rights exercise period	From August 29, 2014 to August 16, 2019	From November 30, 2017 to November 1, 2024

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

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

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

Schedule of borrowings, etc.

Classification	Balance at start of year (millions of yen)	Balance at end of year (millions of yen)	Average interest rate (%)	Repayment term
Short-term loans payable	7,474	17,992	0.31	—
Current portion of long-term loans	1,847	11,008	0.25	—
Current portion of lease obligations	864	935	—	—
Long-term loans payable (excluding current portion)	101,603	113,309	0.34	2019 – 2024
Lease obligations (excluding current portion)	2,211	2,406	—	2019 – 2028
Other interest-bearing debt	—	—	—	—
Total	114,000	145,652	—	—

(Notes)

1. The average interest rate represents the weighted-average rate applicable to the balance at the end of the year. Furthermore, 828 million yen in long-term loans is attributable to the Trust-type Employee Shareholding Incentive Plan (E-Ship®). 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 recorded on the consolidated balance sheet reflect amounts prior to the deduction of the interest expense equivalent included in total leasing fees.
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 (millions of yen)	2 to 3 years (millions of yen)	3 to 4 years (millions of yen)	4 to 5 years (millions of yen)
Long-term loans payable*	36,709	994	3,130	30,122
Lease obligations	642	561	431	475

* 828 million yen in long-term loans is attributable to the Trust-type Employee Shareholding Incentive Plan (E-Ship®). 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, 2018 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, 2018

[Cumulative period]	First quarter	Second quarter	Third quarter	Full year
Net sales (millions of yen)	164,509	341,247	510,438	728,554
Profit before income taxes (millions of yen)	3,957	8,713	11,203	20,695
Profit attributable to owners of the parent (millions of yen)	1,302	3,555	4,440	10,971
Earnings per share (yen)	22.64	61.92	77.39	191.30

[Quarterly period]	First quarter	Second quarter	Third quarter	Fourth quarter
Earnings per share (yen)	22.64	39.35	15.45	114.01

(Note) 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,” whereby Company shares held by the H.I.S. Employee Stock Ownership Association Dedicated Trust are included in “Treasury shares.”

2. Non-consolidated Financial Statements, etc.

(1) Non-consolidated Financial Statements

1) Non-consolidated Balance Sheet

(millions of yen)

	Year ended October 31, 2017 (As of October 31, 2017)	Year ended October 31, 2018 (As of October 31, 2018)
Assets		
Current assets		
Cash and deposits	119,518	137,177
Accounts receivable - trade	18,161	21,817
Operating accounts receivable	5,237	4,416
Securities	—	50
Travel advance payments	23,606	28,698
Prepaid expenses	1,125	1,037
Deferred tax assets	1,384	2,411
Accrued income	147	98
Short-term loans receivable	*2 2,306	0
Short-term loans receivable from subsidiaries and associates	7,672	23,329
Accounts receivable - other	2,156	4,728
Other	3,721	4,315
Allowance for doubtful accounts	(0)	(145)
Total current assets	185,036	227,937
Non-current assets		
Property, plant and equipment		
Buildings	3,418	4,694
Vehicles	129	46
Tools, furniture and fixtures	469	485
Land	1,083	6,345
Other	56	608
Total property, plant and equipment	5,158	12,179
Intangible assets		
Trademark right	17	18
Telephone subscription right	82	82
Software	3,140	2,504
Other	43	114
Total intangible assets	3,283	2,720
Investments and other assets		
Investment securities	8,650	12,155
Shares of subsidiaries and associates	51,324	49,574
Investments in capital of subsidiaries and associates	638	638
Long-term loans receivable	*2 1,130	*2 1,132
Long-term loans receivable from subsidiaries and associates	4,632	8,926
Long-term prepaid expenses	44	50
Deferred tax assets	1,478	1,300
Guarantee deposits	4,702	4,952
Claims provable in bankruptcy, claims provable in rehabilitation and other	179	179
Other	262	2,014
Allowance for doubtful accounts	(1,785)	(1,791)
Total investments and other assets	71,258	79,134
Total non-current assets	79,700	94,034
Deferred assets		
Bond issuance cost	149	135
Total deferred assets	149	135
Total assets	264,887	322,107

(millions of yen)

	Year ended October 31, 2017 (As of October 31, 2017)	Year ended October 31, 2018 (As of October 31, 2018)
Liabilities		
Current liabilities		
Operating accounts payable	16,748	19,415
Current portion of bonds	—	10,000
Current portion of convertible bond-type bonds with share acquisition rights	—	20,033
Current portion of long-term loans payable	—	10,000
Current portion of long-term loans payable to subsidiaries and associates	2,261	—
Accounts payable - other	1,037	1,693
Accrued expenses	1,736	1,834
Income taxes payable	660	578
Travel advance received	51,456	60,128
Insurance deposits	382	470
Gift certificates	2,842	4,840
Provision for bonuses	2,384	2,874
Provision for directors' bonuses	80	100
Provision for loss on liquidation of subsidiaries and associates	—	2,163
Other	2,088	2,857
Total current liabilities	81,679	136,991
Non-current liabilities		
Bonds payable	40,000	30,000
Convertible bond-type bonds with share acquisition rights	20,073	25,108
Long-term loans payable	94,136	106,128
Provision for retirement benefits	3,980	3,265
Provision for directors' retirement benefits	590	—
Long-term guarantee deposited	126	204
Other	707	1,309
Total non-current liabilities	159,614	166,016
Total liabilities	241,294	303,007
Net assets		
Shareholders' equity		
Capital stock	11,000	11,000
Capital surplus		
Legal capital surplus	3,661	3,661
Other capital surplus	4	13
Total capital surplus	3,665	3,674
Retained earnings		
Legal retained earnings	246	246
Other retained earnings		
General reserve	27,565	27,565
Retained earnings brought forward	4,228	4,466
Total retained earnings	32,039	32,278
Treasury shares	(23,875)	(28,611)
Total shareholders' equity	22,828	18,340
Valuation and translation adjustments		
Valuation difference on available-for-sale securities	257	173
Deferred gains or losses on hedges	254	154
Total valuation and translation adjustments	512	328
Share acquisition rights	252	431
Total net assets	23,593	19,099
Total liabilities and net assets	264,887	322,107

2) Non-consolidated Statement of Income

(millions of yen)

	Year ended October 31, 2017 (November 1, 2016 to October 31, 2017)	Year ended October 31, 2018 (November 1, 2017 to October 31, 2018)
Net sales		
Overseas travel sales	370,480	398,127
Domestic travel sales	53,152	56,093
Other	5,101	5,406
Total net sales	*2 428,734	*2 459,627
Cost of sales		
Cost of overseas travel sales	325,769	353,170
Cost of domestic travel sales	47,363	49,548
Other	352	312
Total cost of sales	*2 373,486	*2 403,030
Gross profit	55,248	56,596
Selling, general and administrative expenses	*1 52,665	*1 52,499
Operating profit	2,582	4,096
Non-operating income		
Interest income	666	603
Dividend income	862	3,029
Foreign exchange gains	1,304	—
Other	264	213
Total non-operating income	*2 3,098	*2 3,846
Non-operating expenses		
Interest expenses	577	638
Loss on valuation of shares of subsidiaries and associates	187	—
Foreign exchange losses	—	603
Other	273	144
Total non-operating expenses	*2 1,038	*2 1,386
Ordinary profit	4,642	6,557
Extraordinary income		
Gain on revision of retirement benefit plan	—	282
Capital reduction reimbursement gains	—	479
Total extraordinary income	—	761
Extraordinary losses		
Loss on valuation of investment securities	—	330
Loss on valuation of shares of subsidiaries and associates	—	239
Provision of allowance for doubtful accounts	316	145
Provision for loss on liquidation of subsidiaries and associates	—	2,163
Loss on disposal of affiliate receivables	4,275	2,088
Total extraordinary losses	4,592	4,966
Profit before income taxes	50	2,351
Income taxes - current	370	1,080
Income taxes - deferred	(211)	(766)
Total income taxes	158	313
Profit (loss)	(108)	2,038

3) Non-consolidated Statement of Changes in Equity

Year ended October 31, 2017 (November 1, 2016 to October 31, 2017)

(millions of yen)

	Shareholders' equity							
	Capital stock	Capital surplus			Retained earnings			
		Legal capital surplus	Other capital surplus	Total capital surplus	Legal retained earnings	Other retained earnings		Total retained earnings
					General reserve	Retained earnings brought forward		
Balance at beginning of current period	11,000	3,661	4	3,665	246	27,565	12,149	39,960
Changes of items during the year								
Dividends of surplus				—			(1,361)	(1,361)
Profit (Loss)				—			(108)	(108)
Decrease by corporate division - split-off type				—			(6,450)	(6,450)
Purchase of treasury shares				—				—
Disposal of treasury shares			0	0				—
Net changes of items other than shareholders' equity				—				—
Total changes of items during period	—	—	0	0	—	—	(7,921)	(7,921)
Balance at end of current period	11,000	3,661	4	3,665	246	27,565	4,228	32,039

	Shareholders' equity		Valuation and translation adjustments			Share acquisition 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 beginning of current period	(14,162)	40,462	(165)	(551)	(716)	77	39,822
Changes of items during the year							
Dividends of surplus		(1,361)			—		(1,361)
Profit (Loss)		(108)			—		(108)
Decrease by corporate division - split-off type		(6,450)			—		(6,450)
Purchase 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 period	(9,712)	(17,634)	422	806	1,228	175	(16,229)
Balance at end of current period	(23,875)	22,828	257	254	512	252	23,593

Year ended October 31, 2018 (November 1, 2017 to October 31, 2018)

(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 beginning of current period	11,000	3,661	4	3,665	246	27,565	4,228	32,039
Changes of items during the year								
Dividends of surplus				—			(1,707)	(1,707)
Profit (Loss)				—			2,038	2,038
Decrease by corporate division - split-off type				—			(91)	(91)
Purchase of treasury shares				—				—
Disposal of treasury shares			9	9				—
Net changes of items other than shareholders' equity				—				—
Total changes of items during period	—	—	9	9	—	—	238	238
Balance at end of current period	11,000	3,661	13	3,674	246	27,565	4,466	32,278

	Shareholders' equity		Valuation and translation adjustments			Share acquisition 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 beginning of current period	(23,875)	22,828	257	254	512	252	23,593
Changes of items during the year							
Dividends of surplus		(1,707)			—		(1,707)
Profit (Loss)		2,038			—		2,038
Decrease by corporate division - split-off type		(91)			—		(91)
Purchase of treasury shares	(5,000)	(5,000)			—		(5,000)
Disposal of treasury shares	264	273			—		273
Net changes of items other than shareholders' equity		—	(83)	(100)	(184)	178	(5)
Total changes of items during period	(4,736)	(4,488)	(83)	(100)	(184)	178	(4,493)
Balance at end of current period	(28,611)	18,340	173	154	328	431	19,099

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 associates and investments in capital of subsidiaries and associates

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 fiscal 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
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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 claims or liabilities into Japanese yen

Claims and liabilities denominated in foreign currency are translated into yen at the spot exchange rate prevailing on the fiscal 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 loss on liquidation of subsidiaries and associates

To prepare for losses from the liquidation of subsidiaries and associates, a provision is recorded based on estimated future losses.

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.

[Changes in presentation]

[Balance sheet]

“Allowance for doubtful accounts,” which was included in “Other” under “Current assets” in the consolidated fiscal year ended October 31, 2017, is now reported as an independent item due to its increased monetary importance. The amount booked for “Allowance for doubtful accounts” in the consolidated fiscal year ended October 31, 2017 was -0 million yen.

[Additional information]

[Abolishment of the directors' retirement benefits system]

The Company has thus far recorded necessary amounts to provide for directors' retirement benefits in accordance with internal rules. However, the directors' retirement benefits system was abolished after a proposal to abolish the system and discontinue related payments was approved at the 37th General Meeting of Shareholders held on January 25, 2018. Consequently, the company reversed the provision for directors' retirement benefits, and included the unpaid 352 million yen in “Other” under “Non-current liabilities.”

[Transfer of retirement benefit plans]

The Company has transferred a part of its retirement lump-sum plans to defined contribution pension plans on April 1, 2018, and applied “Accounting for Transfer between Retirement Benefit Plans” (ASBJ Guidance No. 1 issued on December 16, 2016) and “Practical Solution on Accounting for Transfer between Retirement Benefit Plans” (PITF No. 2 issued on February 7, 2007). It has recorded a partial termination of its retirement benefit plans for the portion transferred to defined contribution plans.

Consequently, the Company has recorded a 282 million yen gain on revision of retirement benefit plan as extraordinary income in the fiscal year ended October 31, 2018.

[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, 2017 (As of October 31, 2017)		Year ended October 31, 2018 (As of October 31, 2018)	
ASIA ATLANTIC AIRLINES CO., LTD.	270,000 USD (30 million yen)	ASIA ATLANTIC AIRLINES CO., LTD.	270,000 USD (30 million yen)
SYS Inc.	900 million yen	SYS Inc.	900 million yen
Green World Hotels Co., Ltd.	470 million TWD (1,757 million yen)	Green World Hotels Co., Ltd.	430 million TWD (1,596 million yen)
		H.I.S. Hotel Holdings Co., Ltd.	235 million yen

(2) The Company guarantees business transaction payments for the following companies up to the amounts shown below.

Year ended October 31, 2016 (As of October 31, 2016)		Year ended October 31, 2017 (As of October 31, 2017)	
• Guarantee with specified amount		• Guarantee with specified amount	
QUALITA Co., Ltd.	35 million yen	QUALITA Co., Ltd.	35 million yen
Japan Holiday Travel CO., LTD	40 million yen	Japan Holiday Travel CO., LTD	40 million yen
HIS ULUSLARARASI TURIZM SEYAHAT ACENTASI LIMITED SIRKETI	2 million USD (226 million yen)	HIS ULUSLARARASI TURIZM SEYAHAT ACENTASI LIMITED SIRKETI	2 million USD (226 million yen)
ASIA ATLANTIC AIRLINES CO., LTD.	7 million USD (791 million yen)	ASIA ATLANTIC AIRLINES CO., LTD.	7 million USD (792 million yen)
		H.I.S. OKINAWA Co., Ltd..	22 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 Co. Ltd.	Payment guarantee for notes and accounts payable - trade	LY-HIS 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 notes and accounts payable - trade
H.I.S. OKINAWA Co., Ltd..	Payment guarantee for office rent, etc.	H.I.S. OKINAWA Co., Ltd..	Payment guarantee for office rent, etc.
		H.I.S. Hotel Holdings Co., Ltd.	Payment guarantee for business-use leasehold interest

*2. Other

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).

Year ended October 31, 2018 (As of October 31, 2018)

1,132 million (10 million US dollar) yen of the 1,132 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 87.5% selling expenses and 12.5% general and administrative expenses in the year ended October 31, 2017, and 87.8% and 12.1%, respectively, in the year ended October 31, 2018. The major cost items and amounts are shown below.

	(millions of yen)	
	Year ended October 31, 2017 (November 1, 2016 to October 31, 2017)	Year ended October 31, 2018 (November 1, 2017 to October 31, 2018)
Advertising expenses	6,375	6,286
Salaries and bonuses	21,257	22,299
Provision for bonuses	2,250	2,647
Provision for directors' bonuses	80	100
Retirement benefit expenses	875	433
Provision for directors' retirement benefits	40	6
Provision of allowance for doubtful accounts	5	5
Depreciation and amortization	2,218	2,001

*2. Amount of transactions with associates

	(millions of yen)	
	Year ended October 31, 2017 (November 1, 2016 to October 31, 2017)	Year ended October 31, 2018 (November 1, 2017 to October 31, 2018)
Amount of operating transactions		
Net sales	14,386	16,335
Purchase of goods	96,464	103,712
Transaction amount for non-operating transactions		
Non-operating income	896	3,049
Non-operating expenses	207	102

[Marketable securities]

Year ended October 31, 2017 (As of October 31, 2017)

Shares of subsidiaries and associates (amount recorded on balance sheet: shares of subsidiaries 51,191 million yen, shares of associates 133 million yen) have no market prices and are deemed extremely difficult to determine their fair value. Accordingly, they are not presented here.

Year ended October 31, 2018 (As of October 31, 2018)

Shares of subsidiaries and associates (amount recorded on balance sheet: shares of subsidiaries 49,444 million yen, shares of associates 130 million yen) have no market prices and are 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, 2017 (As of October 31, 2017)	Year ended October 31, 2018 (As of October 31, 2018)
[Deferred tax assets]		
Provision for bonuses	760	910
Provision for loss on liquidation of subsidiaries and associates	—	662
Travel advances received	228	250
Unpaid social insurance premiums	100	124
Excess allowance for doubtful accounts	53	99
Accrued business office taxes	22	21
Other	218	387
Deferred tax assets subtotal	1,384	2,455
Valuation allowance	—	(44)
Deferred tax assets total	1,384	2,411

(2) Non-current assets and liabilities

	(millions of yen)	
	Year ended October 31, 2017 (As of October 31, 2017)	Year ended October 31, 2018 (As of October 31, 2018)
[Deferred tax assets]		
Provision for retirement benefits	1,219	999
Excess allowance for doubtful accounts	493	493
Provision for directors' retirement benefits	180	—
Long-term accounts payable - other	—	107
Non-deductible asset retirement obligations	98	123
Other	186	261
Deferred tax assets subtotal	2,177	1,986
Valuation allowance	(576)	(592)
Deferred tax assets total	1,601	1,394
[Deferred tax liabilities]		
Valuation difference on available-for-sale securities	(122)	(93)
Deferred tax liabilities total	(122)	(93)
Deferred tax assets, net	1,478	1,300

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, 2017 (As of October 31, 2017)	Year ended October 31, 2018 (As of October 31, 2018)
Effective statutory tax rate	30.86%	30.86%
[Adjustments]		
Non-deductible permanent differences such as entertainment expenses	345.57	15.18
Non-taxable permanent differences such as dividends income	(490.77)	(37.66)
Difference with year-earlier tax return		(0.73)
Inhabitant tax on per capita basis	336.59	7.04
Income taxes receivable	(300.05)	—
Increase in valuation allowance	327.21	2.57
Tax credits	36.42	(2.62)
Other	31.16	(1.30)
Actual effective tax rate after adoption of tax effect accounting	316.99	13.34

[Business combinations]

These notes have been omitted as they are identical to those in the “Business combinations” section in the consolidated financial statements.

[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	3,418	1,735	14	445	4,694	1,946
	Vehicles	129	—	48	34	46	212
	Tools, furniture and fixtures	469	223	9	198	485	2,272
	Land	1,083	5,261	—	—	6,345	—
	Other	56	587	12	22	608	36
	Total	5,158	7,807	84	700	12,179	4,468
Intangible fixed assets	Trademarks	17	6	—	4	18	—
	Telephone subscription rights	82	—	—	—	82	—
	Software	3,140	673	2	1,306	2,504	—
	Other	43	91	18	2	114	—
	Total	3,283	770	20	1,313	2,720	—

(Notes)

1. The 1,735 million yen increase for buildings in the fiscal year under review mainly reflects a 1,465 million yen increase for property purchases.
2. The 5,261 million yen increase for land in the fiscal year under review reflects property purchases.

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)	1,785	1,936	—	1,785	1,936
Provision for bonuses	2,384	2,874	2,384	—	2,874
Provision for directors' bonuses	80	100	80	—	100
Provision for directors' retirement benefits	590	6	244	352	—
Provision for loss on liquidation of subsidiaries and associates	—	2,163	—	—	2,163

(Notes)

1. The 1,785 million yen decrease in allowance for doubtful accounts under “Decrease during the year (other)” is attributable to reversals.
2. The 325 million yen decrease in the provision for directors' retirement benefits under “Decrease during the year (other)” reflects transfers to “Other” under non-current liabilities accompanying the abolishment of the directors' retirement benefit system.

(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 October 31
Number of shares constituting one unit	100 shares
Purchase and sales of shares less than one unit	
Handling office	(Special account) Stock Transfer Agent Department, Sumitomo Mitsui Trust Bank, Limited 4-1, Marunouchi 1-chome, Chiyoda-ku, Tokyo
Transfer agent	(Special account) Sumitomo Mitsui Trust Bank, Limited 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 issued in Tokyo. URL for public notice: https://www.his.co.jp
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. Shareholders owning 100 or more but fewer than 500 shares Two shareholder benefit coupons (corresponding to 2,000 yen) Shareholders owning 500 or more but fewer than 1,000 shares Four shareholder benefit coupons (corresponding to 4,000 yen) Shareholders owning 1,000 or more shares Six shareholder benefit coupons (corresponding to 6,000 yen) Shareholders owning 100 or more shares 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 37th fiscal year (from November 1, 2016 to October 31, 2017)

Submitted to Director, Kanto Local Finance Bureau on January 26, 2018

(2) Internal Control Report and documents attached thereto

Submitted to Director, Kanto Local Finance Bureau on January 26, 2018

(3) Quarterly Securities Report and Confirmation Letter thereof

For the first quarter of the 38th fiscal year (from November 1, 2017 to January 31, 2018)

Submitted to Director, Kanto Local Finance Bureau on March 2, 2018

For the second quarter of the 38th fiscal year (from February 1, 2018 to April 30, 2018)

Submitted to Director, Kanto Local Finance Bureau on June 4, 2018

For the third quarter of the 38th fiscal year (from May 1, 2018 to July 31, 2018)

Submitted to Director, Kanto Local Finance Bureau on September 3, 2018

(4) Extraordinary Report

Submitted to Director, Kanto Local Finance Bureau on April 27, 2018

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 August 30, 2018

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 September 21, 2018

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 October 26, 2018

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 October 26, 2018

According to the provision of Article 19, Paragraph 2, Item 12 and Item 19 (booking of extraordinary loss) of the Cabinet Office Ordinance on Disclosure of Corporate Affairs, etc.

Submitted to Director, Kanto Local Finance Bureau on November 22, 2018

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 January 9, 2019

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.

Part II Information on Guarantors, etc. for the Company

Not applicable.

note: This document has been translated from the Japanese original for reference purposes only.
In the event of any discrepancy between this translated document and the Japanese original, the original shall prevail.