

Annual Securities Report

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

(The 36th Fiscal Year)

From November 1, 2015 to October 31, 2016

H.I.S. Co., Ltd.

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

(E04358)

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[Fiscal Year]	The 36th Fiscal Year (from November 1, 2015 to October 31, 2016)
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[Company Name in English]	H.I.S. Co., Ltd.
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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		32nd	33rd	34th	35th	36th
Year end		October 2012	October 2013	October 2014	October 2015	October 2016
Net sales	(millions of yen)	431,483	479,478	523,246	537,456	523,705
Ordinary income	(millions of yen)	13,479	15,203	19,016	22,685	8,648
Profit attributable to owners of parent	(millions of yen)	9,331	8,903	9,050	10,890	267
Comprehensive income	(millions of yen)	7,367	15,024	13,040	14,583	(5,928)
Net assets	(millions of yen)	76,763	90,680	102,295	113,990	95,139
Total assets	(millions of yen)	173,497	215,913	281,332	308,245	332,385
Net assets per share	(yen)	1,044.17	1,219.42	1,366.04	1,534.77	1,295.35
Earnings per share	(yen)	143.88	137.30	139.56	167.94	4.25
Diluted earnings per share	(yen)	—	—	137.61	157.22	3.58
Shareholders' equity ratio	(%)	39.0	36.6	31.5	32.3	23.9
Return on equity	(%)	14.3	12.1	10.8	11.6	0.3
Price-earnings ratio	(times)	8.4	19.3	20.5	24.4	674.8
Cash flows from operating activities	(millions of yen)	9,577	15,360	23,701	12,597	5,149
Cash flows from investing activities	(millions of yen)	(18,250)	(10,975)	(12,703)	(28,177)	(15,440)
Cash flows from financing activities	(millions of yen)	(295)	16,817	37,033	16,253	30,181
Cash and cash equivalents at end of fiscal year	(millions of yen)	35,821	61,426	110,145	113,330	129,842
Number of employees [Average number of part-time employees not included in the above]	(persons)	8,310 [2,470]	9,026 [2,750]	9,652 [3,071]	10,143 [3,469]	10,845 [3,535]

(Notes)

1. Consumption taxes, etc. are not included in net sales.
2. The Company has applied the Revised Accounting Standard for Business Combinations (ASBJ Statement No. 21, September 13, 2013), and from the fiscal year under review, "Profit" is presented as "Profit attributable to owners of parent."
3. On May 1, 2014, the Company conducted a 2-for-1 stock split of common stock. Net assets per share, earnings per share and diluted earnings per share are calculated assuming the stock split occurred at the beginning of the 32nd fiscal year.
4. The Company introduced the E-Ship® trust-type employee stock ownership incentive plan. In the consolidated financial statements, it records the shares held by the H.I.S. Employee Stock Ownership Association Dedicated Trust (the "Trust") as treasury shares. Accordingly, in calculating the amount of net assets per share in the 36th fiscal year, "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 fiscal year, "average number of shares of common stock during the period" is calculated by including shares held by the Trust in the treasury shares.
5. Diluted earnings per share is not stated for the 32nd and 33rd fiscal years since there were no dilutive shares.

6. The calculation of shareholders' equity ratios for the 33rd, 34th, 35th and 36th fiscal years includes both interest-bearing debt (corporate bonds, convertible bond-type bonds with share subscription rights, loans) and corresponding cash and deposits. When these amounts are deducted, the shareholders' equity ratios would be 41.9% in the 33rd fiscal year, 41.1% in the 34th fiscal year, 44.2% in the 35th fiscal year and 38.7% in the 36th fiscal year.

(2) Non-consolidated financial data

Fiscal year		32nd	33rd	34th	35th	36th
Year end		October 2012	October 2013	October 2014	October 2015	October 2016
Net sales	(millions of yen)	367,865	383,816	407,835	402,112	395,278
Ordinary income (loss)	(millions of yen)	6,788	4,262	5,845	5,730	(636)
Profit (loss)	(millions of yen)	3,699	2,485	3,404	2,461	(2,358)
Capital stock	(millions of yen)	6,882	6,882	6,882	11,000	11,000
Shares issued and outstanding	(shares)	34,261,468	34,261,468	68,522,936	68,522,936	68,522,936
Net assets	(millions of yen)	52,058	52,914	55,377	55,465	39,822
Total assets	(millions of yen)	114,047	142,744	194,308	209,435	234,489
Net assets per share	(yen)	802.71	815.94	853.94	855.30	646.86
Total dividends per share (interim dividend amount)	(yen)	34.00 (—)	34.00 (—)	18.00 (—)	22.00 (—)	22.00 (—)
Earnings (loss) per share	(yen)	57.05	38.33	52.50	37.96	(37.51)
Diluted earnings per share	(yen)	—	—	51.73	35.25	—
Shareholders' equity ratio	(%)	45.6	37.1	28.5	26.5	16.9
Return on equity	(%)	7.1	4.7	6.3	4.4	—
Price-earnings ratio	(times)	21.2	69.0	54.6	107.7	—
Dividend payout ratio	(%)	29.8	44.4	34.3	58.0	—
Number of employees [Average number of part-time employees not included in the above]	(persons)	4,259 [883]	4,428 [993]	4,617 [1,055]	4,910 [1,060]	5,353 [1,041]

(Notes)

- Consumption taxes, etc. are not included in net sales.
- On May 1, 2014, the Company conducted a 2-for-1 stock split of common stock. Net assets per share, earnings per share and diluted earnings per share are calculated assuming the stock split occurred at the beginning of the 32nd fiscal year.
- The Company introduced the E-Ship® trust-type employee stock ownership incentive plan. In the consolidated financial statements, it records the shares held by the H.I.S. Employee Stock Ownership Association Dedicated Trust (the "Trust") as treasury shares. Accordingly, in calculating the amount of net assets per share in the 36th fiscal year "the number of common stock held as treasury shares at fiscal year-end" is calculated by including the shares held by the Trust. In calculating net loss per share for the 36th fiscal year, "average number of shares of common stock during the period" is calculated by including the shares held by the Trust in the treasury shares.
- Diluted earnings per share is not stated for the 32nd and 33rd fiscal years since there were no dilutive shares. In the 36th fiscal year, although there were dilutive shares, the item is not stated due to recording of a net loss per share.
- In the 36th fiscal year, return on equity, price-earnings ratio and dividend payout ratio are not stated due to recording of a net loss.
- The calculation of shareholders' equity ratios for the 33rd, 34th, 35th and 36th fiscal years includes both interest-bearing debts (corporate bonds, convertible bond-type bonds with share subscription rights, loans) and corresponding cash and deposits. When these amounts are deducted, the shareholders' equity ratios would be 43.1% in the 33rd business term, 41.3% in the 34th fiscal year, 41.4% in the 35th fiscal year and 33.8% in the 36th 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 Head Office) in Chuo-ku, Fukuoka
May 1985	Opened Nagoya Branch (currently Nagoya 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 HQ 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
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 Nagoya 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
October 1995	Moved and expanded the Osaka Branch to establish Travel Wonderland Kansai (currently, Umeda Head Office) as a large retail branch
March 1996	Shares registered with Japan Securities Dealers Association for over-the-counter sales
May 1996	Established H.I.S. INTERNATIONAL TOURS (BC) INC. (currently H.I.S. CANADA INC.)
September 1996	Established THE WATERMARK HOTEL GROUP PTY LTD
December 1996	Established PT. HARUM INDAH SARI TOURS & TRAVEL
January 1997	Established H.I.S. INTERNATIONAL TOURS KOREA INC.
March 1997	Established H.I.S. ITALIA S.R.L. (currently H.I.S. EUROPE ITALY S.R.L.)
November 1997	Opened THE WATERMARK HOTEL, GOLD COAST (currently HOTEL WATERMARK GOLD COAST)
March 1998	Established H.I.S. Tours Co., Ltd.
July 1998	Moved Yokohama Branch to Nishi-ku, Yokohama and established Travel Wonderland Yokohama (currently Yokohama Head Office) as a large retail branch
October 1998	Established H.I.S. GUAM, INC.
April 1999	Established HIS SAIPAN INC
April 2000	Opened large retail branch Travel Wonderland Shibuya (currently Shibuya Head Office) in Shibuya-ku, Tokyo

Month/Year	Events
June 1998	Opened large retail branch Travel Wonderland Omiya (currently Omiya Head Office) in Omiya-ku, Saitama
October 1999	Opened large retail branch Travel Wonderland Sapporo (currently Sapporo Head Office) in Chuo-ku, Sapporo
December 1999	Acquired equity stake in H.I.S. TAIWAN COMPANY LIMITED
March 2000	Made H.I.S. Kyoritsu Securities Co., Ltd. (currently Sawada Holdings Co., Ltd.) a subsidiary
April 2000	Moved headquarters function and Kanto Area Sales Division to the Shibuya Mark City West Building, 1-12-1 Dogenzaka, Shibuya-ku, Tokyo
May 2000	Acquired Towa Travel Service (currently ORION TOUR) 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 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 TRAVEL Co., Ltd., a joint venture with LY.com
December 2015	Established INTERPARK TOUR JAPAN Co., Ltd., a joint venture with INTERPARK
March 2016	Opened second wing at Henn-na Hotel in Huis Ten Bosch
April 2016	Began electric power sales

3. Description of Business

The H.I.S. Group (H.I.S. Co., Ltd., and affiliated companies; the “H.I.S. Group” or the “Group”) comprises H.I.S. Co., Ltd. (the “Company”), 107 subsidiaries and 14 affiliated companies. The main businesses operated by the H.I.S. Group and the positioning of the Company and affiliated companies in these businesses are as follows.

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

(1) Travel Business

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

[Affiliated Companies]

HAWAII HIS CORPORATION	H.I.S. Deutschland Touristik GmbH
H.I.S. INTERNATIONAL TOURS (NY) INC.	H.I.S. EUROPE ITALY S.R.L.
H.I.S. GUAM, INC.	HIS ULUSLARARASI TURIZM SEYAHAT ACENTASI
H.I.S. CANADA INC.	LIMITED SIRKETI
HIS SAIPAN INC	GROUP MIKI HOLDINGS LIMITED (Miki Group)
H.I.S. KOREA CO., LTD.	ORION TOUR CO., LTD.
H.I.S. Tours Co., Ltd.	QUALITA Co., Ltd.
PT. HARUM INDAH SARI TOURS & TRAVEL	Ohshu Express Ltd.
HIS (HONG KONG) COMPANY LIMITED	TOUR WAVE CO., LTD
H.I.S. TAIWAN COMPANY LIMITED	Japan Holiday Travel CO., LTD
H.I.S. INTERNATIONAL TRAVEL PTE LTD	Cruise Planet Co., Ltd.
H.I.S. AUSTRALIA PTY. LTD.	H.I.S.ANA Navigation JAPAN Co., Ltd.
H.I.S. EUROPE LIMITED	
H.I.S. INTERNATIONAL TOURS FRANCE SARL	And 50 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, and develops new power generation, including renewable energy, as well as operating other ancillary businesses.

[Affiliated Companies]

Huis Ten Bosch Co., Ltd.	TEN BOSCH CRUISE PANAMA S.A.
Huis Ten Bosch Technical Center Co., Ltd.	LAGUNA TEN BOSCH CO., LTD.
HTB Tourism Co., Ltd.	HTB ENERGY CO., LTD.
HTB CRUISE Co., Ltd.	and 7 other companies

(3) Hotel Business

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

[Affiliated Companies]

H.I.S. AUSTRALIA HOLDINGS PTY LTD	WATERMARK HOTEL JAPAN CO., LTD
H.I.S. INVESTMENTS PTY LTD	The Watermark Hotel Nagasaki Co., Ltd.
THE WATERMARK HOTEL GROUP PTY LTD	GUAM REEF HOTEL, INC.
WHG INVESTMENTS BRISBANE PTY LTD	PT. HARUM INDAH SARI INDONESIA
L'MARK PTY LTD	and 1 other company

(4) Transportation Business

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

[Affiliated Companies]

ASIA ATLANTIC AIRLINES CO., LTD.

(5) The Kyushu Sanko Group

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

[Affiliated Companies]

KYUSHU INDUSTRIAL TRANSPORTATION
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.

Kyushu Sanko Retail Co., Ltd.

Kumamoto Sakuramachi Development Co., Ltd.

and 2 other companies

(6) Other businesses

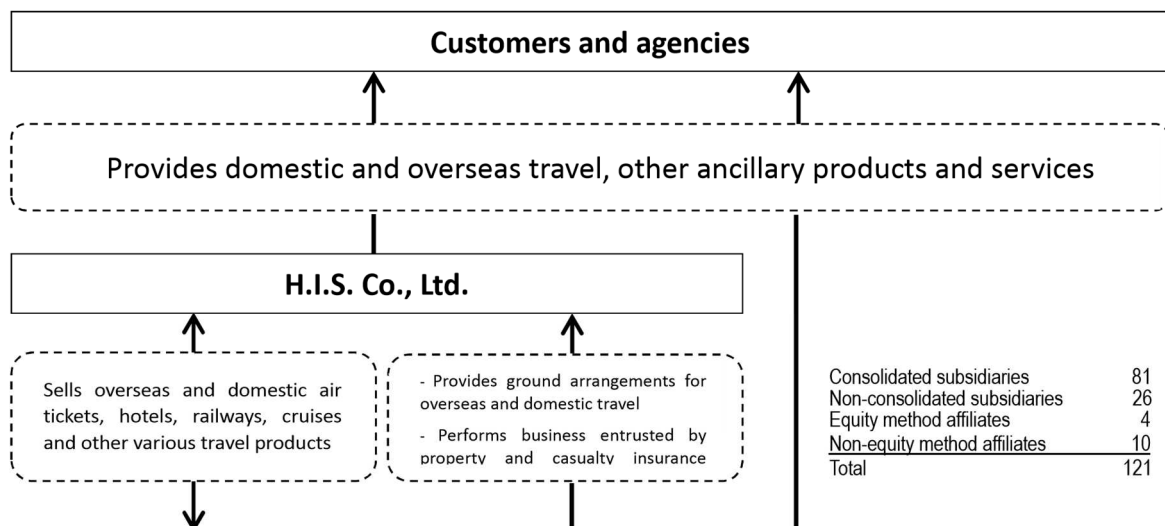
H.S. Insurance Co., Ltd. handles property and casualty insurance, mainly for overseas travel.

[Affiliated Companies]

H.S. Insurance Co., Ltd.

and 9 other companies

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



Consolidated subsidiaries	81
Non-consolidated subsidiaries	26
Equity method affiliates	4
<u>Non-equity method affiliates</u>	<u>10</u>
Total	121

Subsidiaries & Affiliated Companies

Travel Business

HAWAII HIS CORPORATION	H.I.S. INTERNATIONAL TOURS FRANCE SARL
H.I.S. INTERNATIONAL TOURS (NY) INC.	H.I.S. Deutschland Touristik GmbH
H.I.S. GUAM, INC.	H.I.S. EUROPE ITALY S.R.L.
H.I.S. CANADA INC.	HIS ULUSLARARASI TURIZM SEYAHAT ACENTASI LIMITED SIRKETI
HIS SAIPAN INC	GROUP MIKI HOLDINGS LIMITED (Miki Group)
H.I.S. KOREA CO., LTD.	ORION TOUR CO., LTD.
H.I.S. Tours Co., Ltd.	QUALITA Co., Ltd.
PT. HARUM INDAH SARI TOURS & TRAVEL	Ohshu Express Ltd
HIS (HONG KONG) COMPANY LIMITED	TOUR WAVE CO., LTD
H.I.S. TAIWAN COMPANY LIMITED	Japan Holiday Travel CO., LTD
H.I.S. INTERNATIONAL TRAVEL PTE LTD	Cruise Planet Co., Ltd.
H.I.S. AUSTRALIA PTY. LTD.	H.I.S.ANA Navigation JAPAN Co.,Ltd.
H.I.S. EUROPE LIMITED	and 50 other companies

Huis Ten Bosch Group

Huis Ten Bosch Co., Ltd.	TEN BOSCH CRUISE PANAMA S.A.
Huis Ten Bosch Technical Center Co., Ltd.	LAGUNA TEN BOSCH CO., LTD.
HTB Tourism Co., Ltd.	HTB ENERGY CO., LTD.
HTB CRUISE Co., Ltd.	and 7 other companies

Hotel Business

H.I.S. AUSTRALIA HOLDINGS PTY LTD	WATERMARK HOTEL JAPAN CO., LTD
H.I.S. INVESTMENTS PTY LTD	The Watermark Hotel Nagasaki Co., Ltd.
THE WATERMARK HOTEL GROUP PTY LTD	GUAM REEF HOTEL, INC.
WHG INVESTMENTS BRISBANE PTY LTD	PT. HARUM INDAH SARI INDONESIA
L'MARK PTY LTD	and 1 other company

Transportation Business

ASIA ATLANTIC AIRLINES CO., LTD.

The Kyushu Sanko Group

KYUSHU INDUSTRIAL TRANSPORTATION HOLDINGS CO., LTD.	Sanko Bus Co., Ltd.
Kyushu Sanko Bus Co., Ltd.	Kyushu Sanko Seibi Co.,Ltd.
Kyushu Sanko Tourism Co.,Ltd.	Kyushu Sanko Retail Co.,Ltd.
Kyushu Sanko LandMark Co.,Ltd.	Kumamoto Sakuramachi Development Co.,Ltd.
Kumamoto Ferry Co.,Ltd.	and 2 other companies

Other businesses

H.S. Insurance Co., Ltd. and 9 other companies

4. Information on Subsidiaries and Affiliates

(1) Consolidated Subsidiaries

Company name	Location	Capital	Main business	Ownership of voting rights (%)	Relationship
H.I.S. U.S.A. HOLDING, INC. (Note 3)	Delaware, U.S.A.	847 thousand USD	Travel Business	100.0	1) Concurrent Director One concurrent director at said company
HAWAII HIS CORPORATION (Note 2) (Note 3)	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. CANADA INC.	Yukon Territory, Canada	100 thousand CAD	Travel Business	100.0	1) Business Transaction Purchasing and sales of travel products between the companies
HIS 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 of travel products from said company
H.I.S. (China) Holding Co., Limited (Note 3)	Hong Kong Special Administrative Region, People's Republic of China	87,257 thousand HKD	Travel Business	100.0	1) Concurrent Director One concurrent director at said company 2) Business Transaction Sales of travel products to said company
H.I.S. KOREA CO., LTD.	Seoul, Republic of Korea	425,000 thousand KRW	Travel Business	58.8	1) Business Transaction Purchasing and sales of travel products between the companies
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) Business Transaction Purchasing and sales of travel products between the companies
HIS (HONG KONG) COMPANY LIMITED (Note 2)	Hong Kong Special Administrative Region, People's Republic of China	1,500 thousand HKD	Travel Business	100.0 (100.0)	1) Concurrent Director 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 SGD	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

Company name	Location	Capital	Main business	Ownership of voting rights (%)	Relationship
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
H.I.S. INTERNATIONAL TOURS FRANCE SARL (Note 2)	Paris, France	2,030 thousand EUR	Travel Business	100.0 (100.0)	1) 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) Concurrent Director Two concurrent directors at said company 2) 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 209 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 3) Capital Assistance The Company loans 30 million yen in working capital
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 30 million yen) for notes and accounts payable – trade
Ohshu Express Ltd.	Shibuya-ku, Tokyo	132 million yen	Travel Business	100.0	1) Concurrent Director Three 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
TOUR WAVE CO., LTD (Note 2)	Aoba-ku, Sendai, Miyagi Prefecture	80 million yen	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
Japan Holiday Travel CO., LTD.	Naniwa-ku, Osaka, Osaka Prefecture	30 million yen	Travel Business	66.7	1) Concurrent Director Two concurrent directors 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 20 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
H.I.S.ANA Navigation JAPAN Co., Ltd.	Shinjuku-ku, Tokyo	90 million yen	Travel Business	51.0	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 Three concurrent directors at said company 2) Business Transaction Purchasing and sales of travel products between the companies
Huis Ten Bosch Technical Center Co., Ltd. (Note 2)	Sasebo, Nagasaki Prefecture	98 million yen	Huis Ten Bosch Group	100.0 (100.0)	1) Business Transaction Sales of travel products to said company
HTB Tourism Co., Ltd. (Note 2)	Sasebo, Nagasaki Prefecture	55 million yen	Huis Ten Bosch Group	100.0 (100.0)	1) Business Transaction 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	58.9 (58.9)	1) Concurrent Director Two concurrent directors at said company 2) Capital Assistance The Company loans 410 million yen in working capital
LAGUNA TEN BOSCH CO., LTD. (Note 2) (Note 3)	Gamagori, Aichi Prefecture	1,588 million yen	Huis Ten Bosch Group	66.0 (60.1)	1) Concurrent Director Three concurrent directors at said company 2) Business Transaction Purchasing of travel products from said company

Company name	Location	Capital	Main business	Ownership of voting rights (%)	Relationship
HTB CRUISE Co., Ltd. (Note 2)	Sasebo, Nagasaki Prefecture	400 million yen	Huis Ten Bosch Group	100.0 (50.0)	1) Business Transaction Sales of travel products to said company 2) Capital Assistance The Company loans 1,695 million yen in working capital
TEN BOSCH CRUISE PANAMA S.A. (Note 2)	Panama City, Panama	10 thousand USD	Huis Ten Bosch Group	100.0 (100.0)	1) Concurrent Director One concurrent director at said company
H.I.S. AUSTRALIA HOLDINGS PTY LTD (Note 3)	Queensland, Australia	93,350 thousand AUD	Hotel Business	100.0	1) Concurrent Director One concurrent director at said company
H.I.S. INVESTMENTS PTY LTD (Note 2) (Note 3)	Queensland, Australia	80,750 thousand AUD	Hotel Business	100.0 (100.0)	1) Concurrent Director One concurrent director at said company
THE WATERMARK HOTEL GROUP PTY LTD (Note 2)	Queensland, Australia	2 AUD	Hotel Business	100.0 (100.0)	1) Concurrent Director One concurrent director at said company
WHG INVESTMENTS BRISBANE PTY LTD (Note 2)	Queensland, Australia	12,600 thousand AUD	Hotel Business	100.0 (100.0)	1) Concurrent Director One concurrent director at said company
L'MARK PTY LTD (Note 2)	Queensland, Australia	2 AUD	Hotel Business	100.0 (100.0)	————
WATERMARK HOTEL JAPAN CO., LTD	Shinjuku-ku, Tokyo	90 million yen	Hotel Business	100.0	1) Concurrent Director Two concurrent directors at said company 2) Business Transaction Purchasing of hotel products from said company 3) Capital Assistance The Company loans 285 million yen in working capital
The Watermark Hotel Nagasaki Co., Ltd.	Shinjuku-ku, Tokyo	250 million yen	Hotel Business	100.0	1) Concurrent Director Two concurrent directors at said company 2) Business Transaction Purchasing of hotel products from said company
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)	1) Business Transaction Sales of travel products to said company
ASIA ATLANTIC AIRLINES CO., LTD. (Note 2) (Note 3)	Bangkok, Kingdom of Thailand	540 million THB	Transportation Business	87.0 (86.0)	1) Business Transaction Purchasing of travel products from said company 2) Capital Assistance The Company loans 890 million yen in working capital The Company guarantees liabilities (up to 30 million yen) against bank guarantees

Company name	Location	Capital	Main business	Ownership of voting rights (%)	Relationship
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) Concurrent Director One concurrent director at said company 2) Business Transaction Sales of travel products to said company 3) Capital Assistance The Company loans 2,180 million yen in capital expenditure funding
Kyushu Sanko Bus Co., Ltd. (Note 2)	Nishi-ku, Kumamoto, Kumamoto Prefecture	90 million yen	Kyushu Sanko Group	100.0 (100.0)	1) Business Transaction Purchasing of travel products from said company
Kyushu Sanko Tourism Co., Ltd. (Note 2)	Chuo-ku, Kumamoto, Kumamoto Prefecture	30 million yen	Kyushu Sanko Group	100.0 (100.0)	1) Business Transaction Purchasing and sales of travel products between companies
Kyushu Sanko LandMark Co., Ltd. (Note 2)	Chuo-ku, Kumamoto, Kumamoto Prefecture	90 million yen	Kyushu Sanko Group	100.0 (100.0)	————
Kumamoto Ferry Co., Ltd. (Note 2)	Nishi-ku, Kumamoto, Kumamoto Prefecture	200 million yen	Kyushu Sanko Group	60.0 (60.0)	1) Business Transaction Purchasing of travel products from said company
Sanko Bus Co., Ltd. (Note 2)	Nishi-ku, Kumamoto, Kumamoto Prefecture	50 million yen	Kyushu Sanko Group	100.0 (100.0)	————
Kyushu Sanko Seibi Co., Ltd. (Note 2)	Nishi-ku, Kumamoto, Kumamoto Prefecture	30 million yen	Kyushu Sanko Group	100.0 (100.0)	————
Kyushu Sanko Retail Co., Ltd. (Note 2)	Chuo-ku, Kumamoto, Kumamoto Prefecture	30 million yen	Kyushu Sanko Group	100.0 (100.0)	————
Kumamoto Sakuramachi Development Co., Ltd. (Note 2)	Chuo-ku, Kumamoto, Kumamoto Prefecture	150 million yen	Kyushu Sanko Group	100.0 (100.0)	1) Concurrent Director One concurrent director at said company
And 29 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 Two concurrent directors at said company 2) Business Transaction Purchasing and sales of travel products between the companies
GROUP MIKI HOLDINGS LIMITED (Miki Group)	London, England	116 thousand EUR	Travel Business	46.7	1) Business Transaction Purchasing and sales of hotel products between the companies
H.S. Insurance Co., Ltd.	Shinjuku-ku, Tokyo	1,612 million yen	Other Businesses	21.9	1) Concurrent Director One concurrent director at said company 2) Business Transaction The Company is a sales representative for travel insurance, etc.
And 1 other company					

(Note)

The "Main business" column indicates segment names stated in Segment information, etc.

5. Employees
 (1) Consolidated Companies

As of October 31, 2016

Name of business segment	Number of employees
Travel Business	8,250 [1,336]
Huis Ten Bosch Group	628 [1,372]
Hotel Business	213 [419]
Transportation Business	216 [—]
The Kyushu Sanko Group	1,464 [398]
Reportable segments total	10,771 [3,525]
Other	— [—]
Corporate-wide (shared)	74 [10]
Total	10,845 [3,535]

(Notes)

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

(2) The Filing Company

As of October 31, 2016

Number of employees	Average age	Average length of service	Average annual pay (yen)
5,353 [1,041]	33.5 years old	7.3 years	4,327,559

Name of business segment	Number of employees
Travel Business	5,279 [1,031]
Reportable segments total	5,279 [1,031]
Other	— [—]
Corporate-wide (shared)	74 [10]
Total	5,353 [1,041]

(Notes)

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

(3) Labor Unions

There are no matters to report.

II. Business Overview

1. Summary of Results

(1) Business Results

The Japanese economy maintained a moderate recovery during the fiscal year ended October 31, 2016 amid turbulent global economic environment characterized by geopolitical risks, uncertainties in Europe stemming from factors such as UK's EU separation, and abrupt foreign currency fluctuations, and in Japan, despite some weakness following the Kumamoto earthquake and aftershocks in April. In the Japan travel market, while the impact of terrorist attacks in Europe continued to weigh down outbound travel from Japan, changes in the market including appreciation of Japanese yen and zero fuel surcharge caused the number of Japanese outbound travelers to increase year on year. Domestic travel in Japan was weak, affected by the Kumamoto earthquake, successive typhoons, and bad weather. Meanwhile, inbound travel to Japan continued to show strength with the aggregate number of inbound tourists visiting Japan achieving a record high of over 20 million for the first time in the cumulative period from January to October 2016.

In this business environment, the H.I.S. Group continued to make customer safety and security its top priority, worked to offer products and services that fully leveraged its domestic and overseas networks, and took steps to further improve product quality. It also continued to take on challenges in creating new values, and sought to achieve swift business expansion eyeing the future.

Business performance by segment was as follows. Changes in the reportable segment classification have taken effect from the current consolidated financial year. For year-on-year comparisons, previous year figures have been reclassified into the classification after the segment change. For details, see the "Segment information, etc. section of Notes to Consolidated Financial Statements in (1) Consolidated Financial Statements, 1. Consolidated Financial Statements under Part I: Information on the Company, V. Financial Information." Figures in each segment reflect the amounts before offsetting and eliminating inter-segment transactions.

[Travel Business]

Regarding product development, in order to revive travel demand for Europe, which had greatly decreased since the terrorist attacks, H.I.S. partnered with the French National Tourism Organization and national carrier Air France in the promotional campaign "Atout France." The Company also strengthened services in the senior market with *Tabi Tsushin*, a monthly travel information magazine that helped realize an increase in bookings through the print medium.

In terms of domestic outlets, H.I.S. opened Kyushu-themed specialty branches in Tokyo, Nagoya, Osaka and Fukuoka to help promote recovery after the Kyushu earthquake through customer tours and sales of merchandise, and also further enhanced specialized products and services with the launch of specialty branches dedicated to Bali and Okinawa. Additionally, the Company proactively introduced state-of-the-art technologies at sales offices, such as simulated travel using Virtual Reality (VR) in an effort to stimulate demand for tourism.

In corporate and group travel, an increase in demand for incentive and corporate travel in Japan and abroad, and a rise in large orders for inbound group travel led to steady growth.

In domestic travel, the Company continued to place priority on Okinawa. This summer it opened the "H.I.S. OKINAWA Beach Park" inside Toyosaki Chura Sun Beach in Tomigusuku City, enhancing its competitive advantage with Okinawa's first 50-meter long water slide. Further, the Company made Activity Japan Co., Ltd., one of Japan's largest operators of activity booking websites, a group company, thereby expanding its experience-based packages, which have become increasingly popular in Japan.

Regarding inbound travel, there was an increase in demand for Foreign Independent Traveler (FIT) packages, in line with changes in consumer behavior. Thus, H.I.S. strengthened sales of package parts and daytrips, updated its website to support individual travelers, and set up "Tourist Information Centers" dedicated to inbound travelers across 35 domestic locations, further strengthening its support system for international tourists visiting Japan. Additionally, leveraging its ongoing work with ministries and regional and local governments, the Company established an information counter at the Sendai airport with the Tohoku Reconstruction Agency, and jointly promoted inbound travel with the Kanagawa prefectural government.

In overseas travel, H.I.S. accelerated efforts to improve brand recognition in local markets by actively exhibiting at local travel fairs in the Southeast Asian region and opening multiple branches across countries. The Company took advantage of its regional networks of retail locations in its sales activities, and provided travel and tour arrangements for international conferences hosted by public institutions. H.I.S. also expanded its network this year, becoming the first Japanese travel agency to set up tour desks in Addis Ababa, Ethiopia, and Samarkand, Uzbekistan. As of October 31, 2016, the H.I.S. Group's global network comprised 295 locations in Japan, and 230 overseas locations in 141 cities across 66 countries.

Consequently, the Travel Business recorded net sales of 465,772 million yen, a decrease of 2.2% from a year earlier, as a result

of decreased revenue from reduced fuel surcharges and a decline in European travel demand following terror attacks across multiple countries. Operating income came in at 9,038 million yen, a decrease of 27.9% from a year earlier, owing to the slowdown in travel to Europe and reduced domestic travel following the Kumamoto earthquake.

[Huis Ten Bosch Group]

At Huis Ten Bosch (Sasebo, Nagasaki Prefecture), H.I.S. made an effort to improve experience value through a variety of events introduced at the five themed areas of “Kingdom of Flowers,” “Kingdom of Light,” “Kingdom of Music and Shows,” “Kingdom of Games” and “Kingdom of Health and Beauty.” In March 2016, the second phase of the Henn-na Hotel also commenced operations. As a result, performance in the first half of the fiscal year (October 1, 2015 to March 31, 2016) remained nearly the same year on year despite a reactionary drop in large group visitors after an exceptionally high demand the fiscal year before and the impact of heaviest snowfall on record in January 2016.

In July 2016, the sixth themed area “Kingdom of Robots” was launched, with numerous visitors consisting mostly of families (the main visitors during summer vacation season) enjoying the first complex facility in Japan offering exhibits and experiences of various robots, from the familiar to the cutting-edge. In addition, the Company enhanced the popular summer season “Kingdom of Water” with the addition of an “Ocean Waterpark” and a “Night Pool” for evening swims, both of which have become new reasons for guests to visit the park.

Furthermore, H.I.S. held a first-ever special event during the summer vacation season outside Osaka Castle. The “Osaka Castle Waterpark” (Osaka, Osaka Prefecture) drew 150,000 visitors and ended in a great success.

However, these proactive sales measures were not enough to offset the impact of harmful rumors surrounding the Kumamoto earthquake (which occurred in mid-April 2016), and total number of visitors to Huis Ten Bosch finished at 2,894,000, down 6.9% compared to the previous fiscal year.

The Henn-na Hotel is attracting a lot of attention and interest from around the world. In November 2016, it was recognized by the Guinness Book of World Records as “the first robot-staffed hotel” in the world. As the hotel continues to develop, H.I.S. plans to open new locations between spring and summer of 2017 in Maihama (Urayasu, Chiba Prefecture) near the Tokyo Disney Resort® and at Laguna Ten Bosch (Gamagori, Aichi Prefecture). Plans for overseas expansion are also underway.

At Laguna Ten Bosch, H.I.S. worked to increase visitors by reaching out to a new customer base. The Art Theater was launched with the Huis Ten Bosch Revue Entertainment in residence and performing daily. It also launched “Flower Lagoon,” an entertainment garden, where customers can enjoy a variety of flowers throughout the year.

Further, HTB ENERGY CO., LTD., which entered the commercial energy market in April 2016, became a consolidated subsidiary starting from the fiscal year ended October 31, 2016. Parent company Huis Ten Bosch Co., Ltd., and the Group overall is promoting sales and supporting sales structure enhancements.

As a result of the above, the Huis Ten Bosch Group recorded net sales of 31,863 million yen, a decrease of 2.2%, with operating income of 7,485 million yen, a decrease of 18.3%, as compared to the previous year.

[Hotel Business]

At Watermark Hotel Sapporo, there was an increase in group bookings, including international tourists visiting Japan. Meanwhile, at Guam Reef & Olive Spa Resort (Guam), measures to increase guest volume from South Korea and Taiwan proved favorable and contributed to a rise in average unit price per guest room. Other hotels also worked to improve profitability, and as a result, the Hotel Business reported record-highs in both net sales and operating income, which came in at 6,609 million yen (a 2.8% increase year on year) and 556 million yen (a 61.1% increase year on year), respectively.

[Transportation Business]

ASIA ATLANTIC AIRLINES CO. LTD., an international air charter carrier, began operating regular flights four times a week from Bangkok and Phuket, Thailand, to Shenyang, China. It also operated charter flights between Bangkok and Chitose in Hokkaido to meet the demand for inbound travel from Thailand to Japan. As a result of these sales measures that matched demand, the Transportation Business recorded net sales of 3,325 million yen, an increase of 21.0% year on year, and was able to contain operating loss at 834 million yen (versus an operating loss of 1,101 million yen a year earlier).

[The Kyushu Sanko Group]

The Kyushu Sanko Group continued to provide customer-oriented services. However, effected by the suspension of fixed route and highway bus services and partial changes to bus routes and schedules in the aftermath of the Kumamoto earthquake, the transportation center and hotel businesses that ran in tandem with the full-scale launch of Sakuramachi Redevelopment Project

(construction of a multi-functional complex comprising a hotel, condominium, commercial facilities and parking lots in the central urban area of Kumamoto City, Kumamoto Prefecture), were put to a halt. As a result, The Kyushu Sanko Group business recorded net sales of 20,248 million yen, a decrease of 13.6%, and operating income of 89 million yen, a decrease of 91.4%, as compared with the previous year.

Based on the business progress and results of the individual segments as stated above, the Company's consolidated results for the fiscal year ended October 31, 2016 finished at 523,705 million yen in net sales (down 2.6% year on year), and 14,274 million yen in operating income (down 28.5%). Ordinary income was 8,648 million yen (down 61.9%) owing to sharp foreign currency fluctuations, and profit attributable to owners of parent fell by 97.5% year on year to 267 million yen.

(2) Cash Flows

The amount of cash and cash equivalents (hereinafter, “funds”) at the end of the fiscal year ended October 31, 2016 was 129,842 million yen, an increase of 16,511 million yen compared to the end of the previous fiscal year. Cash flows from operating activities increased 5,149 million yen, cash flows from investing activities decreased 15,440 million yen, and cash flows from financing activities increased 30,181 million yen.

[Cash flows from operating activities]

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

In the previous fiscal year, funds saw an increase of 12,597 million yen. This was mainly due to an increase in funds from the booking of profit before income taxes (22,200 million yen), and a decrease in travel advance payments (1,423 million yen), as well as a decrease in funds due to income taxes paid (11,983 million yen).

As a result, in the fiscal year under review, cash flows from operating activities decreased 7,447 million yen compared to the previous fiscal year.

[Cash flows from investing activities]

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

In the previous fiscal year, funds saw a decrease of 28,177 million yen. This was mainly because payments into time deposits (53,732 million yen), purchase of property, plant and equipment and intangible assets (15,345 million yen), payments of loans receivable (7,429 million yen), and purchases of shares of subsidiaries and affiliates (5,660 million yen) exceeded the proceeds from withdrawal of time deposits (54,621 million yen).

As a result, in the fiscal year under review, net cash provided by investing activities increased 12,736 million yen compared to the previous fiscal year.

[Cash flows from financing activities]

In regard to net cash provided by financing activities, funds saw an increase of 30,181 million yen in the fiscal year under review. This was mainly because the increase in proceeds from long-term loans payable (63,465 million yen) exceeded the decrease in funds from repayments of long-term loans payable (21,673 million yen) and purchase of treasury shares (11,791 million yen).

In the previous fiscal year, funds saw an increase of 16,253 million yen. This was mainly due to an increase in proceeds from long-term loans payable (13,065 million yen).

As result, in the fiscal year under review, net cash provided by financing activities increased 13, 928 million yen compared to the previous fiscal year.

2. Production, Orders Received and Sales

(1) Purchasing

Purchasing by segment during the fiscal year ended October 31, 2016 are as follows.

Segment name	Year ended October 31, 2016 [November 1, 2015 to October 31, 2016] (millions of yen)	Versus previous fiscal year (%)
Travel Business	387,266	97.8
Huis Ten Bosch Group	6,357	104.3
Hotel Business	2,850	98.8
Transportation Business	3,823	109.9
The Kyushu Sanko Group	18,363	88.6
Reportable segment total	418,661	97.5
Other	—	—
Total	418,661	97.5

(Notes)

- Intersegment transactions have been eliminated.
- 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.
- Figures do not include consumption taxes.
- In the fiscal year under review, the Company reviewed its business management classifications and in order to disclose more appropriate management information based on the actual corporate activities of the Group, it changed the traditional reportable segment category of Theme Park Business to Huis Ten Bosch Group. Accordingly, the HTB CRUISE Co., Ltd., and TEN BOSCH CRUISE PANAMA S.A. formerly under the Transportation Business was moved to Huis Ten Bosch Group and HTB ENERGY CO., LTD., included in the scope of consolidation in the fiscal year under review, was added to the Huis Ten Bosch Group.

For year-on-year comparisons, previous year figures have been reclassified into the classification after the segment change.

(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 fiscal year ended October 31, 2016 are as follows.

Segment name	Year ended October 31, 2016 [November 1, 2015 to October 31, 2016] (millions of yen)	Versus previous fiscal year (%)
Travel Business	465,536	97.8
Huis Ten Bosch Group	30,283	97.7
Hotel Business	5,563	102.2
Transportation Business	2,045	118.6
Kyushu Sanko Group	20,230	86.4
Reportable segment total	523,660	97.4
Others	45	100.3
Total	523,705	97.4

(Notes)

- Intersegment transactions have been eliminated.
- The H.I.S. Group calculates total handling volume (selling price) as net sales.
- Figures do not include consumption taxes.
- In the fiscal year under review, the Company reviewed its business management classifications and in order to disclose more appropriate management information based on the actual corporate activities of the H.I.S. Group, it changed the traditional

reportable segment category of Theme Park Business to Huis Ten Bosch Group. Accordingly, the HTB CRUISE Co., Ltd., and TEN BOSCH CRUISE PANAMA S.A. formerly under the Transportation Business was moved to Huis Ten Bosch Group and HTB ENERGY CO., LTD., included in the scope of consolidation in the fiscal year under review, was added to the Huis Ten Bosch Group.

For year-on-year comparisons, previous year figures have been reclassified into the classification after the segment change.

3. Issues to be Addressed

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

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

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

- Improving efficiency and streamlining operations

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

- Human resource development

With the impending accelerated expansion of the global online business and competition with new domains due to the rise of various new services, the Group expects further changes and expansion in its business fields. It believes the future development and retention of human resources to be indispensable for promoting advances into new business fields and realizing sustainable corporate development going forward.

4. Business and Other Risks

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

All matters relating to the future in the sections below are based on the current views of the H.I.S. Group as of the date of filing this Securities Report in Japanese (January 27, 2017) and business risks are not limited to those discussed below.

1) Business development regionality

The travel business accounts for 88.9% of Group net sales. 91.0% 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 fuel surcharges

Net sales of the Company account for 73.6% of Group net sales, and overseas travel comprises 85.8% of the Company's total net sales. The Company is currently adding a fuel surcharge to overseas travel fares to reflect the change in crude oil prices. A sharp increase in this fuel surcharge could dampen overall demand and adversely affect the Group's financial position and operating results.

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

A breakdown of the volume of outbound travelers from Japan handled by the Company indicates that Asia is the most popular regional destination with a share of 59.4% of total volume (or 36.4% of net sales). Therefore, changes in the region's external environment (such as terrorist attacks, outbreaks of contagious diseases, or natural disasters) could affect the Group's financial position and operating results. Likewise, if it becomes difficult to secure seats on flights due to a rapid increase in the number of inbound tourists from Asia to Japan, this could have a similar impact.

4) Competition

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

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

The Group also sells airline tickets at published fares provided directly to consumers by airline companies. Airline companies

are taking steps to reduce or eliminate the commissions paid to travel agencies on these airline tickets, and such trend could affect the Group's financial position and operating results.

6) Fluctuations in the valuation of owned assets including securities

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

7) Exchange rate fluctuations

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

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

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

9) Flight operations

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

10) Food safety

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

11) 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.

12) 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.

13) 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.

14) Changes in external environment

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

15) Compliance

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

5. Material Business Agreements, etc.

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

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

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

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

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

6. Research and Development Activities

There are no applicable matters to be reported.

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

Analysis of financial conditions, operating results and cash flows during the fiscal year ended October 31, 2016 are as follows. All matters relating to the future in the sections below are based on the current views of the Group as of the end of the fiscal year under review.

(1) Significant accounting policies and estimates

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

(2) Analysis of financial position

1) Current assets

The balance of current assets at the end of the fiscal year under review was 233,531 million yen, an increase of 20,552 million yen from the end of previous fiscal year.

This was mainly due to proceeds from long-term loans payable exceeding the outflow from purchase of treasury shares, causing cash and deposits to increase by 22,695 million yen from the end of previous fiscal year.

2) Non-current assets

The balance of non-current assets at the end of the fiscal year under review was 98,670 million yen, an increase of 3,645 million yen from the end of previous fiscal year.

This was mainly due to an increase in total property, plant, and equipment (up 1,529 million yen from the end of previous fiscal year) and intangible assets (up 553 million).

3) Current liabilities

The balance of current liabilities at the end of the fiscal year under review was 102,805 million yen, a decrease of 20,188 million yen from the end of previous fiscal year.

This was mainly due to a decrease in the current portion of long-term loans payable (down 20,931 million yen from the end of previous fiscal year).

4) Non-current liabilities

The balance of non-current liabilities at the end of the fiscal year under review was 134,440 million yen, an increase of 63,178 million yen from the end of previous fiscal year.

This was mainly due to an increase in long-term loans payable (up 62,723 million yen from the end of previous fiscal year).

5) Net assets

The balance of net assets at the end of the fiscal year under review was 95,139 million yen, a decrease of 18,850 million yen from the end of previous fiscal year.

This was mainly due to a decrease in foreign currency translation adjustments (down 6,623 million yen from the end of previous fiscal year) and 11,763 million yen used to purchase treasury shares.

(3) Analysis of operating results

1) Net sales

In the consolidated fiscal year under review, net sales were 523,705 million yen, a decrease of 13,750 million yen (down 2.6% YoY) compared to the previous fiscal year. By reportable segment, travel business net sales were 465,772 million yen (down 2.2%), Huis Ten Bosch Group net sales were 31,863 million yen (down 2.2%), hotel business net sales were 6,609 million yen (up 2.8%), transportation business net sales were 3,325 million yen (up 21.0%) and The Kyushu Sanko Group net sales were 20,248 million yen (down 13.6%).

Changes in the reportable segment classification have taken effect from the current consolidated fiscal year. For year-on-year comparisons, previous year figures have been reclassified into the classification after the segment change. For details, see “Segment information, etc. section of Notes to Consolidated Financial Statements in (1) Consolidated Financial Statements, 1. Consolidated Financial Statements under Part I: Information on the Company, V. Financial Information.” Figures in each segment reflect the amounts before offsetting and eliminating inter-segment transactions.

2) Operating expenses

Operating expenses in the consolidated fiscal year under review were 509,430 million yen, a decrease of 8,055 million yen (down 1.6% YoY) from the previous fiscal year.

Within operating expenses, cost of sales was 418,661 million yen, a decrease of 10,540 million yen (down 2.5% YoY) from the previous fiscal year.

Selling, general and administrative expenses was 90,769 million yen, an increase of 2,485 million yen (up 2.8% YoY) from the previous fiscal year. The ratio of selling, general and administrative expenses to sales rose 0.9 points compared to the previous fiscal year, to 17.3%.

3) Operating income

Operating income in the consolidated fiscal year under review was 14,274 million yen, a decrease of 5,695 million yen (down 28.5% YoY) from the previous fiscal year. The ratio of operating income to sales decreased 1.0 point compared to the previous fiscal year, to 2.7%.

4) Ordinary income

Ordinary income in the consolidated fiscal year under review was 8,648 million yen, a decrease of 14,036 million yen (down 61.9% YoY) from the previous fiscal year. The ratio of ordinary income to sales decreased 2.6 points compared to the previous year, to 1.7%.

Main non-operating income included interest income (1,693 million yen) and non-operating expenses included foreign exchange losses (6,798 million yen) and share of loss of entities accounted for using equity method (751 million yen).

5) Profit attributable to owners of parent

Profit before income taxes in the consolidated fiscal year under review was 5,107 million yen, a decrease of 17,093 million yen (down 77.0% YoY) from the previous fiscal year.

In terms of extraordinary losses, the Company posted an impairment loss of 3,541 million yen on vessels owned by consolidated subsidiary TEN BOSCH CRUISE PANAMA S.A.

Total income taxes in the consolidated fiscal year under review were 3,801 million yen, a decrease of 4,373 million yen (down

53.5% YoY) from the previous fiscal year.

As a result, profit attributable to owners of parent in the consolidated fiscal year under review was 267 million yen, a decrease of 10,623 million yen (down 97.5% YoY) compared to the previous fiscal year.

(4) Analysis of cash flows

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

III. Equipment and Facilities

1. Capital Expenditures

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

The breakdown of capital expenditures during the fiscal year ended October 31, 2016 (based on the amounts recorded as tangible fixed assets, guarantee deposits, and hardware/software; figures do not include consumption tax, etc.) are as follows.

Segment name	Capital expenditure amount (millions of yen)
Travel Business	4,115
Huis Ten Bosch Group	6,338
Hotel Business	846
Transportation Business	5
The Kyushu Sanko Group	3,455
Reportable segment total	14,761
Other	—
Corporate-wide (shared)	99
Total	14,861

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

Travel Business:	Funds were used to develop and improve travel reservation systems, etc. (1,591 million yen); invest in branch and office facilities in Japan (919 million yen); and purchase buses for tourism in Japan (127 million yen). Funds were also used to acquire branch facilities at overseas subsidiaries to expand locations and conduct in-branch refurbishment (391 million yen).
Huis Ten Bosch Group:	Funds were used to construct the Henn-na Hotel at Huis Ten Bosch (1,148 million yen); acquire facilities for the power generation business (644 million yen); and enhance theme park facilities in Japan, including the Kingdom of Light (271 million yen). Funds were also used to enhance theme park facilities at LAGUNA TEN BOSCH CO., LTD., including the Art Garden (701 million yen), the Art Theater (456 million yen) and the 3D car mapping show Amaze (203 million yen).
Hotel Business:	Funds were used to construct the second Henn-na Hotel scheduled to open in March 2017 in Urayasu, Chiba Prefecture.
Transportation Business:	Funds were used to purchase office equipment for ASIA ATLANTIC AIRLINES CO., LTD. (5 million yen).
The Kyushu Sanko Group:	Investments were made in the Sakuramachi Redevelopment Project (1,956 million yen, including associated expenses). Funds were also used to acquire buses and auxiliary equipment (793 million yen).
Corporate-wide (shared):	Funds were used to strengthen internal systems, including accounting systems (57 million yen).

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	Vessels	Land (thousand m ²)	Leased assets	Guarantee deposits	Other	Total	
Headquarters/ East Japan Regional Office (Shinjuku-ku, Tokyo)	Travel Business	Branch facilities; reservation systems	1,089	294	—	—	21	1,813	3,471	6,691	3,621 (596)
West Japan Regional Office (Kita-ku, Osaka)	Travel Business	Branch facilities; reservation systems	626	187	—	—	34	1,148	27	2,024	1,658 (435)
Headquarters (Shinjuku-ku, Tokyo)	Hotel Business	Henn-na Hotel second location	—	—	—	—	—	—	680	680	— (—)
Headquarters (Shinjuku-ku, Tokyo)	Other	Real estate	129	—	—	299 (2)	—	—	—	428	— (—)
Headquarters (Shinjuku-ku, Tokyo)	Corporate- wide	Office facilities; software	68	91	—	2 (0)	7	497	621	1,289	74 (10)

(Notes)

1. Of the book value, "Other" comprises vehicles, construction in progress, 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 3,913 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	Vessels	Land (thousand m ²)	Leased assets	Guarantee deposits	Other	Total	
Huis Ten Bosch Co., Ltd. (Sasebo, Nagasaki Prefecture)	Huis Ten Bosch Group	Theme park facilities	3,574	2,098	86	262 (1,180)	—	11	4,110	10,144	494 (1,109)
LAGUNA TEN BOSCH CO., LTD. (Gamagori, Aichi Prefecture)	Huis Ten Bosch Group	Theme park facilities	1,386	423	—	1,054 (204)	—	—	1,310	4,174	88 (222)
Kyushu Sanko Bus Co., Ltd. (Nishi- ku, Kumamoto, Kumamoto Prefecture)	The Kyushu Sanko Group	Business facilities	915	41	—	7,378 (195)	1,736	—	130	10,203	531 (60)
Kumamoto Sakuramachi Development Co., Ltd., etc. (Chuo- ku, Kumamoto, Kumamoto Prefecture)	The Kyushu Sanko Group	Business facilities	—	0	—	12,124 (31)	—	—	17,540	29,665	16 (4)

(Notes)

1. Of the book value, “Other” comprises vehicles, construction in progress, 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 545 million yen.
4. Facility names of domestic subsidiaries are consistent with company names.
5. The Kumamoto Sakuramachi Development Co., Ltd., row state the combined book values and employee numbers of Kyushu Sanko LandMark Co., Ltd., and the Kumamoto Sakuramachi Development Co., Ltd.; the two entities operate the Kumamoto Sakuramachi Development Project.

(3) Overseas subsidiaries

Company name 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	Vessels	Land (thousand m ²)	Leased assets	Guarantee deposits	Other	Total	
H.I.S. INVESTMENTS PTY LTD (Queensland, Australia)	Hotel Business	Hotel facilities	2,468	61	—	941 (5)	—	—	10	3,480	149 (63)

(Notes)

1. Of the book value, “Other” comprises vehicles, and software, etc. The amounts do not include consumption tax, etc.
2. “Numbers of temporary employees” stated in parentheses refer to the annual average number of temporary workers, which is not included in the number of employees.
3. Of the facility leased by the overseas subsidiary, leasing fees incurred during the fiscal year under review was 1,159 million yen.
4. The facility name of H.I.S. INVESTMENTS PTY LTD is the Watermark Hotel and Spa Gold Coast.

3. Plans for additions and disposals of facilities

New addition of a major facility as of the end of the fiscal year ended October 31, 2016, is 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. Co., Ltd.	Hotel Business	Henn-na Hotel 2nd location (Note)	3,463	680	March 2016	March 2017	100 guest rooms

(Note) Henn-na Hotel is a hotel aiming for world-class productivity.

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, 2016)	Number of shares issued as of filing date (January 27, 2017)	Stock exchange on which the Company is listed	Description
Common stock	68,522,936	68,522,936	First Section of the Tokyo Stock Exchange	Standard Company shares with no restricted rights; 100 shares constitute one unit.
Total	68,522,936	68,522,936	—	—

(2) Information on share subscription rights, etc.

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

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

	As of end of fiscal year (October 31, 2016)	As of end of month preceding date of filing (December 31, 2016)
Balance of bonds with share subscription rights	20,000 million yen	20,000 million yen
Number of share subscription rights	2,000 units	2,000 units
Of which, number of share subscription rights held by the Company	—	—
Class of shares subject to share subscription rights	Common stock	Same as left
Number of shares subject to share subscription rights	4,262,483 shares (Note 1)	4,268,943 shares (Notes 1, 7)
Amount payable on the exercise of share subscription rights	4,692.1 yen (Note 2)	4,685 yen (Notes 2, 7)
Exercise period of share subscription rights	From August 29, 2014 to August 16, 2019 (local time for reception of exercise request) (Note 3)	Same as left
Share issue price and additional paid-in capital per share in the event of issuance of shares upon exercise of share subscription rights	Issue price: 4,692.1 yen Additional paid-in capital per share: 2,347 yen (Note 4)	Issue price: 4,685 yen Additional paid-in capital per share: 2,342 yen (Notes 4, 7)
Conditions for exercise of share subscription rights	Partial exercise of each stock acquisition right is not possible	Same as left
Matters regarding transfer of share subscription rights	Share subscription rights are attached to convertible bond- type bonds with share subscription rights and cannot be transferred separately	Same as left
Matters regarding subrogation payment	(Note 5)	Same as left
Matters regarding grant of share subscription rights accompanying corporate reorganization	(Note 6)	Same as left

(Notes)

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

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

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

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

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

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

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

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

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

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

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

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

1) Number of share subscription rights

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

2) Class of shares subject to share subscription rights

Common stock of the Succeeding Company

3) Number of shares subject to share subscription rights

The number of shares of the Succeeding Company's common stock delivered upon exercise of such company's share subscription rights shall be determined by the Succeeding Company, taking into consideration the conditions of the reorganization. In addition to making decisions by referring to the terms of subject bonds, (i) or (ii) below shall be

followed.

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

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

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

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

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

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

6) Other conditions for exercising share subscription rights

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

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

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

8) In the event of corporate reorganization

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

9) Other

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

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

7. At the 36th Ordinary General Meeting of Shareholders held on January 26, 2017, a surplus dividend plan was approved for a year-end dividend of 22 yen per share. Along with the decision to provide an annual dividend of 22 yen per share for the fiscal year ended October 2016, and in accordance with conversion price adjustment provisions of bond terms of the Euroyen Convertible Bond Type Bonds with Share Subscription Rights maturing in 2019, the Company adjusted the conversion price from 4,692.1 yen to 4,685 yen dating back to November 1, 2016. Each numerical value as of the end of the previous month of the filing date shows the numerical value reflecting the effect of such conversion price adjustments.

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

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

	As of end of fiscal year (October 31, 2016)	As of end of month preceding date of filing (December 31, 2016)
Number of share subscription rights	7,937 units	7,937 units
Of which, number of share subscription rights held by the Company	—	40 units
Class of shares subject to share subscription rights	Common stock	Same as left
Number of shares subject to share subscription rights	793,700 shares (Notes 1, 2)	793,700 shares (Notes 1, 2)
Amount payable on the exercise of share subscription rights	2,817 yen (Note 3)	Same as left
Exercise period of share subscription rights	From May 1, 2019 to July 31, 2019	Same as left
Share issue price and additional paid-in capital per share in the event of issuance of shares upon exercise of share subscription rights	Issue price: 3,436 yen Additional paid-in capital per share: 1,718 yen	Same as left
Conditions for exercise of share subscription rights	(Note 4)	Same as left
Matters regarding transfer of share subscription rights	Approval of the Board of Directors is required for the acquisition of any share subscription rights by means of transfer.	Same as left
Matters regarding subrogation payment	—	—
Matters regarding grant of share subscription rights accompanying corporate reorganization	(Note 5)	Same as left

(Notes)

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

Number of Shares to be Granted post-adjustment =

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

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.

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

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

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

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

“Number of shares already issued” in the above formula shall equal the total number of shares outstanding, less the number of treasury shares owned by the Company. In the case of treasury share disposals, “Number of newly issued shares” in the above

formula shall be taken to mean “Number of treasury shares disposed of,” and “Amount payable per share” shall be taken to mean “Disposal value per share.”

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

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

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

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

There are no applicable matters to be reported.

(4) Details of rights plans

There are no applicable matters to be reported.

(5) 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.

(6) Composition of issued shares by type of shareholders

As of October 31, 2016

Category	Status of shares (one unit of stock: 100 shares)								Number of shares less than one unit (shares)
	Government and municipality	Financial institutions	Financial instruments business operator	Other corporations	Foreign corporations, etc.		Individuals and others	Total	
					Non- individuals	Individuals			
Number of shareholders	—	47	34	121	273	36	15,097	15,608	—
Share ownership (units)	—	160,265	6,217	38,955	124,150	169	355,012	684,768	46,136
Ownership percentage of shares (%)	—	23.40	0.91	5.69	18.13	0.02	51.84	100.00	—

(Notes)

1. Of the 6,621,916 treasury shares, 66,219 units are included in the “Individuals and others” column, while 16 shares are included in the “Number of shares less than one unit” column.
2. Of the shares registered in the name of Japan Securities Depository Center, Incorporated, 18 units are included in the “Other corporations” column and 40 shares are included in the “Number of shares less than one unit” column.

(7) Major shareholders

As of October 31, 2016

Name	Address	Share Ownership (thousands of shares)	Ownership percentage to the total number of issued shares (%)
Hideo Sawada	Shibuya-ku, Tokyo	19,136	27.93
Japan Trustee Services Bank, Ltd.	1-8-11 Harumi, Chuo-ku, Tokyo	8,626	12.59
H.I.S. Co., Ltd.	6-8-1 Nishishinjuku, Shinjuku-ku, Tokyo	6,621	9.66
Hide International	1-7-26 Shoto, Shibuya-ku, Tokyo	3,403	4.97
The Master Trust Bank of Japan, Ltd.	2-11-3 Hamamatsucho, Minato-ku, Tokyo	3,040	4.44
Trust & Custody Services Bank, Ltd.	1-8-12 Harumi, Chuo-ku, Tokyo	1,501	2.19
National Mutual Insurance Federation of Agricultural Cooperatives	2-7-9 Hirakawacho, Chiyoda-ku, Tokyo	1,334	1.95
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)	1,226	1.79
J.P. MORGAN BANK LUXEMBOURG S.A. (Standing proxy: Mizuho Bank, Ltd., Settlement & Clearing Services Department)	EUROPEAN BANK AND BUSINESS CENTER, 6, ROUTE DE TREVES, L-2633 SENNINGERBERG, LUXEMBOURG (2-15-1 Konan, Minato-ku, Tokyo)	1,079	1.58
Kazumasa Namekata	Ageo, Saitama Prefecture	1,021	1.49
Total	—	46,993	68.58

(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.	8,626,000 shares
The Master Trust Bank of Japan, Ltd.	3,040,000 shares
Trust & Custody Services Bank, Ltd.	1,501,000 shares

2. An Amendment Report as stipulated in Article 27-26 (2) of the Financial Instruments and Exchange Act was submitted on May 10, 2016 (date reporting obligation arose: April 29, 2016), by the Sumitomo Mitsui Trust Bank, Limited and joint holders Sumitomo Mitsui Trust Asset Management and Nikko Asset Management Co., Ltd. Although their holdings of 4,332,000 shares (ownership ratio: 6.32%) have been made public through the Report, the Company could not confirm the actual status of shareholdings as of the end of the fiscal year under review; thus they are not included in the above "Major Shareholders." The details of the Amendment Report are as follows.

Entities	Address or location of main office	Number of shares held (thousands of shares)	Percentage of share certificates held (%)
Sumitomo Mitsui Trust Bank, Limited	1-4-1 Marunouchi, Chiyoda-ku, Tokyo	3,843	5.61
Sumitomo Mitsui Trust Asset Management Co., Ltd.	3-33-1 Shiba, Minato-ku, Tokyo	236	0.35
Nikko Asset Management Co., Ltd.	9-7-1 Akasaka, Minato-ku, Tokyo	251	0.37

3. An Amendment Report as stipulated in Article 27-26 (1) of the Financial Instruments and Exchange Act was submitted on July 22, 2016 (date reporting obligation arose: July 15, 2016) by JPMorgan Asset Management (Japan) Limited and joint holders JF Asset Management Limited and J.P. Morgan Securities plc. Although their holdings of 2,796,000 shares (ownership ratio: 4.08%) have been made public through the Report, the Company could not confirm the actual status of shareholdings as of the

end of the fiscal year under review; thus they are not included in the above “Major Shareholders.” The details of the Amendment Report are as follows.

Entities	Address or location of main office	Number of shares held (thousands of shares)	Percentage of share certificates held (%)
JPMorgan Asset Management (Japan) Limited	Tokyo Building 2-7-3 Marunouchi, Chiyoda-ku, Tokyo	2,163	3.16
JF Asset Management Limited	8 Connaught Road 21st Floor, Charter House, Central Hong Kong (SAR)	491	0.72
J.P. Morgan Securities plc	25 Bank Street, Canary Wharf, London E14 5JP, United Kingdom	141	0.21

4. A Report of Possession of Large Volume as stipulated in Article 27-26 (1) of the Financial Instruments and Exchange Act was submitted on October 21, 2016 (date reporting obligation arose: October 14, 2016) by Mizuho Securities Co., Ltd., and joint holder Asset Management One Co., Ltd. Although their holdings of 3,842,000 shares (ownership ratio: 5.34%) have been made public through the Report, the Company could not confirm the actual status of shareholdings as of the end of the fiscal year under review; thus they are not included in the above “Major Shareholders.” The details of the Report of Possession of Large Volume are as follows.

Holders	Address or location of main office	Number of shares held (thousands of shares)	Percentage of share certificates held (%)
Mizuho Securities Co., Ltd.	1-5-1 Otemachi, Chiyoda-ku, Tokyo	1,868	2.60
Asset Management One Co., Ltd.	1-8-2 Marunouchi, Chiyoda-ku, Tokyo	1,973	2.74

(8) Information on voting rights

1) Issued shares

As of October 31, 2016

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: 6,621,900	—	—
Shares with full voting rights (others)	Common stock: 61,854,900	61,854	—
Shares less than one unit	Common stock: 46,136	—	—
Total number of issued shares	68,522,936	—	—
Total number of voting rights held by all shareholders	—	61,854	—

(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, 2016

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	6,621,900	—	6,621,900	9.66
Total	—	6,621,900	—	6,621,900	9.66

(Note)

In addition to the above, the H.I.S. Employee Stock Ownership Association Dedicated Trust holds 456,400 shares of Company stock as trust assets under the trust-type employee stock ownership incentive plan (E-Ship®); these shares are recorded in consolidated financial statements as treasury shares.

(9) Details of stock option program

The Company has adopted a stock option program utilizing share subscription rights.

Details of the program are summarized below.

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

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

Resolution date	April 22, 2016
Individuals covered by the plan	Company employees: 1,322 Subsidiary employees: 261
Class of shares subject to share subscription rights	As noted in (2) Information on share subscription rights, etc.
Number of shares	Same as above
Amount payable on the exercise of share subscription rights	Same as above
Exercise period of share subscription rights	Same as above

Conditions for exercise of share subscription rights	Same as above
Matters regarding transfer of share subscription rights	Same as above
Matters regarding subrogation payments	Same as above
Matters regarding grant of share subscription rights accompanying corporate reorganization	Same as above

(10) Details of employee stock ownership plan

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

1) Summary of the Plan

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

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

500,700 shares

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

Association members who satisfy the beneficiary eligibility requirements.

2. Information on Acquisition of Treasury Shares, etc.

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

(1) Acquisition by resolution at General Meeting of Shareholders

There are no applicable matters to be reported.

(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 December 18, 2015 (Acquisition period: December 21, 2015 to April 28, 2016)	2,000,000	10,000,000,000
Treasury shares acquired before the current fiscal year	—	—
Treasury shares acquired during the current fiscal year	2,000,000	7,223,266,295
Of the total number of shares resolved by the Board of Director, total remaining number and value	—	2,776,733,705
Unexercised shares at the end of the current fiscal year (%)	—	27.8
Treasury shares acquired during the current period	—	—
Unexercised shares on filing date (%)	—	27.8

Classification	Number of shares (shares)	Total amount (yen)
Status of resolution at Board of Directors meeting on May 27, 2016 (Acquisition period: June 20, 2016 to July 20, 2016)	1,100,000	3,000,000,000
Treasury shares acquired before the current fiscal year	—	—
Treasury shares acquired during the current fiscal year	948,100	2,999,954,287
Of the total number of shares resolved by the Board of Director, total remaining number and value	151,900	45,713
Unexercised shares at the end of the current fiscal year (%)	13.8	—
Treasury shares acquired during the current period	—	—
Unexercised shares on filing date (%)	13.8	—

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

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

(Note) Fractional shares less than one trading unit purchased between January 1, 2017 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, 2016		Current period	
	Number of shares (shares)	Total amount disposed (millions of yen)	Number of shares (shares)	Total amount disposed (millions of yen)
Acquired treasury shares for which subscribers were solicited	—	—	—	—
Acquired treasury shares that was disposed of	—	—	—	—
Acquired treasury shares transferred due to merger, share exchange, or demerger	—	—	—	—
Others (requests for purchase of fractional shares)	—	—	—	—
Total number of treasury shares held	6,621,916	—	6,621,916	—

(Notes)

- Fractional shares less than one trading unit sold or purchased between January 1, 2017 and the filing date of the Annual Securities Report upon request of shareholders are not included in the number of treasury shares held.
- Company shares held by the H.I.S. Employee Stock Ownership Association Dedicated Trust in accordance with the introduction of a trust-type employee stock ownership incentive plan (E-Ship®) are not included in the number of treasury shares to be disposed of and the number of treasury shares held during the fiscal year under review and the current period.

3. Dividend Policy

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

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

action, and intends to stabilize its management base by substantially increasing the amount of internal reserves.

Based on the above dividend policy, the Company plans to pay a regular year-end dividend of 22 yen per share for the fiscal year ending October 31, 2016. Furthermore, as part of its effort to return profits to shareholders, the Company also acquired treasury shares amounting to 10,223 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, 2016 is as follows.

Authorizing resolution	Total dividends (millions of yen)	Dividend per share (yen)
Resolution at the ordinary General Meeting of Shareholders on January 26, 2017	1,361	22.00

4. Stock Prices

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

Fiscal year	32nd	33rd	34th	35th	36th
Year-end	October 2012	October 2013	October 2014	October 2015	October 2016
Highest (yen)	2,931	5,800	6,060 □3,480	4,765	4,340
Lowest (yen)	1,804	2,361	4,955 □2,472	2,491	2,524

(Notes)

1. Share-price highs and lows refer to market trading of the Company's shares listed on the First Section of the Tokyo Stock Exchange.
2. 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 2016	June	July	August	September	October
Highest (yen)	3,105	3,345	3,295	2,849	2,772	2,944
Lowest (yen)	2,590	2,844	2,672	2,524	2,527	2,543

(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: 13, Female: 1 (percentage of female officers 7.1%)

Title	Position	Name	Date of birth	Career summary	Term of office	Share ownership (thousands)
Representative Director, Chairman and President	Chief Executive Officer (CEO)	Hideo Sawada	February 4, 1951	<p>Dec. 1980 Established Company and became Representative Director and President</p> <p>March 1999 Representative Director and President, Kyoritsu Shoken, Co., Ltd. (currently Sawada Holdings Co., Ltd.)</p> <p>Jun. 2004 Director and Chairman of the Company</p> <p>Dec. 2009 Representative Director and Chairman of the Company</p> <p>Mar. 2010 Representative Director and President of Huis Ten Bosch Co., Ltd. (current)</p> <p>Sep. 2012 Chairman of Tokyo Symphony Orchestra (current)</p> <p>Nov. 2016 Representative Director, Chairman and President, Chief Executive Officer (CEO) of the Company (current)</p> <p>Representative Director and Chairman of Sawada Holdings Co., Ltd. (current)</p>	(Note 2)	19,136
Director and Vice Chairman	Head of M&A Division; In charge of Global Online Business	Akira Hirabayashi	November 16, 1967	<p>Sep. 1993 Joined the Company</p> <p>Jan. 2007 Director of the Company; Head of Kansai Region - Sales</p> <p>Apr. 2007 Director of the Company; Head of Information Systems Division</p> <p>Apr. 2008 Representative Director and President of the Company</p> <p>Nov. 2016 Director and Vice Chairman of the Company; Head of M&A Division; In charge of Global Online Business; Chief Information Officer (CIO)</p> <p>Jan. 2017 Director and Vice Chairman of the Company; Head of M&A Division; In charge of Global Online Business (current)</p>	(Note 2)	2
Managing Director	President, 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; Manager, Kansai Region-Sales</p> <p>Feb. 2014 Director; 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 Purchasing Division at the head office</p> <p>Nov. 2016 Managing Director of the Company; President of H.I.S. JAPAN (current)</p>	(Note 2)	13

Title	Position	Name	Date of birth	Career summary	Term of office	Share ownership (thousands)
Managing Director	In charge of H.I.S. Inbound Business	Narimoto Kusuvara	June 3, 1957	<p>Dec. 1982 Joined the Company</p> <p>Jan. 2005 Director of the Company; Head of HQ Sales Division</p> <p>Apr. 2008 Managing Director of the Company; In charge of Business Administration; Head of Overseas Business Division</p> <p>Apr. 2010 Managing Director of the Company; In charge of Business Administration; Head of Overseas Sales and Domestic Travel Divisions</p> <p>Dec. 2010 Managing Director of the Company; In charge of Business Administration; Supervisor to Domestic Travel Division and Inbound Business Department; Head of Overseas Sales and Domestic Travel Divisions</p> <p>Mar. 2011 Managing Director of the Company; In charge of Business Administration; Head of Overseas Sales and Domestic Travel Divisions</p> <p>Mar. 2014 Sr. Managing Director of the Company; In charge of Human Resources, Domestic Travel Business, Inbound Business and East Japan Regional Store Sales</p> <p>Apr. 2014 Sr. Managing Director of the Company; In charge of Human Resources, Domestic Travel Business, Inbound Business and East Japan Regional Store Sales; Head of Kanto Area - Domestic Travel</p> <p>Nov. 2014 Sr. Managing Director of the Company; In charge of Head Office Business Administration, Domestic Travel Business; Inbound Business, East Japan Regional Store Sales; Head of Kanto Area - Domestic Travel</p> <p>Nov. 2016 Sr. Managing Director of the Company; In charge of H.I.S. Inbound Business</p> <p>Jan. 2017 Managing Director of the Company; In charge of H.I.S. Inbound Business (current)</p>	(Note 2)	510
Director	In charge of Finance and Accounting (Consolidated), Legal & Internal Control; Compliance; Head of HQ Accounting Division and Corporate Loan Audit Office; Chief Financial Officer (CFO)	Shigeru Nakatani	October 19, 1948	<p>Jul. 2010 Joined the Company</p> <p>Jan. 2012 Director of the Company; In charge of Accounting and Finance; Head of HQ Accounting Division</p> <p>Nov. 2016 Director of the Company; In charge of Consolidated Finance and Accounting, Legal & Internal Control, Compliance; Head of HQ Accounting Division and Corporate Loan Audit Office; Chief Financial Officer (CFO) (current)</p>	(Note 2)	7

Title	Position	Name	Date of birth	Career summary	Term of office	Share ownership (thousands)
Director	In charge of HR (Consolidated); CS/ES, HR and Labor, General Affairs and CSR; Chief HR Officer	Katsuhiko Sakaguchi	April .30, 1955	Dec. 2014 Mar. 2015 Jan. 2016 Nov. 2016 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 Consolidated HR, CS/ES, HR and Labor, General Affairs and CSR; Chief HR Officer (current)	(Note 2)	10
Director	H.I.S. JAPAN Vice President	Atsushi Yamano	March 18, 1970	Apr. 1993 Mar. 2014 Jan. 2016 Nov. 2016 Joined the Company Corporate Officer of the Company; Gen. Mgr., Kanto Sales Division; Gen. Mgr., Kanto Web Business Division; Gen. Mgr., Kanto Corporate Sales and Group Travel Division Director of the Company; In charge of East Japan Area Sales; Head of Kanto Area - Overseas Travel Division Director of the Company; Vice President of H.I.S. JAPAN (current)	(Note 2)	1
Director	H.I.S. JAPAN Vice President	Masayuki Oda	January 1, 1966	Jun. 1996 Mar. 2014 Jan. 2016 Nov. 2016 Joined the Company Corporate Officer of the Company; Head of Kansai Area Sales Director of the Company; In charge of Kansai, Chugoku, Shikoku and Kyushu Area Sales; In charge of Global Product Marketing; Head of Kansai Area Sales Director of the Company; Vice President of H.I.S. JAPAN (current)	(Note 2)	0
Director	—	Kiyoshi Takagi	May 4, 1963	Jun. 1986 Jan. 2008 Apr. 2008 Nov. 2009 Nov. 2010 Mar. 2011 Nov. 2011 Jan. 2012 Jan. 2013 Mar. 2014 Joined the Company Director of the Company; Head of Kansai Area Sales Director of the Company; In charge of West Japan Area Business; Head of Kansai Area Sales Director of the Company; In charge of East Japan Area Sales Director of the Company; In charge of East Japan Area Sales; Head of East Japan Sales Division Director of the Company; In charge of East Japan Area Sales; Supervisor of Inbound Business Department; Gen. Mgr., Kanto Sales Division Director of the Company; In charge of East Japan Area Sales; Supervisor to HQ HR Division and Inbound Business Department; Gen. Mgr., Kanto Sales Division Managing Director of the Company; In charge of East Japan Area Sales; Supervisor to HQ HR Division, Inbound Business Department; Gen. Mgr., Kanto Sales Division Managing Director of the Company; In charge of East Japan Area Sales; Supervisor to HQ HR Division, Inbound Business Department Director of the Company (current) Senior Managing Director of Huis Ten Bosch Co., Ltd. (current)	(Note 2)	11

Title	Position	Name	Date of birth	Career summary	Term of office	Share ownership (thousands)
Director	In charge of Affiliated Company Management	Kazumasa Namekata	May 4, 1953	<p>Jun. 1985 Joined the Company</p> <p>Sep. 1985 Director of the Company; Gen. Mgr, Accounting Department</p> <p>Feb. 1993 Director of the Company; Gen. Mgr., General Affairs Department</p> <p>Nov. 1997 Managing Director of the Company; Head of Kansai Area Administration</p> <p>Nov. 1999 Managing Director of the Company; Head of Business Administration</p> <p>Oct. 2000 Managing Director of the Company; Gen. Mgr. of General Affairs Department and System Development Office</p> <p>Jun. 2004 Representative Director and Managing Director of the Company; Supervisor to HR, Accounting and Affiliated Company Management Departments; Gen. Mgr., General Affairs Department</p> <p>Jan. 2005 Representative Director and Sr. Managing Director of the Company</p> <p>Apr. 2008 Director and Adviser of the Company</p> <p>May 2010 Director and Adviser of the Company; Supervisor to Social Contribution-Related Business Office</p> <p>Sep. 2011 Director and Adviser of the Company; In charge of CSR Promotion</p> <p>Nov. 2016 Director and Adviser of the Company; In charge of Domestic Travel Subsidiary Business</p> <p>Jan. 2017 Director of the Company; In charge of Affiliated Company Management (current)</p>	(Note 2)	1,021
Director	Chief Information Officer (CIO)	Naomi Tomita	March 25, 1948	<p>Jun. 2010 Representative Director and President, Parallels Co., Ltd.</p> <p>Apr. 2013 Honorary Chairman, Parallels Co., Ltd. (current)</p> <p>Mar. 2013 Director, The Social Development Research Center (current)</p> <p>Jun. 2013 Adviser, Japan Research Center (current)</p> <p>Oct. 2013 Adviser, GITOMER CERTIFIED (current)</p> <p>Sep. 2014 Guest Lecturer, Faculty of Management and Information Sciences, Tama University (current)</p> <p>Oct. 2014 Management adviser and CTO, Huis Ten Bosch Co., Ltd.</p> <p>Dec. 2014 Director and CTO, Huis Ten Bosch Co., Ltd. (current)</p> <p>Jul. 2016 Director, hapi-robot Inc. (current)</p> <p>Jan. 2017 Director of the Company; Chief Information Officer (CIO) (current)</p>	(Note 2)	—

Title	Position	Name	Date of birth	Career summary	Term of office	Share ownership (thousands)
Director, Audit & Supervisory Committee Member (Note 1)	—	Masahiko Hirata	February 1, 1931	<p>Apr. 1954 Joined Matsushita Electric Industrial Co., Ltd. (currently Panasonic Corporation)</p> <p>Feb. 1985 Director, Matsushita Electric Industrial</p> <p>Feb. 1986 Managing Director, Matsushita Electric Industrial</p> <p>Jun. 1987 Senior Managing Director, Matsushita Electric Industrial</p> <p>Jun. 1988 Representative Director and Executive Vice President, Matsushita Electric Industrial</p> <p>Apr. 1997 Guest Lecturer, Sanno University</p> <p>Jul. 1997 Guest member, Matsushita Electric Industrial Co., Ltd. (currently Panasonic Corporation)</p> <p>Aug. 1997 Adviser of the Company</p> <p>Jan. 1998 External Director of the Company</p> <p>Jun. 1999 External Corporate Auditor, Uni-Charm Co., Ltd.</p> <p>Jun. 2008 External Director, IntegreX Inc.</p> <p>Jun. 2015 Director serving as Audit & Supervisory Committee Member (outside director), Uni-Charm Co., Ltd. (current)</p> <p>Jan. 2016 Director serving as Audit & Supervisory Committee Member of the Company (current)</p>	(Note 3)	7
Director, Audit & Supervisory Committee Member (Note 1)	—	Tsunekazu Umeda	August 22, 1945	<p>Mar. 1974 Registered as a certified public accountant</p> <p>Sep. 1987 Partner, Arthur Andersen LLP and Eiwa Audit Corporation (currently KPMG AZSA LLC)</p> <p>Apr. 1995 Director, Umeda Certified Public Accountant Office (current)</p> <p>Jun. 1995 Representative Director and Executive Vice President, Nippon Kaiheiki Kogyo (currently NKK Switches Co., Ltd.)</p> <p>Jan. 1999 External Corporate Auditor of the Company</p> <p>Jun. 2000 External Corporate Auditor, HABA Laboratories, Inc.</p> <p>Jun. 2000 External Corporate Auditor, TOMY Company (currently Takara Tomy Co., Ltd.) (current)</p> <p>Jun. 2007 External Corporate Auditor, Sawada Holdings Co., Ltd. (current)</p> <p>Mar. 2010 External Corporate Auditor, Huis Ten Bosch Co., Ltd.</p> <p>Jun. 2010 External Director, Suzuden Corporation (current)</p> <p>Jun. 2015 Director serving as Audit & Supervisory Committee Member (External Director), HABA Laboratories, Inc. (current)</p> <p>Dec. 2015 Corporate Auditor, Huis Ten Bosch Co., Ltd. (current)</p> <p>Jan. 2016 Director serving as Audit & 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	—	Sonoko Sekita	July 23, 1965	Feb. 1988 May 2000 Apr. 2008 Dec. 2012 Jan. 2015 Jan. 2016 Joined the Company Manager, Accounting Department, Kanto Area – Sales Division Accounting Group Leader, Head Office Accounting Division Seconded to H.I.S. MANAGEMENT SERVICES SDN.BHD. as Director and Gen. Mgr. of Accounting Full-time Corporate Auditor of the Company Director serving as Audit & Supervisory Committee Member of the Company (current)	(Note 3)	25
Total						20,769

(Notes)

1. Directors serving as Audit & Supervisory Committee Members Masahiko Hirata and Tsunekazu Umeda are External Directors.
2. One-year period beginning at the conclusion of the General Meeting of Shareholders held on January 26, 2017.
3. Two-year period beginning at the conclusion of the General Meeting of Shareholders held on January 27, 2016.
4. The Company has instituted an corporate officer system with the aim of enhancing the business execution structure.

Names and positions of Corporate Officers are as follows.

	Position	Name
Senior Corporate Officer	In charge of CS/ES, General Affairs, Risk Management; Head of CS/ES Management at HQ	Hikaru Wada
Corporate Officer	In charge of IT Global Strategy	Kiyoshi Takano
Corporate Officer	In charge of Expense Management, Advertising and Marketing Strategy; Head of HQ Sales Strategy	Ken Fukushima
Corporate Officer	In charge of Overseas Business; Head of Head Office Overseas Business Division	Hideo Hatano
Corporate Officer	In charge of Indonesia Business	Mutsumi Gomi

6. Corporate Governance, etc.

(1) Corporate Governance

Basic policy on corporate governance

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

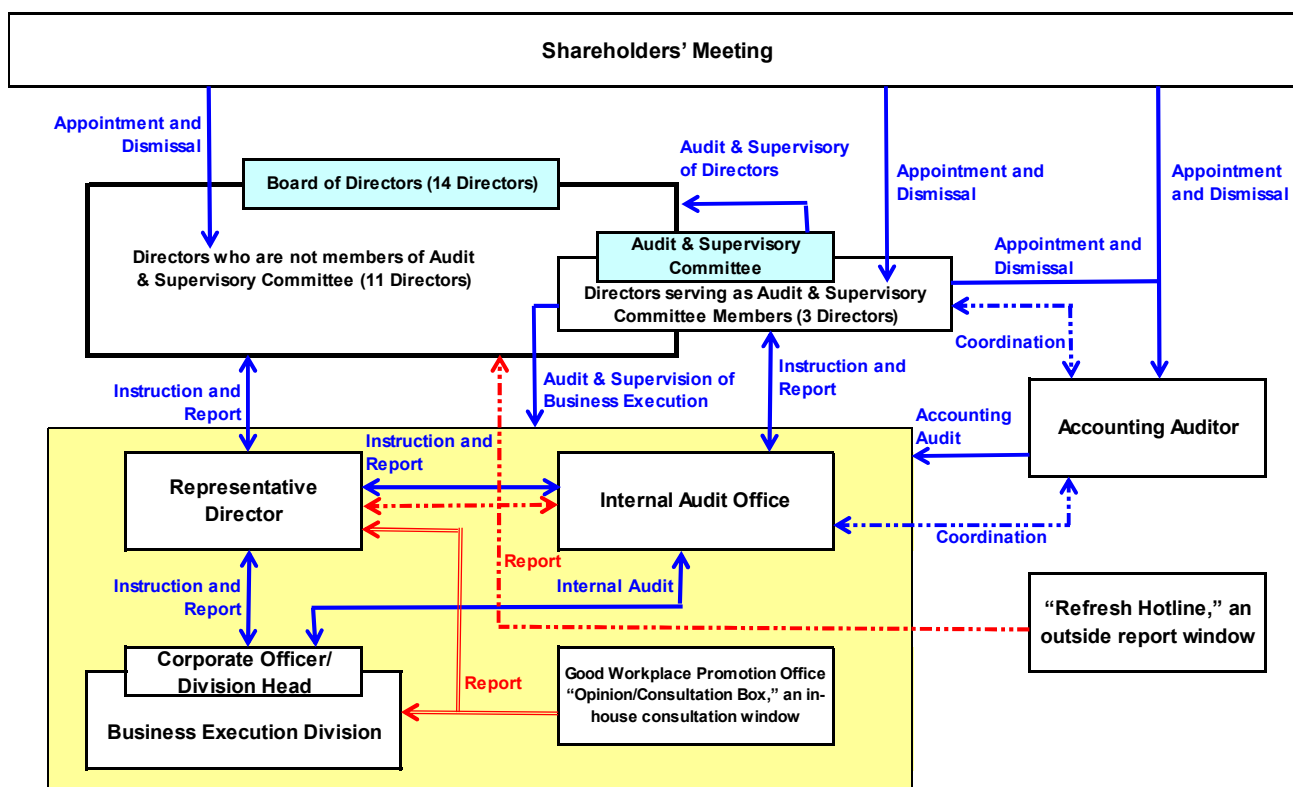
The 73 principles of the TSE CG code are replete with major principles contributing to the realization of “proactive governance” as a best practice employing a principles-based approach. H.I.S. will work to fully understand the purpose and essence of each of these principles, and comply with them to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

1) Corporate Governance Structure

(I) Corporate governance overview

The Company has adopted a corporate governance structure with an Audit and Supervisory Committee. The following Corporate Governance Structure Chart (as of January 26, 2017) indicates the reciprocal relationships of each institution.

Corporate Governance Structure (as of January 26, 2017)



In addition, from the 37th fiscal year (ending October 31, 2017), the Company will be introducing a “virtual” pure holding company structure within the framework of the current holding company. It will adopt the function of a pure holding company to the extent possible by reorganizing the business execution structure. There are two primary reasons for implementing this change. First, the Group’s businesses are expanding into fields that require decision-making from a perspective separate from experience in the travel business, and the Company sees the need to reorganize the business execution structure to ensure swift and accurate decision-making and clarification of management responsibilities at the respective business fields. Second, the Company also sees the need to create a system that would allow it to formulate and execute strategies for the entire Group, and swiftly implement changes in the management design.

The current H.I.S. Group Global Business Execution Structure (as of January 26, 2017) shown in the page to follow comprises the following organizational components.

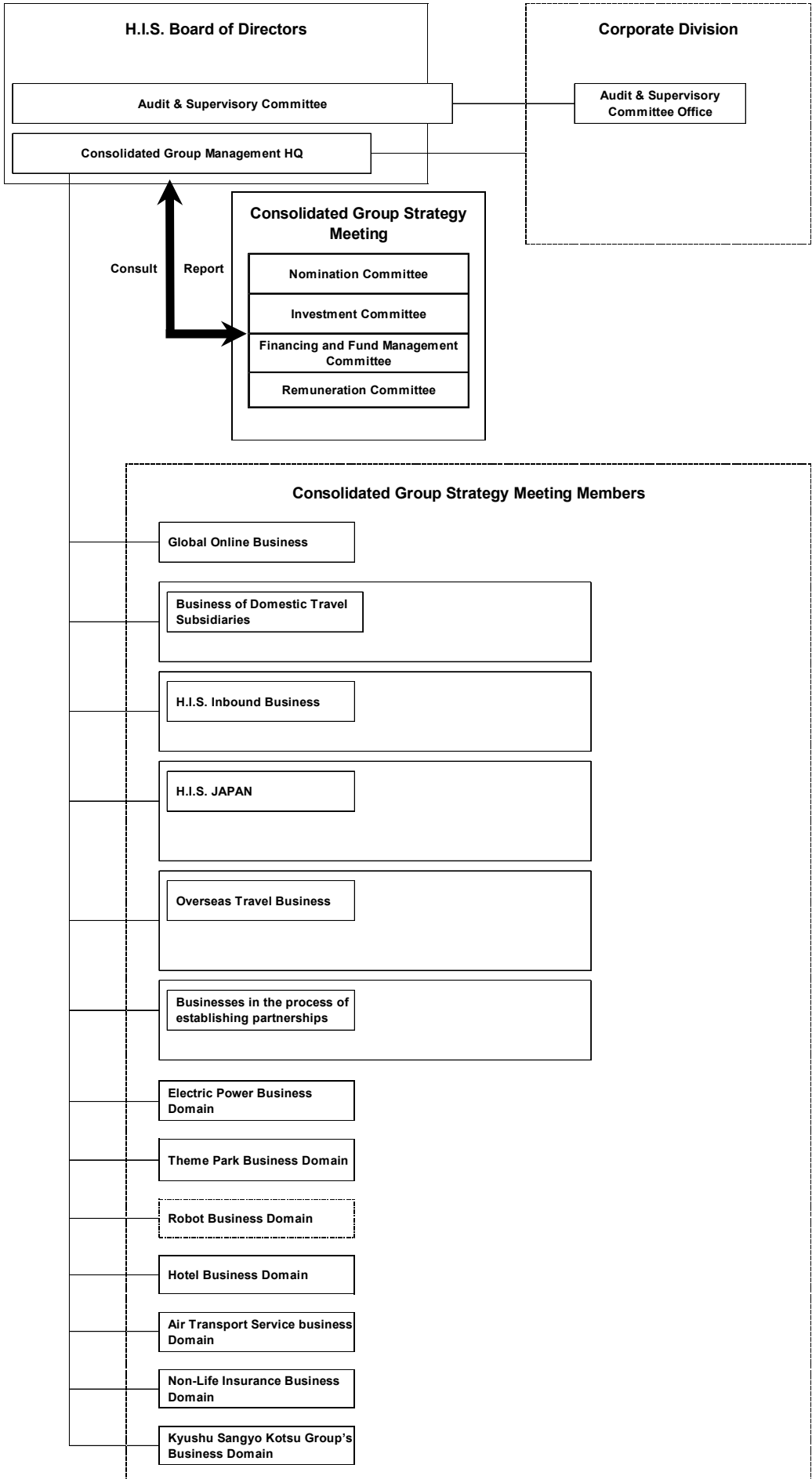
- a) Consolidated Group Management HQ
 - Members are six Executive Directors; a permanent organization within the Board of Directors.
 - Responsibilities include making decisions on some of the important business execution matters formerly resolved by the Board of Directors as entrusted by the Board;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

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

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

In addition, under the H.I.S. Global Business Execution Structure (as of January 26, 2017), business units that operate non-travel businesses via a separate entity are referred to as Domains.

H.I.S. Group Global Business Execution Structure (as of January 26, 2017)



(II) Reason for adoption of corporate governance structure

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

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

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

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

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

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

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

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

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

(IV) Risk management system and status

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

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

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

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

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

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

(I) Internal audit organization, personnel and procedures

Internal auditing of Company divisions and Group company operations (including internal control auditing) is conducted regularly based on internal auditing rules, internal auditing conduct standards, and annual auditing plans by the Internal Audit Office (seven members) under direct supervision of the Representative Director and President (from November 1, 2016, the Representative Director, Chairman and CEO).

The Internal Audit Office provides recommendations regarding auditing results and improvements, reporting to the Representative Director and President (from November 1, 2016, the Representative Director, Chairman and CEO), relevant Directors, responsible personnel in corresponding departments and divisions and the Audit & Supervisory Committee. Under close cooperation with the Audit & Supervisory Committee (and occasionally by receiving instructions), the Internal Audit Office plays a significant role in the Audit & Supervisory Committee’s systematic auditing efforts utilizing the internal control system.

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

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

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

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

Supervisory Committee audits effectively.

Of the Directors serving as Audit & Supervisory Committee Members, External Director Tsunekazu Umeda is a certified public accountant possessing a wealth of experience and knowledge with regard to finance and accounting. Also, External Director Masahiko Hirata's wealth of management experience and knowledge includes those in the areas of accounting and finance. Sonoko Sekita possesses a significant amount of knowledge with regard to accounting and finance through her business experience and numerous achievements over many years in the accounting department of the Company and of its business administration company abroad.

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

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

3) Accounting Audit

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

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

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

4) External Directors

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

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

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

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

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

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

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

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

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

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

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

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

- a) Relationship of interest between Masahiko Hirata and the Company
The Company engages in air ticket sales transactions with Uni-Charm Co., Ltd. for which Masahiko Hirata serves as Director serving as Audit and Supervisory Committee Member (External Director). However, this trade relationship is not of the gravity that creates a relationship of special interest with the Company. There are no personal, capital, or trade relationship, or other interests between Masahiko Hirata and the Company.

The status of Company shareholdings by Masahiko Hirata is listed under the "5. Directors and Audit & Supervisory Committee Members section in Part I: Information on the Company, IV. Information on the Company."
- b) Relationship of interest between Tsunekazu Umeda and the Company
Huis Ten Bosch Co., Ltd., for which Tsunekazu Umeda serves as corporate auditor, is a consolidated subsidiary of the Company. The Company's Representative Director, Chairman and President Hideo Sawada is HuisTen Bosch Co., Ltd.'s representative director and president, and the two companies have a trade relationship pertaining to the purchase and sales of domestic travel products. However, this trade relationship is not of the gravity that creates a relationship of special interest; nor are there other relationships of interest. Additionally, there are no personal, capital, or trade relationship between Tsunekazu Umeda and the Company.

The status of Company shareholdings by Tsunekazu Umeda is listed under the "5. Directors and Audit &

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	Bonuses	Provision for Directors' retirement benefits	
Director (excluding Audit & Supervisory Committee Members) (excluding External Directors)	353	257	61	34	11
Director (Audit & Supervisory Committee Member) (excluding External Directors)	7	6	0	0	1
External Director (Audit & Supervisory Committee Member)	16	14	0	1	2
External Director	1	1	—	0	1
Corporate Auditor (excluding External Corporate Auditor)	2	2	—	0	1
External Corporate Auditor	3	2	—	0	2

(Notes)

1. On January 27, 2016, the Company transitioned from a company with a Board of Corporate Auditors, to a company with an Audit and Supervisory Committee. The total amounts of remuneration paid to the External Director, Corporate Auditor (excluding External Corporate Auditor) and External Corporate Auditor refer to the period before the transition to a company with Audit and Supervisory Committee.
2. 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.
3. The maximum amount of basic remuneration paid to Directors (Audit & Supervisory Committee Members) was set at 50 million yen per year (includes executive bonuses) by a resolution approved at the 35th General Meeting of Shareholders held on January 27, 2016.
4. The above remuneration amounts and number of officers include one Director and one External Corporate Auditor who retired at the conclusion of the 35th General Meeting of Shareholders.

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

Name	Officer category	Company	Total amounts by category of consolidated remuneration (millions of yen)			Total amount of consolidated remuneration (millions of yen)
			Basic remuneration	Bonuses	Provision for Directors' retirement benefits	
Hideo Sawada	Director	Filing Company	36	12	7	113
	Director	Huis Ten Bosch Co., Ltd.	57	—	—	

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

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

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

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

As an advisory body to the Board of Directors, the Remuneration Committee, until the end of the fiscal year under review (ended October 31, 2016), comprised three Internal Directors and two independent External Directors, and the Representative Director and President acted as chairman.

From November 1, 2016, the Consolidated Group Strategy Meeting presided over by the Consolidated Group Management HQ, became the Remuneration Committee in instances when such a Meeting exclusively deliberated on matters determined by the Remuneration Committee including individual remuneration for Company Directors (excluding Directors serving as Audit and Supervisory Committee Members), individual remuneration for Corporate Officers (including Senior Corporate Officers), the total amount of officers' bonuses, and other matters deemed appropriate. The Consolidated Group Strategy Meeting is considered a Remuneration Committee only when participating members are limited to Directors and Directors serving as Audit and Supervisory Committee Members (or External Directors).

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

6) Number of Directors

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

7) Requirements for a Resolution to Appoint Directors

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

8) Year-end Dividend and Interim Dividend

(I) Year-end dividend

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

(II) Interim dividend

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

9) Acquisition of Treasury Shares

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

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

Regarding Directors (including those who were Directors) and accounting auditors’ (including those who were accounting auditors) liability for damages to the Company due to negligence, based on Article 426, Paragraph 1 of the Companies Act, the Articles of Incorporation stipulate that “subject to the resolution of the Board of Directors, exemption from liability is possible to the limit the laws and regulations allow.” The purpose of this provision is to create an environment in which Directors and accounting auditors are able to make sufficient use of their capabilities and fulfill the role expected of them.

The provision of the Articles of Incorporation regarding Corporate Auditor’s (including those who were Corporate Auditors) partial exemption from liability for damages effective until the conclusion of the 35th General Meeting of Shareholders held on January 27, 2016, continues to be effective at present for those who were Corporate Auditors then, and the provision’s content is equivalent to that of the partial exemption from liability for damages stated above.

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, 2015 and October 31, 2016, total amounts of dividends received associated with such stocks, and gains and losses on sale and valuation of such stocks

	Year ended October 31, 2015 (millions of yen)	Year ended October 31, 2016 (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	56	95	—	0	(Note)
Stocks other than above	303	267	3	—	61

(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	Fiscal year ended October 31, 2015		Fiscal year ended October 31, 2016	
	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	61	3	71	15
Consolidated subsidiaries	48	—	48	2
Total	109	3	119	18

2) Details of other significant fees

(Fiscal year ended October 31, 2015)

There are no applicable matters to report.

(Fiscal year ended October 31, 2016)

There are no applicable matters to report.

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

(Fiscal year ended October 31, 2015)

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

(Fiscal year ended October 31, 2016)

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

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, 2015 to October 31, 2016; the 36th fiscal year).

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

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

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

(millions of yen)

	Year ended October 31, 2015 (As of October 31, 2015)	Year ended October 31, 2016 (As of October 31, 2016)
Assets		
Current assets		
Cash and deposits	*1 136,316	*1 159,011
Accounts receivable - trade	18,430	24,063
Operating accounts receivable	8,279	8,084
Securities	14,322	2,998
Travel advance payments	22,010	24,387
Prepaid expenses	2,474	2,583
Deferred tax assets	2,619	2,628
Short-term loans receivable	109	65
Short-term loans receivable from subsidiaries and affiliates	71	78
Accounts receivable - other	2,780	3,001
Other	5,686	6,705
Allowance for doubtful accounts	(122)	(77)
Total current assets	212,979	233,531
Non-current assets		
Property, plant and equipment		
Buildings	26,681	27,324
Accumulated depreciation	(13,213)	(12,974)
Buildings, net	*1, *5 13,467	*1, *5 14,349
Tools, furniture and fixtures	13,054	12,222
Accumulated depreciation	(8,563)	(7,861)
Tools, furniture and fixtures, net	4,490	*5 4,360
Vessels	5,469	2,127
Accumulated depreciation	(1,139)	(1,155)
Vessels, net	4,329	971
Land	*1, *2 23,032	*1, *2 23,441
Leased assets	4,809	5,067
Accumulated depreciation	(2,008)	(2,262)
Leased assets, net	2,800	2,804
Other	20,737	24,854
Accumulated depreciation	(8,096)	(8,490)
Other, net	*1, *5 12,641	*1, *5 16,363
Total property, plant and equipment	60,761	62,291
Intangible assets	5,003	5,556
Investments and other assets		
Investment securities	1,864	1,704
Shares of subsidiaries and affiliates	6,844	6,681
Investments in capital of subsidiaries and affiliates	55	74
Long-term loans receivable	*6 7,661	*6 6,557
Long-term loans receivable from subsidiaries and affiliates	85	85
Net defined benefit asset	355	318
Deferred tax assets	3,110	3,355
Guarantee deposits	6,501	6,758
Other	2,987	5,492
Allowance for doubtful accounts	(207)	(206)
Total investments and other assets	29,260	30,822
Total non-current assets	95,025	98,670
Deferred assets	241	183
Total assets	308,245	332,385

(millions of yen)

	Year ended October 31, 2015 (As of October 31, 2015)	Year ended October 31, 2016 (As of October 31, 2016)
Liabilities		
Current liabilities		
Operating accounts payable	21,368	18,744
Short-term loans payable	*1, *3 6,860	*1, *3 8,915
Current portion of long-term loans payable	*1, *4 21,515	*1, *4 583
Accounts payable - other	3,512	2,487
Accrued expenses	2,907	3,004
Income taxes payable	3,369	829
Accrued consumption taxes	1,034	595
Travel advance received	50,711	53,293
Lease obligations	834	925
Provision for bonuses	3,387	2,951
Provision for directors' bonuses	161	106
Other	*1 7,330	*1 10,368
Total current liabilities	122,993	102,805
Non-current liabilities		
Bonds payable	20,000	20,000
Convertible bond-type bonds with share subscription rights	20,153	20,113
Long-term loans payable	*1, *4 14,319	*1 77,042
Deferred tax liabilities	*2 4,868	*2 4,754
Net defined benefit liability	6,009	6,886
Provision for directors' retirement benefits	747	788
Provision for repairs	1,023	761
Lease obligations	2,486	2,283
Other	*1 1,653	*1 1,808
Total non-current liabilities	71,261	134,440
Total liabilities	194,254	237,245
Net assets		
Shareholders' equity		
Capital stock	11,000	11,000
Capital surplus	3,665	3,665
Retained earnings	82,150	80,988
Treasury shares	(2,535)	(14,162)
Total shareholders' equity	94,280	81,491
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	49	(152)
Deferred gains or losses on hedges	(449)	(546)
Foreign currency translation adjustment	5,878	(744)
Remeasurements of defined benefit plans	(230)	(455)
Total accumulated other comprehensive income	5,248	(1,899)
Share subscription rights	—	77
Non-controlling interests	14,461	15,470
Total net assets	113,990	95,139
Total liabilities and net assets	308,245	332,385

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

(millions of yen)

	Year ended October 31, 2015 (November 1, 2014 to October 31, 2015)	Year ended October 31, 2016 (November 1, 2015 to October 31, 2016)
Net sales	537,456	523,705
Cost of sales	429,201	418,661
Gross profit	108,254	105,044
Selling, general and administrative expenses	*1 88,284	*1 90,769
Operating income	19,970	14,274
Non-operating income		
Interest income	1,155	1,693
Foreign exchange gains	1,109	—
Share of profit of entities accounted for using equity method	77	—
Subsidy income	305	350
Other	1,124	954
Total non-operating income	3,772	2,998
Non-operating expenses		
Interest expenses	265	337
Foreign exchange losses	—	6,798
Share of loss of entities accounted for using equity method	—	751
Other	792	737
Total non-operating expenses	1,057	8,624
Ordinary income	22,685	8,648
Extraordinary losses		
Loss on sales of investment securities	484	—
Impairment loss	—	*2 3,541
Total extraordinary losses	484	3,541
Profit before income taxes	22,200	5,107
Income taxes - current	8,447	4,103
Income taxes - deferred	(272)	(301)
Total income taxes	8,175	3,801
Profit	14,025	1,305
Profit attributable to non-controlling interests	3,134	1,038
Profit attributable to owners of parent	10,890	267

Consolidated Statements of Comprehensive Income

(millions of yen)

	Year ended October 31, 2015 (November 1, 2014 to October 31, 2015)	Year ended October 31, 2016 (November 1, 2015 to October 31, 2016)
Profit	14,025	1,305
Other comprehensive income		
Valuation difference on available-for-sale securities	(272)	(204)
Deferred gains or losses on hedges	(1,245)	(95)
Foreign currency translation adjustment	2,148	(5,906)
Remeasurements of defined benefit plans	27	(227)
Share of other comprehensive income of affiliates accounted for by the equity method	(100)	(799)
Total other comprehensive income	* 558	* (7,234)
Comprehensive income	14,583	(5,928)
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	11,296	(6,880)
Comprehensive income attributable to non-controlling interests	3,287	951

3) Consolidated Statement of Changes in Equity

Year ended October 31, 2015 (November 1, 2014 to October 31, 2015)

(millions of yen)

	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at start of the year	6,882	7,782	71,612	(2,533)	83,743
Cumulative effects of changes in accounting policies			818		818
Balance at start of the year reflecting changes in accounting policies	6,882	7,782	72,430	(2,533)	84,562
Changes of items during the year					
Dividends from surplus			(1,167)		(1,167)
Profit attributable to owners of parent			10,890		10,890
Acquisition of treasury shares				(1)	(1)
Disposal of treasury shares					—
Change of scope of consolidation			(4)		(4)
Increase/decrease of share in relation to capital increase of consolidated subsidiaries					—
Transfer from capital surplus to capital stock	4,117	(4,117)			—
Change in ownership interest of parent due to transactions with non-controlling interests					—
Net changes of items other than shareholders' equity					—
Total changes of items during the year	4,117	(4,117)	9,719	(1)	9,717
Balance at end of the year	11,000	3,665	82,150	(2,535)	94,280

	Accumulated other comprehensive income					Share subscription rights	Non-controlling interests	Total net assets
	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Foreign currency translation adjustment	Remeasurements of defined benefit plans	Total accumulated other comprehensive income			
Balance at start of the year	324	790	3,902	(173)	4,843	—	13,708	102,295
Cumulative effects of changes in accounting policies					—		374	1,192
Balance at start of the year reflecting changes in accounting policies	324	790	3,902	(173)	4,843	—	14,082	103,488
Changes of items during the year								
Dividends from surplus					—			(1,167)
Profit attributable to owners of parent					—			10,890
Acquisition of treasury shares					—			(1)
Disposal of treasury shares					—			—
Change of scope of consolidation					—			(4)
Increase/decrease of share in relation to capital increase of consolidated subsidiaries					—			—
Transfer from capital surplus to capital stock					—			—
Change in ownership interest of parent due to transactions with non-controlling interests					—			—
Net changes of items other than shareholders' equity	(274)	(1,240)	1,976	(56)	405	—	379	784
Total changes of items during the year	(274)	(1,240)	1,976	(56)	405	—	379	10,502
Balance at end of the year	49	(449)	5,878	(230)	5,248	—	14,461	113,990

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

(millions of yen)

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

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

4) Consolidated Statements of Cash Flows

(millions of yen)

	Year ended October 31, 2015 (November 1, 2014 to October 31, 2015)	Year ended October 31, 2016 (November 1, 2015 to October 31, 2016)
Cash flows from operating activities		
Profit before income taxes	22,200	5,107
Depreciation	6,310	6,544
Impairment loss	—	3,541
Amortization of goodwill	193	201
Increase (decrease) in provision for bonuses	360	(324)
Increase (decrease) in provision for directors' bonuses	17	(49)
Increase (decrease) in net defined benefit liability	782	619
Increase (decrease) in provision for directors' retirement benefits	8	44
Increase (decrease) in provision for repairs	(434)	(259)
Interest and dividend income	(1,163)	(1,737)
Share of (profit) loss of entities accounted for using equity method	(77)	751
Foreign exchange losses (gains)	(743)	3,616
Interest expenses	265	337
Loss (gain) on sales of investment securities	484	(0)
Other loss (gain)	124	33
Decrease (increase) in notes and accounts receivable - trade	(3,191)	(6,526)
Decrease (increase) in travel advance payments	1,423	(2,911)
Decrease (increase) in other assets	(2,469)	(1,230)
Increase (decrease) in notes and accounts payable - trade	(1,509)	(1,593)
Increase (decrease) in accrued consumption taxes	193	(317)
Increase (decrease) in accrued expenses	273	150
Increase (decrease) in travel advances received	40	3,704
Increase (decrease) in other liabilities	689	1,508
Subtotal	23,777	11,210
Interest and dividend income received	1,049	1,479
Interest expenses paid	(246)	(309)
Income taxes (paid) refund	(11,983)	(7,229)
Net cash provided by (used in) operating activities	12,597	5,149

(millions of yen)

	Year ended October 31, 2015 (November 1, 2014 to October 31, 2015)	Year ended October 31, 2016 (November 1, 2015 to October 31, 2016)
Cash flows from investing activities		
Payments into time deposits	(53,732)	(57,392)
Proceeds from withdrawal of time deposits	54,621	49,732
Purchase of securities	(2,000)	(3,000)
Proceeds from redemption of securities	2,043	13,345
Purchase of property, plant and equipment and intangible assets	(15,345)	(13,309)
Purchase of investment securities	(2,137)	(1,234)
Proceeds from sales of investment securities	150	969
Proceeds from redemption of investment securities	800	—
Purchase of shares of subsidiaries and affiliates	(5,660)	(1,696)
Purchase of shares of subsidiaries resulting in change in scope of consolidation	—	(180)
Payments of loans receivable	(7,429)	(1,632)
Collection of loans receivable	1,148	1,674
Payments for guarantee deposits	(1,083)	(837)
Proceeds from collection of guarantee deposits	710	512
Other, net	(263)	(2,391)
Net cash provided by (used in) investing activities	(28,177)	(15,440)
Cash flows from financing activities		
Increase in short-term loans payable	37,255	80,055
Decrease in short-term loans payable	(31,745)	(78,000)
Proceeds from long-term loans payable	13,065	63,465
Repayments of long-term loans payable	(1,562)	(21,673)
Purchase of treasury shares	(2)	(11,791)
Cash dividends paid	(1,167)	(1,426)
Dividends paid to non-controlling interests	(33)	(94)
Proceeds from share issuance to non-controlling shareholders	1,080	74
Other, net	(637)	(426)
Net cash provided by (used in) financing activities	16,253	30,181
Effect of exchange rate change on cash and cash equivalents	1,636	(3,460)
Net increase (decrease) in cash and cash equivalents	2,309	16,430
Cash and cash equivalents at beginning of period	110,145	113,330
Increase in cash and cash equivalents from newly consolidated subsidiary	875	81
Cash and cash equivalents at end of period	* 113,330	* 129,842

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 81 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 year ended October 31, 2016, subsidiary HTB ENERGY CO., LTD. has been included in the scope of consolidation owing to its increased significance.

The newly established INTERPARK TOUR JAPAN Co., Ltd. has been included in the scope of consolidation.

Furthermore, Activity Japan Co., Ltd. was converted into a subsidiary following a share acquisition by the Company in the year ended October 31, 2016, and has been included in the scope of consolidation accordingly.

(2) Non-consolidated subsidiaries

The Company has 26 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 four 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.”

LY-HIS TRAVEL Co. Ltd. became an affiliate following a share acquisition by the Company in the year ended October 31, 2016, and has been included in the scope of equity-method applicable companies accordingly.

(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 26 non-consolidated subsidiaries and the 10 affiliates not accounted for by the equity method are of such a level that removing them from the consolidated financial statements has only a negligible effect. Since they are not significant as a whole, they are excluded from the scope of equity-method applicable companies. The principle subsidiary in this category is listed below.

[Subsidiaries]

• H.I.S TRAVEL EGYPT

3. Fiscal years, etc. of consolidated subsidiaries

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

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

The following domestic consolidated subsidiaries have fiscal years ending on September 30: Huis Ten Bosch Co., Ltd.; Huis Ten Bosch Technical Center Co., Ltd.; H.T.B Tourism Co., Ltd.; HTB ENERGY CO., LTD.; LAGUNA TEN BOSCH CO., LTD.; ORION TOUR CO., LTD.; Travel Marche Co., Ltd.; O.T.B. Co., Ltd.; The Watermark Hotel Nagasaki Co., Ltd.; Japan Holiday Travel CO., LTD.; H.I.S. ANA Navigation JAPAN Co. Ltd.; INTERPARK TOUR JAPAN Co., Ltd.; Activity Japan 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.

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 (straight-line method).

Available-for-sale securities

Securities with a determinable fair market value

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

Securities without a determinable fair market value

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

2) Derivatives

Stated at fair market value.

(2) Depreciation method for significant assets

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

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

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

Buildings	2–65 years
Tools, furniture and fixtures	2–20 years
Vessels	5–25 years

2) Intangible fixed assets (excluding lease assets)

The straight-line method is applied.

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

3) Lease assets

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

(3) Accounting standards for significant provisions

1) Allowance for doubtful accounts

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

2) Provision for bonuses

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

3) Provision for Directors' bonuses

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

4) Provision for Directors' retirement benefits

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

5) Provision for repairs

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

(4) Accounting treatment method for retirement benefits

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.

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

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

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

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

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

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

(6) Accounting method for significant hedging transactions

1) Hedging methods

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

2) Hedging instruments and hedged items

a. Hedging instruments: Forward exchange contracts, currency options

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

b. Hedging instruments: Interest rate swaps

Hedged items: Loans

3) Hedging policy

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

4) Evaluation of hedge effectiveness

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

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

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

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

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

Accounting for consumption taxes

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

[Changes in accounting policies]

[Application of accounting standards for business combinations, etc.]

From the year ended October 31, 2016, the Company has applied the Revised Accounting Standard for Business Combinations (ASBJ Statement No. 21 issued on September 13, 2013; the Business Combinations Accounting Standard), the Revised Accounting Standard for Consolidated Financial Statements (ASBJ Statement No. 22 issued on September 13, 2013; the Consolidated Accounting Standard), the Revised Accounting Standard for Business Divestitures (ASBJ Statement No. 7 issued on September 13, 2013; the Business Divestitures Accounting Standard), etc. The accounting standards reflect a switch in methodology with respect to the posting to capital surplus of differences arising from changes in equity in a subsidiary by the Company in cases in which control continues, and the posting of acquisition-related expenses as expenses during the year in which they are incurred. For business combinations occurring after the start of the year ended October 31, 2016, the Company has switched to a method in which revisions to the distribution of the cost of the acquisition due to decisions regarding temporary accounting treatment are reflected in the consolidated financial statements applicable to the year in which the date of the business combination falls. Additionally, the Company has made changes in the presentation of profit, etc., and switched its presentation from minority interests to non-controlling interests. Consolidated financial statements for the year ended October 31, 2015 have been reconfigured to reflect these changes in presentation.

The Business Combinations Accounting Standard, etc., is applied from the start of the year ended October 31, 2016 in accordance with the transitional treatment prescribed in Paragraph 58-2(4) of the Business Combinations Accounting Standard, Paragraph 44-5(4) of the Consolidation Accounting Standard, and Paragraph 57-4(4) of the Business Divestitures Accounting Standard.

Within the consolidated statements of cash flows for the year ended October 31, 2016, the Company records cash flows related to the acquisition and sale of shares in a subsidiary that are not accompanied by changes in the scope of consolidation under "cash flows from financing activities." Expenses related to the acquisition of shares in a subsidiary that are accompanied by

changes in the scope of consolidation, as well as cash flows related to expenses arising from the acquisition or sale of shares in a subsidiary that are not accompanied by changes in the scope of consolidation, are recorded under “cash flows from operating activities.”

In the year ended October 31, 2016, the impact of these changes on the consolidated financial statements is minimal.

[Application of Practical Solution on a Change in Depreciation Method due to Tax Reform 2016]

In the year ended October 31, 2016, the Company has applied the Practical Solution on a Change in Depreciation Method due to Tax Reform 2016 (ASBJ PITF No. 32 issued on June 17, 2016) in conjunction with a revision of the Corporation Tax Act, and it has switched its depreciation method for structures and facilities and attached to buildings acquired on or after April 1, 2016 from the declining balance method to the straight-line method.

The impact of these changes on the consolidated financial statements is minimal.

[Changes in presentation]

[Consolidated Income Statement]

“Subsidy income” (350 million yen in the year ended October 31, 2016), which was included in “Other” under “Non-operating income” in the year ended October 31, 2015, is reported as an independent item due to its increased monetary importance.

To reflect this change in presentation, the Company has reconfigured its consolidated financial statements for the year ended October 31, 2015. As a result, 1,429 million yen reported in “Other” under “Non-operating income” in the year ended October 31, 2015 has been reclassified as 305 million yen for “Subsidy income” and 1,124 million yen for “Other.”

“Losses on valuation of derivatives” (114 million yen in the year ended October 31, 2016), which was included as an item under “Non-operating income” in the year ended October 31, 2015, is included in “Other” under “Non-operating income” from the year ended October 31, 2016 because its amount has become immaterial. As a result, 166 million yen reported in “Losses on valuation of derivatives” under “Non-operating income” in the year ended October 31, 2015 has been reclassified under “Other.”

[Additional information]

[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.” As of October 31, 2016, the total amount of such shares was 456,000 and their book value was 1,403 million yen.

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

1,430 million yen as of October 31, 2016.

[Consolidated balance sheet]

*1. Pledged assets

Assets pledged as collateral are shown below.

(millions of yen)

	Year ended October 31, 2015 (As of October 31, 2015)	Year ended October 31, 2016 (As of October 31, 2016)
Cash and deposits	46	46
Buildings	204	198
Land	18,329	18,329
Property, plant and equipment (Other)	1,965	1,961

Secured liabilities are shown below.

(millions of yen)

	Year ended October 31, 2015 (As of October 31, 2015)	Year ended October 31, 2016 (As of October 31, 2016)
Short-term loans payable	1,600	400
Current portion of long-term loans payable	1,345	353
Long-term loans payable	353	609
Current liabilities (Other)	5	5
Fixed liabilities (Other)	15	15

The Company pledged cash and cash deposits of 781 million yen as collateral for bank guarantees in the year ended October 31, 2015. In year ended October 31, 2016, it pledged cash and cash deposits of 569 million yen as collateral for bank guarantees.

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

(millions of yen)

	Year ended October 31, 2015 (As of October 31, 2015)	Year ended October 31, 2016 (As of October 31, 2016)
Land	13,532	13,532
Deferred tax liabilities	4,875	4,837

*3. Overdraft agreements

Consolidated subsidiaries KYUSHU INDUSTRIAL TRANSPORTATION HOLDINGS CO., LTD., Kyushu Sanko Landmark Co., Ltd., Kumamoto Sakuramachi Development Co., Ltd., and Japan Holiday Travel CO., LTD. have concluded overdraft agreements with 11 banks to ensure efficient procurement of working capital. Unexecuted borrowings based on such agreements at the end of the years ended October 31, 2015 and October 31, 2016 are shown below.

(millions of yen)

	Year ended October 31, 2015 (As of October 31, 2015)	Year ended October 31, 2016 (As of October 31, 2016)
Maximum overdraft limit	10,800	11,325
Outstanding borrowings	6,860	8,875
Difference	3,940	2,450

*4. Financial covenants

Consolidated subsidiary KYUSHU INDUSTRIAL TRANSPORTATION HOLDINGS CO., LTD., has concluded syndicated loan agreements with several financial institutions. The loans payable, etc., shown below are subject to financial covenants. If these are breached, the Company may be required to forfeit the corresponding benefit of time.

[Loans payable, etc.]

(millions of yen)

	Year ended October 31, 2015 (As of October 31, 2015)	Year ended October 31, 2016 (As of October 31, 2016)
Current portion of long-term loans payable	1,264	316
Long-term loans payable	316	—
Total	1,580	316

*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, 2015 (As of October 31, 2015)	Year ended October 31, 2016 (As of October 31, 2016)
Buildings	22	124
Tools, furniture and fixtures	—	9
Other tangible fixed assets	374	638
Total	396	772

*6. Other

Year ended October 31, 2015 (As of October 31, 2015)

Of the 7,661 million yen in long-term loans receivable, 7,347 million yen (60 million US dollar) is owed by the Mongolia-based bank Khan Bank LLC. The bank is a consolidated subsidiary of Sawada Holdings Co., Ltd. (Representative Director and President Hideo Sawada).

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

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

[Consolidated 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, 2015 (November 1, 2014 to October 31, 2015)	Year ended October 31, 2016 (November 1, 2015 to October 31, 2016)
Salaries and allowances	29,829	31,278
Bonuses	2,873	2,630
Provision for bonuses	2,851	2,485
Directors' bonuses	21	21
Provision of reserve for directors' bonuses	147	105
Retirement benefit expenses	715	798
Provision of reserve for directors' retirement benefits	71	79
Legal welfare expenses	4,849	5,112
Advertising expenses	12,969	12,647
Rent expenses	5,296	5,618
Depreciation and amortization	4,565	5,279
Provision of allowance for doubtful accounts	55	7
Provision of reserve for repairs	106	15

*2. Impairment losses

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

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

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

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

[Consolidated Statement of Comprehensive Income]

* Reclassification adjustments and tax effects relating to other comprehensive income

(millions of yen)

	Year ended October 31, 2015 (November 1, 2014 to October 31, 2015)	Year ended October 31, 2016 (November 1, 2015 to October 31, 2016)
Valuation difference on available-for-sale securities:		
Amount arising during the year	(917)	(299)
Reclassification adjustments	489	5
Before tax effect adjustment	(427)	(294)
Tax effect amount	155	89
Valuation difference on available-for-sale securities	(272)	(204)
Deferred gains or losses on hedges:		
Amount arising during the year	(1,902)	(112)
Reclassification adjustments	—	—
Before tax effect adjustment	(1,902)	(112)
Tax effect amount	656	16
Deferred gains or losses on hedges	(1,245)	(95)
Foreign currency translation adjustment:		
Amount arising during the year	2,148	(5,906)
Reclassification adjustments	—	—
Before tax effect adjustment	2,148	(5,906)
Tax effect amount	—	—
Foreign currency translation adjustment	2,148	(5,906)
Remeasurements of defined benefit plans:		
Amount arising during the year	(143)	(478)
Reclassification adjustments	230	116
Before tax effect adjustment	87	(362)
Tax effect amount	(59)	134
Remeasurements of defined benefit plans	27	(227)
Share of other comprehensive income of entities accounted for using equity method:		
Amount arising during the fiscal year	(100)	(799)
Reclassification adjustments	—	—
Share of other comprehensive income of affiliates accounted for by the equity method	(100)	(799)
Total other comprehensive income	558	(7,234)

[Consolidated statement of changes in equity]

Year ended October 31, 2015 (November 1, 2014 to October 31, 2015)

1. Types and number of issued shares and treasury shares

	Number of shares as of November 1, 2014	Increase during the year	Decrease during the year	Number of shares as of October 31, 2015
Issued shares				
Common stock	68,522,936	—	—	68,522,936
Total	68,522,936	—	—	68,522,936
Treasury shares				
Common stock (Note)	3,673,396	420	—	3,673,816
Total	3,673,396	420	—	3,673,816

(Note) The number of common stock of treasury shares increased by 420 shares, reflecting a purchase of shares constituting less than one unit.

2. Dividends

(1) Dividends paid

Resolution	Type of shares	Total amount of dividends (millions of yen)	Dividend per share (yen)	Record date	Effective Date
Annual General Meeting of Shareholders held on January 29, 2015	Common stock	1,167	18.00	October 31, 2014	January 30, 2015

(2) Dividends whose record date falls in the year ended October 31, 2015, and whose effective date falls in the next year

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

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

1. Types and number of issued shares and treasury shares

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

(Notes)

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

2. Share subscription rights and treasury share subscription rights

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

3. Dividends

(1) Dividends paid

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

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

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

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

[Consolidated Statement of Cash Flows]

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

(millions of yen)

	Year ended October 31, 2015 (November 1, 2014 to October 31, 2015)	Year ended October 31, 2016 (November 1, 2015 to October 31, 2016)
Cash and deposits account	136,316	159,011
Marketable securities account	14,322	2,998
Time deposits with maturities of more than three months	(23,985)	(29,168)
Marketable securities whose maturity date falls within one year	(13,321)	(2,998)
Cash and cash equivalents	113,330	129,842

[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, 2015 (As of October 31, 2015)	Year ended October 31, 2016 (As of October 31, 2016)
Due within one year	662	295
Due after one year	953	1,449
Total	1,615	1,745

[Lessor]

Future lease receivables related to non-cancelable operating leases

(millions of yen)

	Year ended October 31, 2015 (As of October 31, 2015)	Year ended October 31, 2016 (As of October 31, 2016)
Due within one year	126	126
Due after one year	1,396	1,270
Total	1,522	1,396

[Financial instruments]

1. Conditions of financial instruments

(1) Policy for handling financial instruments

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

(2) Type and risk of financial instruments

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

Marketable and investment securities mainly consist of held-to-maturity bonds and stocks, which are exposed to the risk of market price fluctuations and credit risk from issuers.

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

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

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

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

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

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

(3) Risk management for financial instruments

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

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

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

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

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

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

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

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

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

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

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

2. Fair value of financial instruments, etc.

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

Year ended October 31, 2015 (As of October 31, 2015)

	Amount recorded on balance sheet (millions of yen)	Fair value (millions of yen)	Difference (millions of yen)
(1) Cash and deposits	136,316	136,316	—
(2) Accounts receivable - trade (*1)	18,342	18,342	—
(3) Operating accounts receivable	8,279	8,279	—
(4) Marketable and investment securities	13,463	13,463	—
Available-for-sale securities	13,463	13,463	—
(5) Short-term loans receivable	109	109	—
(6) Short-term loans receivable from subsidiaries and affiliates	71	71	—
(7) Account receivable - other (*1)	2,756	2,756	—
(8) Long-term loans receivable	7,661	7,837	175
(9) Long-term loans receivable from subsidiaries and affiliate	85	85	—
(10) Guarantee deposits	4,809	4,789	(20)
Total assets	191,896	192,051	154
(1) Operating accounts payable	21,368	21,368	—
(2) Short-term loans payable	6,860	6,860	—
(3) Accounts payable - other	3,512	3,512	—
(4) Income taxes payable	3,369	3,369	—
(5) Accrued consumption tax	1,034	1,034	—
(6) Corporate bonds	20,000	20,143	143
(7) Convertible bond-type bonds with share subscription rights	20,153	20,100	(52)
(8) Long-term loans payable (including within one year)	35,834	35,867	32
(9) Lease obligations (including within one year)	3,320	3,189	(131)
Total liabilities	115,454	115,445	(8)
Derivatives transactions (*2)	(438)	(438)	—

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

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

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

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

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

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

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

Assets

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

(4) Marketable and investment securities

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

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

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

(10) Guarantee deposits

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

Liabilities

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

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

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

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

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

Derivatives transactions

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

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

(millions of yen)

Classification	Year ended October 31, 2015 (As of October 31, 2015)	Year ended October 31, 2016 (As of October 31, 2016)
Marketable and investment securities		
Unlisted stocks, etc. (*1)	2,723	836
Shares of subsidiaries and affiliates		
Unlisted stocks, etc. (*2)	6,844	6,681
Investments in capital of subsidiaries and affiliates (*3)	55	74
Guarantee deposits (*4)	1,691	1,813

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

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

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

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

Note: 3. Redemption schedule for monetary receivables and securities with maturity after the consolidated closing date
Year ended October 31, 2015 (As of October 31, 2015)

	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	136,316	—	—	—
Accounts receivable - trade	18,430	—	—	—
Operating accounts receivable	8,279	—	—	—
Marketable and investment securities				
Securities held to maturity				
(1) Corporate bonds	56	300	—	960
Available-for-sale securities with maturities				
(1) Japanese government bonds, Japanese local bonds, etc.	288	—	—	—
(2) Corporate bonds	11,000	50	—	—
(3) Other	2,000	—	—	—
Short-term loans receivable	109	—	—	—
Short-term loans receivable from subsidiaries and affiliates	71	—	—	—
Accounts receivable - other	2,780	—	—	—
Long-term loans receivable	—	7,597	63	—
Long-term loans receivable from subsidiaries and affiliates	—	85	—	—

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

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

	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	159,011	—	—	—
Accounts receivable - trade	24,063	—	—	—
Operating accounts receivable	8,084	—	—	—
Marketable and investment securities				
Securities held to maturity				
(1) Corporate bonds	300	—	—	—
Available-for-sale securities with maturities				
(1) Corporate bonds	3,000	50	—	—
Short-term loans receivable	65	—	—	—
Short-term loans receivable from subsidiaries and affiliates	78	—	—	—
Accounts receivable - other	3,001	—	—	—
Long-term loans receivable	—	6,373	183	—
Long-term loans receivable from subsidiaries and affiliates	—	73	12	—

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

Note: 4. Repayment schedule for corporate bonds, long-term loans and lease obligations after the consolidated closing date
Year ended October 31, 2015 (As of October 31, 2015)

	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	6,860	—	—	—	—	—
Corporate bonds	—	—	—	10,000	—	10,000
Convertible bond-type bonds with share subscription rights	—	—	—	20,000	—	—
Long-term loans payable (including within one year)	21,515	489	801	10,028	—	3,000
Lease obligations (including within one year)	834	819	601	483	234	347
Total	29,209	1,308	1,403	40,512	234	13,347

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

	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	8,915	—	—	—	—	—
Corporate bonds	—	—	10,000	—	10,000	—
Convertible bond-type bonds with share subscription rights	—	—	20,000	—	—	—
Long-term loans payable (including within one year) (*)	583	1,770	10,728	30,079	1,465	33,000
Lease obligations (including within one year)	925	706	605	318	288	364
Total	10,423	2,477	41,333	30,397	11,754	33,364

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

[Marketable securities]

1. Bonds held to maturity

Year ended October 31, 2015 (As of October 31, 2015)

There are no applicable matters to report.

In addition, corporate bonds (1,316 million yen recorded on the balance sheet) have no market prices, and it is deemed extremely difficult to determine their fair values. Accordingly, they are not presented.

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

There are no applicable matters to report.

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

2. Available-for-sale securities

Year ended October 31, 2015 (As of October 31, 2015)

	Type	Amount recorded on balance sheet (millions of yen)	Acquisition price (millions of yen)	Difference (millions of yen)
Balance sheet amount above acquisition price	(1) Stocks	197	99	98
	(2) Bonds	—	—	—
	(3) Other	—	—	—
	Subtotal	197	99	98
Balance sheet amount below acquisition price	(1) Stocks	—	—	—
	(2) Bonds	13,265	13,478	(213)
	(3) Other	—	—	—
	Subtotal	13,265	13,478	(213)
Total		13,463	13,578	(115)

Note: Unlisted stocks (1,406 million yen recorded on the balance sheet) have no market prices, and it is deemed extremely difficult to determine their fair values. Accordingly, they are not included in “Available-for-sale securities” in the previous table.

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

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

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

3. Available-for-sale securities that were sold

Year ended October 31, 2015 (November 1, 2014 to October 31, 2015)

Type	Proceeds from sales (millions of yen)	Gains on sales (millions of yen)	Losses on sales (millions of yen)
(1) Stocks	150	0	484
(2) Bonds	—	—	—
(3) Other	—	—	—
Total	150	0	484

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

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

[Derivatives transactions]

1. Derivatives transactions for which hedge accounting is not applied

(1) Currency-related transactions

Year ended October 31, 2015 (As of October 31, 2015)

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	1,388	—	102	102
	EUR	363	—	(12)	(12)
	SGD	25	—	1	1
	CAD	12	—	(0)	(0)
	Currency options				
Sold					
USD	222	—	(0)	(0)	
Bought					
USD	222	—	3	3	
Total		2,234	—	94	94

Note: Calculation method of fair value

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

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

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	1,854	—	(25)	(25)
	EUR	300	—	(0)	(0)
	GBP	38	—	2	2
	Bought				
	USD	221	88	(10)	(10)
	EUR	18	—	(1)	(1)
	SGD	24	24	(0)	(0)
	AUD	58	40	0	0
CAD	1,783	11	(13)	(13)	
Currency options	Sold				
	USD	14,236	—	(871)	(871)
	Bought				
USD	14,236	—	64	64	
Total		32,771	164	(856)	(856)

Note: Calculation method of fair value

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

(2) Commodity-related transactions

Year ended October 31, 2015 (As of October 31, 2015)

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	777	619	152	152
Total		777	619	152	152

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.

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

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	604	432	(198)	(198)
Total		604	432	(198)	(198)

Note: Calculation method of fair value

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

2. Derivative transactions for which hedge accounting is applied

Currency-related transaction

Year ended October 31, 2015 (As of October 31, 2015)

Hedge accounting method	Transaction type	Major hedged items	Year ended October 31, 2015 (As of October 31, 2015)		
			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	806	—	6
	Bought				
	USD		19,209	—	(352)
	EUR		99	—	(1)
	SGD	Operating accounts payable	111	—	(3)
	AUD		535	—	(32)
	CAD		13	—	(1)
	THB		17	—	(1)
NZD		15	—	0	
	Currency options				
Sold					
USD	Operating accounts payable		27,757	—	(674)
Bought					
USD			27,757	—	374
Designated hedge accounting (<i>furiate shori</i>) for forward exchange contracts, etc.	Forward exchange contracts				
	Sold				
	JPY	Accounts receivable - trade	382	—	
	THB		248	—	
	Bought				
	USD		3,191	—	
	EUR	Operating accounts payable	347	—	
	SGD		51	—	
	AUD		94	—	
	THB		4	—	
	Currency options				
Sold					
USD	Operating accounts payable		1,202	—	
Bought					
USD			1,202	—	
Total			83,047	—	(685)

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.”

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

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

(Notes)

1. Calculation method of fair value

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

2. Those items subject to designated hedge accounting (*furiate shori*) for forward exchange contracts are treated together with hedged “Accounts receivable – trade” and “Operating accounts payable.” Accordingly, their fair values are included in the fair values of the related “Accounts receivable – trade” and “Operating accounts payable.”

[Provision for employee retirement benefits]

1. Outline of adopted employee retirement benefit plans

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

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

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

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

2. Defined benefit plan

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

	Year ended October 31, 2015 (November 1, 2014 to October 31, 2015)	Year ended October 31, 2016 (November 1, 2015 to October 31, 2016)
Retirement benefit obligation at beginning of year	8,528	7,299
Cumulative effect of changes in accounting policies	(1,635)	—
Retirement benefit obligation at beginning of year reflecting changes in accounting policies	6,893	7,299
Service cost	772	844
Interest cost	52	48
Actuarial differences	162	459
Retirement benefits paid	(585)	(468)
Foreign currency translation gains	4	(24)
Projected benefit obligation at end of year	7,299	8,159

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, 2015 (November 1, 2014 to October 31, 2015)	Year ended October 31, 2016 (November 1, 2015 to October 31, 2016)
Pension assets at beginning of year	1,583	1,645
Expected return on plan assets	31	32
Actuarial differences	16	(98)
Amount of employer contribution	153	122
Retirement benefits paid	(139)	(112)
Pension assets at end of year	1,645	1,590

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

	Year ended October 31, 2015 (As of October 31, 2015)	Year ended October 31, 2016 (As of October 31, 2016)
Retirement benefit obligation for funded plans	1,289	1,272
Pension assets	(1,645)	(1,590)
Retirement benefit obligation for unfunded plans	(355)	(318)
Net liability and asset recorded on consolidated balance sheet	6,009	6,886
Net liability and asset recorded on consolidated balance sheet	5,653	6,568
Net defined benefit liability	6,009	6,886
Net defined benefit asset	(355)	(318)
Net liability and asset recorded on consolidated balance sheet	5,653	6,568

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

	Year ended October 31, 2015 (November 1, 2014 to October 31, 2015)	Year ended October 31, 2016 (November 1, 2015 to October 31, 2016)
Service cost	772	844
Interest cost	52	48
Expected return on plan assets	(31)	(32)
Amortization of actuarial differences	131	195
Amortization of prior service cost	(4)	(2)
Amortization of transition obligations	108	—
Retirement benefit expenses related to defined-benefit plan	1,029	1,052

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

(5) Adjustments related to retirement benefits

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

	Year ended October 31, 2015 (November 1, 2014 to October 31, 2015)	Year ended October 31, 2016 (November 1, 2015 to October 31, 2016)
Prior service cost	4	2
Actuarial gain	16	360
Transition obligations	(108)	—
Total	(87)	362

(6) Cumulative adjustments related to retirement benefits

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

	Year ended October 31, 2015 (As of October 31, 2015)	Year ended October 31, 2016 (As of October 31, 2016)
Unrecognized prior service cost	(2)	—
Unrecognized actuarial differences	335	695
Total	333	695

(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, 2015 (As of October 31, 2015)	Year ended October 31, 2016 (As of October 31, 2016)
Bonds	21%	25%
Stocks	38%	34%
Regular accounts	38%	40%
Other	3%	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, 2015 (As of October 31, 2015)	Year ended October 31, 2016 (As of October 31, 2016)
Discount rate	0.4% - 1.1%	0.1% - 0.4%
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 86 million yen for the year ended October 31, 2015 and 94 million yen for the year ended October 31, 2016.

[Stock options]

1. Stock option expenses and items

(millions of yen)

	Year ended October 31, 2015 (November 1, 2014 to October 31, 2015)	Year ended October 31, 2016 (November 1, 2015 to October 31, 2016)
Stock-based compensation in selling, general and administrative expenses	—	77

2. Stock options description, scale, and changes

(1) Description of stock options

	First stock options
Category and number of grantees	Company employees: 1,322 Subsidiary employees: 261
Number of stock options by stock type (Note)	Common stock: 793,700
Grant date	May 23, 2016
Conditions for vesting	<p>1) Persons to whom share subscription rights have been issued (“Rights Holders”), must be Directors or employees of the Company or its subsidiaries upon the time of exercise. However, this restriction shall not apply if so approved by Board of Directors in any of the following cases or based on other justifiable reasons: resignations of Directors after their term has expired, resignations in conjunction with an appointment as a Director, mandatory retirement for employees, and transfer prompted by administrative order.</p> <p>2) If a Rights Holder has died, the corresponding heir will not be permitted to exercise the rights.</p> <p>3) Other conditions are prescribed in share subscription rights allotment agreement entered into by the Company and the Rights Holders.</p>
Requisite service period	Not specified.
Exercisable period	May 1, 2019 – July 31, 2019

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

(2) Stock options scale and related changes

Changes in the scale of stock options that existed in the year ended October 31, 2016 are shown below. The number of stock options is converted into the number of shares.

1) Number of stock options

	First Series of Stock Options
Non-vested (shares):	
As of October 31, 2015	—
Granted	793,700
Forfeited	—
Vested	—
Unvested	793,700

2) Price information

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

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

The per share fair value of the stock options granted in the year ended October 31, 2016 is estimated as follows.

1) Valuation method: Black-Scholes model

2) Key inputs and estimation method

	First Series of Stock Options
Volatility of the share price (Note 1)	34.37%
Expected remaining term (Note 2)	3.07 years
Expected dividend (Note 3)	0.78%
Risk-free interest rate (Note 4)	-0.236%

Notes:

1. Volatility is calculated based on the share price for the period that corresponds to the expected remaining term.
2. The remaining term is estimated based on the assumption that the options are exercised at the midway point of the exercise period.
3. The expected dividend is estimated based on the dividend payment for the year ended October 2015.
4. The risk-free interest rate is the yield on government bonds for the period that corresponds to the expected remaining term.

4. Method for estimating the number of stock options vested

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

[Tax effect accounting]

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

(1) Current assets and liabilities

	(millions of yen)	
	Year ended October 31, 2015 (As of October 31, 2015)	Year ended October 31, 2016 (As of October 31, 2016)
[Deferred tax assets]		
Provision for bonuses	1,016	818
Accrued enterprise tax	262	30
Travel advances received	222	215
Unsettled gift certificates	249	269
Non-deductible valuation loss on securities	97	—
Unpaid social insurance premiums	107	86
Loss carried forward	9	487
Other	684	735
Deferred tax assets subtotal	2,649	2,643
Valuation allowance	(30)	(15)
Deferred tax assets total	2,619	2,628
[Deferred tax liabilities]		
Deferred losses on hedges	(1)	(1)
Other	(9)	(5)
Deferred liabilities total	(11)	(7)
Deferred tax assets, net	2,608	2,621

(2) Fixed assets and liabilities

	(millions of yen)	
	Year ended October 31, 2015 (As of October 31, 2015)	Year ended October 31, 2016 (As of October 31, 2016)
[Deferred tax assets]		
Net defined benefit liability	1,490	1,527
Provision for Directors' retirement benefits	223	221
Depreciation	3,485	3,303
Non-deductible asset retirement obligation expenses	112	100
Provision for repairs	330	227
Loss on valuation of land	1,082	1,028
Loss carried forward	—	27
Other	316	425
Deferred tax assets subtotal	7,042	6,861
Valuation allowance	(3,868)	(3,456)
Deferred tax assets total	3,173	3,405
[Deferred tax liabilities]		
Valuation difference on available-for-sale securities	(31)	(18)
Other	(30)	(31)
Deferred tax liabilities total	(62)	(50)
Deferred tax assets, net	3,110	3,355
[Deferred tax liabilities]		
Revaluation reserve for land	4,879	4,837
Other	143	101
Deferred tax liabilities total	5,023	4,938
[Deferred tax assets]		
Retirement benefit liability	(305)	(326)
Provision for Directors' retirement benefits	(6)	(10)
Loss carried forward	(27)	(68)
Other	(154)	(158)
Deferred tax assets subtotal	(493)	(564)
Valuation allowance	338	380
Deferred tax assets total	(154)	(183)
Deferred tax liabilities, net	4,868	4,754

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, 2015 (As of October 31, 2015)	Year ended October 31, 2016 (As of October 31, 2016)
Effective statutory tax rate	Notes have been omitted as	33.06%
[Adjustments]	the difference between the	
Inhabitant tax on per capita basis	effective statutory tax rate	3.62%
Adjustment to reduce the amount of deferred tax assets at the end of the year due to changes in tax rates	and effective income tax rate after adoption of tax-effect accounting is less than 5% of statutory tax rate.	3.33%
Tax rate differences with overseas consolidated subsidiaries		31.32%
Share of profit of investments accounted for using the equity method		4.86%
Decline in valuation allowance		-4.13%
Non-taxable permanent differences such as dividends income		-1.23%
Non-deductible permanent differences such as entertainment expenses		3.50%
Other		0.11%
Actual effective tax rate after adoption of tax effect accounting		74.44%

3. Revisions to deferred tax assets and liabilities following changes to the corporate tax rate, etc.

In accordance with the Act on Partial Revision of the Income Tax Act, (Act No. 15 of 2016) and the Act on Partial Revision, etc. of the Local Tax Act, etc. (Act No. 13 of 2016), which were enacted in the Diet session on March 29, 2016, the corporate tax rate in Japan was lowered from the year starting April 1, 2016. Consequently, the effective statutory tax rate used for the calculation of deferred tax assets and liabilities declined from the previous 32.26% to 30.86% when accounting for temporary actuarial differences expected to dissipate during the years starting November 1, 2016 and November 1, 2017. Accounting for temporary actuarial differences expected to dissipate after the year starting November 1, 2018, the effective statutory tax rate will decline further to 30.62%.

Due to this change in tax rate, the monetary value of deferred tax assets (i.e., the monetary value after deduction of deferred tax liabilities) declined by 171 million yen, deferred gains (losses) on hedges by 11 million yen, and the valuation difference on available-for-sale securities by 3 million yen, while deferred income taxes increased by 156 million yen.

[Asset retirement obligations]

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

[Segment information, etc.]

Segment information

1. Outline of reportable segments

H.I.S. Group's reportable segments are constituent units of the Group for which separate financial information is available and which are evaluated regularly by the chief decision-making authority to determine the allocation of management resources and assess performance. The Group is composed of five businesses, namely the Travel Business, the Huis Ten Bosch Group, the Hotel Business, the Transportation Business, and the Kyushu Sanko Group, and is engaged in business activities by developing comprehensive domestic and overseas strategies. Accordingly, the Group designates the Travel Business, the Huis Ten Bosch Group, the Hotel Business, the Transportation Business, and The Kyushu Sanko Group as its reportable segments. From the year ended October 31, 2016, the Group conducted a review of its business management classification, and changed its reportable segment classification by changing the old Theme Park Business to the Huis Ten Bosch Group with the aim of providing more adequate disclosure of information in accordance with actual corporate activities of the Group.

At the same time, HTB CRUISE Co. Ltd. and TEN BOSCH CRUISE PANAMA S.A. were moved from the Transportation Business to the Huis Ten Bosch Group, and HTB ENERGY CO. LTD., which was included in the consolidated scope from the year ended October 31, 2016, was added the Huis Ten Bosch Group.

In addition, segment information for the year ended October 31, 2015 has been prepared and is presented based on the reportable

segment classification after the changes.

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

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

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

Segment income figures are the same as operating income figures.

Intersegment internal income and transfers are based on market prices.

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

Year ended October 31, 2015 (November 1, 2014 to October 31, 2015)

(millions of yen)

	Reportable segments						Other Businesses *1	Total	Adjustments *2	Amount on consolidate financial statements *3
	Travel Business	Huis Ten Bosch Group	Hotel Business	Transpor- tation Business	The Kyushu Sanko Group	Subtotal				
Net sales										
Sales to outside customers	475,844	30,986	5,445	1,725	23,408	537,411	45	537,456	—	537,456
Inter-segment sales/transfers	329	1,583	984	1,023	20	3,941	—	3,941	(3,941)	—
Total	476,174	32,570	6,429	2,748	23,428	541,352	45	541,398	(3,941)	537,456
Segment incomes (losses)	12,535	9,157	345	(1,101)	1,040	21,977	22	21,999	(2,029)	19,970
Segment assets	156,597	34,601	13,560	1,143	38,485	244,388	970	245,359	62,886	308,245
Others										
Depreciation	2,184	1,382	785	31	1,326	5,709	15	5,724	545	6,270
Investment in equity method affiliates	6,129	—	—	—	—	6,129	374	6,503	—	6,503
Increase in property, plant and equipment and intangible assets	3,128	6,395	1,049	4	5,753	16,332	6	16,338	316	16,654

(Notes)

1. “Other Businesses” refer to business segments such as the real estate business, etc., not included in the reportable segments.
2. The details of “Adjustments” are as follows:
 - (1) Adjustment on segment incomes (losses) amounting to -2,029 million yen reflects corporate-wide expenses not allocated to each reportable segment, and refers to expenses at the headquarter administration division, which are not attributable to reportable segments.
 - (2) Adjustment on segment assets amounting to 62,886 million yen includes -2,317 million yen in elimination of intersegment transactions, and corporate-wide assets of 65,204 million yen not allocated to each reportable segment. Corporate-wide assets refer to surplus fund management (cash and cash equivalents, and securities) at the parent company, and assets of the headquarter administration division.
 - (3) Adjustment on depreciation amounting to 545 million yen is corporate-wide expenses not allocated to each reportable segment and refers to depreciation expense at the parent company’s headquarter administration division, which is not attributable to the reportable segments.
 - (4) Adjustment on increase in property, plant and equipment and intangible assets amounting to 316 million yen is capital investment at the parent company, which is not attributable to the reportable segments.
3. Segment incomes (losses) are adjusted under operating income in the consolidated financial statements.

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

(millions of yen)

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

(Notes)

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

[Related information]

Year ended October 31, 2015 (November 1, 2014 to October 31, 2015)

1. Information by product and service

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

2. Information by geographic segment

(1) Net sales

This information has been omitted as sales to external customers in Japan exceeded 90 percent of the net sales in the consolidated statement of income.

(2) Property, plant and equipment

(millions of yen)

Japan	U.S.	Asia	Oceania	Europe, Middle East, Africa	Total
46,675	6,444	1,778	5,790	73	60,761

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.

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

1. Information by product and service

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

2. Information by region

(1) Net sales

This information has been omitted as sales to external customers in Japan exceeded 90 percent of the net sales in the consolidated statement of income.

(2) Property, plant and equipment

(millions of yen)

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

3. Information by major customer

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

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

Year ended October 31, 2015 (November 1, 2014 to October 31, 2015)

This information has been omitted as it was deemed immaterial.

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

(millions of yen)

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

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

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

Year ended October 31, 2015 (November 1, 2014 to October 31, 2015)

(millions of yen)

	Reportable segment						Other Businesses (Note)	Eliminations & Corporate	Total
	Travel Business	Huis Ten Bosch Group	Hotel Business	Transpor- tation Business	The Kyushu Sanko Group	Subtotal			
Amortization for the year ended October 31, 2015	52	7	—	—	133	193	—	—	193
Unamortized balance for the year ended October 31, 2015	86	9	—	—	233	329	—	—	329

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

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

(millions of yen)

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

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

[Information regarding gains on negative goodwill by reportable segment]

Year ended October 31, 2015 (November 1, 2014 to October 31, 2015)

There are no applicable matters to report.

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

There are no applicable matters to report.

[Related parties]

1. Transactions with related parties

(1) Transactions between the Company and related parties

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

Year ended October 31, 2015 (November 1, 2014 to October 31, 2015)

There are no applicable matters to report.

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

There are no applicable matters to report.

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

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

Year ended October 31, 2015 (November 1, 2014 to October 31, 2015)

Category	Company name	Location	Paid-in capital or investment (millions of yen)	Business description	Share of voting rights held (%)	Relationship with related parties	Nature of transactions	Transaction value (millions of yen)	Item	Balance at yearend (millions of yen)
Entities in which Directors of the Company or their relatives hold a majority of voting rights. (including subsidiaries of such entities)	Best1.com Co. Ltd.	Shibuya Ward, Tokyo	83	Travel business	—	Sales of cruise travel and other products	Sales of cruise travel and other products	106	Accounts receivable - trade	20

(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. A near relative of the Company's representative director Hideo Sawada directly owns 100% of the voting rights of Best1.com Co. Ltd.

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

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

(Notes)

1. Conditions of transactions and policy for determining such conditions

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

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

2. Notes concerning the parent company and significant affiliates

(1) Information regarding the parent company

There are no applicable matters to report.

(2) Summary of financial information for significant affiliates

There are no applicable matters to report.

[Per share information]

	Year ended October 31, 2015 (November 1, 2014 to October 31, 2015)	Year ended October 31, 2016 (November 1, 2015 to October 31, 2016)
Net assets per share	1,534.77 yen	1,295.35 yen
Earnings per share	167.94 yen	4.25 yen
Diluted earnings per share	157.22 yen	3.58 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 for the year ended October 31, 2016 includes such shares held in the H.I.S. Employee Stock Ownership Association Dedicated Trust (456,000 shares in the year ended October 31, 2016).
- The basis of calculation for earnings per share and diluted earnings per share is shown below.

	Year ended October 31, 2015 (November 1, 2014 to October 31, 2015)	Year ended October 31, 2016 (November 1, 2015 to October 31, 2016)
Earnings per share		
Profit attributable to owners of the parent (millions of yen)	10,890	267
Amount not attributable to common shareholders (millions of yen)	—	—
Profit attributable to owners of the parent with respect to common stock (millions of yen)	10,890	267
Average number of common stock during the fiscal year (thousand shares)	64,849	62,881
Diluted earnings per share		
Adjustment on profit attributable to owners of the parent (millions of yen)	(25)	(26)
[of which, interest income after tax adjustments (millions of yen)]	(25)	(26)
Increase in common stock (thousand shares)	4,258	4,262
[of which, convertible bonds (thousand shares)]	(4,258)	(4,262)

(Note)

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

[Significant subsequent events]

[Changes in specified subsidiaries]

It was resolved at the Board of Directors meeting held on December 9, 2016 to enter into a share transfer agreement with Sawada Holdings Co., Ltd., and the share transfer agreement took effect on the same day. The share transfer took place on December 30, 2016. As a result, equity-method affiliate H.S. Insurance Co., Ltd. became a subsidiary of the Company. Because its capital amount is more than 10% of the capital of the Company, it is recognized as a specified subsidiary.

1. Outline of changes in subsidiaries

(1) Name	H.S. Insurance Co., Ltd.
(2) Location	3-29 Ichigaya Honmura-cho, Shinjuku Ward, Tokyo
(3) Representative	Representative Director and President Akio Matsuo
(4) Capital stock	1,612 million yen
(5) Business description	Non-life insurance business

2. Number of acquired shares, acquisition price

(1) Number of acquired shares	11,486 shares
(2) Acquisition price	1,033 million yen

3. Share transfer date

December 30, 2016

[Granting of stock options (share subscription rights)]

It was resolved at the Annual General Meeting of Shareholders held on January 26, 2017 to allot share subscription rights as stock options with the aim of offering Directors of the Company or its subsidiaries an incentive to enhance corporate value. In the Board of Directors meeting held on the same day, it was resolved to issue the corresponding shares.

1. Number of share subscription rights

1,170 units

2. Share subscription rights grantees, number of grantees, and allotted share subscription rights

Company Directors	10 Directors	690 rights
Subsidiary Directors	34 Directors	480 rights

3. Number and type of shares to be issued upon exercise of share subscription rights

Shares of common stock of the Company 117,000 shares

4. Payment in exchange for share subscription rights

The amount to be paid in exchange for each stock acquisition right shall be the amount obtained by multiplying the fair value of the stock options per share on the allotment date calculated based on various terms and conditions and using the Black-Scholes model, by the number of granted shares. However, the payment shall be offset against monetary remuneration payable by the Company to the Directors.

5. Payment upon exercising the share subscription rights

The amount of assets to be contributed upon the exercise of the share subscription rights shall be the amount calculated by multiplying the amount paid per share that is issuable upon the exercise of the share subscription rights ("Exercise Price") by the number of shares granted.

The Exercise Price shall be the higher of 2,817 yen, or the closing price of common stock in regular trading on the Tokyo Stock Exchange ("Closing Price") on the day the share subscription rights are allotted ("Allotment Date"). However, if there is no Closing Price on the day in question, the most recent Closing Price shall be used.

6. Total share issue price for stocks issued upon exercise of share subscription rights

426,348,000 yen

The amount above represents an estimate calculated based on the Closing Price of common stock on the Tokyo

Stock Exchange as of January 16, 2017.

7. When new shares are issued upon exercise of share subscription rights, amount of issue price that is included in capital stock
 - (1) The issue price per share when shares are issued upon the exercise of share subscription rights is calculated by adding the issue price of the share subscription rights to the amount of assets contributed upon the exercise of the share subscription rights, and dividing the total by the number of granted shares.
 - (2) The amount of capital stock to be increased due to the issuance of shares upon exercise of the share subscription rights shall be half of the maximum limit of the capital stock increase calculated in accordance with Article 17, Paragraph 1 of the Ordinance on Company Accounting, and any fraction less than one (1) yen arising because of such a calculation shall be rounded up. The amount not recorded as capital stock shall be recorded as capital reserves.
8. Share subscription rights allotment date
February 28, 2017
9. Share subscription rights exercise period
From May 1, 2019 to July 31, 2019

[Issuance of straight corporate bonds]

At a Board of Directors meeting on January 26, 2017, a comprehensive resolution was adopted regarding the issuance of straight corporate bonds as shown below.

1. Total issuance amount Under 30 billion yen (with option to issue in several installments within this range)
2. Planned period of issue By the end of 2017
3. Amount to be paid 100 yen per 100 yen face value
4. Interest rate 0.8% or below (annual basis)
5. Maturity Within 10 years
6. Usage of funds Funds are expected to be used for loan repayments, capital investment, and other investment.

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 subscription rights due 2019 (Note 1)	August 15, 2014	20,153	20,113	—	None	August 30, 2019
H.I.S. Co., Ltd.	First series unsecured convertible bond	October 23, 2014	10,000	10,000	0.363	None	October 23, 2019
H.I.S. Co., Ltd.	Second series unsecured convertible bond	October 23, 2014	10,000	10,000	0.645	None	October 22, 2021
Total	—	—	40,153	40,113	—	—	—

(Notes)

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

Shares to be issued	Common stock
Issue price of share subscription rights (yen)	No charges
Issue price of new shares (yen)	4,692.1
Total issue amount (millions of yen)	20,000
Total issue amount for shares issued upon the exercise of share subscription rights (millions of yen)	—
Percentage of share subscription rights granted	100%
Share subscription rights exercise period	From August 29, 2014 to August 16, 2019

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

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

Within one year (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	6,860	8,915	0.43	—
Current portion of long-term loans	21,515	583	1.34	—
Current portion of lease obligations	834	925	—	—
Long-term loans payable (excluding current portion)	14,319	77,042	0.30	2017 – 2023
Lease obligations (excluding current portion)	2,486	2,283	—	2017 – 2026
Other interest-bearing debt	—	—	—	—
Total	46,015	89,750	—	—

(Notes)

- The average interest rate represents the weighted-average rate applicable to the balance at the end of the year. Furthermore, 1,430 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.
- The average interest rate for lease obligations is not shown as lease obligations are recorded on the consolidated balance sheet before deduction of interest expenses included in the total lease amount.
- 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*	1,770	10,728	30,079	1,465
Lease obligations	706	605	318	288

* 1,430 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 year ended October 31, 2016 are below 1% of the total of liabilities and net assets at the start and end of the year, and the information is therefore omitted in accordance with the provisions in Article 93, Paragraph 2 of the Consolidated Financial Statement Regulations.

(2) Others

Quarterly information for the year ended October 31, 2016

[Cumulative period]	First quarter	Second quarter	Third quarter	Full year
Net sales (millions of yen)	124,123	255,974	371,224	523,705
Quarterly profit before income taxes (or quarterly loss before income taxes) (millions of yen)	4,393	978	(1,108)	5,107
Quarterly profit attributable to owners of the parent (or quarterly loss attributable to owners of the parent) (millions of yen)	1,918	99	(1,132)	267
Earnings per share (or net loss per share) (yen)	29.72	1.55	(17.89)	4.25

[Accounting period]	First quarter	Second quarter	Third quarter	Fourth quarter
Quarterly earnings per share (or quarterly loss per share) (yen)	29.72	(28.84)	(19.78)	22.79

(Note)

Profit attributable to owners of the parent or loss attributable to owners of the parent, and earnings per share or loss per share for the third quarter and the year ended October 31, 2016 are calculated based on the "Average number of common stock during the year," with Company shares held by the H.I.S. Employee Stock Ownership Association Dedicated Trust included under "Treasury shares."

2. Non-consolidated Financial Statements, etc.

(1) Non-consolidated Financial Statements

1) Non-consolidated Balance Sheet

(millions of yen)

	Year ended October 31, 2015 (As of October 31, 2015)	Year ended October 31, 2016 (As of October 31, 2016)
Assets		
Current assets		
Cash and deposits	88,777	105,921
Accounts receivable - trade	11,156	17,537
Operating accounts receivable	7,344	7,246
Securities	13,978	2,698
Travel advance payments	21,273	23,433
Prepaid expenses	1,071	1,391
Deferred tax assets	1,632	1,890
Accrued income	231	188
Short-term loans receivable	44	39
Short-term loans receivable from subsidiaries and affiliates	341	758
Accounts receivable - other	2,625	2,615
Other	3,189	4,012
Total current assets	151,666	167,734
Non-current assets		
Property, plant and equipment		
Buildings	1,803	1,913
Vehicles	216	244
Tools, furniture and fixtures	614	574
Land	302	302
Other	94	744
Total property, plant and equipment	3,031	3,778
Intangible assets		
Trademark right	20	16
Telephone subscription right	82	82
Software	3,617	3,776
Other	14	98
Total intangible assets	3,734	3,974
Investments and other assets		
Investment securities	409	413
Shares of subsidiaries and affiliates	34,178	43,882
Investments in capital of subsidiaries and affiliates	709	668
Long-term loans receivable	*2 3,720	*2 3,186
Long-term loans receivable from subsidiaries and affiliates	5,182	4,872
Long-term prepaid expenses	61	58
Deferred tax assets	1,249	1,307
Guarantee deposits	4,597	4,777
Claims provable in bankruptcy, claims provable in rehabilitation and other	168	168
Other	794	1,049
Allowance for doubtful accounts	(168)	(1,463)
Total investments and other assets	50,902	58,921
Total non-current assets	57,668	66,675
Deferred assets		
Bond issuance cost	101	79
Total deferred assets	101	79
Total assets	209,435	234,489

(millions of yen)

	Year ended October 31, 2015 (As of October 31, 2015)	Year ended October 31, 2016 (As of October 31, 2016)
Liabilities		
Current liabilities		
Operating accounts payable	18,939	16,123
Current portion of long-term loans payable	20,000	—
Accounts payable - other	1,326	1,081
Accrued expenses	1,731	1,568
Income taxes payable	171	—
Travel advance received	45,693	46,601
Insurance fee deposits received	384	380
Gift certificates	1,859	2,039
Provision for bonuses	1,806	1,476
Provision for directors' bonuses	101	50
Other	2,555	4,160
Total current liabilities	94,570	73,482
Non-current liabilities		
Bonds payable	20,000	20,000
Convertible bond-type bonds with share subscription rights	20,153	20,113
Long-term loans payable	13,000	74,430
Long-term loans payable to subsidiaries and affiliates	2,417	2,096
Provision for retirement benefits	2,828	3,256
Provision for directors' retirement benefits	546	549
Long-term guarantee deposited	35	35
Other	418	703
Total non-current liabilities	59,399	121,184
Total liabilities	153,970	194,666
Net assets		
Shareholders' equity		
Capital stock	11,000	11,000
Capital surplus		
Legal capital surplus	3,661	3,661
Other capital surplus	4	4
Total capital surplus	3,665	3,665
Retained earnings		
Legal retained earnings	246	246
Other retained earnings		
General reserve	27,565	27,565
Retained earnings brought forward	15,934	12,149
Total retained earnings	43,745	39,960
Treasury shares	(2,535)	(14,162)
Total shareholders' equity	55,875	40,462
Valuation and translation adjustments		
Valuation difference on available-for-sale securities	52	(165)
Deferred gains or losses on hedges	(461)	(551)
Total valuation and translation adjustments	(409)	(716)
Share subscription rights	—	77
Total net assets	55,465	39,822
Total liabilities and net assets	209,435	234,489

2) Non-consolidated Statement of Income

(millions of yen)

	Year ended October 31, 2015 (November 1, 2014 to October 31, 2015)	Year ended October 31, 2016 (November 1, 2015 to October 31, 2016)
Net sales		
Sales from overseas travel business	350,550	339,277
Sales from domestic travel business	47,605	51,730
Other	3,956	4,270
Total net sales	*2 402,112	*2 395,278
Cost of sales		
Cost of sales from overseas travel business	305,768	294,831
Cost of sales from domestic travel business	41,347	46,261
Other	169	232
Total cost of sales	*2 347,285	*2 341,325
Gross profit	54,826	53,953
Selling, general and administrative expenses	*1 50,295	*1 51,551
Operating income	4,531	2,402
Non-operating income		
Interest income	823	751
Dividend income	285	800
Foreign exchange gains	414	—
Other	40	122
Total non-operating income	*2 1,564	*2 1,673
Non-operating expenses		
Interest expenses	241	444
Foreign exchange losses	—	4,188
Other	123	79
Total non-operating expenses	*2 365	*2 4,712
Ordinary income (loss)	5,730	(636)
Extraordinary losses		
Loss on sales of investment securities	484	—
Loss on valuation of shares of subsidiaries and affiliates	713	399
Provision of allowance for doubtful accounts	—	1,295
Total extraordinary losses	1,197	1,695
Profit (loss) before income taxes	4,533	(2,331)
Income taxes - current	1,915	228
Income taxes - deferred	155	(200)
Total income taxes	2,071	27
Profit (loss)	2,461	(2,358)

3) Non-consolidated Statement of Changes in Equity
Year ended October 31, 2015 (November 1, 2014 to October 31, 2015)

(millions of yen)

	Shareholders' equity							
	Capital stock	Capital surplus			Legal retained earnings	Retained earnings		Total retained earnings
		Legal capital surplus	Other capital surplus	Total capital surplus		General reserve	Retained earnings brought forward	
Balance at start of the year	6,882	7,778	4	7,782	246	27,565	14,332	42,143
Cumulative effects of changes in accounting policies				—			307	307
Balance at start of the year reflecting changes in accounting policies	6,882	7,778	4	7,782	246	27,565	14,640	42,451
Changes of items during the year								
Dividends from surplus				—			(1,167)	(1,167)
Profit (loss)				—			2,461	2,461
Acquisition of treasury shares				—				—
Disposal of treasury shares				—				—
Transfer from capital surplus to capital stock	4,117	(4,117)		(4,117)				—
Net changes of items other than shareholders' equity				—				—
Total changes of items during the year	4,117	(4,117)	—	(4,117)	—	—	1,294	1,294
Balance at end of the year	11,000	3,661	4	3,665	246	27,565	15,934	43,745

	Shareholders' equity		Valuation and translation adjustments			Share subscription rights	Total net assets
	Treasury shares	Total shareholders' equity	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Total valuation and translation adjustments		
Balance at start of the year	(2,533)	54,274	330	772	1,102	—	55,377
Cumulative effects of changes in accounting policies		307			—		307
Balance at start of the year reflecting changes in accounting policies	(2,533)	54,582	330	772	1,102	—	55,685
Changes of items during the year							
Dividends from surplus		(1,167)			—		(1,167)
Profit (loss)		2,461			—		2,461
Acquisition of treasury shares	(1)	(1)			—		(1)
Disposal of treasury shares		—			—		—
Transfer from capital surplus to capital stock		—			—		—
Net changes of items other than shareholders' equity		—	(278)	(1,233)	(1,512)	—	(1,512)
Total changes of items during the year	(1)	1,292	(278)	(1,233)	(1,512)	—	(219)
Balance at end of the year	(2,535)	55,875	52	(461)	(409)	—	55,465

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

(millions of yen)

	Shareholders' equity							
	Capital stock	Capital surplus			Legal retained earnings	Retained earnings		Total retained earnings
		Legal capital surplus	Other capital surplus	Total capital surplus		General reserve	Retained earnings brought forward	
Balance at start of the year	11,000	3,661	4	3,665	246	27,565	15,934	43,745
Cumulative effects of changes in accounting policies				—				—
Balance at start of the year reflecting changes in accounting policies	11,000	3,661	4	3,665	246	27,565	15,934	43,745
Changes of items during the year								
Dividends from surplus				—			(1,426)	(1,426)
Profit (loss)				—			(2,358)	(2,358)
Acquisition of treasury shares				—				—
Disposal of treasury shares				—				—
Transfer from capital surplus to capital stock				—				—
Net changes of items other than shareholders' equity				—				—
Total changes of items during the year	—	—	—	—	—	—	(3,785)	(3,785)
Balance at end of the year	11,000	3,661	4	3,665	246	27,565	12,149	39,960

	Shareholders' equity		Valuation and translation adjustments			Share subscription rights	Total net assets
	Treasury shares	Total shareholders' equity	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Total valuation and translation adjustments		
Balance at start of the year	(2,535)	55,875	52	(461)	(409)	—	55,465
Cumulative effects of changes in accounting policies		—			—		—
Balance at start of the year reflecting changes in accounting policies	(2,535)	55,875	52	(461)	(409)	—	55,465
Changes of items during the year							
Dividends from surplus		(1,426)			—		(1,426)
Profit (loss)		(2,358)			—		(2,358)
Acquisition of treasury shares	(11,763)	(11,763)			—		(11,763)
Disposal of treasury shares	136	136			—		136
Transfer from capital surplus to capital stock		—			—		—
Net changes of items other than shareholders' equity		—	(217)	(89)	(307)	77	(230)
Total changes of items during the year	(11,627)	(15,412)	(217)	(89)	(307)	77	(15,642)
Balance at end of the year	(14,162)	40,462	(165)	(551)	(716)	77	39,822

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) Stocks in subsidiaries and affiliates and investments in capital of subsidiaries and affiliates
Stated at cost using the moving average method
 - (2) Available-for-sale securities
 - 1) Securities with a determinable fair market value
Stated at fair market value based on the market price, etc., on the closing date (with any unrealized gains or losses reported directly as a component of net assets and the cost of securities sold calculated by the moving average method).
 - 2) Securities without a determinable fair market value
Stated at cost using the moving average method
2. Valuation standard and method for derivatives
Stated at fair market value.
3. Depreciation method for fixed assets
 - (1) Property, plant and equipment (excluding lease assets)
The straight-line method is applied for buildings (excluding facilities attached to buildings) and facilities attached to buildings acquired on or after April 1, 2016, and the declining balance method for other tangible fixed assets.
In addition, the ranges of useful life for tangible fixed assets are mainly as shown below.

Buildings	3–49 years
Tools, furniture and fixtures	3–20 years
 - (2) Intangible fixed assets (excluding lease assets)
The straight-line method is applied.
In addition, software used in-house is depreciated over its useful life (five years) based on the straight-line method.
 - (3) Lease assets
Lease assets are depreciated using the straight-line method with estimated useful lives equal to lease terms, and zero residual value.
 - (4) Long-term prepaid expenses
The straight-line method is applied.
4. Accounting method for deferred assets
Bond issuance costs
Bond issuance costs are amortized in equal amounts over the period through redemption.
5. Standard for translation of foreign-currency-denominated assets or liabilities into Japanese yen
Assets and liabilities denominated in foreign currency are translated into yen at the spot exchange rate prevailing on the closing date, and the difference arising from such translation is recorded as profits or losses.
6. Accounting standards for provisions
 - (1) Allowance for doubtful accounts
To prepare for losses from uncollectible receivables, estimates of irrecoverable amounts are recorded based on historical loan-loss ratios for general receivables, and on consideration of feasibly recoverable amounts in individual cases of suspected bad debt or other specific receivables.
 - (2) Provision for bonuses
To provide for bonus payments to employees, a provision for bonuses is recorded based on estimated future payments.
 - (3) Provision for Directors' bonuses
To provide for bonus payments to Directors, a provision for bonuses is recorded based on estimated future payments.
 - (4) Provision for retirement benefits
To prepare for retirement benefit payments to employees, a provision for retirement benefits is recorded in the amount payable at each year-end.
Actuarial gains or losses are treated as a lump-sum expense in the year following the year in which they arise.
 - (5) Provision for Directors' retirement benefits
To prepare for retirement benefit payments to Directors, a provision for Directors' retirement benefits is recorded in the amount payable at each year-end in accordance with the Internal Rules on Directors' Retirement Benefits.
7. Accounting standard for recognition of revenues and expenses
Net sales and travel-related sales costs are recorded on the departure date.

8. Hedging methods

(1) Hedging methods

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

(2) Hedging instruments and hedged items

- a. Hedging instruments: Forward exchange contracts, currency options
Hedged items: Foreign currency-denominated operating accounts payable
- b. Hedging instruments: Interest rate swaps
Hedged items: Loans

(3) Hedging policy

The Company hedges against foreign exchange fluctuation risk in accordance with its internal Financial Risk Management Regulations.

(4) Evaluation of hedge effectiveness

The effectiveness of hedging is assessed by comparing the cumulative total of the market fluctuations or the cash flow fluctuations for the hedged items with that of the market fluctuations or the cash flow fluctuations for the hedging instrument every six months, and analyzing the fluctuation amount, etc., for the two. However, the effectiveness of hedging is not evaluated for interest rate swaps subject to exceptional accounting treatment.

9. Other significant matters for the preparation of non-consolidated financial statements

(1) Accounting method for retirement benefits

Unrecognized actuarial differences, unrecognized prior service cost, and unsettled differences arising from transitional obligations related to retirement benefits are accounted for using a different method than in the consolidated financial statements.

(2) Accounting for consumption taxes

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

[Changes in accounting policies]

[Application of accounting standards for business combinations, etc.]

From the year ended October 31, 2016, the Company has applied the Revised Accounting Standard for Business Combinations (ASBJ Statement No. 21 issued on September 13, 2013; the Business Combinations Accounting Standard) and the Revised Accounting Standard for Business Divestitures (ASBJ Statement No. 7 issued on September 13, 2013; the Business Divestitures Accounting Standard), etc. The accounting standards reflect a switch in methodology with respect to the posting of acquisition-related expenses as expenses during the year in which they are incurred. For business combinations occurring after the start of the year, the Company has switched to a method in which revisions to the distribution of the cost of the acquisition due to decisions regarding temporary accounting treatment are reflected in the financial statements applicable to the year in which the date of the business combination falls.

The Business Combinations Accounting Standard, etc., is applied from the start of the year ended October 31, 2016 in accordance with the transitional treatment prescribed in Paragraph 58-2(4) of the Business Combinations Accounting Standard and Paragraph 57-4(4) of the Business Divestitures Accounting Standard.

The impact of these changes on the financial statements for the year ended October 31, 2016 is minimal.

[Application of Practical Solution on a Change in Depreciation Method due to Tax Reform 2016]

From the year ended October 31, 2016, the Company has applied the Practical Solution on a Change in Depreciation Method due to Tax Reform 2016 (ASBJ PITF No. 32 issued on June 17, 2016) in conjunction with a revision of the Corporation Tax Act, and it has switched its depreciation method for facilities attached to buildings acquired on or after April 1, 2016 from the declining balance method to the straight-line method.

The impact of these changes on the financial statements is minimal.

[Additional information]

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

Notes related to transactions that issue Company shares to an Employee Stockholding 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 for the following companies up to the amounts shown below.

	Year ended October 31, 2015 (As of October 31, 2015)		Year ended October 31, 2016 (As of October 31, 2016)
ASIA ATLANTIC AIRLINES CO., LTD.	380,000 US dollar (45 million yen)	ASIA ATLANTIC AIRLINES CO., LTD.	290,000 US dollar (30 million yen)

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

	Year ended October 31, 2015 (As of October 31, 2015)		Year ended October 31, 2016 (As of October 31, 2016)
• Guarantee with specified amount		• Guarantee with specified amount	
ASIA ATLANTIC AIRLINES CO., LTD.	400,000 US dollar (48 million yen)	HIS ULUSLARARASI TURIZM SEYAHAT ACENTASI LIMITED SIRKETI	2 million US dollar (209 million yen)
QUALITA Co., Ltd.	30 million yen	QUALITA Co., Ltd.	30 million yen
Japan Holiday Travel CO., LTD.	20 million yen	Japan Holiday Travel CO., LTD.	20 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
Cruise Planet. Co., Ltd.	Payment guarantee for office rent, etc.	LY-HIS TRAVEL Co. Ltd. Japan Holiday Travel CO., LTD.	Payment guarantee for notes and accounts payable - trade Payment guarantee for notes and accounts payable - trade

*2. Other

Year ended October 31, 2015 (As of October 31, 2015)

Of the 3,720 million yen in long-term loans receivable, 3,625 million yen (30 million US dollar) is owed by Mongolia-based bank Khan Bank LLC. The bank is a consolidated subsidiary of Sawada Holdings Co., Ltd. (Representative Director and President Hideo Sawada).

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

Of the 3,186 million yen in long-term loans receivable, 3,144 million yen (30 million US dollar) is owed by Mongolia-based bank Khan Bank LLC. The bank is a consolidated subsidiary of Sawada Holdings Co., Ltd. (Representative Director and President Hideo Sawada).

[Non-consolidated statements of Income]

- *1. Selling, general and administrative expenses comprised 86.8% selling expenses and 13.2% general and administrative expenses in the year ended October 31, 2015, and 86.5% and 13.6%, respectively, in the year ended October 31, 2016. The major cost items and amounts are shown below.

	Year ended October 31, 2015 (November 1, 2014 to October 31, 2015)	Year ended October 31, 2016 (November 1, 2015 to October 31, 2016)
Advertising expenses	7,772 million yen	7,242 million yen
Salaries and bonuses	20,029	20,776
Provision of reserve for bonuses	1,689	1,339
Provision of reserve for directors' bonuses	88	49
Retirement benefit expenses	428	524
Provision of reserve for directors' retirement benefits	35	37
Provision of allowance for doubtful accounts	—	0
Depreciation and amortization	2,081	2,139

*2. Amount of transactions with affiliates

	Year ended October 31, 2015 (November 1, 2014 to October 31, 2015)	Year ended October 31, 2016 (November 1, 2015 to October 31, 2016)
Amount of operating transactions		
Net sales	10,540 million yen	11,483 million yen
Purchase of goods	74,246	80,607
Transaction amount for non-operating transactions		
Non-operating income	314	794
Non-operating expenses	64	157

[Marketable securities]

Year ended October 31, 2015 (As of October 31, 2015)

Shares of subsidiaries and affiliates (amount recorded on balance sheet: shares of subsidiaries 30,111 million yen, shares of affiliates 4,067 million yen) have no market prices and it is deemed extremely difficult to determine their fair value. Accordingly, they are not presented here.

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

Shares of subsidiaries and affiliates (amount recorded on balance sheet: shares of subsidiaries 39,324 million yen, shares of affiliates 4,557 million yen) have no market prices and it is deemed extremely difficult to determine their fair value. Accordingly, they are not presented here.

[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, 2015 (As of October 31, 2015)	Year ended October 31, 2016 (As of October 31, 2016)
[Deferred tax assets]		
Provision for bonuses	630 million yen	471 million yen
Travel advances received	222	215
Non-deductible valuation loss on securities	97	—
Unpaid social insurance premiums	79	60
Excess allowance for doubtful accounts	56	52
Accrued business office taxes	21	20
Deferred gains or losses on hedges	228	246
Loss carried forward	—	445
Other	295	378
Deferred tax assets total	<u>1,632</u>	<u>1,890</u>

(2) Fixed assets and liabilities

	Year ended October 31, 2015 (As of October 31, 2015)	Year ended October 31, 2016 (As of October 31, 2016)
[Deferred tax assets]		
Provision for bonuses	913 million yen	997 million yen
Excess allowance for doubtful accounts	—	396
Provision for directors' retirement benefits	176	168
Non-deductible asset retirement obligations	112	100
Other	78	76
Deferred tax assets subtotal	<u>1,280</u>	<u>1,739</u>
Valuation allowance	—	(412)
Deferred tax assets total	<u>1,280</u>	<u>1,326</u>
[Deferred tax liabilities]		
Valuation difference on available-for-sale securities	(31)	(18)
Deferred tax liabilities total	<u>(31)</u>	<u>(18)</u>
Deferred tax assets, net	<u>1,249</u>	<u>1,307</u>

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

	Year ended October 31, 2015 (As of October 31, 2015)	Year ended October 31, 2016 (As of October 31, 2016)
Effective statutory tax rate	35.64%	Notes omitted due to posting of pretax net loss.
[Adjustments]		
Inhabitant tax on per capita basis	3.56	
Adjustment to reduce the amount of deferred tax assets at the end of the year due to changes in tax rates	5.31	
Non-taxable permanent differences such as dividends income	-2.15	
Non-deductible permanent differences such as entertainment expenses	2.47	
Other	0.87	
Actual effective tax rate after adoption of tax effect accounting	45.70	

3. Revisions to deferred tax assets and liabilities following changes to the corporate tax rate, etc.

In accordance with the Act on Partial Revision of the Income Tax Act, (Act No. 15 of 2016) and the Act on Partial Revision, etc. of the Local Tax Act, etc. (Act No. 13 of 2016), which were enacted in the Diet session on March 29, 2016, the corporate tax rate in Japan was lowered from the year starting April 1, 2016. Consequently, the effective statutory tax rate used for the calculation of deferred tax assets and liabilities declined from the previous 32.26% to 30.86% when accounting for temporary actuarial differences expected to dissipate during the years starting November 1, 2016 and November 1, 2017. Accounting for temporary actuarial differences expected to dissipate after the year starting November 1, 2018, the effective statutory tax rate will decline further to 30.62%.

Due to this change in tax rate, the monetary value of deferred tax assets (i.e., the monetary value after deduction of deferred tax liabilities) declined by 154 million yen, deferred gains (losses) on hedges by 11 million yen, and the valuation difference on available-for-sale securities by 3 million yen, while deferred income taxes increased by 140 million yen.

[Significant subsequent events]

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

4) Supplementary schedule

Schedule for property, plant and equipment

(millions of yen)

Classification	Asset type	Balance at start of the year	Increase during the year	Decrease during the year	Depreciation during the year	Balance at end of the year	Accumulated depreciation
Property, plant and equipment	Buildings	1,803	473	—	364	1,913	1,722
	Vehicles	216	128	—	100	244	495
	Tools, furniture and fixtures	614	162	—	203	574	2,127
	Land	302	—	—	—	302	—
	Other	94	686	1	34	744	92
	Total	3,031	1,450	1	702	3,778	4,436
Intangible fixed assets	Trademarks	20	0	—	4	16	—
	Telephone subscription right	82	—	—	—	82	—
	Software	3,617	1,578	—	1,418	3,776	—
	Other	14	98	13	0	98	—
	Total	3,734	1,678	13	1,423	3,974	—

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)	171	1,466	—	171	1,466
Provision for bonuses	1,806	1,476	1,806	—	1,476
Provision for Directors' bonuses	101	50	101	—	50
Provision for Directors' retirement benefits	546	37	34	—	549

Note: The 171 million yen decrease (other) in the allowance for doubtful accounts is attributable to reversals.

(2) Major assets and liabilities

Notes are omitted as consolidated financial statements were prepared.

(3) Others

There are no applicable matters to report.

VI. Stock-related Administration for the Company

Fiscal Year	From November 1 to October 31
Ordinary 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. URL for public notice: http://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 between 100 and 500 shares Two shareholder benefit coupons (corresponding to 2,000 yen) Shareholders owning between 500 and 1,000 shares Four shareholder benefit coupons (corresponding to 4,000 yen) Shareholders owning at least 1,000 shares Six shareholder benefit coupons (corresponding to 6,000 yen) Shareholders owning at least 100 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 a 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 35th fiscal year (from November 1, 2014 to October 31, 2015)

Submitted to Director, Kanto Local Finance Bureau on January 28, 2016

(2) Internal Control Report and documents attached thereto

Submitted to Director, Kanto Local Finance Bureau on January 28, 2016

(3) Quarterly Securities Report and Confirmation Letter thereof

For the first quarter of the 36th fiscal year (from November 1, 2015 to January 31, 2016)

Submitted to Director, Kanto Local Finance Bureau on February 29, 2016

For the second quarter of the 36th fiscal year (from February 1, 2016 to April 30, 2016)

Submitted to Director, Kanto Local Finance Bureau on May 27, 2016

For the third quarter of the 36th fiscal year (from May 1, 2016 to July 31, 2016)

Submitted to Director, Kanto Local Finance Bureau on August 26, 2016

(4) Extraordinary Report

Submitted to Director, Kanto Local Finance Bureau on January 29, 2016

According to the provision of Article 19, Paragraph 2, Item 9-2 (resolution of matters resolved at the General Meeting of Shareholders) of the Cabinet Office Regulations, regarding the disclosure of corporate information

Submitted to Director, Kanto Local Finance Bureau on April 22, 2016

According to the provision of Article 19, Paragraph 2, Item 12 and 19 (booking of extraordinary losses) of the Cabinet Office Regulations, regarding the disclosure of corporate information

Submitted to Director, Kanto Local Finance Bureau on October 28, 2016

According to the provision of Article 19, Paragraph 2, Item 9 (change in Representative Directors) of the Cabinet Office Regulations, regarding the disclosure of corporate information

Submitted to Director, Kanto Local Finance Bureau on December 9, 2016

According to the provision of Article 19, Paragraph 2, Item 3 (transfer of specified subsidiary) of the Cabinet Office Regulations, regarding the disclosure of corporate information

Submitted to Director, Kanto Local Finance Bureau on December 9, 2016

According to the provision of Article 19, Paragraph 2, Item 12 and 19 (booking of non-operating expenses) of the Cabinet Office Regulations, regarding the disclosure of corporate information

(5) Securities Registration Statement and documents attached thereto

Submitted to Director, Kanto Local Finance Bureau on April 22, 2016

Submitted to Director, Kanto Local Finance Bureau on January 26, 2017

(6) Amendment to Securities Registration Statement

Submitted to Director, Kanto Local Finance Bureau on May 23, 2016

Amendment to Securities Registration Statement concerning the Securities Registration Statement which was submitted on April 22, 2016

(7) Shelf Registration Statement and documents attached thereto

Submitted to Director, Kanto Local Finance Bureau on January 16, 2017

(8) Reports on Purchase of Treasury Shares	
(From January 1, 2016 to January 31, 2016)	Submitted to Director, Kanto Local Finance Bureau on February 2, 2016
(From February 1, 2016 to February 29, 2016)	Submitted to Director, Kanto Local Finance Bureau on March 2, 2016
(From March 1, 2016 to March 31, 2016)	Submitted to Director, Kanto Local Finance Bureau on April 8, 2016
(From April 1, 2016 to April 30, 2016)	Submitted to Director, Kanto Local Finance Bureau on May 2, 2016
(From June 1, 2016 to June 30, 2016)	Submitted to Director, Kanto Local Finance Bureau on July 5, 2016
(From July 1, 2016 to July 31, 2016)	Submitted to Director, Kanto Local Finance Bureau on August 3, 2016

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.