

Annual Securities Report

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

(The 40th Fiscal Year)

From November 1, 2019 to October 31, 2020

H.I.S. Co., Ltd.

4-1-1 Toranomom, Minato-ku, Tokyo

(E04358)

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Part I Information on the Company

I. Overview of the Company

1. Key Financial Data and Trends

(1) Consolidated financial data

Fiscal year		36th	37th	38th	39th	40th
Year end		October 2016	October 2017	October 2018	October 2019	October 2020
Net sales	(millions of yen)	523,705	606,024	728,554	808,510	430,284
Ordinary profit (loss)	(millions of yen)	8,648	19,647	19,499	17,089	(31,283)
Profit (loss) attributable to owners of parent	(millions of yen)	267	13,259	11,067	12,249	(25,037)
Comprehensive income	(millions of yen)	(5,928)	20,386	11,606	11,432	(33,573)
Net assets	(millions of yen)	95,139	111,247	115,641	123,909	98,421
Total assets	(millions of yen)	332,385	422,809	516,468	577,399	414,604
Net assets per share	(yen)	1,295.35	1,466.13	1,539.98	1,686.22	1,177.91
Earnings (loss) per share	(yen)	4.25	219.52	192.96	213.63	(432.66)
Diluted earnings per share	(yen)	3.58	204.60	166.87	197.66	—
Shareholders' equity ratio	(%)	23.9	20.3	17.1	16.8	17.8
Return on equity	(%)	0.3	16.0	12.7	13.2	—
Price-earnings ratio	(times)	674.8	17.3	17.7	13.2	—
Cash flows from operating activities	(millions of yen)	5,149	32,369	20,397	39,344	(57,718)
Cash flows from investing activities	(millions of yen)	(15,440)	(26,209)	(44,841)	(52,116)	(47,901)
Cash flows from financing activities	(millions of yen)	30,181	29,769	48,304	15,362	(5,602)
Cash and cash equivalents at end of period	(millions of yen)	129,842	168,659	191,440	192,541	80,445
Number of employees		10,845	13,510	13,875	15,202	13,990
[Average number of temporary employees not included in the above]	(persons)	[3,535]	[3,422]	[3,179]	[3,191]	[2,333]

(Notes)

- Consumption taxes, etc. are not included in net sales.
- 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, "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 (loss) per share and diluted earnings per share, "average number of shares of common stock during the period" is calculated by including shares held by the Trust in the treasury shares.
- Although there were dilutive shares in the 40th fiscal year, diluted earnings per share are not stated due to recording of a loss per share.
- In the 40th fiscal year, return on equity and price-earnings ratio are not stated due to recording of a loss attributable to owners of parent.

(2) Non-consolidated financial data

Fiscal year		36th	37th	38th	39th	40th
Year end		October 2016	October 2017	October 2018	October 2019	October 2020
Net sales	(millions of yen)	395,278	428,734	459,627	479,445	159,261
Ordinary profit (loss)	(millions of yen)	(636)	4,642	6,557	6,551	(11,263)
Profit (loss)	(millions of yen)	(2,358)	(108)	2,038	6,848	(6,355)
Share capital	(millions of yen)	11,000	11,000	11,000	11,000	15,000
Shares issued and outstanding	(shares)	68,522,936	68,522,936	68,522,936	68,522,936	68,768,936
Net assets	(millions of yen)	39,822	23,593	19,099	24,741	24,677
Total assets	(millions of yen)	234,489	264,887	322,107	335,222	255,945
Net assets per share	(yen)	646.86	398.96	325.85	431.11	390.24
Total dividends per share (interim dividend amount)	(yen)	22.00 (—)	29.00 (—)	29.00 (—)	33.00 (—)	— (—)
Earnings (loss) per share	(yen)	(37.51)	(1.80)	35.53	119.44	(109.83)
Diluted earnings per share	(yen)	—	—	30.25	110.25	—
Shareholders' equity ratio	(%)	16.9	8.8	5.8	7.4	9.6
Return on equity	(%)	—	—	9.7	31.6	—
Price-earnings ratio	(times)	—	—	96.4	23.6	—
Dividend payout ratio	(%)	—	—	81.6	27.6	—
Number of employees [Average number of temporary employees not included in the above]	(persons)	5,353 [1,041]	5,581 [897]	5,498 [722]	5,638 [791]	5,896 [708]
Total shareholder return (Benchmark: TOPIX incl. dividends)	(%)	70.7 (90.8)	94.0 (116.6)	85.7 (110.8)	71.6 (114.2)	37.0 (108.6)
Highest share price	(yen)	4,340	3,935	4,250	4,520	3,225
Lowest share price	(yen)	2,524	2,465	2,970	2,346	1,096

(Notes)

- Consumption taxes, etc. are not included in net sales.
- The Company introduced the E-Ship® trust-type employee stock ownership incentive plan. In the non-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, 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 (loss) per share and diluted earnings per share, the "average number of shares of common stock during the period" is calculated by including the shares held by the Trust in the treasury shares.
- Although there were dilutive shares in the 36th, 37th, and 40th fiscal years, diluted earnings per share are not stated due to recording of losses per share.
- In the 36th, 37th, and 40th fiscal years, return on equity, price-earnings ratio, and dividend payout ratio are not stated due to recording of net losses.
- The highest and lowest share prices are those on the First Section of the Tokyo Stock Exchange.

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

Month/Year	Events
May 2000	Acquired Towa Travel Service (currently Orion Tour Co., Ltd.) and made it a subsidiary
December 2000	Established H.I.S. EUROPE LIMITED
February 2001	Dissolved capital relationship with H.I.S. Kyoritsu Securities Co., Ltd. (currently Sawada Holdings Co., Ltd.)
August 2002	Established H.I.S. U.S.A. INC. (currently H.I.S. U.S.A. HOLDING, INC.)
November 2002	Acquired Cruise Planet Co., Ltd. and made it a subsidiary
December 2002	Listed shares on the 2nd Section of the Tokyo Stock Exchange
December 2003	Established HIS (FIJI) LIMITED
April 2004	Moved headquarters function and Kanto Area Sales Division to the Sumitomo Fudosan Shinjuku Oak Tower, 6-8-1 Nishishinjuku, Shinjuku-ku, Tokyo
September 2004	Opened Travel Station Marunouchi Oazo Office (currently Marunouchi Head Office) in Chiyoda-ku, Tokyo
October 2004	Listed shares on the 1st Section of the Tokyo Stock Exchange Established H.I.S. (Austria) Travel GmbH
September 2005	Opened WHG INVESTMENTS BRISBANE PTY LTD
October 2005	Acquired equity stake in Kyushu Industrial Transportation Co., Ltd. (currently Kyushu Sangyo Kotsu Holdings Co., Ltd.)
May 2006	Acquired equity stake in H.I.S.-SONGHAN VIETNAM TOURIST JOINT VENTURE COMPANY LTD. (currently H.I.S SONGHAN VIETNAM TOURIST COMPANY LTD.)
July 2006	Established H.I.S. Travel Switzerland AG
September 2007	Established H.I.S. TRAVEL (UAE) L.L.C. (currently H I S TRAVEL & TOURISM L.L.C.)
April 2008	Reorganized four regional bases (Kanto, Chubu, Kansai, and Kyushu/Chugoku Area Sales Divisions) into the East Japan (Kanto, Tohoku, Hokkaido) and West Japan (Chubu, Kansai, Kyushu, and Chugoku) sales regions Established H.I.S. Travel Nederland B.V.
June 2008	Established H.I.S. (PHILIPPINES) TRAVEL CORP.
July 2008	Acquired equity stake in H.I.S. (HAINAN) INTERNATIONAL TRAVEL SERVICE CO., LTD
December 2008	Opened the Company's first hotel in Japan, the Watermark Hotel Sapporo
January 2009	Made Ohshu Express Ltd. a subsidiary
April 2009	Established H.I.S. NEW ZEALAND LIMITED
April 2010	Made Huis Ten Bosch Co., Ltd. a subsidiary
May 2010	Established H.I.S. (SHANGHAI) INTERNATIONAL TRAVEL SERVICE CO., LTD
January 2011	Established HTB CRUISE Co., Ltd.
July 2011	Opened Watermark Hotel Nagasaki Huis Ten Bosch
April 2012	Made GUAM REEF HOTEL, INC. a subsidiary
July 2012	Made Kyushu Sangyo Kotsu Holdings Co., Ltd. a subsidiary
September 2012	Expanded opening of Travel Wonderland Jakarta
December 2012	Established ASIA ATLANTIC AIRLINES CO., LTD.
March 2013	Expanded opening of Travel Wonderland Bangkok
April 2013	Expanded opening of Travel Wonderland Saigon Opened Shinjuku Sanhome Head Office (currently HAWAII Shinjuku Sanhome Office) as a large retail branch in Shinjuku-ku, Tokyo
May 2014	Established Laguna Ten Bosch Co., Ltd.
June 2014	Expanded opening of Travel Wonderland Phnom Penh
May 2015	Opened Watermark Hotel & Spa Bali, Jimbaran on Bali Island, Indonesia
July 2015	Opened Henn na Hotel, showcasing cutting-edge technologies, at Huis Ten Bosch
November 2015	Established LY-HIS Co., Ltd., a joint venture with LY.com
December 2015	Established INTERPARK TOUR JAPAN Co., Ltd., a joint venture with INTERPARK
March 2016	Opened second wing at Henn na Hotel in Huis Ten Bosch
April 2016	Began electric power sales
November 2016	Established H.I.S. Hotel Holdings Co., Ltd.
December 2016	Made Merit Holdings Inc. a subsidiary Made H.S. Insurance Co., Ltd. a subsidiary
March 2017	Established H.I.S. SUPER Power Co., Ltd. Opened Henn na Hotel Maihama Tokyo Bay

Month/Year	Events
May 2017	Established H.I.S. Okinawa Co., Ltd. Made GROUP MIKI HOLDINGS LIMITED a subsidiary Made Green World Hotels Co., Ltd. a subsidiary
August 2017	Opened Henn na Hotel Laguna Ten Bosch
November 2017	Made JONVIEW CANADA INC. a subsidiary
December 2017	Opened Henn na Hotel Tokyo Nishikasai
January 2018	Opened Henn na Hotel Tokyo Ginza
April 2018	Opened Henn na Hotel Tokyo Hamamatsucho
May 2018	Established H.I.S. Energy Holdings Co., Ltd.
July 2018	Opened Henn na Hotel Tokyo Asakusabashi Opened Henn na Hotel Tokyo Akasaka
October 2018	Opened Henn na Hotel Tokyo Haneda
January 2019	Opened Henn na Hotel Fukuoka Hakata Opened Henn na Hotel Osaka Shinsaibashi
March 2019	Opened Henn na Hotel Osaka Namba Made RED LABEL VACATIONS INC. a subsidiary
April 2019	Opened Henn na Hotel Kyoto Hachijoguchi-ekimae
September 2019	Opened Henn na Hotel Tokyo Asakusa Tawaramachi Opened large-scale commercial facility SAKURA MACHI Kumamoto in Sakuramachi, Kumamoto
October 2019	Opened Henn na Hotel Kansai Airport
November 2019	Renewed corporate logo to celebrate 40th anniversary since founding
December 2019	Opened Henn na Hotel Kanazawa Korinbo
June 2020	Expanded headquarters by relocating to Tokyo World Gate Kamiyacho Trust Tower

3. Description of Business

The H.I.S. Group (H.I.S. Co., Ltd. and associated companies; hereinafter, the “H.I.S. Group” or the “Group”) comprises H.I.S. Co., Ltd. (hereinafter, the “Company”), 191 subsidiaries and 26 associates. The main businesses operated by the Group and the positioning of the Company and associated companies in these businesses are shown below.

From the consolidated fiscal year ended October 31, 2020, the name of the reportable segment previously presented as the Huis Ten Bosch Group was changed to the Theme Park Business. This is only a change in name and has no impact on the segment data. Further, the segment data for the consolidated fiscal year ended October 31, 2019 have been adjusted to reflect the name change.

The six business groupings of Travel Business, Theme Park Business, Hotel Business, Kyushu Sanko Group, Energy Business, 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, etc.” under “V. Financial Information, Part I: Information on the Company.”

(1) Travel Business

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

[Associated Companies]

HAWAII HIS CORPORATION	H.I.S. EUROPE LIMITED
H.I.S. INTERNATIONAL TOURS (NY) INC.	HIS INTERNATIONAL TOURS FRANCE SAS
H.I.S. GUAM, INC.	H.I.S. Deutschland Touristik GmbH
H.I.S. CANADA INC.	H.I.S. EUROPE ITALY S.R.L.
H.I.S. – MERIT TRAVEL INC.	HIS ULUSLARARASI TURIZM SEYAHAT ACENTASI LIMITED SIRKETI
H.I.S. SAIPAN, INC.	GROUP MIKI HOLDINGS LIMITED
JONVIEW CANADA INC.	Orion Tour Co., Ltd.
H.I.S. – RED LABEL VACATIONS INC.	QUALITA Co., Ltd.
H.I.S. KOREA CO., LTD.	Ohshu Express Ltd.
H.I.S. Tours Co., Ltd.	TOUR WAVE CO., LTD
PT. HARUM INDAH SARI TOURS & TRAVEL	Japan Holiday Travel Co., Ltd.
HIS (HONG KONG) COMPANY LIMITED	Cruise Planet Co., Ltd.
H.I.S. TAIWAN COMPANY LIMITED	
H.I.S. INTERNATIONAL TRAVEL PTE LTD	
H.I.S. AUSTRALIA PTY. LTD.	and 116 other companies

(2) Theme Park Business

The H.I.S. Group owns and operates theme parks located in Sasebo, Nagasaki Prefecture and Gamagori, Aichi Prefecture.

[Associated Companies]

Huis Ten Bosch Co., Ltd.	Laguna Ten Bosch Co., Ltd. and 11 other companies
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(3) Hotel Business

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

[Associated Companies]

H.I.S. Hotel Holdings Co., Ltd.	Green World Hotels Co., Ltd.
The Watermark Hotel Nagasaki Co., Ltd.	HIS DORAK TURIZM OTEL YATIRIMLARI VE DIS TICARET ANONIM SIRKETI
GUAM REEF HOTEL, INC.	
PT. HARUM INDAH SARI INDONESIA	and 11 other companies

(4) Kyushu Sanko Group

The Kyushu Sanko Group, whose holding company is Kyushu Sangyo Kotsu Holdings Co., Ltd., operates businesses including automobile transport, real estate leasing, etc.

[Associated Companies]

Kyushu Sangyo Kotsu Holdings Co., Ltd. and 18 other companies

(5) Energy Business

The H.I.S. Group engages in retail electricity sales, the development of new electric power including renewable energy, and other ancillary businesses.

[Associated Companies]

H.I.S. Energy Holdings Co., Ltd. H.I.S. SUPER Power Co., Ltd.
HTB ENERGY CO., LTD. and one other company

(6) Other businesses

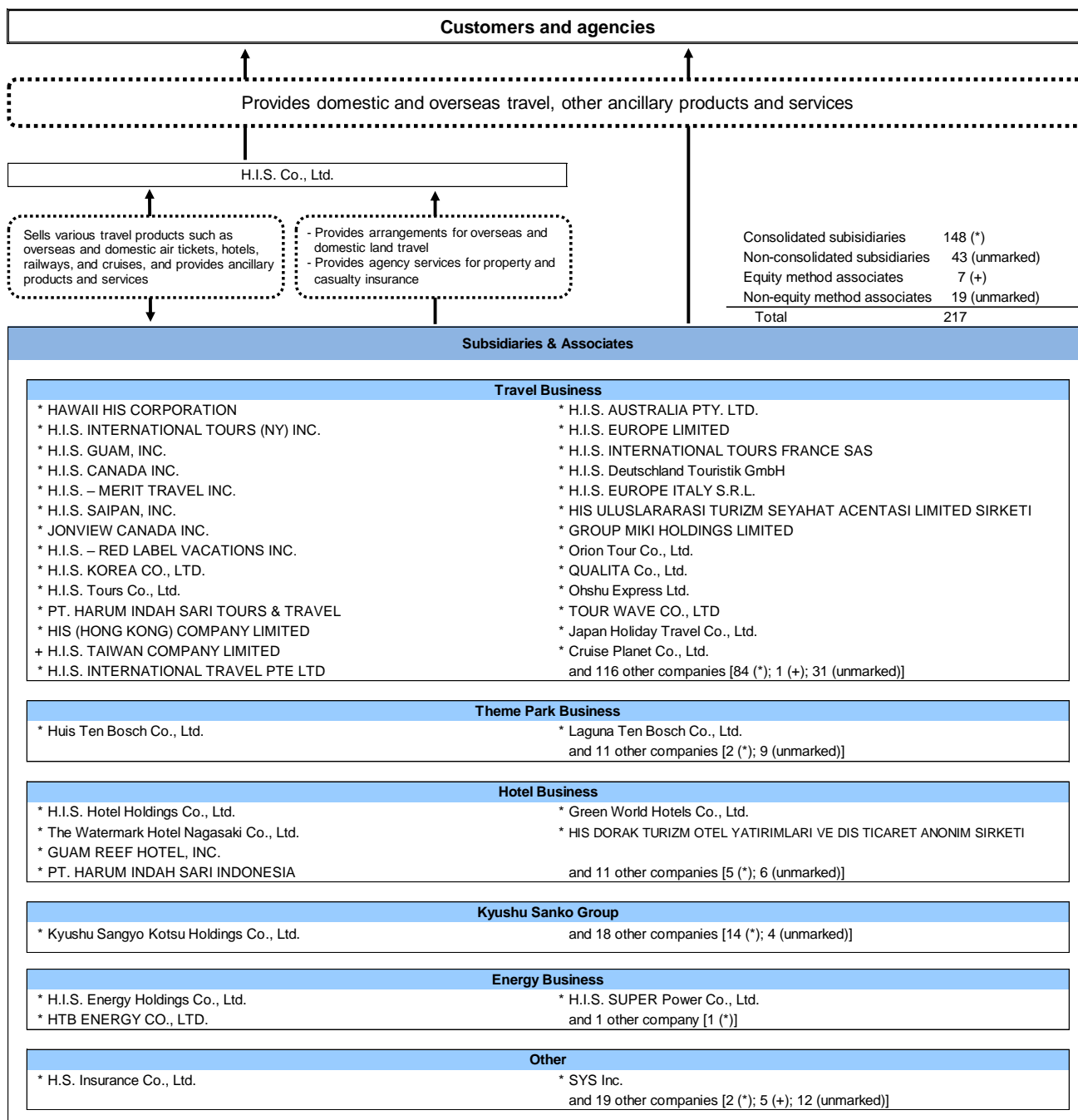
H.S. Insurance Co., Ltd. handles property and casualty insurance, mainly for overseas travel.

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

[Associated Companies]

H.S. Insurance Co., Ltd. SYS Inc.
and 19 other companies

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



4. Information on Subsidiaries and Associates

(1) Consolidated Subsidiaries

Company name	Location	Capital	Main business	Ownership of voting rights (%)	Relationship
H.I.S. U.S.A. HOLDING, INC. (Note 3)	Delaware, U.S.A.	847 thousand USD	Travel Business	100.0	1) Concurrent Director One concurrent director at said company
HAWAII HIS CORPORATION (Note 2)	Honolulu, Hawaii, U.S.A.	100 thousand USD	Travel Business	100.0 (100.0)	1) Business Transaction Purchasing and sales of travel products between the companies
H.I.S. INTERNATIONAL TOURS (NY) INC. (Note 2)	New York City, New York, U.S.A.	150 thousand USD	Travel Business	100.0 (100.0)	1) Concurrent Director One concurrent director at said company 2) 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 and sales of travel products between the companies
H.I.S. SAIPAN, INC. (Note 2)	Saipan, Commonwealth of the Northern Mariana Islands, U.S.A.	200 thousand USD	Travel Business	100.0 (100.0)	1) Business Transaction Purchasing of travel products from said company
H.I.S. CANADA INC. (Note 2)	Yukon Territory, Canada	100 thousand CAD	Travel Business	100.0 (100.0)	1) Business Transaction Purchasing and sales of travel products between the companies
H.I.S. – MERIT TRAVEL INC. (Note 2) (Note 3)	Vancouver, British Columbia, Canada	45,395 thousand CAD	Travel Business	100.0 (100.0)	1) Concurrent Director Two concurrent directors at said company
JONVIEW CANADA INC. (Note 2) (Note 3)	Toronto, Ontario, Canada	48,899 thousand CAD	Travel Business	100.0 (100.0)	1) Concurrent Director Two concurrent directors at said company
H.I.S. CANADA HOLDINGS INC. (Note 3)	Vancouver, British Columbia, Canada	247,804 thousand CAD	Travel Business	100.0	1) Concurrent Director Two concurrent directors at said company
H.I.S. – RED LABEL VACATIONS INC. (Note 2) (Note 3)	Vancouver, British Columbia, Canada	142,993 thousand CAD	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. (China) Holding Co., Limited	Hong Kong Special Administrative Region, People's Republic of China	87,257 thousand HKD	Travel Business	100.0	1) Concurrent Director Two concurrent directors at said company
H.I.S. KOREA CO., LTD.	Seoul, Republic of Korea	425,000 thousand KRW	Travel Business	58.8	1) Business Transaction Purchasing of travel products from said company
H.I.S. Tours Co., Ltd.	Bangkok, Kingdom of Thailand	20,000 thousand THB	Travel Business	100.0	1) Business Transaction Purchasing and sales of travel products between the companies

Company name	Location	Capital	Main business	Ownership of voting rights (%)	Relationship
PT. HARUM INDAH SARI TOURS & TRAVEL	Denpasar, Republic of Indonesia	168 thousand USD	Travel Business	90.0	1) Concurrent Director One concurrent director at said company 2) Business Transaction Purchasing and sales of travel products between the companies
HIS (HONG KONG) COMPANY LIMITED (Note 2)	Hong Kong Special Administrative Region, People's Republic of China	1,500 thousand HKD	Travel Business	100.0 (100.0)	1) Concurrent Director Two concurrent directors at said company 2) Business Transaction Purchasing and sales of travel products between the companies
H.I.S. INTERNATIONAL MANAGEMENT PTE. LTD. (Note 2) (Note 3)	Republic of Singapore	20,000 thousand USD	Travel Business	100.0 (0.1)	1) Concurrent Director One concurrent director at said company 2) 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) Concurrent Director One concurrent director at said company 2) Business Transaction Purchasing and sales of travel products between the companies
H.I.S. AUSTRALIA PTY. LTD. (Note 2)	Queensland, Australia	25 thousand AUD	Travel Business	100.0 (100.0)	1) Business Transaction Purchasing and sales of travel products between the companies
H.I.S. EUROPE LIMITED (Note 2)	London, England	210 thousand GBP	Travel Business	100.0 (100.0)	1) Business Transaction Purchasing and sales of travel products between the companies
GROUP MIKI HOLDINGS LIMITED (Note 3)	London, England	116 thousand EUR	Travel Business	70.3	1) Concurrent Director One concurrent director at said company 2) Business Transaction Purchasing and sales of travel products between the companies
HIS INTERNATIONAL TOURS FRANCE SAS (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) 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	Istanbul, Turkey	9,132 thousand TRY	Travel Business	100.0	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

Company name	Location	Capital	Main business	Ownership of voting rights (%)	Relationship
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 of travel products from said company
QUALITA Co., Ltd.	Minato-ku, Tokyo	51 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 provides payment guarantee (up to 35 million yen) for notes and accounts payable – trade
Ohshu Express Ltd.	Minato-ku, Tokyo	100 million yen	Travel Business	100.0	1) Concurrent Director Two concurrent directors at said company 2) Business Transaction Purchasing and sales of travel products between the companies
TOUR WAVE CO., LTD (Note 2)	Aoba-ku, Sendai, Miyagi Prefecture	80 million yen	Travel Business	100.0 (100.0)	1) Concurrent Director Two concurrent directors at said company 2) Business Transaction Purchasing and sales of travel products between the companies
Japan Holiday Travel Co., Ltd.	Chuo-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 40 million yen) for notes and accounts payable – trade
Cruise Planet Co., Ltd.	Chiyoda-ku, Tokyo	25 million yen	Travel Business	100.0	1) Concurrent Director Two concurrent directors at said company 2) Business Transaction Purchasing and sales of travel products between the companies
Huis Ten Bosch Co., Ltd. (Note 3)	Sasebo, Nagasaki Prefecture	1,500 million yen	Theme Park Business	66.7	1) Business Transaction Purchasing and sales of travel products between the companies

Company name	Location	Capital	Main business	Ownership of voting rights (%)	Relationship
Laguna Ten Bosch Co., Ltd. (Note 3)	Gamagori, Aichi Prefecture	1,588 million yen	Theme Park Business	66.0	1) Concurrent Director Three concurrent directors at said company 2) Business Transaction Purchasing of travel products from said company 3) Capital Assistance The Company loans 800 million yen in capital expenditure funding
H.I.S. Hotel Holdings Co., Ltd.	Minato-ku, Tokyo	10 million yen	Hotel Business	100.0	1) Concurrent Director Two concurrent directors at said company 2) Business Transaction Purchasing and sales of hotel products between the companies 3) Capital Assistance The Company guarantees liabilities (up to 235 million yen) against bank guarantees. In addition, it loans 58,456 million yen in capital expenditure funding
The Watermark Hotel Nagasaki Co., Ltd. (Note 2)	Sasebo, Nagasaki Prefecture	250 million yen	Hotel Business	100.0 (100.0)	1) Concurrent Director Two concurrent directors at said company 2) Business Transaction Purchasing of travel products from said company
GUAM REEF HOTEL, INC. (Note 2)	Guam, Territory of U.S.A.	10 thousand USD	Hotel Business	100.0 (100.0)	—————
PT. HARUM INDAH SARI INDONESIA (Note 2) (Note 3)	Badung, Bali, Republic of Indonesia	180 billion IDR	Hotel Business	100.0 (1.0)	—————
Green World Hotels Co., Ltd. (Note 2) (Note 3)	Taipei City, Taiwan	1,097 million TWD	Hotel Business	51.0 (51.0)	1) Capital Assistance The Company guarantees liabilities (up to 1,277 million yen) against bank guarantees
HIS DORAK TURIZM OTEL YATIRIMLARI VE DIS TICARET ANONIM SIRKETI (Note 2) (Note 3)	Istanbul, Turkey	202,130 thousand TRY	Hotel Business	84.3 (84.3)	1) Concurrent Director One concurrent director at said company
Kyushu Sangyo Kotsu Holdings Co., Ltd. (Note 3) (Note 4)	Chuo-ku, Kumamoto, Kumamoto Prefecture	1,065 million yen	Kyushu Sanko Group	91.6	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 1,800 million yen in capital expenditure funding

Company name	Location	Capital	Main business	Ownership of voting rights (%)	Relationship
H.I.S. Energy Holdings Co. Ltd.	Minato-ku, Tokyo	382 million yen	Energy Business	100.0	1) Concurrent Director Three concurrent directors at said company
HTB ENERGY CO., LTD. (Note 2)	Chuo-ku, Fukuoka, Fukuoka Prefecture	95 million yen	Energy Business	100.0 (100.0)	1) Concurrent Director Three concurrent directors at said company 2) Capital Assistance The Company provides payment guarantees (up to 2,130 million yen) against notes and accounts payable – trade. In addition, the Company loans 3,800 million yen in working capital
H.I.S. SUPER Power Co., Ltd. (Note 2)	Minato-ku, Tokyo	50 million yen	Energy Business	100.0 (100.0)	1) Concurrent Director Three concurrent directors at said company 2) Business Transaction Purchasing and sales of travel products between the companies 3) Capital Assistance The Company provides payment guarantees (up to 720 million yen) against notes and accounts payable – trade. In addition, the Company loans 7,546 million yen in capital expenditure funding
H.S. Insurance Co., Ltd. (Note 3)	Minato-ku, Tokyo	1,612 million yen	Other	100.0	1) Business Transaction The Company is a sales representative for travel insurance, etc.
SYS Inc.	Minato-ku, Tokyo	100 million yen	Other	91.4	1) Concurrent Director Two concurrent directors at said company 2) Business Transaction The Company outsources development of accommodation reservation systems, etc. 3) Capital Assistance The Company loans 1,356 million yen in working capital
And 104 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) Entities accounted for using equity-method

Company name	Location	Capital	Main business	Ownership of voting rights (%)	Relationship
H.I.S. TAIWAN COMPANY LIMITED	Taipei, Taiwan	42 million TWD	Travel Business	50.0	1) Concurrent Director One concurrent director at said company 2) Business Transaction Purchasing and sales of travel products between the companies
And 6 other company					

(Note) The “Main business” column indicates segment names stated in “Segment information, etc.”

5. Employees

(1) Consolidated Companies

As of October 31, 2020

Name of business segment	Number of employees	
Travel Business	10,048	[1,020]
Theme Park Business	913	[633]
Hotel Business	451	[297]
Kyushu Sanko Group	1,607	[287]
Energy Business	143	[34]
Reportable segments total	13,162	[2,271]
Other	208	[42]
Corporate-wide (shared)	620	[20]
Total	13,990	[2,333]

(Notes)

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

(2) The Filing Company

As of October 31, 2020

Number of employees	Average age	Average length of service	Average annual pay (yen)
5,896 [708]	32.9 years old	8.7 years	4,169,193

Name of business segment	Number of employees	
Travel Business	5,165	[688]
Hotel Business	8	[—]
Energy Business	55	[—]
Reportable segments total	5,228	[688]
Other	48	[—]
Corporate-wide (shared)	620	[20]
Total	5,896	[708]

(Notes)

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

(3) Labor Unions

There are no applicable matters to report.

II. Business Overview

1. Management Policy, Management Environment, and Issues to be Addressed, etc.

(1) Management Policy

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

(2) Medium- to Long-Term Corporate Management Strategy and Key Performance Indicators

The H.I.S. Group actively undertakes challenges not only in its existing business fields, but also by continually pursuing fresh opportunities in new business domains. It aims to strengthen its earnings structure and further enhance its corporate value by pivoting away from a management organization centered on the existing Travel Business and by reinforcing and transforming its business portfolio. The Group believes sustainable business growth is essential to achieve this, and it focuses on growth in sales and operating profit in all its businesses. In the foreseeable future, it targets a shareholders’ equity ratio of 20% or more as an indicator of financial stability, and ROE of 10% or more as an indicator of profitability. The Group is considering formulating a three-year medium-term management plan (starting from the consolidated fiscal year ending in either October 31, 2021 or October 31, 2022) that will provide more details, including about key performance indicators. However, the formulation of such a plan will be contingent on the Group’s ability to ascertain changes in the business environment to a certain extent.

(3) Issues to be Addressed

As for the operating environment going forward, the H.I.S. Group expects concerns over economic deterioration to linger as the COVID-19 pandemic continues to spread around the world. Because it is unclear when the pandemic will subside, the Group expects conditions to remain murky, making it difficult to project a recovery in economic activity in Japan and overseas. Amid such an environment, the Group will have to address the following issues.

1) Implement measures in response to COVID-19 pandemic

The H.I.S. Group has suffered heavily from the COVID-19 pandemic, and its financial foundation has been eroded by the recent deterioration in earnings. Consequently, it regards the implementation of measures to mitigate the impact of the pandemic as an important issue, and will make this a top priority.

○ Increase financial soundness

The H.I.S. Group regards the expansion of shareholders’ equity and the establishment of a system that can generate free cash flow as pressing issues. While maintaining short-term liquidity in hand through measures such as raising funds and liquidizing accumulated asset holdings based on the circumstances, the Group will reinforce its financial structure by thoroughly reducing costs. Until the outlook on the operating environment improves, it will control cash outflows through initiatives such as adopting a cautious stance on investment plans, and accordingly aim to improve its cash position.

○ Management that takes into account life with and after the COVID-19 pandemic

The H.I.S. Group will undertake management predicated on a new cost structure in response to the COVID-19 pandemic. It aims to achieve a rapid recovery in earnings by operating businesses that leverage its uniqueness and competitive edge. In addition, it will decisively pursue opportunities in the post-COVID world, including those stemming from potential industry realignment, and further accelerate its growth.

2) Adapt to various changes

Against the backdrop of dramatic changes in society and business driven by technological innovation, the H.I.S. Group will seek out new opportunities without being constrained by preconceptions. The Group believes the ability to continuously adapt to various changes is what enables sustainable growth. It realizes improving productivity and profitability in various business spheres will be the challenge in the foreseeable future, and aims to promote digital transformation (i.e., the adoption of digital technologies to optimize business operations) to achieve solutions, overhaul its business structure to achieve greater efficiency, and establish a new business model.

3) Pursuit of customer satisfaction and provision of safe and secure products

To become a global company trusted worldwide and supported by the customers, H.I.S. believes it is necessary to provide comfortable, safe, and secure services. Through optimized use of its global network and infrastructure, the Group intends to further provide products, services, and information that are safe, secure, and high-quality, by creating new experience-driven value and offering expanded services. An effort will also be made to please and gain the support of customers throughout the world by working to improve the level of Group’s services in Japan and overseas.

2. Business and Other Risks

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

All matters relating to the future in the sections below are based on the current views of the H.I.S. Group as of the date of filing this Securities Report in Japanese (January 28, 2021) and business risks are not limited to those discussed below.

1) Risk related to impact of COVID-19 pandemic

The H.I.S. Group analyzes the impact of the COVID-19 pandemic on its reportable segments as follows.

Segment	Main categories	Current conditions and outlook
Travel Business	Overseas travel Inbound travel to Japan Overseas inbound travel Overseas outbound travel	<ul style="list-style-type: none"> • The business has suffered heavily as factors such as restrictions on emigration/immigration in various countries have resulted in continued lackluster demand. • The business is affected by factors such as restrictions on emigration/immigration in various countries. Despite signs of a partial relaxation of such restrictions, the Company expects demand will not recover to the 2019 level until 2022.
	Domestic travel	<ul style="list-style-type: none"> • Demand recovered gradually since the launch of the “Go To Travel” campaign, and at one point surpassed the 2019 level. However, this was followed by a sharp cooling due to the impact of the second state of emergency declared by the Japanese government and related factors. • The Company expects demand to rebound when the state of emergency is lifted and the “Go To Travel” campaign resumes (is extended).
Theme Park Business	Huis Ten Bosch Laguna Ten Bosch	<ul style="list-style-type: none"> • Demand recovered since the launch of the “Go To Travel” campaign, and at one point surpassed the 2019 level. However, the number of visitors fell sharply after the Japanese government declared a second state of emergency. • The Company expects demand to rebound when the state of emergency is lifted and the “Go To Travel” campaign resumes (is extended).
Hotel Business	Domestic hotels	<ul style="list-style-type: none"> • Demand recovered steadily since the launch of the “Go To Travel” campaign, led by leisure demand. However, the number of hotel guests declined sharply due to the impact of the second state of emergency declared by the Japanese government and related factors. • The Company expects demand to rebound when the state of emergency is lifted and the “Go To Travel” campaign resumes (is extended). • The business may lose opportunities depending on the government’s policy on holding the Tokyo Olympics.
	Overseas hotels	<ul style="list-style-type: none"> • The business has suffered heavily as factors such as restrictions on emigration/immigration in various countries have resulted in continued lackluster demand. • The business is highly dependent on external demand, and is affected by emigration/immigration restrictions in various countries. The Company expects demand will not recover to the 2019 level until 2022.

Kyushu Sanko Group	Bus services	<ul style="list-style-type: none"> • The number of bus passengers at one point recovered steadily from a temporary decline caused by voluntary restraint in travel. However, the number subsequently fell due to the impact of the second state of emergency declared by the Japanese government and related factors. • The Company expects demand to recover to the 2019 level in the second half of 2021.
Energy Business	Retail electricity sales	<ul style="list-style-type: none"> • In the wake of the first declaration of a state of emergency, the business saw a temporary decline in demand from major customers and a slowdown in sales activities. However, power demand subsequently recovered. • Electricity prices on the Japan Electric Power Exchange have continued to surge to unprecedented levels since mid-December 2020, so cost rates may sharply deteriorate.
	Power generation	<ul style="list-style-type: none"> • The first state of emergency declaration led to delays in the construction of power plants, but power generation started in November 2020. • Production of power generation fuel has stagnated due to sluggish economic activity. This may drive increases in fuel prices due to a depletion of inventories.

Based on a capital plan that assumes the impact of the COVID-19 pandemic will drag on, the H.I.S. Group is reducing fixed costs, deliberating with financial institutions, and building a structure to secure business funding.

By consistently undertaking related measures, the Group deems that there should be no uncertainty about its ability to continue as a going concern, and therefore does not present “Notes regarding Assumption of a Going Concern.”

2) Risks related to travel demand and industry trends

The Travel Business accounts for 83.4% of Group net sales, and 59.4% of net sales are concentrated in Japan. Consequently, changes in the environment surrounding the Travel Business in Japan could affect the Group’s financial position and operating results. Further, although the Group works to ensure sustainable competitiveness, its businesses face intense competition from other companies, prompted by such factors as business model changes of partner companies and market entries by companies from other industries. Future developments in the competitive landscape could therefore affect the Group’s financial position and operating results.

3) Impact of natural and man-made disasters

The environment surrounding the Group’s businesses is vulnerable to disruption of tourism and related infrastructure caused by natural disasters (such as typhoons, tsunamis, and earthquakes), outbreak of contagious diseases, airplane crashes, and political and social instability in various countries or regions caused by terrorist attacks, wars, and other factors. The occurrence of any of these could affect the Group’s financial position and operating results.

4) Risks related to information leaks and system management

The Group makes use of computer systems for operations including reservation arrangements, and it accordingly manages personal information of a large number of its customers. It makes every effort to ensure sufficient security when building and operating such systems, but the occurrence of failures in communication networks/programs, problems caused by computer viruses, and other factors may lead to serious disruptions such as system failures, information leaks, and data falsification/alteration, which could gravely affect Group operations. In addition, depending on the scale of a system failure, services to customers may be interrupted or repair costs may increase, which could affect the Group’s financial position, operating results, and public trust.

5) Risks related to provision of products and services

The Group provides restaurant recommendations under its travel products. It also operates restaurants in its other businesses, and compiles manuals for quality control standards and takes sufficient caution to ensure food safety. However, the occurrence of health problems such as food poisoning could lead to a loss of trust or other problems, affecting the Group’s financial position and operating results.

6) Exchange rate and crude oil price 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. Further, the Group converts figures in the financial statements of consolidated overseas subsidiaries into Japanese yen when preparing the consolidated financial statements, and changes in exchange rates could thus affect the Group's financial position and operating results. In addition, the Group adds a fuel surcharge to overseas travel fares in its Travel Business to reflect changes in crude oil prices, and a notable rise in this surcharge may dampen overall travel demand. Consequently, sharp changes in crude oil prices could affect the Group's financial position and operating results.

7) 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.

8) Impairment of fixed assets

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

9) 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 operating results 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.

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

The following is an overview, management perspective, analysis, and examination of the Company's financial position, business results, and cash flows in the consolidated fiscal year ended October 31, 2020.

(1) Business Results

In the consolidated fiscal year ended October 31, 2020, the operating environment remained challenging. Despite signs of a recovery in some areas, economic activity stagnated as the COVID-19 pandemic caused sharp declines in corporate earnings and a deterioration in employment conditions.

In this environment, the H.I.S. Group worked to thoroughly reduce costs through measures such as taking maximal advantage of government subsidies in various countries, and overhauled its organization while promoting work style reform in response to the pandemic. Guided by its corporate philosophy ("In accordance with the laws of the universe, we contribute to the creative development of humanity and world peace."), the Group aimed to build new business models that can help it contribute to world peace through travel and a wide range of other businesses as a company that consistently pursues change and advancement.

In the consolidated fiscal year ended October 31, 2020, business performance was as follows.

	Year ended October 31, 2019	Year ended October 31, 2020
Net sales (millions of yen)	808,510	430,284
Gross profit (millions of yen)	144,134	69,896
Operating profit (loss) (millions of yen)	17,540	(31,129)
Profit (loss) before income taxes (millions of yen)	20,352	(33,101)
Profit (loss) attributable to owners of parent (millions of yen)	12,249	(25,037)

Net sales decrease 378.2 billion yen or 46.8% year on year to 430.2 billion yen. The decline was mainly attributable to sharply declined sales in the Travel Business, which was affected substantially by the COVID-19 pandemic.

Selling, general and administrative expenses decrease 25.5 billion yen or 20.2% year on year to 101.0 billion yen, mainly due to a reduction in personnel expenses, advertising expenses, rent, and other costs in response to the pandemic.

On the profit side, the Company reported an operating loss of 31.1 billion yen (versus an operating profit of 17.5 billion yen in the previous fiscal year) due to a sharp decline in gross profit despite efforts to optimize the allocation of management resources and reduce costs. It posted a loss before income taxes of 33.1 billion yen (versus a profit before income taxes of 20.3 billion yen in the previous fiscal year) as an extraordinary income of 11.0 billion yen for employment adjustment subsidies and other factors was offset by an extraordinary loss of 12.8 billion yen for losses stemming from the temporary suspension of operations and impairment losses on non-current assets. The Company reported a loss attributable to owners of parent of 25.0 billion yen (versus a profit attributable to owners of parent of 12.2 billion yen in the previous fiscal year), reflecting a decline in income taxes payable of 9.9 billion yen year on year and the booking of a 4.6 billion yen loss attributable to non-controlling interests.

The earnings by segment in the consolidated fiscal year ended October 31, 2020 are shown below. The name of the reportable segment previously presented as the Huis Ten Bosch Group was changed to the Theme Park Business from the fiscal year under review. This is only a change in name and has no impact on the segment data. For more information, see the “Segment information, etc.” section in “Notes to Consolidated Financial Statements” under “(1) Consolidated Financial Statements, 1. Consolidated Financial Statements, etc., V. Financial Information.” Figures in each segment reflect the amounts before offsetting and eliminating inter-segment transactions.

[Travel Business]

	Year ended October 31, 2019	Year ended October 31, 2020
Net sales (millions of yen)	722,464	359,631
Operating profit (loss) (millions of yen)	13,754	(21,127)

In the consolidated fiscal year ended October 31, 2020, the COVID-19 pandemic spread around the world, and the Travel Business was heavily affected as many countries continued to implement measures such as restrictions on immigration and travel, giving rise to extremely challenging conditions. While the domestic market showed signs of a recovery as the Japanese government reached agreements to partially relax restrictions on inbound and outbound travel from and to some countries and regions from the autumn of 2020, the number of outbound Japanese travelers decrease 67.7% year on year to 6.46 million, and the number of inbound travelers to Japan declined a substantial 72.0% to 8.96 million (source: Japan National Tourism Organization [JNTO]). The Company was affected by continued flight cancellations and travel restrictions, cancellations of planned tours to all destinations, and limited effects of the government-aided “Go To Travel” campaign from September onward, resulting in a significant decline in travel transactions. Against this backdrop, it reduced personnel expenses in Japan and abroad, and took other measures to cut expenses such as scrapping and consolidating outlets in an effort to ride out the pandemic. It allocated management resources to domestic travel operations, where it anticipated demand, and worked to improve earnings through initiatives that leveraged its global bases, such as unique online experiential tours. Despite those efforts, however, net sales declined 50.2% year on year to 359.6 billion yen, and the business posted an operating loss of 21.1 billion yen (versus operating profit of 13.7 billion yen in the previous fiscal year).

[Theme Park Business]

	Year ended October 31, 2019	Year ended October 31, 2020
Net sales (millions of yen)	28,086	13,684
Operating profit (loss) (millions of yen)	5,075	(3,393)

In the consolidated fiscal year ended October 31, 2020, the Theme Park Business was heavily affected by the suspension of operations at theme parks caused by the COVID-19 pandemic, and from voluntary restraint in outdoor activities during the state of emergency declared by the Japanese government, resulting in challenging conditions. After the state of emergency was lifted, conditions improved but only gradually as the effects of the “Go To Travel” campaign and other measures proved limited. At Huis Ten Bosch, the core theme park of the business, the Company undertook initiatives such as offering exclusive visitor plans for Nagasaki Prefecture residents in collaboration with local municipalities, while implementing measures to prevent infections. However, the park was closed for a total of 56 days, and many popular events had to be cancelled, which had an impact. As a result, the number of visitors to Huis Ten Bosch in the fiscal year under review declined a sharp 45.6% year on year to 1,386,000, net sales decrease 51.3% year on year to 13.6 billion yen, and the business posted an operating loss of 3.3 billion yen (versus operating profit of 5.0 billion yen in the previous fiscal year).

[Hotel Business]

	Year ended October 31, 2019	Year ended October 31, 2020
Net sales (millions of yen)	12,676	8,685
Operating profit (loss) (millions of yen)	(217)	(3,564)
EBITDA (millions of yen)	1,059	(296)

In the consolidated fiscal year ended October 31, 2020, the COVID-19 pandemic spread around the world, and the Hotel Business was heavily affected as many countries continued to implement measures such as restrictions on immigration and travel, giving rise to challenging conditions. At the Henn na Hotel and other domestic hotel chains, the Company provided COVID-19 infection risk mitigation packages, and worked to strengthen measures to attract guests by taking advantage of the “Go To Travel” campaign, but the recovery was limited. Overseas hotels, highly dependent on foreign demand, were hit hard by the pandemic as continued difficulties in international travel drove a decline in the number of guests. As a result, net sales declined 31.5% year on year to 8.6 billion yen, and the business posted an operating loss of 3.5 billion yen (versus a 0.2 billion yen loss in the previous fiscal year). EBITDA was also negative.

[Kyushu Sanko Group]

	Year ended October 31, 2019	Year ended October 31, 2020
Net sales (millions of yen)	22,230	19,177
Operating profit (loss) (millions of yen)	158	(2,132)

Despite signs of a partial recovery in Kumamoto Prefecture, the home turf of the Kyushu Sanko Group, conditions remained challenging due to the impact from the COVID-19 pandemic and related factors. The number of bus passengers languished as people refrained from going out after a state of emergency was declared by the Japanese government, and the number of customers at the large-scale commercial facility SAKURA MACHI Kumamoto in Sakuramachi dropped by half, creating a challenging environment for the Kyushu Sanko Group. Once the state of emergency was lifted, conditions started to recover. However, net sales decrease 13.7% year on year to 19.1 billion yen, and the business posted an operating loss of 2.1 billion yen (versus operating profit of 0.1 billion yen in the previous fiscal year).

(Energy Business)

	Year ended October 31, 2019	Year ended October 31, 2020
Net sales (millions of yen)	20,461	26,393
Operating profit (millions of yen)	974	163

In the consolidated fiscal year ended October 31, 2020, electricity demand decrease visibly in April–June amid economic stagnation and voluntary restraint in going out driven by the COVID-19 pandemic. Although the decline was modest relative to the drop in GDP, it had a substantial impact on the electricity market (source: MPX). However, a downturn in crude oil prices contributed to a stable procurement environment. HTB ENERGY CO., LTD., which operates the retail electricity sales business, sharply increased promotion and other advertising activities ahead of the busy summer period, and worked to expand the number of contracts. As a result, net sales rose 29.0% year on year to 26.3 billion yen, but operating profit decrease 83.2% year on year to 0.1 billion yen.

(2) Cash Flows

The amount of cash and cash equivalents (hereinafter, “funds”) at the end of the consolidated fiscal year ended October 31, 2020 was 80,445 million yen, a decrease of 112,096 million yen compared to the end of the previous fiscal year. Operating activities decreased funds by 57,718 million yen, investing activities decreased funds by 47,901 million yen, and financing activities decreased funds by 5,602 million yen.

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

[Cash flows from operating activities]

Funds from operating activities saw a decrease of 57,718 million yen in the fiscal year under review. This mainly reflected a decrease in funds from a decline in travel advances received (77,912 million yen) and the booking of a loss before income taxes (33,101 million yen), and an increase in funds from a decline in travel advance payments (44,113 million yen) and depreciation (12,880 million yen) as a non-cash item.

In the previous fiscal year, funds saw an increase of 39,344 million yen. This mainly reflected an increase in funds from the booking of 20,352 million yen in profit before income taxes, depreciation (8,850 million yen) as a non-cash item, and an increase in travel advances received (5,438 million yen).

As a result, in the fiscal year under review, cash flows from operating activities decreased 97,062 million yen compared to the previous fiscal year.

[Cash flows from investing activities]

Funds from investing activities saw a decrease of 47,901 million yen in the fiscal year under review. This was mainly due to a decrease in funds from purchases of property, plant and equipment and intangible assets (66,565 million yen) and payments into time deposits (18,941 million yen), and to an increase in funds from proceeds from withdrawal of time deposits (30,214 million yen), a gain on sales of investment securities (6,299 million yen), and proceeds from sales of property, plant and equipment and intangible assets (1,862 million yen).

In the previous fiscal year, funds saw a decrease of 52,116 million yen. This was mainly because purchases of property, plant and equipment and intangible assets (75,885 million yen), and purchases of investment securities (6,987 million yen) exceeded revenue from redevelopment projects (27,658 million yen).

As a result, in the fiscal year under review, cash flows from investing activities increased 4,214 million yen compared to the previous fiscal year.

[Cash flows from financing activities]

Funds from financing activities saw a decrease of 5,602 million yen in the fiscal year under review. This mainly reflected a decrease in funds from repayments of long- and short-term loans payable (86,777 million yen) and cash dividends paid (1.9 billion yen), and an increase in funds from proceeds from long- and short-term loans payable (75,126 million yen) and proceeds from a share issuance (7,728 million yen).

In the previous fiscal year, funds saw an increase of 15,362 million yen. This mainly reflected an increase in funds from proceeds from long- and short-term loans payable (218,391 million yen), and a decrease in funds from repayments of long- and short-term loans payable (169,737 million yen), and redemption of corporate and convertible bonds (30.0 billion yen).

As result, in the fiscal year under review, cash flows from financing activities declined 20,965 million yen compared to the previous fiscal year.

(3) Production, Orders Received, and Sales

1) Purchasing

Purchasing by segment during the consolidated fiscal year ended October 31, 2020 is as follows.

Segment name	Year ended October 31, 2020 [November 1, 2019 to October 31, 2020] (millions of yen)	Versus previous fiscal year (%)
Travel Business	309,902	50.5
Theme Park Business	2,451	66.6
Hotel Business	3,790	85.6
Kyushu Sanko Group	19,704	97.3
Energy Business	22,617	127.1
Reportable segment total	358,466	54.3
Other	1,920	46.4
Total	360,387	54.2

(Notes)

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

2) Orders received

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

3) Sales

Sales by segment during the consolidated fiscal year ended October 31, 2020 are as follows.

Segment name	Year ended October 31, 2020 [November 1, 2019 to October 31, 2020] (millions of yen)	Versus previous fiscal year (%)
Travel Business	358,905	49.8
Theme Park Business	12,938	49.1
Hotel Business	8,142	69.3
Kyushu Sanko Group	19,174	86.3
Energy Business	26,279	129.2
Reportable segment total	425,439	53.1
Other	4,844	65.8
Total	430,284	53.2

(Notes)

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

(4) Analyses of Consolidated Business Results, Financial Position, and Cash Flows

Analysis of financial conditions, operating results, and cash flows during the consolidated fiscal year ended October 31, 2020 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) Analysis of financial position

(i) Current assets

The balance of current assets at the end of the fiscal year under review was 139,223 million yen, a decrease of 209,056 million yen from the end of previous fiscal year.

This was mainly due to declines in cash and deposits (down 123,941 million yen from the end of the previous fiscal year), travel advance payments (down 44,848 million yen from the end of the previous fiscal year), and notes and accounts receivable - trade (down 29,823 million yen).

(ii) Non-current assets

The balance of non-current assets at the end of the fiscal year under review was 274,954 million yen, an increase of 46,002 million yen from the end of previous fiscal year.

This mainly reflected an increase in property, plant and equipment (up 55,112 million yen from the end of the previous fiscal year), and a decline in investment securities (down 5,676 million yen).

(iii) Current liabilities

The balance of current liabilities at the end of the fiscal year under review was 90,833 million yen, a decrease of 140,738 million yen from the end of previous fiscal year.

This was mainly due to declines in travel advances received (down 78,738 million yen from the end of the previous fiscal year), operating accounts payable (down 29,053 million yen), and accounts payable - other (down 17,297 million yen).

(iv) Non-current liabilities

The balance of non-current liabilities at the end of the fiscal year under review was 225,349 million yen, an increase of 3,430 million yen from the end of previous fiscal year.

This was mainly due to an increase in long-term loans payable (up 3,202 million yen from the end of the previous fiscal year).

(v) Net assets

The balance of net assets at the end of the fiscal year under review was 98,421 million yen, a decrease of 25,487 million yen from the end of previous fiscal year.

This mainly reflected decreases in retained earnings resulting from the booking of a loss attributable to owners of parent (down 25,037 million yen from the end of the previous fiscal year), foreign currency translation adjustments (down 3,531 million yen), and non-controlling interests (down 2,841 million yen), and an increase in share capital and capital surplus from a third-party allotment of new shares (up 8.0 billion yen).

2) Analysis of operating results

(i) Net sales

In the consolidated fiscal year ended October 31, 2020, net sales were 430,284 million yen, a decrease of 378,226 million yen (down 46.8%) from the previous fiscal year. By reportable segment, Travel Business net sales were 359,631 million yen (down 50.2%), Theme Park Business net sales were 13,684 million yen (down 51.3%), Hotel Business net sales were 8,685 million yen (down 31.5%), Kyushu Sanko Group net sales were 19,177 million yen (down 13.7%), and Energy Business net sales were 26,393 million yen (up 29.0%).

From the fiscal year under review, the name of the reportable segment previously presented as the Huis Ten Bosch Group was changed to the Theme Park Business. This is only a change in name and has no impact on the segment data. For more information, see the "Segment information, etc." section in "Notes to Consolidated Financial Statements" under "(1) Consolidated Financial Statements, 1. Consolidated Financial Statements, etc., V. Financial Information." Figures in each segment reflect the amounts before offsetting and eliminating inter-segment transactions.

(ii) Operating expenses

Operating expenses in the fiscal year under review were 461,413 million yen, a decline of 329,556 million yen (down 41.7%) from the previous fiscal year.

Within operating expenses, cost of sales was 360,387 million yen, a decline of 303,988 million yen (down 45.8%) from the

previous fiscal year.

Selling, general and administrative expenses were 101,026 million yen, a decline of 25,567 million yen (down 20.2%) from the previous fiscal year. The ratio of selling, general and administrative expenses to sales rose 7.8 points compared to the previous fiscal year, to 23.5%.

(iii) Operating profit or loss

The Company reported an operating loss of 31,129 million yen in the fiscal year under review (versus an operating profit of 17,540 million yen in the previous fiscal year), a decline of 48,670 million yen from the previous fiscal year.

(iv) Ordinary profit or loss

The Company reported an ordinary loss of 31,283 million yen in the fiscal year under review (versus an ordinary profit of 17,089 million yen in the previous fiscal year), a decline of 48,373 million yen from the previous fiscal year.

Main non-operating income included interest income (1,269 million yen) and subsidy income (547 million yen), and non-operating expenses included interest expenses (1,094 million yen) and foreign exchange losses (321 million yen).

(v) Profit or loss attributable to owners of parent

The Company reported a loss before income taxes of 33,101 million yen in the fiscal year under review (versus a profit before income taxes of 20,352 million yen in the previous fiscal year), a decline of 53,454 million yen from the previous fiscal year.

Total income taxes in the fiscal year under review were -3,457 million yen (versus 6,477 million yen in the previous year), a decline of 9,935 million yen from the previous fiscal year.

As a result, the Company reported a loss attributable to owners of parent of 25,037 million yen in the fiscal year under review (versus a profit attributable to owners of parent of 12,249 million yen in the previous year), a decline of 37,287 million yen from the previous fiscal year.

3) Analysis of cash flows and capital resources and liquidity of funds

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

The H.I.S. Group mainly needs funding for working capital, capital expenditures, and M&A. It secures funding for working capital through loans from financial institutions, and for capital expenditures and M&A through a combination of loans from financial institutions, the issuance of bonds and convertible bond-type bonds with share acquisition rights, and capital increases.

4) Significant accounting estimates and underlying assumptions

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 retirement benefit liability, etc. These estimates are rationally determined in consideration of past results; however, because of uncertainties characteristic of estimates, they may differ from the actual results. For more information, see the “Significant matters that serve as the basis for preparation of the consolidated financial statements” section of “Notes” under “(1) Consolidated Financial Statements, 1. Consolidated Financial Statements, etc., V. Financial Information.”

For more information on the assumptions underlying significant accounting estimates in relation to the COVID-19 pandemic, see the “Additional Information” section of “Notes” under “(1) Consolidated Financial Statements, 1. Consolidated Financial Statements, etc., V. Financial Information.”

4. Material Business Agreements, etc.

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

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

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

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

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

5. Research and Development Activities

There are no applicable matters to report.

III. Equipment and Facilities

1. Capital Expenditures

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

The breakdown of capital expenditures during the consolidated fiscal year ended October 31, 2020 (based on the amounts recorded as property, plant and equipment, guarantee deposits, and hardware/software; figures do not include consumption tax, etc.) is as follows.

Segment	Capital expenditure amount (millions of yen)
Travel Business	3,769
Theme Park Business	5,644
Hotel Business	12,676
Kyushu Sanko Group	3,259
Energy Business	420
Reportable segment total	25,770
Other	4,699
Corporate-wide (shared)	26,626
Total	57,095

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

Travel Business:	Investment in branch and office facilities (1,383 million yen), development and improvement of travel reservation systems, etc. (1,701 million yen), and acquisitions of tour buses and other vehicle equipment (685 million yen).
Theme Park Business:	Investment of a total of 5,185 million yen in Huis Ten Bosch Co., Ltd., with the bulk directed toward theme park facility installations including jewelry items (3,639 million yen).
Hotel Business:	Investment in the construction of Henn na Hotels, etc. (8,650 million yen).
Kyushu Sanko Group:	Investment related to the Sakuramachi Redevelopment Project (2,502 million yen).
Energy Business:	Investment in the supply and demand management system at HTB ENERGY CO., LTD., etc. (245 million yen).
Other:	Purchase of three real estate properties, etc. at H.I.S. Co., Ltd. (3,415 million yen).
Corporate-wide (shared):	Investment in the relocation of Group headquarters in June 2020 (26,607 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	Land (thousand m ²)	Leased assets	Construction in progress	Guarantee deposits	Other	Total	
Headquarters/ Offices (Minato-ku, Tokyo, etc.)	Travel Business	Branch facilities; reservation systems	1,445	361	— (—)	10	31	2,272	2,001	6,121	5,165 (688)
Headquarters (Minato-ku, Tokyo)	Other	Real estate	3,603	1	9,516 (7)	—	—	—	—	13,121	— (—)
Headquarters (Minato-ku, Tokyo)	Corporate- wide (shared)	Office facilities; software	8,757	109	24,445 (1)	7	32	2	107	33,462	620 (20)

(Notes)

1. Of the book value, "Other" comprises vehicles, works of art, 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 3,357 million yen.

(2) Domestic subsidiaries

Company name Facility name (Location)	Segment	Facility type	Book value (millions of yen)								Number of employees (persons) Number of temporary employees (persons)
			Buildings	Tools, furniture and fixtures	Land (thousand m ²)	Leased assets	Construction in progress	Guarantee deposits	Other	Total	
Huis Ten Bosch Co., Ltd. (Sasebo, Nagasaki Prefecture)	Theme Park Business	Theme park facilities	4,784	7,451	402 (1,181)	—	816	7	5,054	18,518	786 (491)
H.I.S. Hotel Holdings Co., Ltd. (Minato-ku, Tokyo, etc.)	Hotel Business	Hotel facilities	17,299	510	19,837 (15)	—	5,288	852	132	43,922	138 (25)
Kyushu Sanko Bus Co., Ltd. (Nishi- ku, Kumamoto, Kumamoto Prefecture)	Kyushu Sanko Group	Business facilities, etc.	824	89	7,379 (123)	1,922	43	7	70	10,336	537 (55)
Kyushu Sanko Landmark Co., Ltd. (Chuo-ku, Kumamoto, Kumamoto Prefecture)	Kyushu Sanko Group	Business facilities, etc.	13,775	566	13,477 (17)	—	—	—	2	27,821	12 (—)
H.I.S. SUPER Power Co., Ltd. (Minato-ku, Tokyo)	Energy Business	Power facilities	67	14	— (—)	—	5,840	—	0	5,922	18 (—)

(Notes)

1. Of the book value, "Other" comprises vehicles, vessels, machinery, equipment, structures, 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, leasing fees incurred by domestic subsidiaries during the fiscal year under review was 2,263 million yen.
4. Facility names of domestic subsidiaries are consistent with company names.

(3) Overseas subsidiaries

Company name Facility name (Location)	Segment	Facility type	Book value (millions of yen)							Number of employees (persons) Number of temporary employees (persons)	
			Buildings	Tools, furniture and fixtures	Land (thousand m ²)	Leased assets	Construction in progress	Guarantee deposits	Other		Total
HHH.U.S.A.Inc. (New York City, New York, U.S.A.)	Hotel Business	Hotel facilities	—	—	2,143 (0)	—	3,413	—	—	5,556	4 (—)
HIS DORAK TURIZM OTEL YATIRIMLARI VE DIS TICARET ANONIM SIRKETI (Istanbul, Turkey)	Hotel Business	Hotel facilities	—	0	429 (47)	—	5,220	—	—	5,649	— (—)
Green World Hotels Co., Ltd. (Taipei, Taiwan)	Hotel Business	Hotel facilities	2,456	203	384 (0)	10,346	1	527	593	14,513	254 (25)

(Notes)

1. Of the book value, “Other” comprises machinery, equipment, 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, leasing fees incurred by overseas subsidiaries during the fiscal year under review was 1,910 million yen.
4. Facility names of overseas subsidiaries are consistent with company names.

3. Plan for Additions and Disposals of Facilities

The plan for addition of a major facility as of the end of the fiscal year ended October 31, 2020 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	
Aqua Ignis Taki Hotel Asset K.K.	Hotel Business	Hotel facilities, etc.	6,630	2,367	February 2020	April 2021	155 guest rooms

IV. Information on the Company

1. Information on the Company's Shares

(1) Total number of shares, etc.

1) Total number of shares

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

(Note) Partial changes to the Company's Articles of Incorporation were approved at the General Meeting of Shareholders held on January 27, 2021, and the total number of shares authorized to be issued became 150,000,000 shares from that date.

2) Number of shares issued

Class	Number of shares issued as of end of fiscal year (October 31, 2020)	Number of shares issued as of filing date (January 28, 2021)	Stock exchange on which the Company is listed	Description
Common stock	68,768,936	68,768,936	First Section of the Tokyo Stock Exchange	Standard Company shares with no restricted rights; 100 shares constitute one unit.
Total	68,768,936	68,768,936	—	—

(2) Information on share acquisition rights, etc.

1) Details of stock option program

Share acquisition rights issued under the provisions of Articles 236, 238, and 240 of the Companies Act for the purpose of granting stock options to Directors and employees of the Company and its subsidiaries are presented below.

Third Series of Share Acquisition Rights

Resolution date	January 29, 2020
Category and number of grantees	Directors of the Company: 5 Employees of the Company: 1,541 Directors of subsidiaries: 44 Employees of subsidiaries: 200
Number of share acquisition rights (*)	9,005 units
Class, content, and number of shares subject to share acquisition rights (*)	Common shares, 900,500 (Notes 1, 2)
Amount payable on the exercise of share acquisition rights (*)	1,387 yen (Note 3)
Exercise period of share acquisition rights (*)	From April 1, 2023 to March 31, 2024
Share issue price and additional paid-in capital per share in the event of issuance of shares upon exercise of share acquisition rights (*)	Issue price: 1,678 yen Additional paid-in capital per share: 839 yen
Conditions for exercise of share acquisition rights (*)	(Note 4)
Matters regarding transfer of share acquisition rights (*)	Approval of the Company's Board of Directors is required for the acquisition of any share acquisition rights by means of transfer.
Matters regarding grant of share acquisition rights accompanying corporate reorganization (*)	(Note 5)

(*) The information above is as of the end of the fiscal year under review (October 31, 2020). The information as of the end of the month preceding the filing date (December 31, 2020) has been omitted as it had not changed from the end of the fiscal year under review.

(Notes)

1. The number of shares to be granted upon exercise of each share acquisition right (hereinafter, "Number of Shares to be Granted") shall be 100 shares.

2. If the Company implements a stock split (including gratis allotment of shares of common stock; items pertaining to stock split shall also apply to gratis allotment hereinafter) or stock consolidation with respect to common stock of the Company after the date of allotment of the share acquisition rights, the Number of Shares to be Granted with respect to the share acquisition rights not exercised at that time will be adjusted in accordance with the following formula.

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

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

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

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

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

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

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

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

If the Company conducts a merger, or a demerger, or if other such situations occur, the Company reserves the right to adjust the exercise price within a necessary and reasonable range.

4. The exercise conditions of the share acquisition rights are as follows.
- (1) Persons granted an allotment of the share acquisition rights (hereinafter, “Rights Holders”) must be Directors or employees of the Company or one of its subsidiaries at the time the share acquisition rights are exercised. However, this restriction shall not apply if so approved by the Board of Directors in the case of resignations of Directors after their terms have expired, mandatory retirement for employees, transfers prompted by an administrative order, or based on other justifiable reasons.
 - (2) In the event of the death of a Rights Holder, rights may not be exercised by the corresponding heir.
 - (3) Other conditions are as stipulated in the share acquisition rights allotment agreement concluded between the Company and the Rights Holder.
5. In the event the Company engages in a merger (only if the Company is to be dissolved as a result of the merger), an absorption-type demerger or incorporation-type demerger (in each case, only if the Company is to be the demerged company), or share exchange or share transfer (in each case, only if the Company is to become a wholly-owned subsidiary) (hereafter all of which are collectively referred to as “Reorganization”), then the Rights Holders of share acquisition rights remaining in effect (the “Remaining Share Acquisition Rights”) immediately prior to the effective date of the Reorganization (hereinafter respectively referring to an effective date of absorption-type merger in case of an absorption-type merger, a date of incorporation of a company incorporated through a consolidation-type merger in case of a consolidation-type merger, an effective date of absorption-type demerger in case of an absorption-type demerger, a date of incorporation of a company incorporated through an incorporation-type demerger in case of an incorporation-type demerger, an effective date of a share exchange in case of a share exchange, or a date of incorporation of a wholly owning parent company incorporated through a share transfer) shall be granted share acquisition rights of the relevant stock company specified under Article 236, Paragraph 1, Item 8 (a) through (e) of the Companies Act (such entity hereinafter referred to as the “Reorganized Company”). However, these share acquisition rights shall be granted only if provisions for issuing the share acquisition rights of the Reorganized Company in accordance with the following conditions are included in an absorption-type merger agreement, a consolidation-type merger agreement, an absorption-type demerger agreement, an incorporation-type demerger plan, a share exchange agreement, or a share transfer plan.

- (1) Number of share acquisition rights of the Reorganized Company to be issued

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

- (2) Class of shares of the Reorganized Company subject to share acquisition rights
Common stock of the Reorganized Company
- (3) Number of shares of the Reorganized Company subject to share acquisition rights
The number shall be reasonably adjusted in consideration of the conditions of Reorganization, etc., and fractions less than one share resulting from the adjustment shall be discarded.
- (4) Amount of assets to be contributed upon exercise of share acquisition rights
The amount shall be reasonably adjusted in consideration of the conditions of Reorganization, etc., and fractions less than one yen resulting from the adjustment shall be rounded up.
- (5) Exercise period of share acquisition rights
The exercise period of share acquisition rights shall be from the latter of the first day of the aforementioned "Exercise period of share acquisition rights" or the effective date of the Reorganization, to the expiration date of the "Exercise period of share acquisition rights."
- (6) Increase in share capital and legal capital surplus in the case of issuing shares upon exercise of share acquisition rights
Determined in accordance with aforementioned "Share issue price and additional paid-in capital per share in the event of issuance of shares upon exercise of share acquisition rights."
- (7) Restrictions on acquisition of share acquisition rights through transfer
The acquisition of share acquisition rights through transfer shall be subject to the approval of the Reorganized Company's Board of Directors.
- (8) Conditions for the exercise of share acquisition rights
Determined in accordance with aforementioned "Exercise conditions of the share acquisition rights."
- (9) Matters concerning the acquisition of share acquisition rights
Determined in accordance with the following "Conditions for acquisition of own share acquisition rights and reason for acquisition."
Conditions for acquisition of own share acquisition rights and reason for acquisition
- If the Rights Holder, prior to exercising his/her share acquisition rights, loses the eligibility to exercise such rights pursuant to the provisions prescribed in the above "Exercise conditions of the share acquisition rights," the Company reserves the right to acquire subject share acquisition rights gratis on a date separately determined by its Board of Directors.
 - In the event proposals a, b or c below are approved at the Company's General Meeting of Shareholders (in the event a General Meeting of Shareholders resolution is unnecessary, approval by the Board of Directors), the Company may acquire share acquisition rights gratis on a date separately determined by the Board of Directors.
 - a: Proposal for approval of a merger agreement causing the Company to be dissolved
 - b: Proposal for approval of a demerger agreement or demerger plan resulting in the Company becoming the demerged company
 - c: Proposal for approval of a share exchange agreement or stock transfer plan in which the Company becomes a wholly owned subsidiary

2) Details of rights plans

There are no applicable matters to report.

3) Status of other share acquisition rights, etc.

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

Resolution date	October 31, 2017
Number of share acquisition rights (*)	2,500 units
Of which, number of share acquisition rights held by the Company (*)	—
Class, content, and number of shares subject to share acquisition rights (*)	Common shares, 4,461,099 (Note 1)
Amount payable on the exercise of share acquisition rights (*)	5,604 yen (Note 2)
Exercise period of share acquisition rights (*)	From November 30, 2017 to November 1, 2024 (local time for reception of exercise request) (Note 3)
Share issue price and additional paid-in capital per share in the event of issuance of shares upon exercise of share acquisition rights (*)	Issue price: 5,604 yen Additional paid-in capital per share: 2,802 yen (Note 4)
Conditions for exercise of share acquisition rights (*)	(Note 5)
Matters regarding transfer of share acquisition rights (*)	Subject share acquisition rights are attached to convertible bond-type bonds with share acquisition rights and cannot be transferred separately.
Matters regarding grant of share acquisition rights accompanying corporate reorganization (*)	(Note 6)
Description and value of assets contributed upon the exercise of the share acquisition rights (*)	(Note 7)
Balance of bonds with share acquisition rights (*)	25,000 million yen

(*) The information above is as of the end of the fiscal year under review (October 31, 2020). The information as of the end of the month preceding the filing date (December 31, 2020) has been omitted as it had not changed from the end of the fiscal year under review.

(Notes)

- The number of shares of the Company's common stock to be delivered upon the exercise of the share acquisition rights shall be the total of the par value of the bonds pertaining to the exercise request divided by the conversion price as described in (Note 2) below. However, fractions of less than one share resulting from the exercise shall be rounded down and no adjustment by cash shall be made.
- (1) Initially, the conversion price will be 5,616 yen.
(2) Regarding the conversion price, following the issuance of bonds with share acquisition rights, in the event the Company issues or disposes of shares of its common stock at a payment amount below the market price of the Company's common stock, the conversion price will be adjusted according to the formula below. In the formula below, "number of shares already issued" means the total number of outstanding common shares of the Company (excluding those owned by the Company).

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

In addition, in the event the Company implements a stock split or stock consolidation of its common stock, issues share acquisition rights (including those attached to bonds with share acquisition rights) for which issuance of Company's common stock can be requested at a payment amount below the market price of the Company's common stock, or pays dividends exceeding a certain limit, or upon occurrence of certain other events, the conversion price will be adjusted as appropriate.

- The period during which share acquisition rights can be exercised shall be November 30, 2017 through November 1, 2024 (local time for reception of exercise request).

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

In all of the aforementioned situations, the exercise of subject share acquisition rights will not be possible after November 1, 2024 (local time for reception of exercise request).

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

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

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

5. (1) Partial exercise of each share acquisition right is not possible.

(2) Until August 15, 2024 (inclusive), if the closing prices of the Company's common shares over the 20 consecutive Trading Days ending on the last Trading Day (defined below) of any particular quarter (referring to the three-month periods that make up a calendar year; same herebelow within this item (2)) are each more than 130% of the conversion price in effect on the last Trading Day of such quarter, the holders of subject bonds may exercise the share acquisition rights on or after the first day of the immediately following quarter until the end of such quarter (or, in the case of the quarter starting from July 1, 2024, until August 15, 2024); provided, however, that the condition for the exercise of share acquisition rights specified in this item (2) shall not apply to the periods set forth in 1), 2), and 3) below.

1) (i) periods during which the Company is assigned an issuer rating of BB+ or lower by the Japan Credit Rating Agency or its successors (hereinafter, "JCR"), (ii) periods during which the Company is no longer assigned an issuer rating by JCR, or (iii) periods during which the Company's issuer rating by JRC has been suspended or withdrawn.

2) Period starting from the date on which the company announces an early redemption due to a clean-up clause prescribed in the terms of subject bonds, changes in tax regulations, reorganization, delisting of shares, squeeze outs, etc. (this does not apply to share acquisition rights attached to bonds not selected for early redemption in the case of early redemption on changes in tax regulations as prescribed in the terms of subject bonds).

3) In the case of a reorganization, unless the exercise of the share acquisition rights is suspended by the Company as outlined in (Note 3) above, the period from the date on which the Company announces the reorganization to the holders of the subject bonds prescribed in the terms of subject bonds to the effective date of the reorganization. "Trading Day" means a day on which the Tokyo Stock Exchange, Inc. is open for business, but does not include days on which no closing price for shares is reported.

6. (1) In the event of corporate reorganization, the Company shall make the best effort to have the Succeeding Company (defined below) assume the position of the principal debtor of subject bonds based on the terms of the subject bonds, and issue new share acquisition rights in lieu of these share acquisition rights. However, succession and issuance will be executed based on the assumption that (i) it can be conducted based on applicable laws at the time of execution, (ii) a mechanism for execution has already been created or can be created, and (iii) the Company or Succeeding Company will not bear unreasonable (determined by the Company) costs (including taxes) from the perspective of overall reorganization. In such a case, the Company shall make the best effort to ensure that the Succeeding Company is a listed company in Japan at the effective date

of the reorganization. The Company's effort obligations as described in (1) is not applicable when the Company delivers to its financial agent a certificate prescribed in the clause pertaining to early redemption resulting from reorganization.

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

- (2) The details of the Succeeding Company’s share acquisition rights that are to be issued pursuant to the above provisions in (Note 6 (1)) are as follows.
- 1) Number of share acquisition rights
A number equal to the number of share acquisition rights attached to subject bonds that are outstanding as of the timing immediately before the effective date of reorganization.
 - 2) Class of shares subject to share acquisition rights
Common stock of the Succeeding Company
 - 3) Number of shares subject to share acquisition rights
The number of shares of the Succeeding Company’s common stock delivered upon exercise of such company’s share acquisition rights shall be determined by the Succeeding Company, taking into consideration the conditions of the reorganization. In addition to making decisions by referring to the terms of subject bonds, (i) or (ii) below shall be followed. The conversion price shall be subject to the same adjustment as in (Note 2 (2)) above.
 - (i) In the case of a merger, share exchange, or share transfer, the conversion price shall be determined so that the holder of the Company’s common shares, the number of which amounting to the number of shares obtainable when subject share acquisition rights are exercised immediately before the effective date of reorganization, shall be able to receive the number of Succeeding Company’s common shares the holder is eligible to receive from such reorganization by exercising the share acquisition rights immediately following the effective date of reorganization. If securities or other assets other than the common stock of the Succeeding Company are deliverable at the time of reorganization, the same number of shares of common stock of the Succeeding Company may be received as calculated by dividing the fair value of such securities or assets by the market price of the common stock of the Succeeding Company.
 - (ii) In the event of reorganization other than the above, the conversion price shall be determined so that the economic benefit received by exercising the Succeeding Company’s share acquisition rights immediately after the effective date of reorganization will be equivalent to the economic benefit the holder of subject bonds would have received, had such holder exercised the subject share acquisition rights immediately prior to the effective date of such reorganization.
 - 4) Assets to be contributed upon exercise of share acquisition rights and their value
Upon the exercise of the share acquisition rights of the Succeeding Company, the succeeded bonds shall be contributed; the value thereof shall be the same as the face value of the succeeded bonds.
 - 5) Exercise period of share acquisition rights of the Succeeding Company
The exercise period of share acquisition rights of the Succeeding Company shall be from the effective date of the reorganization (or a specified date within 14 days after the effective date) until the expiration date of the exercise period of subject share acquisition rights as outlined in (Note 3) above.
 - 6) Other conditions for exercising share acquisition rights
Partial exercise of each share acquisition right of the Succeeding Company is not possible. The exercise of share acquisition rights of the Succeeding Company is subject to the same limitations described in (Note 5 (2)) above.
 - 7) Increase in share capital and legal capital surplus in the case of issuing shares upon exercise of share acquisition rights
The increase in share capital arising from the issuance of shares upon exercise of share acquisition rights of the Succeeding Company shall equal one half of the maximum amount by which share capital 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 legal capital surplus shall be obtained by subtracting the amount of increase in share capital from such maximum amount by which share capital can be increased.
 - 8) In the event of corporate reorganization
Even in the event the Succeeding Company undergoes reorganization, the same procedures as with the subject bonds shall apply.
 - 9) Other
Any fractions less than one share resulting from the exercise of the share acquisition rights of the Succeeding Company shall be rounded down and no adjustment in cash shall be made. Share acquisition rights of the Succeeding Company cannot be transferred separately from the succeeded bonds.
- (3) In the event the Company has the Succeeding Company undertake or succeed the Company’s obligations associated with subject bonds in accordance with the provisions of (Note 6 (1)) above, the Company shall abide by the terms of subject

bonds and also bear a guarantee in certain cases specified in such terms.

7. Upon the exercise of each share acquisition right, the bonds attached to the subject share acquisition rights shall be contributed, and the price of the bond shall be the same as the par value thereof.

Fourth Series of Share Acquisition Rights

Resolution date	October 2, 2020
Number of share acquisition rights (*)	87,003 units
Of which, number of share acquisition rights held by the Company (*)	—
Class, content, and number of shares subject to share acquisition rights (*)	Common shares, 8,700,300 (Note 1)
Amount payable on the exercise of share acquisition rights (*)	1,665.9 yen (Note 2)
Exercise period of share acquisition rights (*)	From October 20, 2020 to October 19, 2023
Share issue price and additional paid-in capital per share in the event of issuance of shares upon exercise of share acquisition rights (*)	Issue price: 1,680.09 yen Additional paid-in capital per share: 841 yen
Conditions for exercise of share acquisition rights (*)	Partial exercise of each share acquisition right is not possible.
Matters regarding transfer of share acquisition rights (*)	Not applicable
Matters regarding grant of share acquisition rights accompanying corporate reorganization (*)	(Note 5)

(*) The information above is as of the end of the fiscal year under review (October 31, 2020). The information as of the end of the month preceding the filing date (December 31, 2020) has been omitted as it had not changed from the end of the fiscal year under review.

(Notes)

1. The type and total number of shares subject to the share acquisition rights shall be 8,700,300 common shares of the Company (the number of shares to be issued per share acquisition right [“the Number of Allotted Shares”] shall be 100 common shares of the Company). However, if the Number of Allotted Shares are adjusted in accordance with items (1) or (3) below, the total number of shares subject to the share acquisition shall be adjusted based on the Number of Allotted Shares after adjustment.

(1) If an adjustment is made to the exercise price in accordance with the provisions in “Note 2. Adjustment of exercise price” below, the Number of Allotted Shares shall be calculated using the following formula. Any fractions less than one share resulting therefrom shall be rounded down. In addition, the pre- and post-adjustment exercise prices used in this formula shall be the pre- and post-adjustment exercise prices specified separately in the “Amount payable on the exercise of share acquisition rights” field.

$$\text{Number of Allotted Shares post-adjustment} = \frac{\text{Number of Allotted Shares pre-adjustment} \times \text{Pre-adjustment exercise price}}{\text{Post-adjustment exercise price}}$$

(2) The date on which the Number of Allotted Shares post-adjustment begins to be applicable shall be the same day as the application date of the post-adjustment exercise price in accordance with each item with regard to the adjustment of the exercise price specified in items (2) and (5) of “Note 2. Adjustment of exercise price” concerning the adjustment reasons.

(3) If an adjustment is made to the Number of Allotted Shares, the Company shall notify the holders of the share acquisition rights (“the Rights Holders”) in writing of such adjustment and the reason therefor, the Number of Allotted Shares pre-adjustment, the Number of Allotted Shares post-adjustment, and the first day when the adjustment becomes applicable, and other necessary information by the day that precedes the day when the adjustment begins to be applicable. In the case specified in item (2) 5) of “Note 2. Adjustment of exercise price” below or other cases where the Company is unable to give such notice by the day preceding the day when the adjustment begins to be applicable, the Company shall give notice as early as possible after the day when the adjustment begins to be applicable.

2. Adjustment of exercise price

(1) If, after issuing the share acquisition rights, a change is made or may be made in the number of issued common shares of the Company for any of the reasons given in item (2) below, the Company shall use the following formula to adjust the exercise

price (“the Exercise Price Adjustment Formula;” the exercise price after adjustment shall be referred to as “the Post-Adjustment Exercise Price” and the share price before adjustment as “the Pre-Adjustment Exercise Price”).

$$\text{Post-Adjustment Exercise Price} = \frac{\text{Pre-Adjustment Exercise Price} \times \left(\text{Number of common shares already issued} + \frac{\text{Number of common shares newly issued or disposed of} \times \frac{\text{Amount payable per share}}{\text{Market price}} \right)}{\text{Number of common shares already issued} + \text{Number of common shares newly issued or disposed of}}$$

(2) The adjustment of the exercise price using the Exercise Price Adjustment Formula and the timing at which the Post-Adjustment Exercise Price becomes applicable shall be subject to the following.

- 1) If the Company issues new common shares at a price lower than the market price specified in item (4) 2) below or disposes of treasury shares (including those by means of gratis allotment) (excluding the cases of [1] issuance of new common shares to Directors or employees of the Company or one of its subsidiaries, or disposals of treasury shares by the Company, based on the restricted stock compensation scheme introduced by the Company; or [2] acquisition, conversion, or exercise of securities that have been acquired or are subject to demand for acquisition by the Company in exchange of allotment of the Company’s common shares, share acquisition rights under which Rights Holders can demand the issuance of Company’s common shares [including those attached to bonds with share acquisition rights] and other securities and rights; or [3] issuance of new common shares of the Company based on the resolution by the Board of Directors on October 2, 2020), the Post-Adjustment Exercise Price shall be applicable from the day following the pay-in date (the final day of the payment period, if such a period is set), or from the day following the record date, if there is such a day for granting shareholders a right to allotment relating to such issuance or disposal.
- 2) If the Company issues common shares by means of a stock split or gratis allotment, the Post-Adjustment Exercise Price shall be applicable on and after the day following the record date for the relevant stock split or gratis allotment (if no record date is set for a gratis allotment, the day on which the allotment becomes effective).
- 3) If common shares are acquired from the Company at a payment price lower than the market price specified in Item 4 (ii) below as part of an exchange, if the Company issues securities (including through gratis allotment) that can request the Company to issue common shares at such a lower price, or if the Company issues share acquisition rights, bonds with share acquisition rights, or other securities or rights (including through gratis allotment) that can request the Company to issue common shares at such a lower price (excluding share acquisition rights issued as stock options to directors and employees of the Company or one of its subsidiaries by a resolution of the Board of Directors), the Post-Adjustment Exercise Price shall be calculated using the Exercise Price Adjustment Formula on the assumption that the issued securities, share acquisition rights, or rights were all acquired at the initial acquisition price or exercised at the initial exercise price, and that the common shares of the Company were issued accordingly. The Post-Adjustment Exercise Price shall be applicable from the pay-in date for the securities or rights, or on and after the day following the allotment date of the share acquisition rights (including those attached to bonds with share acquisition rights). If there is a record date for share subscriptions or for gratis allotment, the Post-Adjustment Exercise Price shall be applicable on and after the day following such date.
- 4) If the Company issues common shares at a price lower than the market price specified in item (4) 2) below in exchange for shares subject to call or share acquisition rights subject to call (including those attached to bonds with shares acquisition rights) issued by the Company, the Post-Adjustment Exercise Price shall be applied from the day following the acquisition date.
- 5) In each of the cases specified in 1) through 3) above, if a record date has been set and the entry into force is subject to approval of the General Meeting of Shareholders, the Board of Directors, or any other body of the Company on and after that record day, notwithstanding any of the cases specified in 1) through 3) above, the Post-Adjustment Exercise Price shall be applied on and after the day following the date when the approval is given. In this case, the Company shall issue common shares to the Rights Holders who request to exercise their share acquisition rights between the day following the record date and day of approval using the following calculation method.

$$\text{Number of shares} = \frac{(\text{Pre-Adjustment Exercise Price} - \text{Post-Adjustment Exercise Price}) \times \text{Number of shares issued during the period at Pre-Adjustment Exercise Price}}{\text{Post-Adjustment Exercise Price}}$$

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

- (3) If the difference between the Post-Adjustment Exercise Price calculated using the Exercise Price Adjustment Formula and the Pre-Adjustment Exercise Price is less than one yen, no adjustment shall be made to the exercise price. However, if any event occurs at a later date requiring an adjustment to the exercise price and therefore an adjustment is made to the exercise price, the Company shall use in place of the Pre-Adjustment Exercise Price used in the Exercise Price Adjustment Formula the amount that remains after deducting the above difference from the Pre-Adjustment Exercise Price.
- (4) 1) In using the Exercise Price Adjustment Formula, the Company shall calculate prices to their second decimal place and then round them down to the first decimal place.
- 2) The market price used in the Exercise Price Adjustment Formula shall be the simple average of the closing prices of the common shares of the Company on the Tokyo Stock Exchange during the 30 trading days (not including days on which no closing price is quoted) starting from the 45th trading day preceding the day when the Post-Adjustment Exercise Price is applied for the first time. In this case, the simple average price shall be calculated to the second decimal place and rounded down to the first decimal place.
- 3) The “number of common shares already issued” used in the Exercise Price Adjustment Formula shall be the total number of common shares issued as of the record date for granting shareholders the right to share allotment or, in the absence of any such record date, as of the day that is one month prior to the day when the Post-Adjustment Exercise Price is applied for the first time, less the number of common shares held by the Company as of such date. Further, in the case of item (2) 5) above, the “number of common shares newly issued or disposed of” used in the Exercise Price Adjustment Formula shall not include common shares that shall be allotted to the Company’s common shares held by the Company on the record date.
- (5) In cases other than the cases where an adjustment to the exercise price in accordance with item (2) above is required, the Company shall make necessary adjustments to the exercise price upon discussion with the Rights Holders in the following cases.
- 1) If the exercise price is required to be adjusted because of a stock consolidation, capital decrease, company split, share exchange, or merger;
- 2) If the exercise price is required to be adjusted because any other event or situation occurs that requires or may require a change to the number of common shares outstanding of the Company;
- 3) If multiple events that require the exercise price to be adjusted occur successively, and it becomes necessary to consider the effect of another event to determine the market price that shall be used for calculating the Post-Adjustment Exercise Price due to one event.
- (6) If an adjustment is being made to the exercise price, the Company shall notify the Rights Holders in writing of such adjustment and the reason therefor, the Pre-Adjustment Exercise Price, the Post-Adjustment Exercise Price, and the first day when the Post-Adjustment Exercise Price becomes applicable, and other necessary information by the day that precedes the day when the adjustment begins to be applicable. In the case specified in item (2) 5) above or other cases where the Company is unable to give such notice by the day preceding the day when the adjustment begins to be applicable, the Company shall give notice as early as possible after the day when the adjustment begins to be applicable.
3. Total share issue price for shares issued upon exercise of share acquisition rights
14,617,287,027 yen
(Note) The total share issue price may be less than the amount indicated above if the share acquisition rights are not exercised during the exercise period, or if they are acquired and cancelled by the Company.
4. Share issue price and additional paid-in capital in the event of issuance of shares upon exercise of share acquisition rights
- (1) Issue price per share in the event of issuance of shares upon exercise of share acquisition rights
The issue price per common share of the Company to be delivered upon the exercise of the share acquisition rights shall be calculated by adding the total issue price for the share acquisition rights pertaining to the exercise request to the total amount of assets to be contributed upon exercise of each share acquisition right pertaining to the exercise request, and dividing that total by the number of shares subject to the share acquisition rights specified separately in the “Number of shares subject to share acquisition rights” field.
- (2) Increases in share capital and legal capital surplus arising from issuance of shares upon exercise of share acquisition rights
The increase in share capital arising from the issuance of shares upon exercise of share acquisition rights shall equal one half of the maximum amount by which share capital can be increased as calculated in accordance with Article 17 of the Ordinance on Company Accounting. (Any fractions less than one yen resulting therefrom shall be rounded up to the nearest one yen.) The increase in legal capital surplus shall be the amount obtained by deducting the amount of share capital to be increased from the maximum amount of increase in share capital.
5. In the event the Company engages in an absorption-type merger in which the Company will be the dissolved company, in a consolidation-type merger in which the Company will be the demerged company, in an absorption-type company split in which

the Company will be the company to be split, in an incorporation-type company split in which the Company will be the company to be split, in a share exchange in which the company will be the wholly owned subsidiary company, or in a share transfer in which the company will be the wholly owned subsidiary company (hereafter all of which are collectively referred to as “the Reorganization”), the new entity (company surviving the absorption-type merger, company incorporated in a consolidation-type merger, successor company in absorption-type split, company incorporated in incorporation-type split, wholly owning parent company resulting from share exchange, or wholly owning parent company incorporated in a share transfer; hereafter all of which are collectively referred to as “the Reorganized Company”) shall deliver new share acquisition rights to the Rights Holders in exchange for share acquisition rights remaining in effect immediately prior to the effective date of the Reorganization in accordance with the conditions below.

(1) Number of share acquisition rights of the Reorganized Company to be newly issued

To be reasonably adjusted in consideration of the conditions, etc., of the Reorganization based on the number of share acquisition rights owned by the Rights Holders. Any fractions less than one right resulting therefrom shall be rounded down.

(2) Type of shares subject to share acquisition rights to be newly issued

The same type of shares of the Reorganized Company.

(3) Calculation method of the number of shares subject to share acquisition rights to be newly issued

To be reasonably adjusted in consideration of the conditions, etc., of the Reorganization. Any fractions less than one share resulting therefrom shall be rounded down.

(4) Value of property invested for exercise of share acquisition rights to be newly issued

To be reasonably adjusted in consideration of the conditions, etc., of the Reorganization. Any fractions less than one yen resulting therefrom shall be rounded down.

(5) Exercise period, exercise conditions, and acquisition conditions for share acquisition rights to be newly issued, issuance of share acquisition rights in the event of a Reorganization, non-issuance of securities with share acquisition rights, and increase in share capital and legal capital surplus arising from issuance of shares upon exercise of share acquisition rights

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

There are no applicable matters to report.

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

Date	Increase/ decrease in total number of issued shares (shares)	Balance of issued shares (shares)	Increase/decrease in share capital (millions of yen)	Balance of share capital (millions of yen)	Increase/ decrease in legal capital surplus (millions of yen)	Balance of legal capital surplus (millions of yen)
October 19, 2020 (Note 1)	5,246,000	73,768,936	4,000	15,000	4,000	7,661
October 30, 2020 (Note 2)	(5,000,000)	68,768,936	—	15,000	—	7,661

(Note) 1. Capital increase through third-party allotment

Issue price: 1,525 yen

Additional paid-in capital: 762.5 yen

Allottee: Long Corridor Alpha Opportunities Master Fund
MAP246 Segregated Portfolio

2. Decrease due to retirement of treasury shares

(5) Composition of issued shares by type of shareholders

As of October 31, 2020

Category	Status of shares (one unit of stock: 100 shares)							Number of shares less than one unit (shares)	
	Government and municipality	Financial institutions	Financial instruments business operators	Other corporations	Foreign corporations, etc.		Individuals and others		Total
					Non-individuals	Individuals			
Number of shareholders	—	29	35	273	198	317	49,989	50,841	—
Share ownership (units)	—	81,349	19,423	44,743	85,582	977	454,646	686,720	96,936
Ownership percentage of shares (%)	—	11.85	2.83	6.52	12.46	0.14	66.20	100.00	—

(Notes)

- Of the 5,934,148 treasury shares, 59,341 units are included in the “Individuals and others” column, while 48 shares are included in the “Number of shares less than one unit” column.
- Of the shares registered in the name of Japan Securities Depository Center, Incorporated, 18 units are included in the “Other corporations” column and 40 shares are included in the “Number of shares less than one unit” column.

(6) Major shareholders

As of October 31, 2020

Name	Address	Share Ownership (thousands of shares)	Ownership percentage to the total number of issued shares (excluding treasury shares) (%)
Hideo Sawada	Shibuya-ku, Tokyo	17,943	28.56
Custody Bank of Japan, Ltd.	1-8-12 Harumi, Chuo-ku, Tokyo	5,546	8.83
Hide Inter Ltd.	1-7-26 Shoto, Shibuya-ku, Tokyo	3,458	5.50
The Master Trust Bank of Japan, Ltd.	2-11-3 Hamamatsucho, Minato-ku, Tokyo	2,414	3.84
Kazumasa Namekata	Ageo, Saitama Prefecture	1,001	1.59
Mayumi Sawada	Shibuya-ku, Tokyo	900	1.43
H.I.S. Employee Stock Ownership Association	4-1-1 Toranomom, Minato-ku, Tokyo	890	1.42
STATE STREET BANK AND TRUST COMPANY (Standing proxy: Mizuho Bank, Ltd., Settlement & Clearing Services Department)	P.O. BOX 351 BOSTON MASSACHUSETTS 02101 U.S.A. (2-15-1 Konan, Minato-ku, Tokyo)	887	1.41
JPMBL NOMURA INTERNATIONAL PLC 1 COLL EQUITY (Standing proxy: MUFG Bank, Ltd.)	1 ANGEL LANE LONDON – NORTH OF THE THAMES, UNITED KINGDOM EC4R3AB (2-7-1 Marunouchi, Chiyoda-ku, Tokyo)	879	1.40
Hidetaka Sawada	Shibuya-ku, Tokyo	654	1.04
Total	—	34,577	55.03

(Note)

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

Custody Bank of Japan, Ltd.	5,546,000 shares
The Master Trust Bank of Japan, Ltd.	2,414,000 shares

(7) Information on voting rights

1) Issued shares

As of October 31, 2020

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: 5,934,100	—	—
Shares with full voting rights (others)	Common stock: 62,737,900	627,379	—
Shares less than one unit	Common stock: 96,936	—	—
Total number of issued shares	68,768,936	—	—
Total number of voting rights held by all shareholders	—	627,379	—

(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 from shares with full voting rights held under the name of this same institution.

2) Treasury shares

As of October 31, 2020

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.	6-2-18 Nishishinjuku, Shinjuku-ku, Tokyo	5,934,100	—	5,934,100	8.63
Total	—	5,934,100	—	5,934,100	8.63

(Note) In addition to the above, the H.I.S. Employee Stock Ownership Association Dedicated Trust holds 55,100 shares of Company stock as trust assets under the trust-type employee stock ownership incentive plan (E-Ship®); these shares are recorded in the consolidated and non-consolidated financial statements as treasury shares.

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

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

1) Summary of the Plan

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

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

500,700 shares

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

Association members who satisfy the beneficiary eligibility requirements

2. Information on Acquisition of Treasury Shares, etc.

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

(1) Acquisition by resolution at General Meeting of Shareholders

There are no applicable matters to report.

(2) Acquisition by resolution of the Board of Directors

There are no applicable matters to report.

(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 fiscal year under review	—	—
Treasury shares acquired during the current period	10	0

(Note) Fractional shares less than one trading unit purchased between January 1, 2021 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, 2020		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 were disposed of	5,000,000	12,670	—	—
Acquired treasury shares transferred due to merger, share exchange, or demerger	—	—	—	—
Others (disposal of treasury shares as restricted stock remuneration)	9,350	23	—	—
Total number of treasury shares held	5,934,148	—	5,934,148	—

(Notes)

1. Fractional shares less than one trading unit purchased between January 1, 2021 and the filing date of the Annual Securities Report are not included in the number of treasury shares held.

2. Company shares held by the H.I.S. Employee Stock Ownership Association Dedicated Trust in accordance with the introduction of a trust-type employee stock ownership incentive plan (E-Ship®) are not included in the number of treasury shares to be disposed of and the number of treasury shares held during the fiscal year under review and the current period.

3. Dividend Policy

The Group recognizes the return of profits to shareholders as one of its important management policies. While seeking to improve its corporate value, the Group intends to carry out stable and continuous distribution of profits in accordance with actual results, taking global conditions, travel industry trends, the strengthening of its corporate structure, and future business development 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 to ensure fair dividends with respect to financial performance.

Based on the above dividend policy, the Company decided not to pay an annual dividend in the consolidated fiscal year ended October 31, 2020 as it believed it needed to urgently stabilize its financial condition while working to achieve a recovery in earnings.

As for the consolidated fiscal year ending October 31, 2021, the Company has yet to determine its dividend policy because it is

difficult to reasonably assess the impact of the COVID-19 pandemic at this time.

The Company prescribes in its Articles of Incorporation that “except as otherwise provided by laws and regulations, matters concerning dividends of surplus 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.

4. Corporate Governance, etc.

(1) Overview of corporate governance

Basic policy on corporate governance

Fully embracing its founding intention, the H.I.S. Group corporate philosophy, and the H.I.S. corporate philosophy, the Company seeks to achieve sustainable growth and enhance its corporate value over the medium to long term by providing products and services that are useful to the society. To realize this objective, the Company intends to make fair, transparent, quick, and decisive decisions with a sound awareness of the positions of its shareholders, customers, employees, business partners and local communities; fulfill accountability; and become a company appreciated and trusted by society.

The Company understands corporate governance to be a “mechanism for fair, transparent, quick, and decisive decision-making in recognition of the position of the company’s shareholders, customers, employees, business partners and local communities” as defined in the Corporate Governance code formulated by the Tokyo Stock Exchange (hereinafter, “TSE CG code”).

The 78 principles of the TSE CG code are replete with major principles contributing to the realization of “proactive governance” as a best practice employing a principles-based approach. H.I.S. will work to fully understand the purpose and essence of each of these principles, and comply with them to the best of its ability, while taking into consideration the industry and scale of its businesses, the business environment and characteristics, and its own institutional design and conditions.

1) Overview of corporate governance structure

The Company has adopted a corporate governance structure with an Audit & Supervisory Committee, and has set up an HR & Nomination Committee, a Remuneration Committee, an Investment Committee, and a Finance & Management Committee as advisory committees to its Board of Directors.

The Board of Directors comprises 10 Directors, including two External Directors, and is chaired by Representative Director, Chairman and President Hideo Sawada. Other members include Tatsuya Nakamori (Director), Masayuki Oda (Director), Atsushi Yamanobe (Director), Mutsumi Gomi (Director), Motoshi Yada (Director), Hidetaka Sawada (Director), Tsunekazu Umeda (Director and Audit & Supervisory Committee Member [External Director]), Atsushi Nabeshima (Director and Audit & Supervisory Committee Member [External Director]), and Sonoko Sekita (Director and Audit & Supervisory Committee Member). The Board of Directors makes decisions regarding matters provided by laws and regulations, basic operating policies, and important matters related to management, and oversees the execution of duties by its Directors and Corporate Officers. As a rule, it meets once a month.

The HR & Nomination Committee comprises six Directors, including two External Directors, and is chaired by Representative Director, Chairman and President Hideo Sawada. Other members include Tatsuya Nakamori (Director), Masayuki Oda (Director), Motoshi Yada (Director), Tsunekazu Umeda (Director and Audit & Supervisory Committee Member [External Director]), and Atsushi Nabeshima (Director and Audit & Supervisory Committee Member [External Director]). The committee appoints and dismisses Directors and Corporate Officers, and meets whenever the need arises.

The Remuneration Committee comprises six Directors, including two External Directors, and is chaired by Representative Director, Chairman and President Hideo Sawada. Other members include Tatsuya Nakamori (Director), Masayuki Oda (Director), Motoshi Yada (Director), Tsunekazu Umeda (Director and Audit & Supervisory Committee Member [External Director]), and Atsushi Nabeshima (Director and Audit & Supervisory Committee Member [External Director]). The committee makes decisions regarding individual remuneration for Directors, Corporate Officers, and Presidents of affiliated companies.

The Investment Committee comprises six Directors, including one External Director, and is chaired by Representative Director, Chairman and President Hideo Sawada. Other members include Tatsuya Nakamori (Director), Masayuki Oda (Director), Motoshi Yada (Director), Hidetaka Sawada (Director), and Tsunekazu Umeda (Director and Audit & Supervisory Committee Member [External Director]). The committee assists the Board of Directors with decisions regarding investment projects.

The Finance & Management Committee comprises six Directors, including one External Director, and is chaired by Representative Director, Chairman and President Hideo Sawada. Other members include Tatsuya Nakamori (Director), Masayuki Oda (Director), Motoshi Yada (Director), Tsunekazu Umeda (Director and Audit & Supervisory Committee Member [External Director]), and Sonoko Sekita (Director and Audit & Supervisory Committee Member). The committee assists the Board of Directors with decisions regarding procurement and management of material funds.

2) Reason for adoption of corporate governance structure

In consideration of the scale and nature of the Company and H.I.S. Group’s businesses, the Company had in place a governance structure of a company with Corporate Auditors and Board of Corporate Auditors until the 35th consolidated fiscal

year (ended October 31, 2015). The intent was to engage in fair, transparent, quick, and decisive decision-making regarding business management, and facilitate full accountability to the shareholders and other stakeholders.

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

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

3) Other matters related to corporate governance

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

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

- a) System for ensuring that Directors and employees conduct their duties in compliance with laws, regulations, and the Company's Articles of Incorporation
- b) Rules and system for managing risk of loss to the Company and the Group (subsidiaries and associates)
- 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) To ensure thorough ethical compliance, the Company distributes a handbook that contains and explains the H.I.S. Group corporate philosophy, the H.I.S. corporate philosophy, the H.I.S. policy, the H.I.S. Charter of Corporate Behavior, and other guidelines, and promotes it as a source of reference during daily work. A passage from the handbook is also recited during the all-hands morning assembly and at other occasions as a constant reminder. In addition, the Company has formulated an H.I.S. Group Fair Trade Declaration to observe fair and transparent transactions with its business partners, and works to ensure sound transactions across the entire Group.
- 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 makes important business execution decisions via Board resolution and in accordance with laws and regulations, the Articles of Incorporation, and internal regulations, and receives 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 Audit Department (Internal Audit Division) fulfilling its expected role.

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

(II) 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 the “2. Business and Other Risks” section in “II. Business Overview, Part I Information on the Company.”

The full-time Executive Directors working at the Group headquarters 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.

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

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

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

IV) 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 & Supervisory Committee Members.

V) Requirements for a Resolution to Appoint Directors

As a company with an Audit & Supervisory Committee, Directors who serve as Audit & 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.”

VI) Year-end Dividend and Interim Dividend

a) 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.

b) Interim dividend

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

VII) Acquisition of Treasury Shares

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

VIII) Director and Accounting Auditor's Partial Exemption from Liability for Damages

Regarding Directors (including those who were Directors) and accounting auditor's (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 the Directors and the accounting auditor are able to make sufficient use of their capabilities and fulfill the role expected of them.

IX) 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.

(2) Directors and other officers

1) Status of Directors and other officers

Male: 9, Female: 1 (percentage of female directors 10.0%)

Title	Name	Date of birth	Career summary	Term of office	Share ownership (thousands)
Representative Director, Chairman and President, Chief Executive Officer, Group Chief Executive Officer (CEO)	Hideo Sawada	February 4, 1951	Dec. 1980 Established Company and became Representative Director and President March 1999 Representative Director and President, Kyoritsu Shoken, Co., Ltd. (currently Sawada Holdings Co., Ltd.) March 2003 Director and Chairman, Agricultural Bank of Mongolia (currently Khan Bank) (current) Jun. 2004 Director and Chairman of the Company Dec. 2009 Representative Director and Chairman of the Company Mar. 2010 Representative Director and President of Huis Ten Bosch Co., Ltd. Sep. 2012 Chairman of Tokyo Symphony Orchestra (current) Nov. 2016 Representative Director, Chairman and President, Chief Executive Officer (CEO) of the Company Representative Director and Chairman of Sawada Holdings Co., Ltd. (current) Nov. 2017 Representative Director and Chairman of H.I.S. Hotel Holdings Co., Ltd. Jan. 2018 Representative Director, Chairman and President; Chief Executive Officer of the Company; Group Chief Executive Officer (CEO) (current) Jan. 2019 Representative Director and Chairman of H.I.S. Hotel Holdings Co., Ltd. (current) May 2019 Director and Chairman of Huis Ten Bosch Co., Ltd.	(Note 3)	17,943
Director Senior Managing Executive Officer; President of H.I.S. Japan, Chief Digital Officer (CDO)	Tatsuya Nakamori	August 4, 1967	Nov. 1986 Joined the Company Jan. 2010 Director of the Company; In charge of West Japan Area Sales; General Manager of Kansai Area Sales Division Feb. 2014 Director of the Company; In charge of West Japan Area Sales Mar. 2014 Managing Director of the Company; In charge of Airline-related Purchasing/Arrangement, and Online Travel Business Apr. 2014 Managing Director of the Company; In charge of Airline-related Purchasing/Arrangement, and Online Travel Business; General Manager of HQ Procurement Division Nov. 2016 Managing Director of the Company; President of H.I.S. Japan Jan. 2018 Director and Senior Managing Executive Officer of the Company; President of H.I.S. Japan Aug. 2020 Director and Senior Managing Executive Officer of the Company; President of H.I.S. Japan, Chief Digital Officer (current)	(Note 3)	18

Title	Name	Date of birth	Career summary	Term of office	Share ownership (thousands)
Director, Managing Executive Officer; In charge of Corporate Planning Division, Global Business Strategy Division, Affiliate Management Division, Consolidated HR, CS & ES, General Affairs, and CSR	Masayuki Oda	January 1, 1966	<p>Jun. 1996 Mar. 2014</p> <p>Joined the Company Corporate Officer of the Company; General Manager of Kansai Area Sales Division</p> <p>Jan. 2016</p> <p>Director of the Company; In charge of Kansai, Chugoku, Shikoku, Kyushu Area Sales; In charge of Global Product Marketing; General Manager of Kansai Area Sales Division</p> <p>Nov. 2016</p> <p>Director of the Company; Vice President of H.I.S. Japan</p> <p>Jan. 2018</p> <p>Director and Managing Executive Officer of the Company; Vice President of H.I.S. Japan & General Manager of Domestic Travel Division</p> <p>Feb. 2018</p> <p>Director of the Company; Managing Executive Officer; In charge of Corporate Planning Division, Global Business Strategy Division, Global System Development Division; General Manager of Affiliate Management Division</p> <p>Nov. 2018</p> <p>Director of the Company; Managing Executive Officer; In charge of Corporate Planning Division, Global Business Strategy Division; General Manager of Affiliate Management Division</p> <p>May 2019</p> <p>Director of the Company; Managing Executive Officer; In charge of Corporate Planning Division, Global Business Strategy Division, Affiliate Management Division, HQ HR Division, CS & ES, General Affairs, and CSR</p> <p>January 2021</p> <p>Director of the Company; Managing Executive Officer; In charge of Corporate Planning Division, Global Business Strategy Division, Affiliate Management Division, Consolidated HR, CS & ES, General Affairs, and CSR (current)</p>	(Note 3)	3
Director (Part-time)	Motoshi Yada	July 25, 1961	<p>Apr. 1984</p> <p>Joined Japan Ground Self-Defense Force</p> <p>Aug. 1993</p> <p>Joined the Company</p> <p>May 1998</p> <p>Assistant Manager of Kanto Sales Division</p> <p>May 2000</p> <p>Manager of HQ President's Office</p> <p>Sep. 2001</p> <p>Manager of HQ HR Division</p> <p>Nov. 2004</p> <p>Manager of Kansai Sales Division</p> <p>Oct. 2005</p> <p>Advisor to KYUSHU INDUSTRIAL TRANSPORTATION CO., LTD. (currently Kyushu Sangyo Kotsu Holdings Co., Ltd.)</p> <p>Nov. 2005</p> <p>Representative Director and President of Kyushu Sangyo Kotsu Holdings Co., Ltd. (current)</p> <p>Jan. 2020</p> <p>Director of the Company (part-time) (current)</p>	(Note 3)	-
Director Senior Executive Officer; Vice President & General Manager of Corporate Sales Division, H.I.S. Japan	Atsushi Yamanobe	March 18, 1970	<p>Apr. 1993</p> <p>Joined the Company</p> <p>Mar. 2014</p> <p>Corporate Officer of the Company; Manager of Kanto Sales Division; Manager of Kanto Web Business Division; Manager of Kanto Corporate Sales and Group Travel Division</p> <p>Jan. 2016</p> <p>Director of the Company; In charge of East Japan Area Sales; General Manager of Kanto Area - Overseas Travel Division</p> <p>Nov. 2016</p> <p>Director of the Company; Vice President of H.I.S. Japan</p> <p>Jan. 2018</p> <p>Director and Senior Executive Officer of the Company; Vice President and General Manager of Kansai Area Sales Division, H.I.S. Japan</p> <p>Mar. 2018</p> <p>Director of the Company; Senior Executive Officer; Vice President & General Manager of Corporate Travel Sales Division, H.I.S. Japan</p> <p>Nov. 2019</p> <p>Director of the Company; Senior Executive Officer; Vice President & General Manager of Corporate Sales Division, H.I.S. Japan (current)</p>	(Note 3)	3

Title	Name	Date of birth	Career summary	Term of office	Share ownership (thousands)
Director Senior Executive Officer; In charge of Southeast and South Asia	Mutsumi Gomi	June 6, 1968	<p>Apr. 1992 Joined the Company</p> <p>May 2010 Manager of East Japan FIT Department</p> <p>Sep. 2012 Seconded to PT. HARUM INDAH SARI TOURS & TRAVEL, President and Director; Head of Jakarta Central Branch</p> <p>Jan. 2016 Corporate officer of the Company; Seconded to PT. HARUM INDAH SARI TOURS & TRAVEL, President and Director; Head of the Jakarta Central Branch</p> <p>Nov. 2017 Corporate Officer of the Company; Seconded to PT. HARUM INDAH SARI TOURS & TRAVEL, President and Director; General Manager of Southeast Asia Central Sales Division & Head of Jakarta Central Branch</p> <p>Jan. 2018 Director of the Company; Senior Executive Officer; General Manager of Southeast Asia Central Sales Division & Head of Jakarta Central Branch</p> <p>Nov. 2018 Director of the Company; Senior Executive Officer; In Charge of Southeast and South Asia; Corporate Information Officer (CIO)</p> <p>Jan. 2020 Director of the Company; Senior Executive Officer; Corporate Information Officer (CIO); In charge of Southeast Asia General Sales Division</p> <p>Apr. 2020 Director of the Company; Senior Executive Officer; In charge of Southeast and South Asia (current)</p>	(Note 3)	4
Director (Part-time) (Note 2)	Hidetaka Sawada	November 2, 1981	<p>Apr. 2005 Joined Nikko Cordial Securities Inc. (currently SMBC Nikko Securities Inc.)</p> <p>Jun. 2006 Director of Sawada Holdings Co., Ltd.</p> <p>Sep. 2006 Director of H.S. Securities Co., Ltd.</p> <p>Feb. 2012 Representative Director and President of Best1.com Co. Ltd. (current)</p> <p>Jul. 2016 Representative Director and President of Fivestar Cruise Co., Ltd. (current)</p> <p>Jan. 2019 Representative Director of Ebisu Ryokan K.K. (current)</p> <p>Jan. 2020 Director of the Company (part-time) (current)</p>	(Note 3)	654
External Director, Audit & Supervisory Committee Member (Note 1)	Tsunekazu Umeda	August 22, 1945	<p>Mar. 1974 Registered as a certified public accountant</p> <p>Sep. 1987 Partner, Arthur Andersen LLP and Eiwa Audit Corporation (currently KPMG AZSA LLC)</p> <p>Apr. 1995 Director, Umeda Certified Public Accountant Office (current)</p> <p>Jun. 1995 Director and Executive Vice President, Nippon Kaiheiki Kogyo (currently NKK Switches Co., Ltd.)</p> <p>Jan. 1999 External Corporate Auditor of the Company</p> <p>Jun. 2000 External Corporate Auditor, HABA Laboratories, Inc.</p> <p>Jun. 2000 External Corporate Auditor, TOMY Company (currently Takara Tomy Co., Ltd.) (current)</p> <p>Jun. 2007 External Corporate Auditor, Sawada Holdings Co., Ltd. (current)</p> <p>Mar. 2010 External Corporate Auditor, Huis Ten Bosch Co., Ltd.</p> <p>Jun. 2010 External Director, Suzuden Corporation</p> <p>Jun. 2015 Director serving as Audit & 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 External Director serving as Audit & Supervisory Committee Member of the Company (current)</p> <p>Jun. 2019 External Director, ESTELLE HOLDINGS CO., LTD. (current)</p>	(Note 4)	21

Title	Name	Date of birth	Career summary	Term of office	Share ownership (thousands)
External Director, Audit & Supervisory Committee Member (Note 1)	Atsushi Nabeshima	August 2, 1946	Jul. 1969 Joined Tokio Marine & Fire Insurance Co., Ltd. Jul. 1995 Director, Tokio Marine Medical Service Co., Ltd. Jul. 2001 Compliance Officer, Tokio Marine Anshin Life Insurance Co., Ltd. Jun. 2003 Director, HABA Laboratories, Inc. Dec. 2007 Director and President, Shinshu Pharmaceutical, Inc. Jul. 2011 Advisor, Unicolloid Co., Ltd. Advisor, Merci Daiki Co., Ltd. Jun. 2019 Executive Director, Showa Kaikan (current) Jan. 2021 External Director serving as Audit & Supervisory Committee Member of the Company (current)	(Note 5)	—
Director, Full-time Audit & Supervisory Committee Member	Sonoko Sekita	July 23, 1965	Feb. 1988 Joined the Company May 2000 Assistant Manager, Accounting Department, Kanto Area Sales Division Apr. 2008 Accounting Group Leader, HQ Accounting Division Dec. 2012 Seconded to H.I.S. MANAGEMENT SERVICES SDN.BHD. as Director and Manager of Accounting Jan. 2015 Full-time Corporate Auditor of the Company Jan. 2016 Director serving as Audit & Supervisory Committee Member of the Company (current)	(Note 4)	25
Total					18,675

(Notes)

- Directors serving as Audit & Supervisory Committee Members Tsunekazu Umeda and Atsushi Nabeshima are External Directors.
- Relative within the second degree of kinship of Representative Director, Chairman and President Hideo Sawada.
- Term of office extends until the conclusion of the General Meeting of Shareholders for the last business year within one year from the conclusion of the General Meeting of Shareholders held on January 27, 2021.
- Term of office extends until the conclusion of the General Meeting of Shareholders for the last business year within two years from the conclusion of the General Meeting of Shareholders held on January 29, 2020.
- Appointed as a substitute to replace a resigning Audit & Supervisory Committee Member at the General Meeting of Shareholders held on January 27, 2021. In accordance with the provisions in the Articles of Incorporation, the term of office extends until the conclusion of the term of the preceding Audit & Supervisory Committee Member (two years beginning at the conclusion of the General Meeting of Shareholders held on January 29, 2020).
- The Company has instituted a corporate officer system with the aim of enhancing the business execution structure.

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

Position	Name
Corporate Officer Deputy General Manager of HQ DX Promotion Division	Kiyoshi Takano
Corporate Officer General Manager of Corporate Planning Division	Ken Fukushima
Corporate Officer Representative Director and President of H.I.S. Hotel Holdings Co., Ltd.	Yuji Iwama
Corporate Officer General Manager of the North, Central, and South American Central Sales Division	Hideo Hatano
Corporate Officer General Manager of HQ HR Division & CS/ES Management Division	Kozo Arita
Corporate Officer General Manager of Accounting & Finance Division	Yuka Kataoka
Corporate Officer Representative Director and President of H.I.S. Energy Holdings Co., Ltd.	Shohei Akao
Corporate Officer General Manager of H.I.S. Group Europe Headquarters	Konosuke Oda
Corporate Officer General Manager of Private Travel Sales Division	Kenji Iida
Corporate Officer President of H.I.S. BRASIL TURISMO LTDA	Katsumi Hine
Corporate Officer Director of GROUP MIKI HOLDINGS LIMITED	Osamu Hanazaki
Corporate Officer General Manager of Affiliate Management Division & Head of Corporate Planning Office	Katsu Segawa
Corporate Officer General Manager of the Americas	Tomohisa Kumamoto
Corporate Officer Chief Information Officer (CIO) and General Manager of Information System Division	Naoyuki Kado

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

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

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

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

External Director and Audit & Supervisory Committee Member Atsushi Nabeshima, appointed on January 27, 2021, has extensive experience and knowledge from taking part in the management of a large traditional company, Tokio Marine & Fire Insurance Co., Ltd., and a venture-type listed company, HABA Laboratories, Inc. He is expected to provide advice and suggestions related to the management of the Company from an independent and objective perspective, drawing on his deep insight in corporate ethics and corporate governance, and to fulfill the responsibilities of the Audit & Supervisory Committee. Accordingly, he was appointed as a Director and Audit & Supervisory Committee Member.

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

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

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

- i) Principal is not at present, nor has never in the past been an executive director, executive officer, corporate officer, or employee (hereinafter, "Business Executor") of the Company, its subsidiaries or associates
- ii) Principal is not a major shareholder (a shareholder listed among the top ten shareholders on the latest shareholder registry or a shareholder with a ratio of 10% or more of the total voting rights), nor does not currently belong to an organization that is a major shareholder
- iii) Principal is not a Business Executor of a company, of which the Group is a major shareholder (a shareholder listed among the top ten shareholders on the latest shareholder registry or a shareholder with a ratio of 10% or more of the total voting rights)
- iv) Principal is not a person belonging to a business partner engaged in transactions with the Group (totaling 2% of consolidated net sales of either party per year) in the three most recent fiscal years
- v) Principal is not a Business Executor of a financial institution that is a major lender to the Group (lender of an amount equivalent to 2% or more of the Company's consolidated total assets)
- vi) Principal is not a Business Executor of the Group's leading brokerage firm
- vii) Principal is not a consultant, accounting expert, or legal expert who has obtained cash or other asset gains of 10 million yen or more on average in a single fiscal year other than officer remuneration from the Company, nor an accounting auditor or contracted adviser of the Company (if a corporation, association or group, the person belonging to said organization) in the last three fiscal years
- viii) Principal is not a person currently belonging to a non-profit organization that has received from the Company a contribution amounting to 2% or more of its total income or ordinary profit 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.

3) 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.

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

a) Relationship of interest between Tsunekazu Umeda and the Company

There are no personal, capital, or trade relationship, or other interests between Tsunekazu Umeda and the Company. The status of Company shareholdings by Tsunekazu Umeda is listed under "1) Status of Directors and other officers."

b) Relationship of interest between Atsushi Nabeshima and the Company

There are no personal, capital, or trade relationship, or other interests between Atsushi Nabeshima and the Company. The status of Company shareholdings by Atsushi Nabeshima is listed under "1) Status of Directors and other officers."

(3) Status of audits

1) Audit & Supervisory Committee

(I) Audit & Supervisory Committee organization and personnel

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

Of the 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. External Director Atsushi Nabeshima has extensive expertise and insight in the management of major companies and organizations, as well as a significant amount of experience and knowledge in finance and accounting. Full-time Audit & Supervisory Committee Member Sonoko Sekita has broad 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.

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 Audit Department, 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.

(II) Overview of Audit & Supervisory Committee meetings

The Audit & Supervisory Committee holds a regular monthly meeting, and extraordinary meetings whenever necessary. In the consolidated fiscal year ended October 31, 2020, the committee convened 13 times, with all members in attendance at each meeting.

[Main points deliberated by the Audit & Supervisory Committee in the fiscal year under review]

- Approval of year-end personnel affairs, remuneration, and financial results, etc.
- Receipt of year-end audit report from the accounting auditor, evaluation of accounting auditor, and examination of remuneration
- Receipt and audit of financial results report, approval of business report, and filing of audit report
- Preparation and implementation of Annual General Meeting of Shareholders, and review of audit activities for previous fiscal year after conclusion of the Meeting

- Interviews with Directors, Corporate Officers, and General Managers, etc. or report on such initiatives by an Appointed Audit & Supervisory Committee Member
- Identification of causes of high-risk problems at various Group companies, and follow-up on improvement progress
- Implementation progress for yearly and medium-term plans
- Partial revisions to yearly audit plan due to COVID-19 pandemic (audit priority items and audit method)
- Planning and implementation of exchanges of opinion with representative director
- Confirmation of implementation procedures for Board of Directors effectiveness evaluation, examination of results, and identification of issues
- Confirmation of matters and themes presented at Group-wide meetings, and formulation of yearly audit plan for next fiscal year

(III) Audit procedures, etc.

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.

The Full-time Audit & Supervisory Committee Member participates in key meetings, including at Group companies, and orally reports findings from interviews with Executive Directors, Corporate Officers, General Managers, etc., as well as audit results, at regular meetings of the Audit & Supervisory Committee. In addition, the Member shares information with External Directors via email or other means as necessary, and examines measures to resolve issues. Through such activities, the Audit & Supervisory Committee audits the daily execution of duties by Directors.

[Main audit activities]

Activity type	Items/description	Main/important issues raised, etc.
Participation in important meetings	Branch manager meetings in the Travel Business	Explanation of operating policies, etc.
	Biweekly meetings with full-time Directors and Corporate Officers	Reporting on progress by business, sharing of issues
	Annual groupwide meeting	Annual report, sharing of next-year plan and strategy
Exchange of opinions with Directors, Corporate Officers, General Managers, etc.	<ul style="list-style-type: none"> • Progress with annual and medium-term plans • Initiatives related to management challenges • Execution of duties by Directors and Corporate Officers, etc. 	<ul style="list-style-type: none"> • Achievement probability versus plan, causes for shortfalls against targets, and reflection and improvement • Decision-making processes related to effectiveness and midway changes to plan • Initiatives to resolve isolated or systematic issues
Interviews with subsidiaries and associates	<ul style="list-style-type: none"> • Market environment, and progress with annual and medium-term plans • Initiatives related to management challenges • Requests to the headquarters, etc. 	
Meetings with the Internal Audit Department	<ul style="list-style-type: none"> • Examination of internal audit plans, and receipt of implementation report • Progress with special investigations, receipt of findings, examinations of problems, etc. 	
Meetings with the Internal Control Office	<ul style="list-style-type: none"> • Report on progress with J-SOX compliance, report of annual achievements, etc. 	<ul style="list-style-type: none"> • Initiatives to improve audit effectiveness • Responses to expanding business domains
Meetings with ES Management Division	<ul style="list-style-type: none"> • Confirmation of status of internal reporting and consultations, receipt of reports on improvement efforts, etc. 	<ul style="list-style-type: none"> • Initiatives to improve schedule
Meetings with the accounting auditor	<ul style="list-style-type: none"> • Confirmation of status of internal reporting and consultations, receipt of reports on improvement efforts, etc. 	<ul style="list-style-type: none"> • Relative and fundamental improvement initiatives to address issues learned from internal reports or consultation
Meetings with the accounting auditor	<ul style="list-style-type: none"> • Audit reports for quarterly financial results, audit reports for annual financial results • Attending accounting auditor's interviews with the Directors 	<ul style="list-style-type: none"> • Examination of identified risks • Response to problems that have emerged
Viewing of important documents	<ul style="list-style-type: none"> • Viewing of approval requests and contracts to confirm matters resulting from approval of requests and content of major contracts 	<ul style="list-style-type: none"> • Evaluation whether atypical approval documents and decision processes are appropriate, and whether follow-up after execution is appropriate
Year-end audit procedure	<ul style="list-style-type: none"> • Interview with Accounting Division regarding financial statements • Receipt of reports from accounting auditor and examination of content • Examination of explanation of business reports by related divisions 	<ul style="list-style-type: none"> • Confirmation of degree of awareness of problems and abnormalities • Evaluation of whether measures to resolve problems are appropriate • Evaluation of whether disclosure method and phrasing is adequate or appropriate

2) Internal audit

(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 Audit Department (nine members) under direct supervision of the Representative Director, Chairman and President.

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

(II) 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 a systematic auditing utilizing the internal control system, please refer to the above “1) Audit & Supervisory Committee ” and “(I) Internal audit organization, personnel, and procedures” 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 “3) Status of cooperation between External Directors and Internal Audit Division” section under “(2) Directors and other officers.”

3) Accounting audit

(I) Name of accounting auditor

Deloitte Touche Tohmatsu LLC

(II) Continuous audit period

20 years

(III) Certified public accountants who conducted the accounting audit

Designated Limited Liability Partners and Engagement Partners: Koichi Kuse, Toshihiro Kuchiki

(IV) Accounting audit assistant composition:

11 certified public accountants, 19 assistant certified public accountants, etc., and 18 others.

(V) Accounting auditor selection policy and underlying reasons

The Company has appointed Deloitte Touche Tohmatsu LLC as its accounting auditor because it believes the company possesses the competence, expertise, organizational framework, job credentials, and historical track record as an accounting auditor to perform effective audits, and because there are no issues in terms of independence with the company. If it judges that any of the items specified in Paragraph 1, Article 340 of the Companies Act are applicable to the accounting auditor, the Audit & Supervisory Committee will dismiss the accounting auditor. Also, in the event of other conditions that call into question the appropriateness of the currently appointed accounting auditor, including events that impair its qualification or independence, the Audit & Supervisory Committee will examine the dismissal or non-reappointment of the accounting auditor. If, based on such examination, the Audit & Supervisory Committee concludes it is appropriate to dismiss or not reappoint the accounting auditor, the Board of Directors will submit a proposal to dismiss or not reappoint the accounting auditor, as determined by the Audit & Supervisory Committee, to the General Meeting of Shareholders.

(VI) Evaluation of accounting auditor by Audit & Supervisory Committee

The Audit & Supervisory Committee of the Company conducts annual evaluations of the accounting auditor using the following procedure.

- a. Collect information about audit practices of the accounting auditor in the applicable fiscal year through interviews with related internal divisions.
- b. Review details and status of three-way audit meetings by the Audit & Supervisory Committee, Internal Audit Division, and accounting auditor.
- c. Review details and status of opinion exchanges and other talks between the Audit & Supervisory Committee and the accounting auditor on a quarterly basis and if otherwise deemed necessary.

In addition to flexibly determining the suitability of accounting audits from the aforementioned elements, the Company evaluates the overall appropriateness of accounting audits at the end of the fiscal year by comparing the contents of quarterly audit reports provided by the accounting auditor and statutory reporting matters against a check sheet drafted in accordance with laws and regulations.

4) Fees paid to auditing certified public accountants, etc.

(I) Details of fees paid to auditing certified public accountants, etc.

Category	Year ended October 31, 2019		Year ended October 31, 2020	
	Fees for audit and attestation (millions of yen)	Fees for non-audit services (millions of yen)	Fees for audit and attestation (millions of yen)	Fees for non-audit services (millions of yen)
Filing Company	115	3	99	18
Consolidated subsidiaries	82	7	92	—
Total	198	10	191	18

(Consolidated fiscal year ended October 31, 2019)

Non-audit services rendered to the Company were advisory and other services in relation to the application of a new revenue recognition standard. Non-audit services rendered to consolidated subsidiaries were start-of-year balance adjustments, etc. for the purpose of commencing contracted audit services.

(Consolidated fiscal year ended October 31, 2020)

Non-audit services rendered to the Company were advisory services related to J-SOX compliance for consolidated subsidiaries.

(II) Details of fees paid to organizations belonging to the same network as auditing certified public accountants (excluding (I) above)

Category	Year ended October 31, 2019		Year ended October 31, 2020	
	Fees for audit and attestation (millions of yen)	Fees for non-audit services (millions of yen)	Fees for audit and attestation (millions of yen)	Fees for non-audit services (millions of yen)
Filing Company	—	3	—	2
Consolidated subsidiaries	29	11	37	11
Total	29	15	37	13

(Consolidated fiscal year ended October 31, 2019)

Non-audit services rendered to the Company and its consolidated subsidiaries were tax-related services.

(Consolidated fiscal year ended October 31, 2020)

Non-audit services rendered to the Company and its consolidated subsidiaries were tax-related services.

(III) Details of other significant fees for audit certification

(Consolidated fiscal year ended October 31, 2019)

There are no applicable matters to report.

(Consolidated fiscal year ended October 31, 2020)

There are no applicable matters to report.

(IV) Policy on determination of audit fees

Remuneration for auditing 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) Reason the Audit & Supervisory Committee agreed to the audit fees of the accounting auditor

The Audit & Supervisory Committee agreed to the audit fees for the consolidated fiscal year ended October 31, 2020 after verifying the appropriateness of the details of the audit plan (schedule, risk approach, etc.) and the compensation level based on the track record of the accounting auditor in the previous fiscal year, and with reference to the composition of the deployed accountants, research materials published by the Institute of Certified Public Accountants, and case studies involving other companies.

(4) Executive remuneration, etc.

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

The remuneration for Directors of the Company (excluding Audit & Supervisory Committee Members) and other conditions are determined based on the following rationale.

[Rules related to remuneration calculation method and determination of remuneration]

Remuneration amounts paid by the Company to its officers are set within the overall limit of remuneration approved by the General Meeting of Shareholders. The amounts allocated to Directors (excluding Audit & Supervisory Committee Members) are determined by the Board of Directors based on recommendations from the Remuneration Committee, and the amounts allocated to Directors who concurrently serve as Audit & Supervisory Committee Members are determined through deliberation with the Audit & Supervisory Committee Members.

The policy for determining remuneration amounts is in accordance with the internal remuneration regulations established through deliberation by the Board of Directors and Audit & Supervisory Committee Members and covers provisions related to the remuneration structure, remuneration determination criteria, and standard remuneration amounts.

[Remuneration policy]

(I) To have in place a competitive remuneration system with high degree of fairness

- Remuneration system and levels that are based on work responsibilities and performance (regardless of nationality or gender), and contribute to the acquisition and retention of outstanding human resources

(II) To have in place a remuneration system focused on improving corporate and shareholder value

- Remuneration system and structure that is closely correlated to earnings performance and focuses on improving medium- to long-term corporate and shareholder value

[Remuneration structure]

The Company's remuneration structure for Directors (excluding Audit & Supervisory Committee Members) has four components: a) basic monthly remuneration, b) performance-linked remuneration (linked to ordinary profit), c) stock option, and d) restricted stock compensation. See Table 1 below for details on the types of remuneration, objective, and summary.

Table 1. Company's remuneration structure for Directors (excluding Audit & Supervisory Committee Members)

Remuneration type		Objective/Summary
Fixed	a. Basic monthly remuneration	The Company determines amounts commensurate with Directors' roles and positions, and pays these as basic monthly remuneration.
Variable	b. Performance-linked remuneration (linked to ordinary profit)	To calculate performance-linked remuneration, the Company uses the average of the three highest ordinary profit amounts recorded in the last 10 consolidated fiscal years as a reference value. As a rule, the Company pays an amount equivalent to 7% of the amount obtained by subtracting this reference value from the ordinary profit amount for the current fiscal year. However, based on earning performance trends, the Company may adjust the abovementioned 7% by 1–2 points. <ul style="list-style-type: none"> • Concrete amounts are determined within a range of 0–200% of the standard amount in accordance with the degree of earnings achievement each fiscal year. • Paid as a lump-sum at the end of each fiscal year
	c. Stock option	The Company has established a stock option program as a form of remuneration that aims to enhance corporate value over the medium to long term. The total amount is kept within the annual amount (within 1 million yen) approved by the General Meeting of Shareholders.
	d. Restricted stock compensation	The Company allots restricted stock to Directors (excluding Directors who are Audit & Supervisory Committee members, non-Executive Directors, Part-time Directors, and External Directors), and accordingly aims to motivate Directors to work toward continuous improvement of corporate value, and further align their interests with those of its shareholders. (The total amount is kept within the annual amount [within 1 million yen] approved by the General Meeting of Shareholders.) <ul style="list-style-type: none"> • Standard amount is calculated as monthly remuneration × multiple based on position at the Company

[Remuneration levels]

To ensure objectiveness and transparency of the decision-making process, the remuneration structure and levels for Directors and corporate officers are determined by a resolution of the Board of Directors following a review by the Remuneration Committee.

2) Executive remuneration, etc.

(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
		Fixed remuneration	Performance-linked remuneration	Stock Option	Restricted stock Compensation	
Director (excluding Audit & Supervisory Committee Members) (excluding External Directors)	127	101	—	2	23	9
Director (Audit & Supervisory Committee Member) (excluding External Directors)	9	9	—	—	—	1
External Director (Audit & Supervisory Committee Member)	10	10	—	—	—	2

(Notes)

1. The maximum amount of basic remuneration paid to Directors (excluding Audit & Supervisory Committee Members) was set at 500 million yen per year (includes executive bonuses, but excludes payments related to employee status) by a resolution approved at the 35th General Meeting of Shareholders held on January 27, 2016. In addition, a separate resolution to grant Directors (excluding Audit & Supervisory Committee Members) share acquisition rights amounting up to 100 million yen per year as stock options was approved in the 36th General Meeting of Shareholders held on January 26, 2017. At the General Meeting of Shareholders held on January 25, 2018, a resolution was approved to cap monetary claims payable corresponding to restricted stock compensation for Directors (excluding Audit & Supervisory Committee Members) at 100 million yen per year.
2. The maximum amount of basic remuneration paid to Directors (Audit & Supervisory Committee Members) was set at 50 million yen per year (includes executive bonuses) by a resolution approved at the 35th General Meeting of Shareholders held on January 27, 2016.
3. The above remuneration amounts and number of officers includes those Directors who retired at the conclusion of the General Meeting of Shareholders held on January 29, 2020.

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

Information about the total amount of consolidated remuneration by officer is not presented as there were no officers with a total amount of consolidated remuneration of 100 million yen or more.

(5) Information on shareholdings

(I) Criteria for shareholding classification and rationale

The Company classifies its shareholdings into shares held solely for pure investment and shares held for purposes other than pure investment. The former are held mainly for the purpose of generating profit through fluctuations in the share price or through dividends, while the latter are positioned as strategic holdings.

(II) Investment securities held for purposes other than pure investment

There are no applicable matters to report.

(III) Investment securities held solely for pure investment

	Year ended October 31, 2020		Year ended October 31, 2019	
	Number of stock names	Total amount on balance sheet (millions of yen)	Number of stock names	Total amount on balance sheet (millions of yen)
Unlisted stocks	9	1,323	11	1,666
Stocks other than the above	—	—	3	1,058

	Year ended October 31, 2020 (millions of yen)		
	Total dividends income	Total realized gains (losses) on sales	Total valuation gains (losses)
Unlisted stocks	2	—	(Note)
Stocks other than above	—	511	—

(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.

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) (hereinafter, "Regulations on Consolidated Financial Statements.").
- (2) The non-consolidated financial statements are prepared in conformity with the "Regulations Concerning Terminology, Forms, and Preparation Methods of Non-consolidated Financial Statements (Ministry of Finance Regulation No.59, 1963) (hereinafter, "Regulations on Non-consolidated Financial Statements.")
As a company designated for the submission of non-consolidated financial statements prepared in accordance with special provision, the Company prepares its non-consolidated financial statements pursuant to Article 127 of the Regulations on Non-consolidated 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, 2019 to October 31, 2020).

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 its consolidated financial statements. Specifically, in order to accurately ascertain the content of the latest accounting standards and prepare appropriate consolidated financial statements, etc., it maintains membership in the Financial Accounting Standards Foundation and participates in educational opportunities provided by said Foundation, accounting firms, and other institutions, and subscribes to accounting journals. The Company also reviews its internal regulations and manuals as appropriate.

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

(millions of yen)

	Year ended October 31, 2019 (As of October 31, 2019)	Year ended October 31, 2020 (As of October 31, 2020)
Assets		
Current assets		
Cash and deposits	*1 219,175	*1 95,234
Notes and accounts receivable - trade	45,653	15,829
Trade accounts receivable	4,287	345
Travel advance payments	52,102	7,253
Prepaid expenses	2,888	2,245
Short-term loans receivable	*6 1,389	346
Short-term loans receivable from subsidiaries and associates	307	392
Accounts receivable - other	16,936	11,938
Other	6,305	7,013
Allowance for doubtful accounts	(766)	(1,376)
Total current assets	348,280	139,223
Non-current assets		
Property, plant and equipment		
Buildings	67,834	82,466
Accumulated depreciation	(14,440)	(16,420)
Buildings, net	*1, *5 53,394	*1, *5 66,045
Tools, furniture and fixtures	18,775	23,312
Accumulated depreciation	(11,207)	(12,605)
Tools, furniture and fixtures, net	*5 7,567	*5 10,706
Land	*1, *2 47,654	*1, *2 80,282
Leased assets	5,487	23,610
Accumulated depreciation	(2,157)	(10,405)
Leased assets, net	3,330	13,204
Construction in progress	27,874	24,274
Other	17,713	19,046
Accumulated depreciation	(10,435)	(11,348)
Other, net	*1, *5 7,277	*1, *5 7,698
Total property, plant and equipment	147,098	202,211
Intangible assets		
Goodwill	7,305	5,227
Other	19,271	*5 16,595
Total intangible assets	26,576	21,822
Investments and other assets		
Investment securities	16,270	10,594
Shares of subsidiaries and associates	3,241	3,348
Investments in capital of subsidiaries and associates	50	20
Long-term loans receivable	*6 3,313	*6 3,300
Long-term loans receivable from subsidiaries and associates	1,071	2,205
Retirement benefit asset	529	602
Deferred tax assets	8,134	12,986
Guarantee deposits	11,862	10,516
Other	11,189	9,249
Allowance for doubtful accounts	(388)	(1,905)
Total investments and other assets	55,275	50,919
Total non-current assets	228,951	274,954
Deferred assets	168	426
Total assets	577,399	414,604

(millions of yen)

	Year ended October 31, 2019 (As of October 31, 2019)	Year ended October 31, 2020 (As of October 31, 2020)
Liabilities		
Current liabilities		
Trade accounts payable	38,082	9,029
Short-term borrowings	*1, *3 6,903	*1, *3 26,659
Current portion of bonds payable	—	*4 10,000
Current portion of long-term borrowings	*1 37,548	*1 1,689
Accounts payable - other	22,319	5,021
Accrued expenses	4,517	4,172
Income taxes payable	3,904	1,159
Accrued consumption taxes	1,057	686
Travel advance received	92,760	14,021
Lease obligations	793	2,462
Provision for bonuses	5,510	1,033
Provision for bonuses for directors (and other officers)	224	22
Other	17,950	14,873
Total current liabilities	231,572	90,833
Non-current liabilities		
Bonds payable	*4 30,000	*4 20,000
Convertible bond-type bonds with share acquisition rights	*4 25,090	*4 25,072
Long-term borrowings	*1, *4 146,403	*1, *4 149,605
Deferred tax liabilities	*2 4,789	*2 5,038
Retirement benefit liability	7,715	7,981
Provision for retirement benefits for directors (and other officers)	371	377
Lease obligations	2,767	13,070
Other	4,779	4,203
Total non-current liabilities	221,918	225,349
Total liabilities	453,490	316,182
Net assets		
Shareholders' equity		
Share capital	11,000	15,000
Capital surplus	3,392	7,450
Retained earnings	112,409	72,222
Treasury shares	(28,309)	(15,204)
Total shareholders' equity	98,493	79,468
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	1,019	597
Deferred gains or losses on hedges	75	7
Foreign currency translation adjustment	(2,626)	(6,157)
Remeasurements of defined benefit plans	(187)	32
Total accumulated other comprehensive income	(1,719)	(5,519)
Share acquisition rights	—	178
Non-controlling interests	27,135	24,294
Total net assets	123,909	98,421
Total liabilities and net assets	577,399	414,604

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

(millions of yen)

	Year ended October 31, 2019 (November 1, 2018 to October 31, 2019)	Year ended October 31, 2020 (November 1, 2019 to October 31, 2020)
Net sales	808,510	430,284
Cost of sales	664,375	360,387
Gross profit	144,134	69,896
Selling, general and administrative expenses	*1 126,594	*1 101,026
Operating profit (loss)	17,540	(31,129)
Non-operating income		
Interest income	1,599	1,269
Subsidy income	397	547
Other	1,530	1,250
Total non-operating income	3,527	3,067
Non-operating expenses		
Interest expenses	788	1,094
Share of loss of entities accounted for using equity method	44	194
Foreign exchange losses	977	321
Other	2,169	1,610
Total non-operating expenses	3,978	3,221
Ordinary profit (loss)	17,089	(31,283)
Extraordinary income		
Gain on sales of investment securities	*2 3,627	1,085
Subsidy income	—	*3 9,969
Gain on reversal of share acquisition rights	513	—
Total extraordinary income	4,140	11,055
Extraordinary losses		
Impairment loss	877	*4 5,320
Loss on valuation of investment securities	—	837
Provision of allowance for doubtful accounts	—	*5 1,418
Losses from downtime	—	*6 5,296
Total extraordinary losses	877	12,873
Profit (loss) before income taxes	20,352	(33,101)
Income taxes - current	7,012	1,565
Income taxes - deferred	(535)	(5,023)
Total income taxes	6,477	(3,457)
Profit (loss)	13,875	(29,644)
Profit (loss) attributable to non-controlling interests	1,625	(4,606)
Profit (loss) attributable to owners of parent	12,249	(25,037)

Consolidated Statements of Comprehensive Income

(millions of yen)

	Year ended October 31, 2019 (November 1, 2018 to October 31, 2019)	Year ended October 31, 2020 (November 1, 2019 to October 31, 2020)
Profit (loss)	13,875	(29,644)
Other comprehensive income		
Valuation difference on available-for-sale securities	735	(422)
Deferred gains or losses on hedges	(93)	(65)
Foreign currency translation adjustment	(2,923)	(3,683)
Remeasurements of defined benefit plans, net of tax	(120)	248
Share of other comprehensive income of entities accounted for using equity method	(41)	(5)
Total other comprehensive income	* (2,442)	* (3,929)
Comprehensive income	11,432	(33,573)
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	10,226	(28,837)
Comprehensive income attributable to non-controlling interests	1,206	(4,735)

3) Consolidated Statements of Changes in Equity

Consolidated fiscal year ended October 31, 2019 (November 1, 2018 to October 31, 2019)

(millions of yen)

	Shareholders' equity				
	Share capital	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at beginning of period	11,000	3,451	102,083	(28,611)	87,923
Cumulative effects of changes in accounting policies			(161)		(161)
Restated balance	11,000	3,451	101,922	(28,611)	87,762
Changes during period					
Issuance of new shares					—
Dividends of surplus			(1,669)		(1,669)
Profit (loss) attributable to owners of parent			12,249		12,249
Purchase of treasury shares				(0)	(0)
Disposal of treasury shares		9		302	312
Cancellation of treasury shares					—
Change in scope of consolidation			(92)		(92)
Capital increase of consolidated subsidiaries		8			8
Change in ownership interest of parent due to transactions under common control		201			201
Change in ownership interest of parent due to transactions with non-controlling interests		(278)			(278)
Net changes in items other than shareholders' equity					—
Total changes during period	—	(59)	10,487	302	10,731
Balance at end of period	11,000	3,392	112,409	(28,309)	98,493

	Accumulated other comprehensive income					Share acquisition rights	Non-controlling interests	Total net assets
	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Foreign currency translation adjustment	Remeasurements of defined benefit plans	Total accumulated other comprehensive income			
Balance at beginning of period	283	166	(97)	(49)	304	431	26,982	115,641
Cumulative effects of changes in accounting policies					—		(68)	(229)
Restated balance	283	166	(97)	(49)	304	431	26,914	115,412
Changes during period								
Issuance of new shares					—			—
Dividends of surplus					—			(1,669)
Profit (loss) attributable to owners of parent					—			12,249
Purchase of treasury shares					—			(0)
Disposal of treasury shares					—			312
Cancellation of treasury shares					—			—
Change in scope of consolidation					—			(92)
Capital increase of consolidated subsidiaries					—			8
Change in ownership interest of parent due to transactions under common control					—			201
Change in ownership interest of parent due to transactions with non-controlling interests					—			(278)
Net changes in items other than shareholders' equity	736	(91)	(2,529)	(138)	(2,023)	(431)	221	(2,233)
Total changes during period	736	(91)	(2,529)	(138)	(2,023)	(431)	221	8,497
Balance at end of period	1,019	75	(2,626)	(187)	(1,719)	—	27,135	123,909

Consolidated fiscal year ended October 31, 2020 (November 1, 2019 to October 31, 2020)

(millions of yen)

	Shareholders' equity				
	Share capital	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at beginning of period	11,000	3,392	112,409	(28,309)	98,498
Cumulative effects of changes in accounting policies			(278)		(278)
Restated balance	11,000	3,392	112,131	(28,309)	98,214
Changes during period					
Issuance of new shares	4,000	4,000			8,000
Dividends of surplus			(1,900)		(1,900)
Profit (loss) attributable to owners of parent			(25,037)		(25,037)
Purchase of treasury shares					—
Disposal of treasury shares		(0)		434	434
Cancellation of treasury shares		(22)	(12,647)	12,670	—
Change in scope of consolidation			(323)		(323)
Capital increase of consolidated subsidiaries		24			24
Change in ownership interest of parent due to transactions under common control		56			56
Change in ownership interest of parent due to transactions with non-controlling interests					—
Net changes in items other than shareholders' equity					—
Total changes during period	4,000	4,058	(39,908)	13,104	18,745
Balance at end of period	15,000	7,450	72,222	(15,204)	79,468

	Accumulated other comprehensive income					Share acquisition rights	Non-controlling interests	Total net assets
	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Foreign currency translation adjustment	Remeasurements of defined benefit plans	Total accumulated other comprehensive income			
Balance at beginning of period	1,019	75	(2,626)	(187)	(1,719)	—	27,135	123,909
Cumulative effects of changes in accounting policies					—		(267)	(546)
Restated balance	1,019	75	(2,626)	(187)	(1,719)	—	26,868	123,363
Changes during period								
Issuance of new shares					—			8,000
Dividends of surplus					—			(1,900)
Profit (loss) attributable to owners of parent					—			(25,037)
Purchase of treasury shares					—			—
Disposal of treasury shares					—			434
Cancellation of treasury shares					—			—
Change in scope of consolidation					—			(323)
Capital increase of consolidated subsidiaries					—			24
Change in ownership interest of parent due to transactions under common control					—			56
Change in ownership interest of parent due to transactions with non-controlling interests					—			—
Net changes in items other than shareholders' equity	(422)	(67)	(3,531)	220	(3,800)	178	(2,573)	(6,195)
Total changes during period	(422)	(67)	(3,531)	220	(3,800)	178	(2,573)	(24,941)
Balance at end of period	597	7	(6,157)	32	(5,519)	178	24,294	98,421

4) Consolidated Statements of Cash Flows

(millions of yen)

	Year ended October 31, 2019 (November 1, 2018 to October 31, 2019)	Year ended October 31, 2020 (November 1, 2019 to October 31, 2020)
Cash flows from operating activities		
Profit (loss) before income taxes	20,352	(33,101)
Depreciation	8,850	12,880
Impairment loss	877	5,320
Amortization of goodwill	953	802
Increase (decrease) in provision for bonuses	618	(4,448)
Increase (decrease) in provision for bonuses for directors (and other officers)	48	(199)
Increase (decrease) in retirement benefit liability	518	582
Increase (decrease) in provision for retirement benefits for directors (and other officers)	29	8
Interest and dividend income	(1,864)	(1,325)
Share of loss (profit) of entities accounted for using equity method	44	194
Foreign exchange losses (gains)	1,063	247
Interest expenses	788	1,094
Loss (gain) on sales of investment securities	(3,627)	(1,085)
Loss (gain) on valuation of investment securities	—	837
Gain on reversal of share acquisition rights	(513)	—
Other loss (gain)	1,799	1,661
Decrease (increase) in trade receivables	(409)	33,117
Decrease (increase) in travel advance payments	(1,572)	44,113
Decrease (increase) in other assets	4,949	(69)
Increase (decrease) in trade payables	14	(28,060)
Increase (decrease) in accrued consumption taxes	201	(287)
Increase (decrease) in accrued expenses	237	(284)
Increase (decrease) in travel advances received	5,438	(77,912)
Increase (decrease) in other liabilities	6,222	(7,285)
Subtotal	45,022	(53,199)
Interest and dividends received	1,735	1,473
Interest paid	(748)	(1,097)
Income taxes (paid) refund	(6,665)	(4,894)
Net cash provided by (used in) operating activities	39,344	(57,718)

(millions of yen)

	Year ended October 31, 2019 (November 1, 2018 to October 31, 2019)	Year ended October 31, 2020 (November 1, 2019 to October 31, 2020)
Cash flows from investing activities		
Payments into time deposits	(33,381)	(18,941)
Proceeds from withdrawal of time deposits	29,452	30,214
Proceeds from redemption of securities	300	—
Purchase of property, plant and equipment and intangible assets	(75,885)	(66,565)
Proceeds from sales of property, plant and equipment and intangible assets	289	1,862
Purchase of investment securities	(6,987)	(1,319)
Proceeds from sales of investment securities	10,411	6,299
Proceeds from redemption of investment securities	—	91
Purchase of shares of subsidiaries and associates	(1,419)	(693)
Purchase of shares of subsidiaries resulting in change in scope of consolidation	*2 (6,373)	—
Payments for sales of shares of subsidiaries resulting in change in scope of consolidation	—	(851)
Loan advances	(305)	(230)
Collection of loans receivable	1,218	1,347
Payments for guarantee deposits	(3,628)	(1,331)
Proceeds from refund of guarantee deposits	866	2,317
Revenue from redevelopment project	27,658	1,587
Other, net	5,668	(1,687)
Net cash provided by (used in) investing activities	(52,116)	(47,901)
Cash flows from financing activities		
Proceeds from short-term borrowings	146,941	69,413
Repayments of short-term borrowings	(157,921)	(48,544)
Proceeds from long-term borrowings	71,450	5,712
Repayments of long-term borrowings	(11,815)	(38,232)
Redemption of bonds	(10,000)	—
Proceeds from issuance of shares	—	7,728
Dividends paid	(1,669)	(1,900)
Dividends paid to non-controlling interests	(467)	(439)
Payments from changes in ownership interests in subsidiaries that do not result in change in scope of consolidation	(1,699)	—
Redemption of convertible bonds	(20,000)	—
Proceeds from share issuance to non-controlling shareholders	1,017	1,000
Proceeds from issuance of share acquisition rights	—	116
Other, net	(472)	(456)
Net cash provided by (used in) financing activities	15,362	(5,602)
Effect of exchange rate change on cash and cash equivalents	(2,104)	(1,082)
Net increase (decrease) in cash and cash equivalents	486	(112,304)
Cash and cash equivalents at beginning of period	191,440	192,541
Increase in cash and cash equivalents resulting from inclusion of subsidiaries in consolidation	—	208
Increase (decrease) in cash and cash equivalents resulting from change of scope of consolidation	614	(0)
Cash and cash equivalents at end of period	*1 192,541	*1 80,445

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 148 subsidiaries of the Company. The names of the principal subsidiaries are listed in the “3. Description of Business” section of “I. Overview of the Company, Part I Information on the Company.”

From the consolidated fiscal year ended October 31, 2020, DORAK HIS OTELCILIK VE TIC.A.S. was added to the scope of consolidation through share acquisitions.

NEW H.I.S. Co., Ltd. and one other company were added to the scope of consolidation as newly established companies.

hapi-robo st, Inc. and one other company were added to the scope of consolidation owing to their increased significance.

Consolidated subsidiaries HTB CRUISE Co., Ltd. and two other companies were removed from the scope of consolidation as a result of the completion of liquidation proceedings.

Consolidated subsidiary Green World Hotel Zhonghua was removed from the scope of consolidation as it ceased to exist following an absorption-type merger in which consolidated subsidiary Green World Hotels Co., Ltd. was the surviving company.

Consolidated subsidiary H.I.F. Co., Ltd. was removed from the scope of consolidation following the sale of shares in the company.

(2) Non-consolidated subsidiaries

The Company has 43 non-consolidated subsidiaries. The principle non-consolidated subsidiary is listed below.

- H.I.S Travel Limited

(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 associates accounted for by the equity method

The company applies the equity method to seven associates. The names of the principle equity-method associates are listed in the “3. Description of Business” section under “I. Overview of the Company, Part I Information on the Company.”

In the consolidated fiscal year ended October 31, 2020, the Company removed H.I.F. Co., Ltd. from the scope of consolidation following the sale of shares in the company and included it in the scope of equity-method applicable companies.

(2) Non-consolidated subsidiaries and associates 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 43 non-consolidated subsidiaries and the 19 associates 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 Limited

3. Fiscal years, etc. of consolidated subsidiaries

Overseas consolidated subsidiaries have fiscal years ending on July 31.

Domestic consolidated subsidiary SYS Inc. has a fiscal year ending on August 31.

The following consolidated subsidiaries have fiscal years ending on September 30: (1) Overseas: Green World Hotels Co., Ltd.; HIS DORAK TURIZM OTEL YATIRIMLARI VE DIS TICARET ANONIM SIRKETI; DORAK HIS OTELCILIK VE TIC.A.S.; (2) Domestic: Orion Tour Co., Ltd.; Travel Marche Co., Ltd.; O.T.B. Co., Ltd.; Japan Holiday Travel Co., Ltd.; INTERPARK TOUR JAPAN Co., Ltd.; Activity Japan Co., Ltd.; H.I.S. Okinawa Co., Ltd.; Huis Ten Bosch Co., Ltd.; HTB Tourism Co., Ltd.; Laguna Ten Bosch Co., Ltd.; H.I.S. Hotel Holdings Co., Ltd.; The Watermark Hotel Nagasaki Co., Ltd.; Aqua Ignis Taki Hotel Asset K.K.; Kyushu Sangyo Kotsu 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 Auto Service Co. Ltd.; Kumamoto Sakuramachi Development Co., Ltd.; Kyushu Sanko Retail Co. Ltd.; KASSE JAPAN Co., Ltd.; Kyushu BM Service Co., Ltd.; Kyushu Sanko Planning Co., Ltd.; Higo Liquor Co., Ltd.; Hanamarudo Co., Ltd.; Kyushu Sanko Card Co., Ltd.; H.I.S. Energy Holdings Co., Ltd.; HTB ENERGY CO., LTD.; H.I.S. SUPER Power

Co., Ltd.; H.I.S. SUPER Power LLC; H.S. Insurance Co., Ltd.; Huis Ten Bosch Technical Center Co., Ltd.; Nishihon Engineering Co., Ltd.; hapi-robot, Inc.

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

4. Accounting policies

(1) Valuation standard and method for significant assets

1) Securities

Bonds held to maturity

Stated at amortized cost.

Available-for-sale securities

Securities with a determinable fair market value

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

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 property, plant and equipment, the declining balance method is applied. Overseas consolidated subsidiaries mainly apply the straight-line method.

The ranges of useful life for property, plant and equipment are mainly as shown below.

Buildings	2–65 years
-----------	------------

Tools, furniture and fixtures	2–25 years
-------------------------------	------------

2) Intangible 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 bonuses for directors (and other officers)

To provide for bonus payments to Directors (and other officers), a provision for bonuses is recorded based on estimated future payments.

4) Provision for retirement benefits for directors (and other officers)

To prepare for retirement benefit payments to Directors (and other officers), a provision for retirement benefits for Directors (and other officers) is recorded in the amount based on the retirement benefit obligation at each fiscal year-end in accordance with the Internal Rules on Retirement Benefits for Directors (and Other Officers).

(4) Accounting treatment method for retirement benefits

1) Method for period attribution of retirement benefit estimates

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

2) Treatment method for actuarial gains (losses), prior service cost, and transition obligations

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

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

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

- (5) Standard for translation of significant foreign-currency-denominated assets or liabilities into Japanese yen
Monetary claims and liabilities denominated in foreign currency are translated into yen at the spot exchange rate prevailing on the fiscal closing date, and the difference arising from such translation is recorded as profits or losses. The assets and liabilities of overseas subsidiaries are translated into yen at the spot exchange rates prevailing on the fiscal closing date, and their revenues and expenses are translated into yen at the average exchange rate during the fiscal year, with the differences arising from such translation included in the foreign currency translation adjustment account and non-controlling interests under consolidated net assets.
- (6) Accounting method for significant hedging transactions
- 1) Hedging methods
The Company in principle accounts for hedging transactions on a deferred basis. It applies the designated hedge accounting treatment (*furiate shori*) to forward exchange contracts and other items that qualify for designated hedge accounting, and the exceptional accounting treatment (*tokurei shori*) to interest rate swaps and other items that qualify for exceptional accounting.
 - 2) Hedging instruments and hedged items
 - a. Hedging instruments: Forward exchange contracts
Hedged items: Foreign currency-denominated accounts receivables, foreign currency-denominated operating accounts payable
 - b. Hedging instruments: Interest rate swaps
Hedged items: Loans
 - 3) Hedging policy
The Company hedges against foreign exchange fluctuation risk and interest rate fluctuation risk in accordance with the Company's internal Financial Risk Management Regulations
 - 4) Evaluation of hedge effectiveness
The effectiveness of hedging is assessed by comparing the cumulative total of the market fluctuations or the cash flow fluctuations for the hedged items with that of the market fluctuations or the cash flow fluctuations for the hedging instrument every six months, and analyzing the fluctuation amount, etc. for the two. However, the effectiveness of hedging is not evaluated for interest rate swaps subject to exceptional accounting treatment.
- (7) Scope of cash and cash equivalents in consolidated statement of cash flows
Cash and cash equivalents consist of cash in hand, deposits drawable at any time, and any short-term investments that are readily convertible, are only exposed to negligible risk of change in value, and are redeemable in three months or less from each acquisition date.
- (8) Other significant matters that serve as the basis for preparation of the consolidated financial statements
- 1) Goodwill amortization and amortization periods
Goodwill is amortized using the straight-line method over a reasonable number of years, not exceeding 20 years.
 - 2) Accounting for consumption taxes
All accounting transactions are booked exclusive of consumption taxes or local consumption taxes.

[Changes in accounting policies]

[Application of IFRS 16 Leases]

The consolidated subsidiaries of the H.I.S. Group applying IFRS have adopted the IFRS 16 "Leases" standard (issued on January 13, 2016) from the consolidated fiscal year ended October 31, 2020.

The adoption of IFRS 16 in principle requires a lessee to recognize assets and liabilities for all leases. The subsidiaries apply IFRS 16 according to transitional measures and employ the method of recognizing the cumulative effect of the application of the accounting standard on the first day of the application.

The impact of the application of the aforementioned accounting standards on the consolidated financial statements is negligible.

[Accounting standards not yet applied]

[Accounting Standard for Revenue Recognition]

- "Accounting Standard for Revenue Recognition" (ASBJ Statement No. 29 issued on March 31, 2020, Accounting Standards Board of Japan)
- "Implementation Guidance on Accounting Standard for Revenue Recognition" (ASBJ Guidance No. 30 issued on March 31, 2020 Accounting Standards Board of Japan)

(1) Overview

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

The basic policy of the ASBJ in developing accounting standards for revenue recognition was to establish accounting standards incorporating the basic principles of IFRS 15 as a starting point, from the perspective of comparability between financial statements, which has been one of the benefits of ensuring consistency with IFRS 15. Where there are items that should be considered to reflect business practices, etc. in Japan, alternative accounting treatments are to be added to the extent that comparability is not materially impaired.

(2) Scheduled date of application

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

(3) Effect of application of the aforementioned accounting standards

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

[Accounting Standard for Fair Value Measurement, etc.]

- Accounting Standard for Fair Value Measurement (ASBJ Statement No. 30, July 4, 2019, Accounting Standards Board of Japan)
- Accounting Standard for Measurement of Inventories (ASBJ Statement No. 9, July 4, 2019, Accounting Standards Board of Japan)
- Accounting Standard for Financial Instruments (ASBJ Statement No. 10, July 4, 2019, Accounting Standards Board of Japan)
- Implementation Guidance on Accounting Standard for Fair Value Measurement (ASBJ Guidance No. 31, July 4, 2019, Accounting Standards Board of Japan)
- Implementation Guidance on Disclosures about Fair Value of Financial Instruments (ASBJ Guidance No. 19, March 31, 2020, Accounting Standards Board of Japan)

(1) Overview

The International Accounting Standards Board (IASB) and the Financial Accounting Standards Board (FASB) in the United States provide similar detailed guidance on fair value measurement (IFRS 13 “Fair Value Measurement” under IFRS and Topic 820 “Fair Value Measurement” of the Accounting Standards Codification under U.S. accounting standards). Given this situation, the Accounting Standards Board of Japan (ASBJ) has announced the “Accounting Standards for Fair Value Measurement,” etc., after working to ensure consistency between Japanese and international accounting standards, mainly regarding guidance and disclosure concerning the fair value of financial instruments.

The basic objective of the ASBJ in developing the accounting standards for fair value measurement was to enhance comparability between financial statements of companies in Japan and abroad, through a unified measurement method. Accordingly, the accounting standard fundamentally incorporates all basic policies of IFRS 13. Further, where there are items that should be considered to reflect business practices, etc. in Japan, exceptional treatments are to be established for certain items to the extent that comparability is not materially impaired.

(2) Scheduled date of application

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

(3) Impact of application of the accounting standard, etc.

The impact from the application of the “Accounting Standards for Fair Value Measurement,” etc. on consolidated financial statements has yet to be determined.

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

(2) Company shares held in the Trust

Company shares held in the Trust are recorded at their trust book value (but excluding ancillary expenses) in “treasury shares” under “net assets.” The total amount of such shares was 188,000 at the end of the consolidated fiscal year ended October 31, 2019, and 55,000 at the end of the consolidated fiscal year ended October 31, 2020 and their book value was 580 million yen and 169 million yen, respectively.

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

521 million yen at the end of the consolidated fiscal year ended October 31, 2019, and 242 million yen at the end of the consolidated fiscal year ended October 31, 2020.

[Impact of COVID-19 pandemic on accounting estimates]

In the wake of the COVID-19 outbreak, many countries imposed restrictions on going out and travel, and this depressed the transaction value of the H.I.S. Group. As a result, our consolidated net sales declined 378,226 million yen year on year to 430,284 million yen. The Group expects its corporate activities to be further affected in the future depending on the timing when these restrictions will be lifted.

Based on a survey about the timing of a recovery for travel demand conducted by the United Nations World Tourism Organization (UNWTO), etc., in the Travel Business and Hotel Business, the H.I.S. Group expects the number of travelers to gradually recover after cross-border travel resumes in stages from early 2021. The impact of the COVID-19 pandemic on the Theme Park Business and other operations has been relatively mild, so the Group expects these to recover ahead of the Travel Business and Hotel Business. In light of the above, the Group expects its earnings to broadly recover to 2019 levels in 2022.

In calculating impairment losses on non-current assets, the Group has calculated future cash flows using the assumptions above. Consequently, it recorded impairment losses on non-current assets amounting to 3,484 million yen, which it deemed irrecoverable.

It remains unclear when the COVID-19 pandemic will be contained, and if the assumptions above no longer hold at some point in the future, the impairment losses on non-current assets may increase.

[Consolidated balance sheet]

*1. Pledged assets

Assets pledged as collateral are shown below.

	(millions of yen)	
	Year ended October 31, 2019 (As of October 31, 2019)	Year ended October 31, 2020 (As of October 31, 2020)
Buildings	22,570	22,103
Land	20,675	20,721
Property, plant and equipment (Other)	0	0

Secured liabilities are shown below.

	(millions of yen)	
	Year ended October 31, 2019 (As of October 31, 2019)	Year ended October 31, 2020 (As of October 31, 2020)
Short-term loans payable	2,800	2,000
Current portion of long-term loans payable	7,209	1,209
Long-term loans payable	25,391	24,182

The Company pledged cash and cash deposits of 1,571 million yen as collateral for bank guarantees in the consolidated fiscal year ended October 31, 2019. In the consolidated fiscal year ended October 31, 2020, it pledged cash and cash deposits of 1,396 million yen as collateral for bank guarantees.

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

	(millions of yen)	
	Year ended October 31, 2019 (As of October 31, 2019)	Year ended October 31, 2020 (As of October 31, 2020)
Land	4,600	4,600
Deferred tax liabilities	1,707	1,707

*3. Committed credit line agreements

The Company concluded an overdraft agreement with one bank, and commitment credit line agreements with three banks to ensure efficient and stable procurement of working capital. Consolidated subsidiaries Kyushu Sangyo Kotsu Holdings Co., Ltd., Kyushu Sanko Tourism Co., Ltd., Japan Holiday Travel Co., Ltd., H.I.S. - MERIT TRAVEL INC., Miki Travel Agency E.U.R.L., and H.I.S. - RED LABEL VACATIONS INC. have concluded overdraft agreements with 17 banks to ensure efficient procurement of working capital. Unexecuted borrowings, etc. based on such overdraft and committed credit line agreements at the end of the consolidated fiscal years ended October 31, 2019 and October 31, 2020 are shown below.

	(millions of yen)	
	Year ended October 31, 2019 (As of October 31, 2019)	Year ended October 31, 2020 (As of October 31, 2020)
Maximum overdraft and committed credit line limits (total)	28,490	47,453
Outstanding borrowings	5,000	4,700
Difference	23,490	42,753

*4. Financial covenants

(1) Syndicated loans

- 1) Must maintain the net asset value on the consolidated balance sheet reported on the final day of each fiscal year at 75% or more of the net asset value on the consolidated balance sheet reported on the final day of the previous fiscal year.
- 2) May not record ordinary losses on the consolidated income statement reported on the final day of each fiscal year for two consecutive years.

The loan balance for the syndicated loans at the end of the consolidated fiscal years ended October 31, 2019 and October 31, 2020 were as follows.

	(millions of yen)	
	Year ended October 31, 2019 (As of October 31, 2019)	Year ended October 31, 2020 (As of October 31, 2020)
Long-term borrowings	34,500	34,500

(2) Unsecured bonds

Ensure the following two scenarios do not apply.

- 1) For bonds other than unsecured bonds, forfeiture of the benefit of time, or inability to repay such bonds when they are due.
- 2) Inability to fulfill payment obligations when the benefit of time has been forfeited for loan obligations other than bonds, or inability to fulfill payment for guarantee obligations assumed for bonds other than the Company's bonds or for other loan obligations, should such need arise. However, this will not apply if the total liabilities do not exceed 500 million yen.

The balance of unsecured bonds at the end of the consolidated fiscal years ended October 31, 2019 and October 31, 2020 were as follows.

	(millions of yen)	
	Year ended October 31, 2019 (As of October 31, 2019)	Year ended October 31, 2020 (As of October 31, 2020)
Bonds payable (including current portion)	30,000	30,000

(3) Convertible bond-type bonds with share acquisition rights

Ensure the following scenario does not apply.

Inability to fulfill payment obligations when the benefit of time has been forfeited for loan obligations other than bonds, or inability to fulfill payment for guarantee obligations assumed for bonds other than the Company's bonds or for other loan obligations, should such need arise. However, this will not apply if the total liabilities do not exceed 500 million yen.

The balance of convertible bond-type bonds with share acquisition rights at the end of the consolidated fiscal years ended October 31, 2019 and October 31, 2020 were as follows.

	(millions of yen)	
	Year ended October 31, 2019 (As of October 31, 2019)	Year ended October 31, 2020 (As of October 31, 2020)
Convertible bond-type bonds with share acquisition rights	25,090	25,072

*5. Reduction entries

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

(millions of yen)

	Year ended October 31, 2019 (As of October 31, 2019)	Year ended October 31, 2019 (As of October 31, 2019)
Buildings	28	84
Tools, furniture and fixtures	18	13
Property, plant and equipment (other)	405	404
Intangible assets (other)	—	1
Total	452	504

*6. Other

Consolidated fiscal year ended October 31, 2019 (As of October 31, 2019)

In addition to 1,088 million yen (10 million US dollar) of the 1,389 million yen in short-term loans receivable, 3,258 million yen (30 million US dollar) of the 3,313 million yen in long-term loans receivable is owed by the Mongolia-based bank Khan Bank LLC. The bank is a consolidated subsidiary of Sawada Holdings Co., Ltd. (Representative Director and Chairman Hideo Sawada).

Consolidated fiscal year ended October 31, 2020 (As of October 31, 2020)

3,138 million yen (30 million US dollar) of the 3,300 million yen in long-term loans receivable is owed by the Mongolia-based bank Khan Bank LLC. The bank is a consolidated subsidiary of Sawada Holdings Co., Ltd. (Representative Director and Chairman Hideo Sawada).

[Consolidated Statement of Income]

*1. Selling, general and administrative expenses

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

(millions of yen)

	Year ended October 31, 2019 (November 1, 2018 to October 31, 2019)	Year ended October 31, 2020 (November 1, 2019 to October 31, 2020)
Salaries and allowances	45,742	40,107
Bonuses	3,656	5
Provision for bonuses	4,888	570
Bonuses for directors (and other officers)	32	30
Provision for bonuses for directors (and other officers)	231	22
Retirement benefit expenses	981	1,039
Provision for retirement benefits for directors (and other officers)	45	45
Legal welfare expenses	7,273	5,666
Advertising expenses	12,904	8,025
Rent expenses	9,341	6,746
Depreciation and amortization	7,447	9,984
Provision of allowance for doubtful accounts	230	1,085

*2. Gain on sales of investment securities

Consolidated fiscal year ended October 31, 2019 (from November 1, 2018 to October 31, 2019)

The gain on sales of investment securities recorded in the consolidated fiscal year ended October 31, 2019 mainly reflects the sales of shares in UNIZO Holdings Company.

*3 Subsidy income

Consolidated fiscal year ended October 31, 2020 (from November 1, 2019 to October 31, 2020)

Subsidy income recorded in the consolidated fiscal year ended October 31, 2020 mainly reflects employment adjustment subsidies received due to the application of special measures in connection with impact of the COVID-19 outbreak, and subsidies received from the national and local governments.

*4. Impairment loss

Consolidated fiscal year ended October 31, 2020 (from November 1, 2019 to October 31, 2020)

In the consolidated fiscal year ended October 31, 2020, the H.I.S. Group mainly recorded impairment losses on the following assets.

Location	Usage	Item	Impairment loss (millions of yen)
Green World Hotels Co., Ltd. (Taipei, Taiwan)	—	Goodwill	1,218
Green World Hotels Co., Ltd. (Taipei, Taiwan)	Business assets	Building, other	516
GROUP MIKI HOLDINGS LIMITED (London, England)	Business assets	Lease asset, other	1,718
Kyushu Sanko Tourism Co., Ltd. (Aso, Kumamoto Prefecture, etc.)	Business assets	Construction in progress, other	1,240

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 Green World Hotels Co., Ltd. has seen its earnings sharply deteriorate due to the COVID-19 pandemic, and no longer expects to achieve the previously anticipated revenue levels, resulting in reduced potential for investment recovery. Accordingly, it has written down its entire goodwill balance and reduced the book value of its buildings and other non-current assets to the recoverable amount, and recorded an impairment loss for

these write-downs as an extraordinary loss. The recoverable value was determined based on the usable value derived from future occupancy rates and average room rates, and future cash flows were calculated using a discount rate of 3.71%.

Consolidated subsidiary GROUP MIKI HOLDINGS LIMITED has seen its earnings sharply deteriorate due to the COVID-19 pandemic, and no longer expects to achieve the previously anticipated revenue levels, resulting in reduced potential for investment recovery. Accordingly, it has reduced the book value of subject assets to the recoverable amount, and recorded an impairment loss equivalent to the reduction as an extraordinary loss. As it does not anticipate future cash flows, it has valued the recoverable value at zero.

In addition, consolidated subsidiary Kyushu Sanko Tourism Co., Ltd. has cancelled the reconstruction of the Mt. Aso Ropeway, and therefore no longer expects to achieve the previously anticipated revenue levels, resulting in reduced potential for investment recovery. Accordingly, it has reduced the book value of subject asset to the recoverable amount, and recorded an impairment loss equivalent to the reduction as an extraordinary loss. As it does not anticipate future cash flows, it has valued the recoverable value at zero.

*5. Provision of allowance for doubtful accounts

Consolidated fiscal year ended October 31, 2020 (from November 1, 2019 to October 31, 2020)

The Company has recorded long-term loans receivable from subsidiaries and associates as allowance for doubtful accounts.

*6. Losses from downtime

Consolidated fiscal year ended October 31, 2020 (from November 1, 2019 to October 31, 2020)

Losses from downtime are fixed expenses (chiefly personnel expenses and depreciation) incurred during the period when operations at the Company's business facilities were temporarily suspended to prevent the spread of COVID-19.

[Consolidated Statement of Comprehensive Income]

* Reclassification adjustments and tax effects relating to other comprehensive income

(millions of yen)

	Year ended October 31, 2019 (November 1, 2018 to October 31, 2019)	Year ended October 31, 2020 (November 1, 2019 to October 31, 2020)
Valuation difference on available-for-sale securities:		
Amount arising during the year	1,084	487
Reclassification adjustments	(52)	(1,084)
Before tax effect adjustment	1,031	(596)
Tax effect amount	(295)	174
Valuation difference on available-for-sale securities	735	(422)
Deferred gains or losses on hedges:		
Amount arising during the year	(130)	(95)
Reclassification adjustments	—	—
Before tax effect adjustment	(130)	(95)
Tax effect amount	37	30
Deferred gains or losses on hedges	(93)	(65)
Foreign currency translation adjustment:		
Amount arising during the year	(2,923)	(3,683)
Reclassification adjustments	—	—
Before tax effect adjustment	(2,923)	(3,683)
Tax effect amount	—	—
Foreign currency translation adjustment	(2,923)	(3,683)
Remeasurements of defined benefit plans:		
Amount arising during the year	(316)	70
Reclassification adjustments	112	256
Before tax effect adjustment	(203)	326
Tax effect amount	83	(78)
Remeasurements of defined benefit plans	(120)	248
Share of other comprehensive income of entities accounted for using equity method:		
Amount arising during the fiscal year	(41)	(5)
Reclassification adjustments	—	—
Share of other comprehensive income of entities accounted for by the equity method	(41)	(5)
Total other comprehensive income	(2,442)	(3,929)

[Consolidated Statement of Changes in Equity]

Consolidated fiscal year ended October 31, 2019 (November 1, 2018 to October 31, 2019)

1. Types and number of issued shares and treasury shares

	Number of shares as of November 1, 2018	Increase during the year	Decrease during the year	Number of shares as of October 31, 2019
Issued shares				
Common stock	68,522,936	—	—	68,522,936
Total	68,522,936	—	—	68,522,936
Treasury shares				
Common stock (Note)	11,231,540	90	99,532	11,132,098
Total	11,231,540	90	99,532	11,132,098

(Notes)

- The number of treasury shares (common stock) includes the Company shares held by the H.I.S. Employee Stock Ownership Association Dedicated Trust (188,600 shares as of October 31, 2019).
- The increase of 90 treasury shares (common stock) reflects an increase attributable to the purchase of shares less than one unit.
- The decrease of 99,532 treasury shares (common stock) reflects a decline of 6,032 shares from the disposal of treasury shares as restricted stock compensation, and a decline of 93,500 shares from the sale of shares from the H.I.S. Employee Stock Ownership Association Dedicated Trust to the H.I.S. Employee Stock Ownership Association.

2. Dividends

(1) Dividends paid

Resolution	Type of shares	Total amount of dividends (millions of yen)	Dividend per share (yen)	Record date	Effective Date
General Meeting of Shareholders held on January 25, 2019	Common stock	1,669	29.00	October 31, 2018	January 28, 2019

(Note) The total amount of dividends approved by a resolution at the General Meeting of Shareholders held on January 25, 2019 includes 8 million yen in dividends for Company shares held by the H.I.S. Employee Stock Ownership Association Dedicated Trust.

(2) Dividends whose record date falls in the consolidated fiscal year ended October 31, 2019 and whose effective date falls in the next consolidated fiscal year

Resolution	Type of shares	Total amount of dividends (millions of yen)	Appropriated from	Dividend per share (yen)	Record date	Effective Date
General Meeting of Shareholders held on January 29, 2020	Common stock	1,900	Retained earnings	33.00	October 31, 2019	January 30, 2020

(Note) The total amount of dividends approved by a resolution at the General Meeting of Shareholders held on January 29, 2020 includes 6 million yen in dividends for Company shares held by the H.I.S. Employee Stock Ownership Association Dedicated Trust.

Consolidated fiscal year ended October 31, 2020 (November 1, 2019 to October 31, 2020)

1. Types and number of issued shares and treasury shares

	Number of shares as of November 1, 2019	Increase during the year	Decrease during the year	Number of shares as of October 31, 2020
Issued shares				
Common stock	68,522,936	5,246,000	5,000,000	68,768,936
Total	68,522,936	5,246,000	5,000,000	68,768,936
Treasury shares				
Common stock (Note)	11,132,098	—	5,142,850	5,989,248
Total	11,132,098	—	5,142,850	5,989,248

(Notes)

1. The increase of 5,246,000 issued shares (common stock) reflects an increase from the issuance of new shares through a third-party allotment.
2. The decrease of 5,000,000 issued shares (common stock) reflects a decrease from the retirement of treasury shares.
3. The number of treasury shares (common stock) includes the Company shares held by the H.I.S. Employee Stock Ownership Association Dedicated Trust (55,100 shares as of October 31, 2020).
4. The decrease of 5,142,850 treasury shares (common stock) reflects a decrease of 5,000,000 shares from the retirement of treasury shares, a decrease of 9,350 shares from the disposal of treasury shares as restricted stock compensation, and a decrease of 133,500 shares from the sale of shares from the H.I.S. Employee Stock Ownership Association Dedicated Trust to the H.I.S. Employee Stock Ownership Association.

2. Share acquisition rights and treasury share acquisition rights

Classification	Breakdown of share acquisition rights	Type of shares subject to share acquisition rights	Number of shares subject to share acquisition rights				Balance as of October 31, 2020 (millions of yen)
			As of November 1, 2019	Increase during the year	Decrease during the year	As of October 31, 2020	
Filing Company (Parent company)	Fourth series of share acquisition rights (Note)	Common stock	—	8,700,300	—	8,700,300	123
	Share acquisition rights as stock options	Common stock	—	—	—	—	54
Total		—	—	8,700,300	—	8,700,300	178

(Note) The increase in the fourth series of share acquisition rights reflects the issuance of new share acquisition rights.

3. Dividends

(1) Dividends paid

Resolution	Type of shares	Total amount of dividends (millions of yen)	Dividend per share (yen)	Record date	Effective Date
General Meeting of Shareholders held on January 29, 2020	Common stock	1,900	33.00	October 31, 2019	January 30, 2020

(Note) The total amount of dividends approved by a resolution at the General Meeting of Shareholders held on January 29, 2020 includes 6 million yen in dividends for Company shares held by the H.I.S. Employee Stock Ownership Association Dedicated Trust.

(2) Dividends whose record date falls in the consolidated fiscal year ended October 31, 2020 and whose effective date falls in the next consolidated fiscal year

There are no applicable matters to report as the Company did not pay a dividend in the relevant period.

[Consolidated Statement of Cash Flows]

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

(millions of yen)

	Year ended October 31, 2019 (November 1, 2018 to October 31, 2019)	Year ended October 31, 2020 (November 1, 2019 to October 31, 2020)
Cash and deposits account	219,175	95,234
Time deposits with maturities of more than three months	(26,633)	(14,788)
Cash and cash equivalents	192,541	80,445

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

Consolidated fiscal year ended October 31, 2019 (November 1, 2018 to October 31, 2019)

A breakdown of assets and liabilities at the start of consolidation of RED LABEL VACATIONS INC. and six other new subsidiaries resulting from the acquisition of shares, along with details regarding the share acquisition price and related expenditure (net) are presented below.

	(millions of yen)
Current assets	27,748
Non-current assets	10,019
Goodwill	1,401
Current liabilities	(26,992)
Non-current liabilities	(318)
Foreign currency translation adjustment	(24)
Share acquisition price	11,833
Cash and cash equivalents	(5,460)
Net expenditure on share acquisition	6,373

Consolidated fiscal year ended October 31, 2020 (November 1, 2019 to October 31, 2020)

There are no applicable matters to report.

[Lease transactions]

1. Finance leases

[Lessee]

Finance leases not involving transfer of ownership

1) Lease asset details

(a) Property, plant and equipment

Lease assets for property, plant and equipment mainly reflect property rents and other fees at overseas consolidated subsidiaries in the Hotel Business. Some of the Company's overseas subsidiaries are applying the IFRS 16 "Leases" standard from the consolidated fiscal year ended October 31, 2020. Under this standard, the aforementioned rents and other fees of overseas consolidated subsidiaries are recorded as lease assets.

(b) Intangible assets

Software

2) Depreciation method for lease assets

As stated in the "(2) Depreciation method for significant assets" section in "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, 2019 (As of October 31, 2019)	Year ended October 31, 2020 (As of October 31, 2020)
Due within one year	2,237	351
Due after one year	14,878	1,918
Total	17,116	2,270

(Note) Among operating leases, the decline in future lease payables related to non-cancelable operating leases in the consolidated fiscal year ended October 31, 2020 mainly reflects the application of IFRS 16 by some overseas consolidated subsidiaries from the fiscal year under review, as outlined in “Changes in accounting policies.”

[Lessor]

Future lease receivables related to non-cancelable operating leases

(millions of yen)

	Year ended October 31, 2019 (As of October 31, 2019)	Year ended October 31, 2020 (As of October 31, 2020)
Due within one year	307	304
Due after one year	1,299	988
Total	1,607	1,292

[Financial instruments]

1. Conditions of financial instruments

(1) Policy for handling financial instruments

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

(2) Type and risk of financial instruments

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

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

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

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

Loans payable, corporate bonds, convertible bond-type bonds with share acquisition rights, and lease obligations related to finance leases are mainly used to procure funding for working capital or capital expenditures. Loans payable with variable interest rates are exposed to risk from fluctuation in interest rates. Long-term loans payable include 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 claims and liabilities denominated in foreign currencies are exposed to the risk of foreign exchange fluctuations, but such risk is in principle hedged using forward exchange contracts.

Derivative transactions include forward exchange contracts, etc., aimed at mitigating the risk of foreign exchange fluctuations, crude oil price commodity swap transactions aimed at controlling the risk of fuel price fluctuations, and transactions to avoid the risk of fluctuations in interest rates paid on loans. For details on hedging instruments, hedged items, hedging policy, and the method for evaluating hedging effectiveness concerning hedge accounting, please refer to the aforementioned “(6) Accounting method for significant hedging transactions” section in “4. Accounting policies”

under “Significant matters that serve as the basis for preparation of the consolidated financial statements.”

(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 screens new customers and periodically 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; they also have in place a management structure where transactions and events of certain degree of significance must be reported to or approved by the Company.

Credit risk for derivatives transactions is recognized as largely immaterial because these transactions are conducted only with financial institutions that have a high credit rating.

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

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

For marketable and investment securities, the Group determines their fair market value and the financial position of the issuers on a quarterly basis. It also reviews its holdings on a continuing basis, taking into account the market conditions and the relationship with customers and business partners.

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

Derivatives transactions that take the form of crude oil price commodity swap transactions must be executed in accordance with internal regulations that stipulate 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. Items for which it is extremely difficult to determine market values are not included. (Refer to (Note: 2))

Consolidated fiscal year ended October 31, 2019 (As of October 31, 2019)

	Amount recorded on balance sheet (millions of yen)	Fair value (millions of yen)	Difference (millions of yen)
(1) Cash and deposits	219,175	219,175	—
(2) Notes and accounts receivable - trade (*1)	45,019	45,019	—
(3) Trade accounts receivable	4,287	4,287	—
(4) Marketable and investment securities	11,225	11,225	—
Available-for-sale securities	11,225	11,225	—
(5) Short-term loans receivable (*2)	1,384	1,384	—
(6) Short-term loans receivable from subsidiaries and associates (*2)	267	267	—
(7) Accounts receivable - other (*3)	16,917	16,917	—
(8) Long-term loans receivable (*4)	3,268	3,265	(2)
(9) Long-term loans receivable from subsidiaries and associates (*4)	903	903	—
(10) Guarantee deposits	6,980	6,997	16
Total assets	309,428	309,443	14
(1) Trade accounts payable	38,082	38,082	—
(2) Short-term borrowings	6,903	6,903	—
(3) Accounts payable - other	22,319	22,319	—
(4) Income taxes payable	3,904	3,904	—
(5) Accrued consumption taxes	1,057	1,057	—
(6) Bonds payable	30,000	30,401	401
(7) Convertible bond-type bonds with share acquisition rights	25,090	25,257	166
(8) Long-term borrowings (including within one year)	183,951	184,891	939
(9) Lease obligations (including within one year)	3,561	3,388	(172)
Total liabilities	314,870	316,206	1,336
Derivatives transactions (*5)	60	60	—

(*1) Corresponding allowances for doubtful accounts are deducted from “notes and accounts receivable - trade.”

(*2) Corresponding allowances for doubtful accounts are deducted from “short-term loans receivable” and “short-term loans receivable from subsidiaries and associates.”

(*3) Corresponding allowances for doubtful accounts are deducted from “accounts receivable - other.”

(*4) Corresponding allowances for doubtful accounts are deducted from “long-term loans receivable” and “long-term loans receivable from subsidiaries and associates.”

(*5) Assets and liabilities accrued from derivative transactions are presented on a net basis, and net liabilities are shown in brackets [].

Consolidated fiscal year ended October 31, 2020 (As of October 31, 2020)

	Amount recorded on balance sheet (millions of yen)	Fair value (millions of yen)	Difference (millions of yen)
(1) Cash and deposits	95,234	95,234	—
(2) Notes and accounts receivable - trade (*1)	14,614	14,614	—
(3) Trade accounts receivable	345	345	—
(4) Marketable and investment securities	5,436	5,436	—
Held-to-maturity securities	100	100	—
Available-for-sale securities	5,335	5,335	—
(5) Short-term loans receivable (*2)	337	337	—
(6) Short-term loans receivable from subsidiaries and associates (*2)	389	389	—
(7) Accounts receivable - other (*3)	11,914	11,914	—
(8) Long-term loans receivable (*4)	3,261	3,254	(7)
(9) Long-term loans receivable from subsidiaries and associates (*4)	588	588	—
(10) Guarantee deposits	5,888	5,818	(70)
Total assets	138,011	137,933	(77)
(1) Trade accounts payable	9,029	9,029	—
(2) Short-term borrowings	26,659	26,659	—
(3) Accounts payable - other	5,021	5,021	—
(4) Income taxes payable	1,159	1,159	—
(5) Accrued consumption taxes	686	686	—
(6) Bonds payable (including within one year)	30,000	30,171	171
(7) Convertible bond-type bonds with share acquisition rights	25,072	25,059	(13)
(8) Long-term borrowings (including within one year)	151,295	151,276	(19)
(9) Lease obligations (including within one year)	15,532	15,399	(132)
Total liabilities	264,457	264,463	5
Derivatives transactions (*5)	[16]	[16]	—

(*1) Corresponding allowances for doubtful accounts are deducted from “notes and accounts receivable - trade.”

(*2) Corresponding allowances for doubtful accounts are deducted from “short-term loans receivable” and “short-term loans receivable from subsidiaries and associates.”

(*3) Corresponding allowances for doubtful accounts are deducted from “accounts receivable - other.”

(*4) Corresponding allowances for doubtful accounts are deducted from “long-term loans receivable” and “long-term loans receivable from subsidiaries and associates.”

(*5) Assets and liabilities accrued from derivative transactions are presented on a net basis, and net liabilities are shown in brackets [].

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

Assets

(1) Cash and deposits, (2) Notes and accounts receivable - trade, (3) Operating accounts receivable, (5) Short-term loans receivable, (6) Short-term loans receivable from subsidiaries and associates, and (7) Accounts receivable - other

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

(4) Marketable and investment securities

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

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

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

(10) Guarantee deposits

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

Liabilities

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

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

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

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

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

Derivatives transactions

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

(Note) 2. Financial instruments for which fair value is extremely difficult to determine

(millions of yen)

Classification	Year ended October 31, 2019 (As of October 31, 2019)	Year ended October 31, 2020 (As of October 31, 2020)
Marketable and investment securities		
Unlisted stocks, etc. (*1)	5,045	5,157
Shares of subsidiaries and associates		
Unlisted stocks, etc. (*2)	3,241	3,348
Investments in capital of subsidiaries and associates (*3)	50	20
Guarantee deposits (*4)	4,882	4,627

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

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

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

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

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

Consolidated fiscal year ended October 31, 2019 (As of October 31, 2019)

	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	219,175	—	—	—
Notes and accounts receivable - trade	45,653	—	—	—
Trade accounts receivable	4,287	—	—	—
Marketable and investment securities				
Bonds held to maturity				
(1) Corporate bonds	—	10	10	—
Available-for-sale securities with maturities				
(1) Government and municipal bonds, etc.	—	—	—	—
(2) Corporate bonds	—	520	—	—
(3) Other	—	—	—	—
Short-term loans receivable	1,389	—	—	—
Short-term loans receivable from subsidiaries and associates	307	—	—	—
Accounts receivable - other	16,936	—	—	—
Long-term loans receivable	—	3,292	21	—
Long-term loans receivable from subsidiaries and associates	—	1,049	21	—

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

Consolidated fiscal year ended October 31, 2020 (As of October 31, 2020)

	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	95,234	—	—	—
Notes and accounts receivable - trade	15,829	—	—	—
Trade accounts receivable	345	—	—	—
Marketable and investment securities				
Bonds held to maturity				
(1) Corporate bonds	—	110	20	—
Available-for-sale securities with maturities				
(1) Government and municipal bonds, etc.	—	—	—	—
(2) Corporate bonds	—	520	—	—
(3) Other	—	—	—	—
Short-term loans receivable	346	—	—	—
Short-term loans receivable from subsidiaries and associates	392	—	—	—
Accounts receivable - other	11,938	—	—	—
Long-term loans receivable	—	3,285	15	—
Long-term loans receivable from subsidiaries and associates	—	796	1,408	—

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

(Note) 4. Repayment schedule for corporate bonds, long-term loans, and lease obligations after the consolidated closing date
Consolidated fiscal year ended October 31, 2019 (As of October 31, 2019)

	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	6,903	—	—	—	—	—
Corporate bonds	—	10,000	—	—	15,000	5,000
Convertible bond-type bonds with share acquisition rights	—	—	—	—	—	25,000
Long-term loans payable (including within one year) (*)	37,548	2,025	4,469	31,461	27,475	80,973
Lease obligations (including within one year)	793	743	660	613	461	289
Total	45,245	12,769	5,129	32,074	42,936	111,262

(*) Long-term loans payable associated with the Trust-type Employee Shareholding Incentive Plan (E-Ship®) total 521 million yen. Since there are no conditions for installment payment amounts, the amount is listed assuming the year-end loan balance will be paid in lump sum on the designated final payment date.

Consolidated fiscal year ended October 31, 2020 (As of October 31, 2020)

	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	26,659	—	—	—	—	—
Corporate bonds	10,000	—	—	15,000	—	5,000
Convertible bond-type bonds with share acquisition rights	—	—	—	—	25,000	—
Long-term loans payable (including within one year) (*)	1,689	4,475	31,812	27,623	1,423	84,270
Lease obligations (including within one year)	2,462	2,236	2,095	1,739	1,340	5,658
Total	40,811	6,712	33,907	44,363	27,764	94,928

[Marketable securities]

1. Bonds held to maturity

Consolidated fiscal year ended October 31, 2019 (As of October 31, 2019)

There are no applicable matters to report.

Corporate bonds (20 million yen recorded on the consolidated balance sheet) are not listed as they have no market prices and their fair values are deemed extremely difficult to determine.

Consolidated fiscal year ended October 31, 2020 (As of October 31, 2020)

	Type	Amount recorded on balance sheet (millions of yen)	Market value (millions of yen)	Difference (millions of yen)
Market value above balance sheet amount	(1) Bonds	—	—	—
	(2) Other	—	—	—
	Subtotal	—	—	—
Market value at or below balance sheet amount	(1) Bonds	100	100	—
	(2) Other	—	—	—
	Subtotal	100	100	—
Total		100	100	—

Corporate bonds (30 million yen recorded on the consolidated balance sheet) are not listed as they have no market prices and their fair values are deemed extremely difficult to determine.

2. Available-for-sale securities

Consolidated fiscal year ended October 31, 2019 (As of October 31, 2019)

	Type	Amount recorded on balance sheet (millions of yen)	Acquisition cost (millions of yen)	Difference (millions of yen)
Balance sheet amount above acquisition price	(1) Stocks	952	429	522
	(2) Bonds	—	—	—
	(3) Other	10,268	9,403	864
	Subtotal	11,220	9,833	1,387
Balance sheet amount below acquisition price	(1) Stocks	—	—	—
	(2) Bonds	—	—	—
	(3) Other	4	4	(0)
	Subtotal	4	4	(0)
Total		11,225	9,837	1,387

(Note) Unlisted stocks (5,025 million yen recorded on the consolidated balance sheet) have no market prices and are deemed extremely difficult to determine their fair values. Accordingly, they are not included in “Available-for-sale securities” in the table above.

Consolidated fiscal year ended October 31, 2020 (As of October 31, 2020)

	Type	Amount recorded on balance sheet (millions of yen)	Acquisition cost (millions of yen)	Difference (millions of yen)
Balance sheet amount above acquisition price	(1) Stocks	—	—	—
	(2) Bonds	—	—	—
	(3) Other	5,331	4,743	588
	Subtotal	5,331	4,743	588
Balance sheet amount below acquisition price	(1) Stocks	—	—	—
	(2) Bonds	—	—	—
	(3) Other	4	4	(0)
	Subtotal	4	4	(0)
Total		5,335	4,747	587

(Note) Unlisted stocks (5,127 million yen recorded on the consolidated balance sheet) have no market prices and are deemed extremely difficult to determine their fair values. Accordingly, they are not included in “Available-for-sale securities” in the table above.

3. Available-for-sale securities sold during each fiscal year

Consolidated fiscal year ended October 31, 2019 (As of October 31, 2019)

Type	Proceeds from sales (millions of yen)	Gains on sales (millions of yen)	Losses on sales (millions of yen)
(1) Stocks	6,882	3,582	—
(2) Other	3,528	44	0
Total	10,411	3,627	0

Consolidated fiscal year ended October 31, 2020 (As of October 31, 2020)

Type	Proceeds from sales (millions of yen)	Gains on sales (millions of yen)	Losses on sales (millions of yen)
(1) Stocks	1,049	513	—
(2) Other	5,250	572	—
Total	6,299	1,085	—

4. Securities for which impairment losses were recognized

In the consolidated fiscal year ended October 31, 2019, an impairment loss of 308 million yen was recognized for marketable securities.

In the consolidated fiscal year ended October 31, 2020, an impairment loss of 837 million yen was recognized for marketable securities.

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

[Derivatives transactions]

1. Derivatives transactions for which hedge accounting is not applied

(1) Currency-related transactions

Consolidated fiscal year ended October 31, 2019 (As of October 31, 2019)

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	432	—	(2)	(2)
	EUR	833	—	(16)	(16)
	NOK	267	—	6	6
	Bought				
	USD	33	23	0	0
	SGD	34	34	0	0
	AUD	110	46	(3)	(3)
	Currency options				
Sold					
USD	1,904	—	(8)	(8)	
Bought					
USD	1,904	—	5	5	
Total		5,521	104	(18)	(18)

(Note) Calculation method of fair value

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

Consolidated fiscal year ended October 31, 2020 (As of October 31, 2020)

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				
	EUR	664	—	23	23
	Bought				
	USD	164	10	(0)	(0)
	SGD	34	—	(0)	(0)
	AUD	46	—	(1)	(1)
	CAD	1,675	—	(38)	(38)
THB	3	—	(0)	(0)	
Total		2,588	10	(17)	(17)

(Note) Calculation method of fair value

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

(2) Commodity-related transactions

Consolidated fiscal year ended October 31, 2019 (As of October 31, 2019)

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	100	—	(22)	(22)
Total		100	—	(22)	(22)

(Note) Calculation method of fair value

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

Consolidated fiscal year ended October 31, 2020 (As of October 31, 2020)

There are no applicable matters to report.

2. Derivative transactions for which hedge accounting is applied

Currency-related transaction

Consolidated fiscal year ended October 31, 2019 (As of October 31, 2019)

Hedge accounting method	Transaction type	Major hedged items	Year ended October 31, 2019 (As of October 31, 2019)		
			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	390	—	(2)
	Bought				
	JPY		59	—	(0)
	USD		6,469	—	87
	EUR		1,030	—	15
	GBP	Trade accounts payable	13	—	0
	SGD		35	—	0
	AUD		91	—	0
	THB		66	—	0
	Currency options				
	Sold				
	USD	Accounts receivable - trade	1,882	—	(14)
Bought					
USD	Trade accounts payable	1,882	—	14	
Designated hedge accounting (<i>furiate shori</i>) for forward exchange contracts, etc.	Forward exchange contracts				
	Sold				
	JPY	Accounts receivable-trade	220	—	
	Bought				
	JPY		35	—	
	USD		3,432	—	
	EUR		745	—	Note 2
	GBP		1	—	
	SGD	Trade accounts payable	12	—	
	AUD		20	—	
	THB		501	—	
	CNY		0	—	
	CHF		1	—	
NZD		25	—		
Total			16,918	—	101

(Notes)

1. Calculation method of fair value

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

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

Consolidated fiscal year ended October 31, 2020 (As of October 31, 2020)

Hedge accounting method	Transaction type	Major hedged items	Year ended October 31, 2020 (As of October 31, 2020)		
			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	Trade accounts payable			
	Bought				
	USD		104	—	(1)
	AUD		71	—	2
	CAD	13	—	0	
Total			189	—	1

(Notes)

Calculation method of fair value

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

[Provision for employee retirement benefits]

1. Outline of adopted employee retirement benefit plans

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

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

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

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

2. Defined benefit plan

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

	Year ended October 31, 2019 (November 1, 2018 to October 31, 2019)	Year ended October 31, 2020 (November 1, 2019 to October 31, 2020)
Retirement benefit obligation at beginning of year	9,276	10,001
Service cost	1,029	1,096
Interest cost	31	21
Actuarial differences	228	(83)
Retirement benefits paid	(559)	(773)
Prior service costs incurred	—	14
Decline accompanying the transfer to defined contribution pension plans	(15)	(26)
Foreign currency translation gains (losses)	10	(14)
Projected benefit obligation at end of year	10,001	10,235

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, 2019 (November 1, 2018 to October 31, 2019)	Year ended October 31, 2020 (November 1, 2019 to October 31, 2020)
Pension assets at beginning of year	2,790	2,815
Expected return on plan assets	47	46
Actuarial differences	(88)	0
Amount of employer contribution	163	158
Retirement benefits paid	(98)	(163)
Pension assets at end of year	2,815	2,856

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

	Year ended October 31, 2019 (As of October 31, 2019)	Year ended October 31, 2020 (As of October 31, 2020)
Retirement benefit obligation for funded plans	2,677	2,651
Pension assets	(2,815)	(2,856)
	(138)	(205)
Retirement benefit obligation for unfunded plans	7,324	7,584
Net liability and asset recorded on consolidated balance sheet	7,186	7,378
Retirement benefit liability	7,715	7,981
Retirement benefit asset	(529)	(602)
Net liability and asset recorded on consolidated balance sheet	7,186	7,378

(4) Retirement benefit expenses and breakdown

	Year ended October 31, 2019 (November 1, 2018 to October 31, 2019)	Year ended October 31, 2020 (November 1, 2019 to October 31, 2020)
Service costs	1,029	1,096
Interest costs	31	21
Expected return on plan assets	(47)	(46)
Amortization of actuarial differences	112	254
Amortization of prior service costs	—	1
Retirement benefit expenses related to defined-benefit plans	1,126	1,326

(Notes) 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, 2019 (November 1, 2018 to October 31, 2019)	Year ended October 31, 2020 (November 1, 2019 to October 31, 2020)
Prior service costs	—	12
Actuarial differences	203	(339)
Total	203	(326)

(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, 2019 (As of October 31, 2019)	Year ended October 31, 2020 (As of October 31, 2020)
Unrecognized prior service costs	—	12
Unrecognized actuarial differences	260	(79)
Total	260	(66)

(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, 2019 (As of October 31, 2019)	Year ended October 31, 2020 (As of October 31, 2020)
Bonds	18%	18%
Stocks	22%	21%
Regular accounts	59%	60%
Other	1%	1%
Total	100%	100%

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

When determining the long-term expected rate of return on pension assets, the Company considers the current and projected allocation of pension assets and the current and future long-term rates of return for the diverse assets that comprise its pension assets.

(8) Basis for calculating actuarial differences

Basis for calculating principal actuarial differences

	Year ended October 31, 2019 (As of October 31, 2019)	Year ended October 31, 2020 (As of October 31, 2020)
Discount rate	(0.1)%–0.4%	0.1%–0.5%
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 158 million yen for the consolidated fiscal year ended October 31, 2019 and 173 million yen for the consolidated fiscal year ended October 31, 2020.

[Stock options]

1. Amount recorded as profit owing to the non-exercise of rights resulting in forfeiture

(millions of yen)

	Year ended October 31, 2019 (November 1, 2018 to October 31, 2019)	Year ended October 31, 2020 (November 1, 2019 to October 31, 2020)
Gain on reversal of share acquisition rights	513	—

2. Stock option expenses and items

(millions of yen)

	Year ended October 31, 2019 (November 1, 2018 to October 31, 2019)	Year ended October 31, 2020 (November 1, 2019 to October 31, 2020)
Selling, general and administrative expenses	82	54

3. Stock options description, scale, and changes

(1) Description of stock options

	Third Series of Stock Options	Consolidated subsidiary Huis Ten Bosch Technical Center Co., Ltd.
Category and number of grantees	Company Directors: 5 Company employees: 1,541 Subsidiary Directors: 44 Subsidiary employees: 200	Directors of said company: 4 Employees of said company; Directors and employees of said company's subsidiaries: 28
Number of stock options by stock type (Note)	Common stock: 900,500	Common stock: 64,700
Grant date	March 23, 2020	September 27, 2019
Conditions for vesting	<p>(1) Persons granted an allotment of the share acquisition rights (hereinafter, "Rights Holders") must be Directors or employees of the Company or one of its subsidiaries at the time the share acquisition rights are exercised. However, this restriction shall not apply if so approved by the Board of Directors in any of the following cases or based on other justifiable reasons: resignations of Directors after their terms have expired, resignations in conjunction with an appointment as a Director, mandatory retirement for employees, and transfers prompted by an administrative order.</p> <p>(2) In the event of the death of a Right Holder, the rights may not be exercised by the corresponding heir.</p> <p>(3) Other conditions are as stipulated in the share acquisition rights allotment agreement concluded between the Company and the Right Holder.</p>	<p>(1) Persons granted an allotment of the share acquisition rights (hereinafter, "Rights Holders") must be Directors, corporate auditors, employees, or advisors of the said company or one of its subsidiaries at the time the share acquisition rights are exercised. However, this restriction shall not apply if so approved by the Board of Directors in any of the following cases or based on other justifiable reasons: resignations of Directors and corporate auditors after their terms have expired, and mandatory retirement for employees.</p> <p>(2) The common shares of the said company must be listed on a financial instruments exchange.</p> <p>(3) In the event of the death of a Right Holder, the rights may not be exercised by the corresponding heir.</p>
Requisite service period	Not specified	Not specified
Exercisable period	April 1, 2023 – March 31, 2024	September 25, 2021 – September 24, 2029

(2) Stock options scale and related changes

Changes in the scale of stock options that existed in the year ended October 31, 2020 are shown below. The number of stock options is presented as the number of underlying shares.

1) Number of stock options

	Third Series of Stock Options	Consolidated subsidiary Huis Ten Bosch Technical Center Co., Ltd.
Non-vested (shares):		
As of October 31, 2019	—	64,700
Granted	900,500	—
Forfeited	—	—
Vested	—	—
Unvested	900,500	64,700

2) Price information

	Third Series of Stock Options	Consolidated subsidiary Huis Ten Bosch Technical Center Co., Ltd.
Exercise price (yen)	1,387	1,450
Average share price at time of exercise (yen)	—	—
Fair value per share at grant date (yen)	291	—

4. Method for estimating fair value of stock options

Filing Company

The fair value of the third series of stock options granted in the consolidated fiscal year ended October 31, 2020 is estimated as follows.

(1) Valuation method: Black-Scholes model

(2) Key inputs and estimation method

	Third Series of Stock Options
Volatility of the share price (Note 1)	35.29%
Expected remaining term (Note 2)	3.52 years
Expected dividend rate (Note 3)	2.379%
Risk-free interest rate (Note 4)	-0.100%

(Notes)

- Volatility is calculated based on the share price for the period that corresponds to the expected remaining term.
- The expected remaining term is estimated based on the assumption that the options are exercised at the midway point of the exercise period.
- The expected dividend rate is based on dividends paid in the consolidated fiscal year ended October 31, 2019.
- The risk-free interest rate is the yield on government bonds for the period that corresponds to the expected remaining term.

Consolidated subsidiary (Huis Ten Bosch Technical Center Co., Ltd.)

The fair value of the Huis Ten Bosch Technical Center Co., Ltd. stock options granted in the consolidated fiscal year ended October 31, 2019 is estimated as follows. There have been no changes in the fair value due to changes in the terms and conditions since the grant date through October 31, 2020.

Because the company has been a private company as of the time the stock options were granted, the stock options are valued based on intrinsic rather than fair value.

The valuation method for the company's shares, which forms the basis for the calculation of the intrinsic value of the stock options, is the discounted cash flow (DCF) method.

5. Method for estimating the number of stock options vested

Future forfeiture of stock options is not factored in 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.

	Year ended October 31, 2019 (As of October 31, 2019)	Year ended October 31, 2020 (As of October 31, 2020)
		(millions of yen)
[Deferred tax assets]		
Tax loss carryforwards (Note)	2,333	9,520
Retirement benefit liability	1,741	1,969
Provision for retirement benefits for directors (and other officers)	183	71
Depreciation	2,445	2,362
Non-deductible asset retirement obligation expenses	139	196
Long-term accounts payable - other	98	101
Excess allowance for doubtful accounts	1,918	1,342
Provision for bonuses	1,347	171
Accrued enterprise tax	190	74
Travel advances received	233	14
Unsettled gift certificates	326	370
Unpaid social insurance premiums	159	20
Valuation difference on available-for-sale securities	105	0
Subsidy income	—	481
Other	1,213	2,826
Deferred tax assets subtotal	12,437	19,524
Valuation allowance pertaining to tax loss carryforwards (Note)	(673)	(1,116)
Valuation allowance pertaining to total future deductible temporary differences	(3,629)	(5,420)
Valuation allowance subtotal	(4,302)	(6,537)
Deferred tax assets total	8,134	12,986
[Deferred tax liabilities]		
Valuation difference on available-for-sale securities	—	(215)
Deferred gains or losses on hedges	(31)	(0)
Other	31	215
Deferred tax liabilities total	—	—
Deferred tax assets, net	8,134	12,986
[Deferred tax liabilities]		
Revaluation reserve for land	1,707	1,683
Other	3,229	3,626
Deferred tax liabilities total	4,937	5,310
[Deferred tax assets]		
Tax loss carryforwards (Note)	(204)	(359)
Retirement benefit liability	(288)	(183)
Provision for retirement benefits for directors (and other officers)	(9)	(8)
Other	(84)	(198)
Deferred tax assets subtotal	(586)	(751)
Valuation allowance pertaining to tax loss carryforwards	204	359
Valuation allowance pertaining to total future deductible temporary differences	234	120
Valuation allowance subtotal	438	479
Deferred tax assets total	(147)	(271)
Deferred tax liabilities, net	4,789	5,038

Note: Tax loss carryforwards and related deferred tax assets by carryforward period

Consolidated fiscal year ended October 31, 2019 (as of October 31, 2019)

	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)	Total (millions of yen)
Tax loss carryforwards (Note 1)	—	—	—	—	23	2,513	2,538
Valuation allowance	—	—	—	—	(23)	(853)	(878)
Deferred tax assets	—	—	—	—	—	1,659	(Note 2) 1,659

(Notes)

1. Tax loss carryforward figures are the amounts multiplied by the effective statutory tax rate.
2. For the tax loss carryforward of 2,538 million yen (amount multiplied by effective statutory tax rate), deferred tax assets of 1,659 million yen were recorded. No valuation allowance was recognized for the portion of this tax loss carryforward that is determined to be recoverable on the basis of projected future taxable income.

Consolidated fiscal year ended October 31, 2020 (as of October 31, 2020)

	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)	Total (millions of yen)
Tax loss carryforwards (Note 1)	—	—	0	23	32	9,823	9,879
Valuation allowance	—	—	(0)	(23)	(32)	(1,419)	(1,475)
Deferred tax assets	—	—	—	—	—	8,404	(Note 2) 8,404

(Notes)

1. Tax loss carryforward figures are the amounts multiplied by the effective statutory tax rate.
 2. For the tax loss carryforward of 9,879 million yen (amount multiplied by effective statutory tax rate), deferred tax assets of 8,404 million yen were recorded. No valuation allowance was recognized for the portion of this tax loss carryforward that is determined to be recoverable on the basis of projected future taxable income.
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, 2019
(As of October 31, 2019)

Notes have been omitted as the difference between the effective statutory tax rate and effective income tax rate after adoption of tax-effect accounting was less than 5% of statutory tax rate.

Year ended October 31, 2019
(As of October 31, 2019)

Notes have been omitted as the Company recorded a loss before income taxes.

[Asset retirement obligations]

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

[Rental and other properties]

The Company and some of its consolidated subsidiaries own rental office buildings, rental condominiums, and rental commercial facilities in Kumamoto Prefecture and other regions, from which they generate rental income. In the fiscal year ended October 31, 2019, revenue from rental properties amounted to 1,334 million yen (rental income was recorded under net sales on the consolidated income statement, and primary rental expenses were recorded under selling, general and administrative expenses). In the fiscal year ended October 31, 2020, revenue from rental properties totaled 1,076 million yen (rental income was recorded under net sales on the consolidated income statement, and primary rental expenses were recorded under selling, general and administrative expenses). The amounts recorded on the consolidated balance sheet, increase/decrease during the year, and fair value of the rental properties are as follows.

(millions of yen)

	Year ended October 31, 2019 (November 1, 2018 to October 31, 2019)	Year ended October 31, 2020 (November 1, 2019 to October 31, 2020)
Amount on consolidated balance sheet		
Balance at the beginning of the fiscal year	14,394	50,559
Increase/decrease during the fiscal year	36,164	4,155
Balance at the end of the fiscal year	50,559	54,714
Fair value at the end of the fiscal year	52,909	59,401

(Notes)

1. The amount on the consolidated balance sheet is calculated by deducting the accumulated depreciation from the acquisition cost.
2. Fair value at the end of the fiscal year is calculated by the Company based on real estate appraisal standards (including those adjusted using relevant indexes, etc.).

[Segment information, etc.]

Segment information

1. Outline of reportable segments

The 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: the Travel Business, the Theme Park Business, the Hotel Business, the Kyushu Sanko Group, and the Energy Business, and is engaged in business activities by developing comprehensive domestic and overseas strategies. Accordingly, the Group designates the Travel Business, the Theme Park Business, the Hotel Business, the Kyushu Sanko Group, and the Energy Business as its reportable segments.

From the consolidated fiscal year ended October 31, 2020, the Group changed the name of the reportable segment previously presented as the Huis Ten Bosch Group to the Theme Park Business. This is only a change in name and has no impact on the segment data. The segment data for the year ended October 31, 2019 have been adjusted to reflect the name change.

The Travel Business engages in the arrangement, planning, and sales of overseas and domestic travel products, and peripheral operations. In the Theme Park Business, the Group owns and manages theme parks in Sasebo City, Nagasaki Prefecture and Gamagori City, Aichi Prefecture. The Hotel Business engages in hotel operations in Japan, Taiwan, the U.S., and Indonesia, as well as in ancillary businesses. The Kyushu Sanko Group, whose holding company is Kyushu Sangyo Kotsu Holdings Co., Ltd., is a segment of the H.I.S. Group that engages in vehicle transportation, real estate leasing, and other operations. The Energy Business engages in retail electricity sales and the development of new electric power including renewable energy, and operates ancillary businesses.

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

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

Segment profit figures are operating profits.

Intersegment internal profits and transfers are based on market prices.

3. Information about net sales, profit (loss), assets, liabilities, and other items for each reportable segment
Consolidated fiscal year ended October 31, 2019 (November 1, 2018 to October 31, 2019)

(millions of yen)

	Reportable segments						Other *1	Total	Adjustments *2	Amount on consolidated financial statements *3
	Travel Business	Theme Park Business	Hotel Business	Kyushu Sanko Group	Energy Business	Reportable segment total				
Net sales										
Sales to external customers	720,465	26,372	11,757	22,208	20,345	801,149	7,360	808,510	—	808,510
Inter-segment sales/transfers	1,998	1,713	918	22	116	4,770	1,015	5,785	(5,785)	—
Total	722,464	28,086	12,676	22,230	20,461	805,919	8,376	814,295	(5,785)	808,510
Segment profit (loss)	13,754	5,075	(217)	158	974	19,746	589	20,335	(2,795)	17,540
Segment assets	263,084	52,522	64,777	84,397	14,113	478,895	23,174	502,070	75,329	577,399
Others										
Depreciation	3,646	2,099	1,197	1,045	30	8,020	238	8,258	511	8,770
Amortization of goodwill	579	—	78	—	45	703	249	953	—	953
Investment in entities accounted for using equity method	240	—	—	—	—	240	601	842	—	842
Increase in property, plant and equipment and intangible assets	3,756	2,780	26,921	48,608	1,619	83,686	2,132	85,819	6,861	92,680

(Notes)

1. “Other” refers to business segments such as the non-life insurance business and real estate business, etc., not included in the reportable segments.
2. The details of “Adjustments” are as follows:
 - (1) Adjustment on segment profit (loss) amounting to -2,795 million yen reflects corporate-wide expenses not allocated to each reportable segment, and refers to expenses at the parent company’s headquarter administration division, which are not attributable to reportable segments.
 - (2) Adjustment on segment assets amounting to 75,329 million yen includes -1,561 million yen in elimination of intersegment transactions, and corporate-wide assets of 76,890 million yen not allocated to each reportable segment. Corporate-wide assets refer to surplus fund management (cash and deposits, and securities) at the parent company, and assets of the administration division.
 - (3) Adjustment on depreciation amounting to 511 million yen is corporate-wide expenses not allocated to each reportable segment, and refers to depreciation at the parent company’s headquarter administration division, which is not attributable to the reportable segments.
 - (4) Adjustment on increase in property, plant and equipment and intangible assets amounting to 6,861 million yen is capital investment at the parent company, which is not attributable to the reportable segments.
3. Segment profit (loss) is adjusted with the operating profit in the consolidated financial statements.
4. EBITDA for each reportable segment is presented below.

(millions of yen)

	Travel Business	Theme Park Business	Hotel Business	Kyushu Sanko Group	Energy Business	Other	Total
Segment profit (loss)	13,754	5,075	(217)	158	974	589	20,335
Depreciation and goodwill amortization	4,226	2,099	1,276	1,045	76	488	9,212
EBITDA (Note)	17,980	7,175	1,059	1,203	1,050	1,077	29,547

(Note) EBITDA reflects segment profit (or loss) plus depreciation and goodwill amortization.

Consolidated fiscal year ended October 31, 2020 (November 1, 2019 to October 31, 2020)

(millions of yen)

	Reportable segments						Other *1	Total	Adjustments *2	Amount on consolidated financial statements *3
	Travel Business	Theme Park Business	Hotel Business	Kyushu Sanko Group	Energy Business	Reportable segment total				
Net sales										
Sales to external customers	358,905	12,938	8,142	19,174	26,279	425,439	4,844	430,284	—	430,284
Inter-segment sales/transfers	726	746	543	3	114	2,133	595	2,729	(2,729)	—
Total	359,631	13,684	8,685	19,177	26,393	427,573	5,440	433,013	(2,729)	430,284
Segment profit (loss)	(21,127)	(3,393)	(3,564)	(2,132)	163	(30,054)	1,373	(28,680)	(2,448)	(31,129)
Segment assets	134,533	43,994	85,086	57,953	15,585	337,153	22,057	359,210	55,393	414,604
Others										
Depreciation	4,476	1,921	3,211	2,036	46	11,692	314	12,007	431	12,438
Amortization of goodwill	606	6	56	—	45	715	87	802	—	802
Investment in entities accounted for using equity method	272	—	—	—	—	272	533	806	—	806
Increase in property, plant and equipment and intangible assets	3,639	6,293	12,676	3,326	420	26,355	4,726	31,082	26,615	57,697

(Notes)

1. “Other” refers to business segments such as the non-life insurance business and real estate business, etc., not included in the reportable segments.
2. The details of “Adjustments” are as follows:
 - (1) Adjustment on segment profit (loss) amounting to -2,448 million yen reflects corporate-wide expenses not allocated to each reportable segment, and refers to expenses at the parent company’s headquarter administration division, which are not attributable to reportable segments.
 - (2) Adjustment on segment assets amounting to 55,393 million yen includes -484 million yen in elimination of intersegment transactions, and corporate-wide assets of 55,878 million yen not allocated to each reportable segment. Corporate-wide assets refer to surplus fund management (cash and deposits, and securities) at the parent company, and assets of the administration division.
 - (3) Adjustment on depreciation amounting to 431 million yen is corporate-wide expenses not allocated to each reportable segment, and refers to depreciation at the parent company’s headquarter administration division, which is not attributable to the reportable segments.
 - (4) Adjustment on increase in property, plant and equipment and intangible assets amounting to 26,615 million yen is capital investment at the parent company, which is not attributable to the reportable segments.
3. Segment profit (loss) is adjusted with the operating profit in the consolidated financial statements.
4. EBITDA for each reportable segment is presented below.

(millions of yen)

	Travel Business	Theme Park Business	Hotel Business	Kyushu Sanko Group	Energy Business	Other	Total
Segment profit (loss)	(21,127)	(3,393)	(3,564)	(2,132)	163	1,373	(28,680)
Depreciation and goodwill amortization	5,083	1,928	3,268	2,036	91	401	12,809
EBITDA (Note)	(16,044)	(1,464)	(296)	(95)	255	1,775	(15,871)

(Note) EBITDA reflects segment profit (or loss) plus depreciation and goodwill amortization.

Related information

Consolidated fiscal year ended October 31, 2019 (November 1, 2018 to October 31, 2019)

1. Information by product and service

This information has been omitted because similar information is included under the “Segment information, etc.” section.

2. Information by region

(1) Net sales (millions of yen)

Japan	Americas	Asia	Oceania	Europe, Middle East, Africa	Total
637,195	104,379	47,418	2,084	17,432	808,510

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

Japan	Americas	Asia	Oceania	Europe, Middle East, Africa	Total
132,730	7,165	5,618	13	1,571	147,098

3. Information by major customer

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

Consolidated fiscal year ended October 31, 2020 (November 1, 2019 to October 31, 2020)

1. Information by product and service

This information has been omitted because similar information is included under the “Segment information, etc.” section.

2. Information by region

(1) Net sales (millions of yen)

Japan	Americas	Asia	Oceania	Europe, Middle East, Africa	Total
255,656	122,452	33,804	2,313	16,057	430,284

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

Japan	Americas	Asia	Oceania	Europe, Middle East, Africa	Total
172,999	7,274	15,599	11	6,325	202,211

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 loss on fixed assets by reportable segment

Consolidated fiscal year ended October 31, 2019 (November 1, 2018 to October 31, 2019)

(millions of yen)

	Reportable segments						Other	Unallocated amounts and elimination	Total
	Travel Business	Theme Park Business	Hotel Business	Kyushu Sanko Group	Energy Business	Reportable segment total			
Impairment loss	377	—	—	173	—	551	325	—	877

(Note) “Other” indicate figures for the non-life insurance and real estate businesses, etc.

Consolidated fiscal year ended October 31, 2020 (November 1, 2019 to October 31, 2020)

(millions of yen)

	Reportable segments						Other	Unallocated amounts and elimination	Total
	Travel Business	Theme Park Business	Hotel Business	Kyushu Sanko Group	Energy Business	Reportable segment total			
Impairment loss	2,293	—	1,765	1,240	—	5,299	20	—	5,320

(Note) “Other” indicate figures for the non-life insurance and real estate businesses, etc.

Information regarding amortization of goodwill and unamortized balance by reportable segment
 Consolidated fiscal year ended October 31, 2019 (November 1, 2018 to October 31, 2019)

(millions of yen)

	Reportable segments						Other (Note)	Unallocated amounts and elimination	Total
	Travel Business	Theme Park Business	Hotel Business	Kyushu Sanko Group	Energy Business	Reportable segment total			
Amortization for the year ended October 31, 2019	579	—	78	—	45	703	249	—	953
Unamortized balance for the year ended October 31, 2019	4,998	—	1,215	—	451	6,666	639	—	7,305

(Note) "Other" indicates figures for the non-life insurance and real estate businesses, etc.

Consolidated fiscal year ended October 31, 2020 (November 1, 2019 to October 31, 2020)

(millions of yen)

	Reportable segments						Other (Note)	Unallocated amounts and elimination	Total
	Travel Business	Theme Park Business	Hotel Business	Kyushu Sanko Group	Energy Business	Reportable segment total			
Amortization for the year ended October 31, 2020	606	6	56	—	45	715	87	—	802
Unamortized balance for the year ended October 31, 2020	4,185	8	74	—	406	4,674	552	—	5,227

(Note) "Other" indicates figures for the non-life insurance and real estate businesses, etc.

Information regarding gains on negative goodwill by reportable segment

Consolidated fiscal year ended October 31, 2019 (November 1, 2018 to October 31, 2019)

There were no significant gains on negative goodwill to report.

Consolidated fiscal year ended October 31, 2020 (November 1, 2019 to October 31, 2020)

There were no significant gains on negative goodwill to report.

Related parties

1. Transactions with related parties

(1) Transactions between the Filing Company and related parties

(a) Non-consolidated subsidiaries of the Filing Company

Consolidated fiscal year ended October 31, 2019 (November 1, 2018 to October 31, 2019)

There are no applicable matters to report.

Consolidated fiscal year ended October 31, 2020 (November 1, 2019 to October 31, 2020)

There are no applicable matters to report.

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

Consolidated fiscal year ended October 31, 2019 (November 1, 2018 to October 31, 2019)

There are no applicable matters to report.

Consolidated fiscal year ended October 31, 2020 (November 1, 2019 to October 31, 2020)

There are no applicable matters to report.

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

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

Consolidated fiscal year ended October 31, 2019 (November 1, 2018 to October 31, 2019)

Category	Name	Location	Paid-in capital or investment (millions of yen)	Business description	Share of voting rights held (%)	Relationship with related parties	Nature of transactions	Transaction value (millions of yen)	Item	Balance at yearend (millions of yen)
Director (and other officers)	Hideo Sawada	—	—	Representative director of the Company	(Held) Direct 31.2	—	Collection of funds	1,054	—	—
							Receipt of interest	0		
							Transfer and collection of receivables	4,246		
Entities in which Directors (and other officers) of the Company or their relatives hold a majority of voting rights (including subsidiaries of such entities)	Kyoritsu Building Co., Ltd.	Shibuya-ku, Tokyo	10	Real estate rental management	—	Real estate leasing	Payment of rent	15	Prepaid expenses	0
Entities in which Directors (and other officers) of the Company or their relatives hold a majority of voting rights (including subsidiaries of such entities)	Best1.com Co. Ltd.	Shinjuku-ku, Tokyo	291	Travel business	—	Sales of cruise travel and other products	Sales of cruise travel and other products	64	Notes and accounts receivable - trade	4

(Notes)

1. Conditions of transactions and policy for determining such conditions

- (1) The loan rate was determined through individual negotiations while taking into consideration market rates.
- (2) Mr. Sawada pledged his own shares when the receivables were transferred to him in January 2019, and the pledge was cancelled when the receivables were collected from Mr. Sawada in March 2019.
- (3) Rent payments are governed by the same conditions as those to unrelated parties.
- (4) The sales of cruise travel and other products are governed by the same conditions as sales to unrelated parties.

2. The Company's representative director Hideo Sawada and his near relative own 100.0% of the voting rights of Kyoritsu Building Co., Ltd.
3. The Company's representative director Hideo Sawada and his near relative own 56.1% of the voting rights of Best1.com Co. Ltd.

Consolidated fiscal year ended October 31, 2020 (November 1, 2019 to October 31, 2020)

Category	Name	Location	Paid-in capital or investment (millions of yen)	Business description	Share of voting rights held (%)	Relationship with related parties	Nature of transactions	Transaction value (millions of yen)	Item	Balance at yearend (millions of yen)
Entities in which Directors (and other officers) of the Company or their relatives hold a majority of voting rights (including subsidiaries of such entities)	Kyoritsu Building Co., Ltd.	Shibuya-ku, Tokyo	10	Real estate rental management	—	Real estate leasing	Payment of rent	21	Prepaid expenses	0

1. Conditions of transactions and policy for determining such conditions
Transactions are governed by the same conditions as for unrelated parties.
2. The Company's representative director Hideo Sawada and his near relative own 100.0% of the voting rights of Kyoritsu Building Co., Ltd.

2. Notes concerning the parent company and significant associates

(1) Information regarding the parent company

There are no applicable matters to report.

(2) Summary of financial information for significant associates

There are no applicable matters to report.

[Per share information]

	Year ended October 31, 2019 (November 1, 2018 to October 31, 2019)	Year ended October 31, 2020 (November 1, 2019 to October 31, 2020)
Net assets per share	1,686.22 yen	1,177.91 yen
Earnings (loss) per share	213.63 yen	(432.66) yen
Diluted earnings per share	197.66 yen	—

(Notes)

1. 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 year-end” applied in the calculation of net asset per share includes such shares held in the H.I.S. Employee Stock Ownership Association Dedicated Trust (188,000 shares in the consolidated fiscal year ended October 31, 2019; 55,000 shares in the consolidated fiscal year ended October 31, 2020).
2. Although there were dilutive shares, diluted earnings per share are not presented for the consolidated fiscal year ended October 31, 2020 because the Company recorded a net loss per share.
3. The basis of calculation for earnings (loss) per share and diluted earnings per share is shown below.

	Year ended October 31, 2019 (November 1, 2018 to October 31, 2019)	Year ended October 31, 2020 (November 1, 2019 to October 31, 2020)
Earnings (loss) per share		
Profit (loss) attributable to owners of the parent (millions of yen)	12,249	(25,037)
Amount not attributable to common shareholders (millions of yen)	—	—
Profit (loss) attributable to owners of the parent with respect to common stock (millions of yen)	12,249	(25,037)
Average number of shares during the fiscal year (thousand shares)	57,341	57,869
Diluted earnings per share		
Adjustment on profit attributable to owners of the parent (millions of yen)	(35)	—
[of which, interest income after tax adjustments (millions of yen)]	[(35)]	[—]
Increase in common stock (thousand shares)	4,452	—
[of which, convertible bonds (thousand shares)]	[4,452]	[—]

(Notes)

When calculating the earnings per share and diluted earnings per share, the “average number of common stock during the period” is calculated applying the “treasury shares” count that includes the Company shares held by the H.I.S. Employee Stock Ownership Association Dedicated Trust (236,000 shares in the consolidated fiscal year ended October 31, 2019; 120,000 shares in the consolidated fiscal year ended October 31, 2020).

5) Consolidated Supplementary Financial Schedules

Schedule of corporate bonds

Company	Issue	Issue date	Balance at start of fiscal year (millions of yen)	Balance at end of fiscal year (millions of yen)	Interest rate (%)	Collateral	Maturity date
H.I.S. Co., Ltd.	Euro-yen denominated convertible bond-type bonds with share acquisition rights due 2024 (Note 2)	November 16, 2017	25,090	25,072	—	None	November 15, 2024
H.I.S. Co., Ltd.	Second series unsecured bonds	October 23, 2014	10,000 (—)	10,000 (10,000)	0.645	None	October 22, 2021
H.I.S. Co., Ltd.	Third series unsecured bonds	February 20, 2017	15,000	15,000	0.440	None	February 20, 2024
H.I.S. Co., Ltd.	Fourth series unsecured bonds	February 20, 2017	5,000	5,000	0.580	None	February 19, 2027
Total	—	—	55,090 (—)	55,072 (10,000)	—	—	—

(Notes)

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

Shares to be issued	Common stock
Issue price of share acquisition rights (yen)	No charge
Issue price of new shares (yen)	5,604
Total issue amount (millions of yen)	25,000
Total issue amount for shares issued upon the exercise of share acquisition rights (millions of yen)	—
Percentage of share acquisition rights granted	100%
Share acquisition rights exercise period	From November 30, 2017 to November 1, 2024

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

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

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)
10,000	—	—	15,000	—

Schedule of borrowings, etc.

Classification	Balance at start of fiscal year (millions of yen)	Balance at end of fiscal year (millions of yen)	Average interest rate (%)	Repayment term
Short-term borrowings	6,903	26,659	0.54	—
Current portion of long-term borrowings	37,548	1,689	0.47	—
Current portion of lease obligations	793	2,462	—	—
Long-term borrowings (excluding current portion)	146,403	149,605	0.41	2021 – 2041
Lease obligations (excluding current portion)	2,767	13,070	—	2021 – 2038
Other interest-bearing debt	—	—	—	—
Total	194,416	193,487	—	—

(Notes)

1. The average interest rate represents the weighted-average rate applicable to the balance of borrowings at the end of the fiscal year. Furthermore, 242 million yen in the current portion of long-term borrowings is attributable to the Trust-type Employee Shareholding Incentive Plan (E-Ship[®]), and as the interest on borrowings is not recorded as interest expenses, it is not included in the average interest rate.
2. The average interest rate for lease obligations is not shown, as lease obligations recorded on the consolidated balance sheet are amounts prior to the deduction of the interest expense equivalent, which is included in total leasing fees.
3. Repayment amounts within five years of the consolidated closing date for long-term borrowings and lease obligations (excluding current portions) are shown below.

	1–2 years (millions of yen)	2–3 years (millions of yen)	3–4 years (millions of yen)	4–5 years (millions of yen)
Long-term borrowings	4,475	31,812	27,623	1,423
Lease obligations	2,236	2,095	1,739	1,340

Schedule of asset retirement obligations

The asset retirement obligation amounts at the start and end of the consolidated fiscal year ended October 31, 2020 are below 1% of the total liabilities and net assets at the start and end of the fiscal year ended October 31, 2020. The information is therefore omitted in accordance with the provisions in Article 92, Paragraph 2 of the Consolidated Financial Statement Regulations.

(2) Others

Quarterly information for the consolidated fiscal year ended October 31, 2020

[Cumulative period]	First quarter	Second quarter	Third quarter	Full year
Net sales (millions of yen)	199,618	344,353	401,016	430,284
Profit (loss) before income taxes (millions of yen)	4,551	(3,846)	(21,371)	(33,101)
Profit (loss) attributable to owners of parent (millions of yen)	2,177	(3,459)	(16,673)	(25,037)
Earnings (loss) per share (yen)	37.93	(60.24)	(290.23)	(432.66)

[Quarterly period]	First quarter	Second quarter	Third quarter	Fourth quarter
Earnings (loss) per share (yen)	37.93	(98.13)	(229.86)	(142.17)

(Note) When calculating the earnings (loss) per share (cumulative period), the “average number of common stock during the period” is calculated applying the “treasury shares” count that includes the Company shares held by the H.I.S. Employee Stock Ownership Association Dedicated Trust.

2. Non-consolidated Financial Statements, etc.

(1) Non-consolidated Financial Statements

1) Non-consolidated Balance Sheet

(millions of yen)

	Year ended October 31, 2019 (As of October 31, 2019)	Year ended October 31, 2020 (As of October 31, 2020)
Assets		
Current assets		
Cash and deposits	100,423	25,245
Accounts receivable - trade	19,591	2,460
Trade accounts receivable	3,648	132
Travel advance payments	28,957	2,616
Prepaid expenses	953	610
Accrued income	177	159
Short-term loans receivable	*5 1,093	8
Short-term loans receivable from subsidiaries and associates	400	210
Accounts receivable - other	2,851	5,951
Other	2,412	2,850
Allowance for doubtful accounts	(7)	(38)
Total current assets	160,500	40,207
Non-current assets		
Property, plant and equipment		
Buildings	4,980	13,806
Vehicles	23	15
Tools, furniture and fixtures	436	471
Land	7,923	33,962
Construction in progress	6,903	63
Other	349	11
Total property, plant and equipment	20,617	48,331
Intangible assets		
Trademark right	21	21
Telephone subscription right	82	82
Software	2,147	2,091
Other	123	7
Total intangible assets	2,374	2,202
Investments and other assets		
Investment securities	11,706	7,468
Shares of subsidiaries and associates	66,333	68,083
Investments in capital of subsidiaries and associates	1,342	1,342
Long-term loans receivable	45	148
Long-term loans receivable from subsidiaries and associates	61,214	75,284
Long-term prepaid expenses	89	57
Deferred tax assets	3,441	7,037
Guarantee deposits	7,008	6,031
Distressed receivables	1,778	448
Other	2,018	2,197
Allowance for doubtful accounts	(3,347)	(3,249)
Total investments and other assets	151,632	164,851
Total non-current assets	174,624	215,385
Deferred assets		
Share issuance costs	—	271
Bond issuance costs	97	81
Total deferred assets	97	353
Total assets	335,222	255,945

(millions of yen)

	Year ended October 31, 2019 (As of October 31, 2019)	Year ended October 31, 2020 (As of October 31, 2020)
Liabilities		
Current liabilities		
Trade accounts payable	18,557	2,357
Short-term borrowings	—	20,000
Short-term borrowings from subsidiaries and associates	—	5,437
Current portion of bonds payable	—	*4 10,000
Current portion of long-term borrowings	30,000	242
Accounts payable - other	2,014	1,182
Accrued expenses	1,691	1,776
Income taxes payable	1,422	102
Travel advance received	64,309	7,943
Insurance deposits	578	20
Gift certificates	5,881	6,242
Provision for bonuses	3,168	22
Provision for bonuses for directors (and other officers)	128	—
Other	2,663	3,230
Total current liabilities	130,415	58,556
Non-current liabilities		
Bonds payable	*4 30,000	*4 20,000
Convertible bond-type bonds with share acquisition rights	*4 25,090	*4 25,072
Long-term borrowings	*4 120,021	*4 122,500
Provision for retirement benefits	3,528	4,033
Long-term guarantee deposits	251	309
Other	1,173	796
Total non-current liabilities	180,065	172,712
Total liabilities	310,480	231,268
Net assets		
Shareholders' equity		
Share capital	11,000	15,000
Capital surplus		
Legal capital surplus	3,661	7,661
Other capital surplus	22	—
Total capital surpluses	3,683	7,661
Retained earnings		
Legal retained earnings	246	246
Other retained earnings		
General reserve	27,565	27,565
Retained earnings brought forward	9,645	(11,257)
Total retained earnings	37,457	16,554
Treasury shares	(28,309)	(15,204)
Total shareholders' equity	23,831	24,010
Valuation and translation adjustments		
Valuation difference on available-for-sale securities	837	488
Deferred gains or losses on hedges	72	0
Total valuation and translation adjustments	910	488
Share acquisition rights	—	178
Total net assets	24,741	24,677
Total liabilities and net assets	335,222	255,945

2) Non-consolidated Statement of Income

(millions of yen)

	Year ended October 31, 2019 (November 1, 2018 to October 31, 2019)	Year ended October 31, 2020 (November 1, 2019 to October 31, 2020)
Net sales		
Overseas travel sales	415,782	130,827
Domestic travel sales	57,815	23,928
Other	5,847	4,506
Total net sales	*2 479,445	*2 159,261
Cost of sales		
Cost of overseas travel sales	366,234	115,994
Cost of domestic travel sales	51,523	21,235
Other	379	1,432
Total cost of sales	*2 418,137	*2 138,662
Gross profit	61,308	20,599
Selling, general and administrative expenses	*1 56,402	*1 35,622
Operating profit (loss)	4,905	(15,023)
Non-operating income		
Interest income	573	454
Dividend income	2,526	4,340
Other	164	264
Total non-operating income	*2 3,265	*2 5,058
Non-operating expenses		
Interest expenses	701	725
Foreign exchange losses	337	291
Other	579	281
Total non-operating expenses	*2 1,618	*2 1,298
Ordinary profit (loss)	6,551	(11,263)
Extraordinary income		
Gain on sales of investment securities	3,067	913
Subsidy income	—	*3 6,602
Gain on reversal of share acquisition rights	513	—
Total extraordinary income	3,580	7,516
Extraordinary losses		
Impairment loss	—	*4 551
Loss on valuation of shares of subsidiaries and associates	143	—
Provision of allowance for doubtful accounts	1,314	*5 1,398
Losses from downtime	—	*6 3,908
Total extraordinary losses	1,458	5,858
Profit (loss) before income taxes	8,674	(9,605)
Income taxes - current	1,812	160
Income taxes - deferred	13	(3,409)
Total income taxes	1,825	(3,249)
Profit (loss)	6,848	(6,355)

3) Non-consolidated Statement of Changes in Equity

Year ended October 31, 2019 (November 1, 2018 to October 31, 2019)

(millions of yen)

	Shareholders' equity							
	Share capital	Capital surplus			Legal retained earnings	Retained earnings		Total retained earnings
		Legal capital surplus	Other capital surplus	Total capital surpluses		General reserve	Retained earnings brought forward	
Balance at beginning of period	11,000	3,661	13	3,674	246	27,565	4,466	32,278
Changes during period								
Dividends of surplus				—			(1,669)	(1,669)
Profit (loss)				—			6,848	6,848
Purchase of treasury shares				—				—
Issuance of new shares				—				—
Disposal of treasury shares			9	9				—
Cancellation of treasury shares				—				—
Net changes in items other than shareholders' equity				—				—
Total changes during period	—	—	9	9	—	—	5,178	5,178
Balance at end of period	11,000	3,661	22	3,683	246	27,565	9,645	37,457

	Shareholders' equity		Valuation and translation adjustments			Share acquisition rights	Total net assets
	Treasury shares	Total shareholders' equity	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Total valuation and translation adjustments		
Balance at beginning of period	(28,611)	18,340	173	154	328	431	19,099
Changes during period							
Dividends of surplus		(1,669)			—		(1,669)
Profit		6,848			—		6,848
Purchase of treasury shares	(0)	(0)			—		(0)
Issuance of new shares		—			—		—
Disposal of treasury shares	302	312			—		312
Cancellation of treasury shares		—			—		—
Net changes in items other than shareholders' equity		—	664	(81)	582	(431)	150
Total changes during period	302	5,491	664	(81)	582	(431)	5,642
Balance at end of period	(28,309)	23,831	837	72	910	—	24,741

Year ended October 31, 2020 (November 1, 2019 to October 31, 2020)

(millions of yen)

	Shareholders' equity							
	Share capital	Capital surplus			Legal retained earnings	Retained earnings		Total retained earnings
		Legal capital surplus	Other capital surplus	Total capital surpluses		General reserve	Retained earnings brought forward	
Balance at beginning of period	11,000	3,661	22	3,683	246	27,565	9,645	37,457
Changes during period								
Dividends of surplus				—			(1,900)	(1,900)
Profit (loss)				—			(6,355)	(6,355)
Issuance of new shares	4,000	4,000		4,000				—
Disposal of treasury shares			(0)	(0)				—
Cancellation of treasury shares			(22)	(22)			(12,647)	(12,647)
Net changes in items other than shareholders' equity				—				—
Total changes during period	4,000	4,000	(22)	3,977	—	—	(20,902)	(20,902)
Balance at end of period	15,000	7,661	—	7,661	246	27,565	(11,257)	16,554

	Shareholders' equity		Valuation and translation adjustments			Share acquisition rights	Total net assets
	Treasury shares	Total shareholders' equity	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Total valuation and translation adjustments		
Balance at beginning of period	(28,309)	23,831	837	72	910	—	24,741
Changes during period							
Dividends of surplus		(1,900)			—		(1,900)
Profit (loss)		(6,355)			—		(6,355)
Issuance of new shares		8,000			—		8,000
Disposal of treasury shares	434	434			—		434
Cancellation of treasury shares	12,670	—			—		—
Net changes in items other than shareholders' equity		—	(349)	(71)	(421)	178	(243)
Total changes during period	13,104	178	(349)	(71)	(421)	178	(64)
Balance at end of current period	(15,204)	24,010	488	0	488	178	24,677

Notes to Non-consolidated Financial Statements

[Going concern assumptions]

There are no applicable matters to report.

[Significant accounting policies]

1. Valuation standard and method for securities

(1) Shares of subsidiaries and associates and investments in capital of subsidiaries and associates

Stated at cost using the moving average method.

(2) Available-for-sale securities

1) Securities with a determinable fair market value

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

2) Securities without a determinable fair market value

Stated at cost using the moving average method.

2. Valuation standard and method for derivatives

Stated at fair market value.

3. Depreciation method for non-current 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 property, plant and equipment. In addition, the ranges of useful life for property, plant and equipment are mainly as shown below.

Buildings	3–50 years
-----------	------------

Tools, furniture and fixtures	3–20 years
-------------------------------	------------

(2) Intangible 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

(1) Share issuance costs

Share issuance costs will be amortized by the straight-line method over three years.

(2) Bond issuance costs

Bond issuance costs are amortized in equal amounts over the period through redemption.

5. Standard for translation of foreign-currency-denominated claims or liabilities into Japanese yen

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

6. Accounting standards for provisions

(1) Allowance for doubtful accounts

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

(2) Provision for bonuses

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

(3) Provision for bonuses for directors (and other officers)

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 based on the retirement benefit obligation at the end of the fiscal year under review.

Actuarial gains or losses are treated as a lump-sum expense in the fiscal year following the year in which they arise.

7. Accounting standard for recognition of revenues and expenses

Travel-related net sales and 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
Hedged items: Foreign currency-denominated operating accounts payable
- b. Hedging instruments: Interest rate swaps
Hedged items: Loans payable

(3) Hedging policy

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

(4) Evaluation of hedge effectiveness

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

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

(1) Accounting method for retirement benefits

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

(2) Accounting for consumption taxes

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

[Additional information]

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

Notes related to transactions that grant Company shares to an Employee Stock Ownership Association via a trust are omitted as they are identical to those in the “Additional information” section of “Notes to Consolidated Financial Statements.”

[Impact of COVID-19 pandemic on accounting estimates]

In the wake of the COVID-19 outbreak, many countries imposed restrictions on going out and travel, and this depressed the transaction value of the Company in the fiscal year ended October 31, 2020. As a result, net sales decrease 320,183 million yen year on year to 159,261 million yen. The Company expects its corporate activities to be further affected in the future depending on the timing when these restrictions will be lifted.

Based on a survey about the timing of a recovery for travel demand conducted by the UNWTO, etc., the Company expects the number of travelers to gradually recover after cross-border travel resumes in stages from early 2021, and broadly revert to 2019 levels in 2022.

The Company’s accounting estimates are based on the assumptions above.

[Non-consolidated balance sheet]

1. Contingent liabilities

(1) The Company guarantees bank loans, etc., for the following companies up to the amounts shown below.

	Year ended October 31, 2019 (As of October 31, 2019)		Year ended October 31, 2020 (As of October 31, 2020)
SYS Inc.	900 million yen	Green World Hotels Co., Ltd.	350 million TWD (1,277 million yen)
Green World Hotels Co., Ltd.	390 million TWD (1,396 million yen)	H.I.S. Hotel Holdings Co., Ltd.	235 million yen
H.I.S. Hotel Holdings Co., Ltd.	235 million yen		

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

	Year ended October 31, 2019 (As of October 31, 2019)		Year ended October 31, 2020 (As of October 31, 2020)
• Guarantee with specified amount		• Guarantee with specified amount	
QUALITA Co., Ltd.	35 million yen	QUALITA Co., Ltd.	35 million yen
Japan Holiday Travel Co., Ltd.	40 million yen	Japan Holiday Travel Co., Ltd.	40 million yen
HIS ULUSLARARASI TURIZM SEYAHAT ACENTASI LIMITED SIRKETI	2 million USD (217 million yen)	HIS ULUSLARARASI TURIZM SEYAHAT ACENTASI LIMITED SIRKETI	2 million USD (209 million yen)
H.I.S. Okinawa Co., Ltd.	22 million yen	H.I.S. Okinawa Co., Ltd.	22 million yen
		HTB ENERGY CO., LTD.	2,130 million yen
		H.I.S. SUPER Power Co., Ltd.	720 million yen
• Guarantee without specified amount		• Guarantee without specified amount	
QUALITA Co., Ltd.	Payment guarantee for notes and accounts payable - trade	QUALITA Co., Ltd.	Payment guarantee for notes and accounts payable - trade
LY-HIS Co. Ltd.	Payment guarantee for notes and accounts payable - trade	LY-HIS Co. Ltd.	Payment guarantee for notes and accounts payable - trade
H.I.S. Okinawa Co., Ltd.	Payment guarantee for notes and accounts payable - trade	H.I.S. Okinawa Co., Ltd.	Payment guarantee for notes and accounts payable - trade
H.I.S. Okinawa Co., Ltd.	Payment guarantee for office rent, etc.	H.I.S. Okinawa Co., Ltd.	Payment guarantee for office rent, etc.
H.I.S. Hotel Holdings Co., Ltd.	Payment guarantee for business-use leasehold interest	H.I.S. Hotel Holdings Co., Ltd.	Payment guarantee for business-use leasehold interest
HTB ENERGY CO., LTD.	Payment guarantee for office rent, etc.	HTB ENERGY CO., LTD.	Payment guarantee for office rent, etc.
		H.I.S. SUPER Power Co., Ltd.	Payment guarantee for forward exchange contracts, etc.

2. Monetary claims and obligations to subsidiaries and associates (excluding those separately disclosed)

	Year ended October 31, 2019 (As of October 31, 2019)	Year ended October 31, 2020 (As of October 31, 2020)
Short-term monetary claims	6,656 million yen	881 million yen
Long-term monetary claims	1,710	117
Short-term monetary obligations	9,380	743

3. Committed credit line agreements

The Company concluded an overdraft agreement with one bank, and commitment credit line agreements with three banks to ensure efficient and stable procurement of working capital. Unexecuted borrowings, etc. based on such overdraft and committed credit line agreements at the end of the fiscal years ended October 31, 2019 and October 31, 2020 are shown below.

	(millions of yen)	
	Year ended October 31, 2019 (As of October 31, 2019)	Year ended October 31, 2020 (As of October 31, 2020)
Maximum overdraft and committed credit line limits (total)	—	36,000
Outstanding borrowings	—	—
Difference	—	36,000

*4. Financial covenants

(1) Syndicated loans

- 1) Must maintain the net asset value on the consolidated balance sheet reported on the final day of each fiscal year at 75% or more of the net asset value on the consolidated balance sheet reported on the final day of the previous fiscal year.
- 2) May not record ordinary losses on the consolidated income statement reported on the final day of each fiscal year for two consecutive years.

The loan balance for the syndicated loans at the end of the fiscal years ended October 31, 2019 and October 31, 2020 were as follows.

	(millions of yen)	
	Year ended October 31, 2019 (As of October 31, 2019)	Year ended October 31, 2020 (As of October 31, 2020)
Long-term borrowings	34,500	34,500

(2) Unsecured bonds

Ensure the following two scenarios do not apply.

- 1) For bonds other than unsecured bonds, forfeiture of the benefit of time, or inability to repay such bonds when they are due.
- 2) Inability to fulfill payment obligations when the benefit of time has been forfeited for loan obligations other than bonds, or inability to fulfill payment for guarantee obligations assumed for bonds other than the Company's bonds or for other loan obligations, should such need arise. However, this will not apply if the total liabilities do not exceed 500 million yen.

The balance of unsecured bonds at the end of the fiscal years ended October 31, 2019 and October 31, 2020 were as follows.

	(millions of yen)	
	Year ended October 31, 2019 (As of October 31, 2019)	Year ended October 31, 2020 (As of October 31, 2020)
Bonds payable (including current portion)	30,000	30,000

(3) Convertible bond-type bonds with share acquisition rights

Ensure the following scenario does not apply.

Inability to fulfill payment obligations when the benefit of time has been forfeited for loan obligations other than bonds, or inability to fulfill payment for guarantee obligations assumed for bonds other than the Company's bonds or for other loan obligations, should such need arise. However, this will not apply if the total liabilities do not exceed 500 million yen.

The balance of convertible bond-type bonds with share acquisition rights at the end of the fiscal years ended October 31, 2019 and October 31, 2020 were as follows.

	(millions of yen)	
	Year ended October 31, 2019 (As of October 31, 2019)	Year ended October 31, 2020 (As of October 31, 2020)
Convertible bond-type bonds with share acquisition rights	25,090	25,072

*5. Other

Fiscal year ended October 31, 2019 (As of October 31, 2019)

1,088 million (10 million US dollar) yen of the 1,093 million yen in short-term loans receivable is owed by Mongolia-based Khan Bank LLC. The bank is a consolidated subsidiary of Sawada Holdings Co., Ltd. (Representative Director and Chairman Hideo Sawada).

Fiscal year ended October 31, 2020 (As of October 31, 2020)

There are no applicable matters to report.

[Non-consolidated statements of income]

*1. Selling, general and administrative expenses comprised 86.0% selling expenses and 13.9% general and administrative expenses in the fiscal year ended October 31, 2019, and 82.8% and 17.1%, respectively, in the fiscal year ended October 31, 2020. The major cost items and amounts are shown below.

	(millions of yen)	
	Year ended October 31, 2019 (November 1, 2018 to October 31, 2019)	Year ended October 31, 2020 (November 1, 2019 to October 31, 2020)
Advertising expenses	6,735	2,891
Salaries and bonuses	24,013	17,151
Provision for bonuses	3,009	—
Provision for bonuses for directors (and other officers)	128	—
Retirement benefit expenses	534	680
Provision of allowance for doubtful accounts	0	50
Depreciation and amortization	1,941	1,771

*2. Amount of transactions with subsidiaries and associates

	(millions of yen)	
	Year ended October 31, 2019 (November 1, 2018 to October 31, 2019)	Year ended October 31, 2020 (November 1, 2019 to October 31, 2020)
Amount of operating transactions		
Net sales	16,878	5,174
Purchase of goods	103,342	31,470
Transaction amount for non-operating transactions		
Non-operating income	2,608	4,672
Non-operating expenses	—	5

*3. Subsidy income

Fiscal year ended October 31, 2020 (November 1, 2019 to October 31, 2020)

Subsidy income mainly reflects employment adjustment subsidies received due the application of special measures in connection with the COVID-19 pandemic, and subsidies received from the national and local governments.

*4. Impairment loss

Fiscal year ended October 31, 2020 (November 1, 2019 to October 31, 2020)

In the consolidated fiscal year ended October 31, 2020, the Company recorded impairment losses on the following assets.

Location	Usage	Item	Impairment loss (millions of yen)
Tokyo, etc.	Branches	Buildings, etc.	551

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

For asset groups of branches the Group decided to close, the book value was reduced to the recoverable amount, and an impairment loss equivalent to the reduction was recorded as an extraordinary loss. Because the Company does not anticipate future cash flows, it has valued the recoverable value at zero.

*5. Provision of allowance for doubtful accounts

Fiscal year ended October 31, 2020 (November 1, 2019 to October 31, 2020)

The Company has recorded an allowance for doubtful accounts for long-term loans receivable from subsidiaries and associates.

*6. Losses from downtime

Fiscal year ended October 31, 2020 (November 1, 2019 to October 31, 2020)

Losses from downtime are fixed expenses (chiefly personnel expenses and depreciation) incurred during the period when operations at the Company's business facilities were temporarily suspended to prevent the spread of COVID-19.

[Marketable securities]

Fiscal year ended October 31, 2019 (As of October 31, 2019)

Shares of subsidiaries and associates (amounts recorded on balance sheet: shares of subsidiaries 66,203 million yen, shares of associates 130 million yen) have no market prices and are deemed extremely difficult to determine their fair value. Accordingly, they are not presented here.

Fiscal year ended October 31, 2020 (As of October 31, 2020)

Shares of subsidiaries and associates (amounts recorded on balance sheet: shares of subsidiaries 67,832 million yen, shares of associates 251 million yen) have no market prices and are deemed extremely difficult to determine their fair value. Accordingly, they are not presented here.

[Tax effect accounting]

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

	(millions of yen)	
	Year ended October 31, 2019 (As of October 31, 2019)	Year ended October 31, 2020 (As of October 31, 2020)
[Deferred tax assets]		
Tax loss carryforwards	—	4,703
Provision for retirement benefits	1,080	1,235
Excess allowance for doubtful accounts	1,027	1,006
Subsidy income	—	475
Unsettled gift certificates	326	370
Non-deductible asset retirement obligation expenses	136	192
Long-term accounts payable - other	102	101
Provision for bonuses	1,009	—
Travel advances received	224	—
Unpaid social insurance premiums	138	—
Other	512	591
Deferred tax assets subtotal	4,558	8,676
Valuation allowance for tax loss carryforwards	—	(41)
Valuation allowance for future deductible temporary differences	(714)	(1,381)
Valuation allowance	(714)	(1,423)
Deferred tax assets total	3,843	7,253
[Deferred tax liabilities]		
Valuation difference on available-for-sale securities	(369)	(215)
Other	(31)	(0)
Deferred tax liabilities total	(401)	(215)
Deferred tax assets, net	3,441	7,037

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, 2019 (As of October 31, 2019)	Year ended October 31, 2020 (As of October 31, 2020)
Effective statutory tax rate	30.62%	Notes have been omitted as
[Adjustments]		
Non-deductible permanent differences such as entertainment expenses	1.00	the Company recorded a
Non-taxable permanent differences such as dividends income	(8.39)	loss before income taxes.
Difference with year-earlier tax return	(1.00)	
Inhabitant tax on per capita basis	1.80	
Increase in valuation allowance	0.90	
Tax credits	(3.00)	
Other	(0.88)	
Actual effective tax rate after application of tax effect accounting	21.05	

4) Supplementary Schedule
Schedule for property, plant and equipment

(millions of yen)

Classification	Asset type	Balance at start of the fiscal year	Increase during the fiscal year	Decrease during the fiscal year	Depreciation during the fiscal year	Balance at end of the fiscal year	Accumulated depreciation
Property, plant and equipment	Buildings	4,980	9,854	406 (223)	621	13,806	2,057
	Vehicles	23	0	0	7	15	116
	Tools, furniture and fixtures	436	300	52 (52)	212	471	1,884
	Land	7,923	27,091	1,053	—	33,962	—
	Construction in progress	6,903	63	6,903	—	63	—
	Other	349	1	335	4	11	15
	Total	20,617	37,311	8,751 (276)	845	48,331	4,072
Intangible assets	Trademarks	21	3	—	3	21	—
	Telephone subscription rights	82	—	—	—	82	—
	Software	2,147	964	0	1,019	2,091	—
	Other	123	—	113	2	7	—
	Total	2,374	967	113	1,026	2,202	—

(Note)

1. The “Increase during the fiscal year” for buildings and land mainly reflect the purchase of the headquarter office.
2. Figures in parentheses in the “Decrease during the fiscal year” column reflect impairment losses recorded by the Company in the consolidated fiscal year ended October 31, 2020.

Schedule for provisions

(millions of yen)

Classification	Balance at start of the fiscal year	Increase during the fiscal year	Decrease during the fiscal year (due to intended usage)	Decrease during the fiscal year (other)	Balance at end of the year
Allowance for doubtful accounts (Note)	3,355	3,288	1,613	1,741	3,288
Provision for bonuses	3,168	22	3,168	—	22
Provision for bonuses for directors (and other officers)	128	—	128	—	—

(Note)

The 1,741 million yen decrease in allowance for doubtful accounts under “Decrease during the year (other)” is attributable to reversals.

(2) Major Assets and Liabilities

Notes are omitted as consolidated financial statements were prepared.

(3) Others

There are no applicable matters to report.

VI. Stock-related Administration for the Company

Fiscal Year	From November 1 to October 31
General Meeting of Shareholders	January
Record date	October 31
Record date for dividend of surplus	April 30 October 31
Number of shares constituting one unit	100 shares
Purchase and sales of shares less than one unit	
Handling office	(Special account) Stock Transfer Agent Department, Sumitomo Mitsui Trust Bank, Limited 4-1, Marunouchi 1-chome, Chiyoda-ku, Tokyo
Transfer agent	(Special account) Sumitomo Mitsui Trust Bank, Limited 4-1, Marunouchi 1-chome, Chiyoda-ku, Tokyo
Forward office	—
Purchasing and selling fee	none
Method of public notice	Public notice of the Company is given by electronic means. However, in the event accidents or other unavoidable reasons prevent public notice by electronic means, the notice can be made by publication in The Nihon Keizai Shimbun issued in Tokyo. URL for public notice: https://www.his.co.jp
Special benefit for shareholders	Every year, at the end of April and October, the Company issues shareholder benefits to all shareholders who own at least 100 shares and are recorded in the Shareholder Registry, based on the following criteria. Shareholders owning 100 or more but fewer than 500 shares Two shareholder benefit coupons (corresponding to 2,000 yen) Shareholders owning 500 or more but fewer than 1,000 shares Four shareholder benefit coupons (corresponding to 4,000 yen) Shareholders owning 1,000 or more shares Six shareholder benefit coupons (corresponding to 6,000 yen) Shareholders owning 100 or more shares One discounted admission ticket for Huis Ten Bosch and for Laguna Ten Bosch (500-yen discount per person; tickets can be used by up to five people).

VII. Reference Information on the Company

1. Information on the Parent Company, etc. of the Company

The Company has no parent company.

2. Other Reference Information

The Company filed the following documents between the start of the fiscal year under review and the submittal of the Japanese version of this Securities Report.

(1) Annual Securities Report and documents attached thereto, and Confirmation Letter thereof

For the 39th fiscal year (from November 1, 2018 to October 31, 2019)

Submitted to Director, Kanto Local Finance Bureau on January 30, 2020

(2) Internal Control Report and documents attached thereto

Submitted to Director, Kanto Local Finance Bureau on January 30, 2020

(3) Quarterly Securities Report and Confirmation Letter thereof

For the first quarter of the 40th fiscal year (from November 1, 2019 to January 31, 2020)

Submitted to Director, Kanto Local Finance Bureau on March 10, 2020

For the second quarter of the 40th fiscal year (from February 1, 2020 to April 30, 2020)

Submitted to Director, Kanto Local Finance Bureau on July 6, 2020

For the third quarter of the 40th fiscal year (from May 1, 2020 to July 31, 2020)

Submitted to Director, Kanto Local Finance Bureau on September 30, 2020

(4) Extraordinary Report

Submitted to Director, Kanto Local Finance Bureau on January 30, 2020

According to the provision of Article 19, Paragraph 2, Item 9-2 (result of exercise of voting rights at a general shareholders' meeting), of the Cabinet Office Ordinance on Disclosure of Corporate Affairs, etc.

Submitted to Director, Kanto Local Finance Bureau on March 2, 2020

According to the provision of Article 19, Paragraph 2, Item 3 (transfer of specified subsidiary) of the Cabinet Office Ordinance on Disclosure of Corporate Affairs, etc.

Submitted to Director, Kanto Local Finance Bureau on June 24, 2020

According to the provision of Article 19, Paragraph 2, Item 3 (transfer of specified subsidiary) of the Cabinet Office Ordinance on Disclosure of Corporate Affairs, etc.

Submitted to Director, Kanto Local Finance Bureau on September 25, 2020

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

Submitted to Director, Kanto Local Finance Bureau on September 25, 2020

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

Submitted to Director, Kanto Local Finance Bureau on December 11, 2020

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

(5) Securities Registration Statement and documents attached thereto

Submitted to Kanto Local Finance Bureau on January 29, 2020

Submitted to Kanto Local Finance Bureau on October 2, 2020

(6) Amendment to Securities Registration Statement

Submitted to Kanto Local Finance Bureau on January 30, 2020,

March 10, 2020, and

March 24, 2020.

Amended statements for the Securities Registration Statement submitted on January 29, 2020

(7) Shelf Registration Statement and documents attached thereto

Submitted to Kanto Local Finance Bureau on March 13, 2020

(8) Amendments to Shelf Registration Statement

Submitted to Kanto Local Finance Bureau on June 24, 2020,
September 25, 2020, and
December 11, 2020.

Amended statements for the Shelf Registration Statement submitted on March 13, 2020

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.