

## Summary of Consolidated Financial Results For the Fiscal Year Ended October 31, 2016

### H.I.S. Co., Ltd. (9603)

Exchange Listed:	Tokyo Stock Exchange, 1 <sup>st</sup> section
Principal Office:	Tokyo, Japan
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Scheduled date of annual shareholders' meeting:	January 26, 2017
Date of Dividend payment:	January 27, 2017
Scheduled date of filing annual report:	January 27, 2017

## 1. Consolidated Financial Results (November 1, 2015 – October 31, 2016)

### (1) Consolidated Operating Results

	Millions of Yen			
	Fiscal Year Ended October 31,			
	2016	%	2015	%
Net Sales .....	523,705	(2.6)	537,456	2.7
Operating Income.....	14,274	(28.5)	19,970	25.6
Ordinary Income.....	8,648	(61.9)	22,685	19.3
Net income attributable to owners of parent.....	267	(97.5)	10,890	20.3
Net Income per Share (yen).....	4.25		167.94	
Net Income per Share, Diluted (yen).....	3.58		157.22	
Return on Equity (ROE) .....	0.3%		11.6%	
Ordinary Income to Total Assets Ratio .....	2.7%		7.7%	
Operating Income to Net Sales Ratio.....	2.7%		3.7%	
(Notes) Comprehensive income:	Full year ended October 31, 2016:		(5,928) million yen (–%)	
	Full year ended October 31, 2015:		14,583 million yen (11.8%)	
Equity of earnings in affiliates:	Full year ended October 31, 2016:		(751) million yen	
	Full year ended October 31, 2015:		77 million yen	

### (2) Consolidated Financial Position

	Millions of Yen	
	As of October 31,	
	2016	2015
Total Assets.....	332,385	308,245
Net Assets.....	95,139	113,990
Shareholders' Equity Ratio.....	23.9%	32.3%
Net Assets per Share (yen).....	1,295.35	1,534.77
(Note) Shareholders' equity (consolidated):	As of October 31, 2016:	79,592 million yen
	As of October 31, 2015:	99,528 million yen

### (3) Consolidated Cash Flows

	<i>Millions of Yen</i>	
	Fiscal Year Ended October 31,	
	2016	2015
Cash Flows from Operating Activities .....	5,149	12,597
Cash Flows from Investing Activities .....	(15,440)	(28,177)
Cash Flows from Financing Activities .....	30,181	16,253
Cash and Cash Equivalents at End of Year .....	129,842	113,330

### 2. Dividend Distribution

	Dividend per Share			Total Dividend (millions of yen)	Dividend payout ratio (%) (consolidated)	Ratio of dividends to net assets (%) (consolidated)
	Half Year	Year End	Full Year			
FY2015	0.00	22.00	22.00	1,426	13.1	1.5
FY2016	0.00	22.00	22.00	1,361	517.6	1.6
FY2017 (Est.)	0.00	26.00	26.00	—	13.3	—

(Note) Total Dividend for FY2016 includes 10 million yen for the shares owned by ESOP (Employee Stock Ownership Plan).

### 3. Consolidated Forecast for the Fiscal Year Ending October 31, 2017

	<i>Millions of Yen</i>			
	Interim ending April 30, 2017		FY ending October 31, 2017	
	Sales	Profit	Sales	Profit
Net Sales .....	269,000	5.1%	580,000	10.7%
Operating Income .....	8,700	1.9%	20,000	40.1%
Ordinary Income .....	10,500	133.7%	23,000	165.9%
Net income attributable to owners of parent.....	5,200	—%	12,000	—%
Net Income per Share (yen) .....	84.63		195.30	

### 4. Additional Notes

(1) Changes of important subsidiaries during the fiscal year (Change of specific subsidiaries due to change in the scope of consolidation):

None

(2) Change in accounting policy, change in accounting estimates and restatement:

(i) Changes accompanying amendments to accounting standards:

Yes

(ii) Changes other than those in (i) above:

None

(iii) Change in accounting estimates:

None

(iv) Restatement:

None

(3) Number of shares issued (common shares)

(i) Number of shares issued at end of fiscal year (including shares of treasury stock):

As of Oct 31, 2016 68,522,936 shares

As of Oct 31, 2015 68,522,936 shares

(ii) Number of shares of treasury stock at end of fiscal year

As of Oct 31, 2016 7,078,316 shares

As of Oct 31, 2015 3,673,816 shares

(iii) Average number of shares during the year

As of Oct 31, 2016 62,881,812 shares

As of Oct 31, 2015 64,849,286 shares

(Note) The number of shares of treasury stock at end of fiscal year includes shares owned by ESOP (456,400 shares as of Oct 31, 2016). Shares owned by ESOP are deducted by calculating the average number of shares during the year (181,246 shares as of Oct 31, 2016).



## **Consolidated Financial Results for the Fiscal Year Ended October 31, 2016**

**Note on Audit Procedures:**

*This summary of financial statements is out of the scope of the audit procedures which is required by "Financial Instruments and Exchange Act". Therefore, the audit procedures of consolidated financial statements have not been completed as of the disclosure of this report.*

**Disclaimer Regarding Forward-Looking Statements:**

*Forward-looking statements are based on management's assumptions and beliefs in light of information currently available and involve uncertainties that may affect forecasts. Actual results may differ materially from these forecasts due to various factors. Please refer to page 7 for further information concerning the projections.*

## **I. Overview of Operating Results**

### **1. Operating Results**

#### **(1) Overview of consolidated results for the fiscal period**

The Japanese economy maintained a moderate recovery during the Fiscal Year ended October 31, 2016, despite some weakness following the Kumamoto quake and aftershocks in late April. The world economy generally maintained a trend toward modest recovery as well, in spite of certain geopolitical risks, uncertainties in Europe stemming from the UK's EU separation, and turbulence following occasionally abrupt foreign currency fluctuations.

The Japan travel market through October 2016 continued to transition, with the cumulative number of inbound tourists visiting Japan reaching 20 million for the first time (from Jan 1 to Oct 31, 2016). Travelers departing Japan exceeded the previous quarters, however following surges in the yen, and the Zero fuel surcharge. Meanwhile, domestic travel was weak, affected by the Kumamoto quake, successive typhoons, and bad weather.

In this business environment, the H.I.S. Group continued to make customer safety and security its top priority, while offering high-quality products and services, and real-time communications with travelers using domestic and overseas networks and systems, further improving services and thereby enhancing ongoing product quality. We continue to challenge by creating new value through the rapid development of businesses designed with the future in mind.

Business performance by segment follows. Changes in the reportable segment classification have taken effect from the current consolidated financial year. For year-on-year comparisons, we reclassified the previous year's segments into the classification after the segment change. Figures in each segment reflect the amounts before offsetting and eliminating inter-segment transactions.

#### **- Travel Business**

Product development. In order to revive travel demand for Europe, which had greatly decreased since the terrorist attacks, H.I.S. partnered in the promotional campaign 'Atout France' with the French National Tourism Organization and national carrier Air France. Domestically, we strengthened services in the senior market with 'Tabi Tsushin', a monthly magazine which has encouraged an increase in bookings through the print medium.

Domestic outlets. We further developed the concept of specialty stores, promoting the southern island of Kyushu through shops in central Tokyo, Nagoya, Osaka and Fukuoka, while further reinforcing specialized products and services at specialty stores for Bali and Okinawa. Finally, we actively introduced state-of-the-art technologies, such as simulated travel and Virtual Reality (VR).

Corporate and group travel segment. There was an increase in demand for incentive and corporate travel in Japan and abroad, and large-scale inbound travel, resulting in steady growth across this segment.

Domestic travel segment. We continued to place priority on Okinawa. This summer we launched 'H.I.S. OKINAWA Beach Park' inside Toyosaki Chura Sun Beach in Tomigusuku City, boasting competitive advantage with Okinawa's first 50m long water long slide. We acquired Activity Japan Co.,Ltd., one of Japan's largest activity providers with a discovery and booking website, thereby enhancing our experience-based packages, which have become increasingly popular in Japan.

Inbound travel segment. There was an increase in demand for FIT (Foreign Independent Traveler) type packages, reflecting the changes in consumer behavior. Therefore, we strengthened sales of partial- and day-trips, renewed our website to support individual travelers, and set up "Tourist Information Centers" across 35 domestic locations, further strengthening our support system for international tourists visiting Japan. Leveraging our ongoing work with ministries, regional, and local governments, we established an information counter at the Sendai airport with the Tohoku Reconstruction Agency, and jointly promoted inbound travel and special tours with the Kanagawa prefectural government

Overseas travel segment. We accelerated our effort to improve brand recognition in local markets by actively exhibiting at local travel fairs and opening multiple branches across countries in the Southeast Asian region. Taking advantage of our regional networks of retail locations, we provided travel and tour arrangements for several international conferences hosted by public institutions. We expanded our network as well this year, as Japan's first travel agency to set up tour desks in Addis Ababa, Ethiopia and Samarkand, Uzbekistan. As of 31 October 2016, the H.I.S. global network comprised 295 locations in Japan, and 230 overseas locations, in 141 cities across 66 countries.

Consequently, the Travel Business recorded net sales of 465.7 billion yen, a decrease of 2.2% from a year earlier, the result of decreased revenue from reduced and zero fuel surcharges and a decline in European travel demand following the terror attacks across multiple countries. Operating income came in at 9.0 billion yen, a decrease of 27.9% from a year earlier, owing to the slowdown in travel to Europe, and slowed domestic travel as well following the Kumamoto quake.

#### **- Huis Ten Bosch Group**

At Huis Ten Bosch, we opened the "Kingdom of Robots", Japan's first robot composite facility which displays and allows you to interact with state-of-the-art robots, in July. The Henn-na Hotel, whose 2nd Phase was launched in March, gained recognition from Guinness World Records as the world's first hotel employing 'robot' staff. We plan to export the ever-evolving Henn-na Hotel to Maihama, Urayasu city in Chiba prefecture, Laguna Ten Bosch, and abroad.

In the "Kingdom of Water" held during the summer, Japan's largest water park made its first appearance, with the swimming pool alight at night, and the event was very well received by visitors. In the "Kingdom of Light Series", one of the world's largest extravaganzas, over 13 million bulbs lit up the theme park, as we worked to scale up its operation and enhance visitors' event experience. However, the number of visitors fell by 6.9% from last year to 2.894 million, due to factors including large-scale group travels handled the previous year not taking place, bad weather including heavy snows and typhoons, and the Kumamoto quake in April.

Outside the theme park, the first special project "Osaka Castle Water Park" held in front of Osaka Castle, has received over 150,000 visitors and was successful.

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

The H.I.S. Group entered the commercial energy market and reinforced its sales network by acquiring HTB ENERGY CO., LTD., which was included in the first quarter scope of consolidation during the current fiscal year.

The Huis Ten Bosch Group recorded net sales of 31.8 billion yen, a decrease of 2.2%, with operating income of 7.4 billion yen, a decrease of 18.3%, as compared to the previous year.

#### **- Hotel Business**

At Watermark Hotel Sapporo, there was an increase in group bookings, including international tourists visiting Japan. Meanwhile, Guam Reef & Olive Spa Resort (Guam) saw its share in the Korean and Taiwanese markets expand, contributing to a rise in the average unit price.

As a result of measures taken to improve profitability at each hotel, the hotel business performed well. The Group reported record-high results, with net sales at 6.6 billion yen, an increase of 2.8%, and operating income at 556 million yen, an increase of 61.1%, as compared to a year earlier.

#### **- Transportation Business**

ASIA ATLANTIC AIRLINES CO. LTD., an international air charter carrier, began operating regular flights four times a week between Bangkok and Phuket, Thailand to Shenyang, China, along with charter flights between Bangkok and Chitose on Hokkaido, Japan to meet the demand for inbound travel. As a result of successful operations in accordance with needs, the Group recorded net sales of 3.3 billion yen, an increase of 21.0%, and an operating loss of 834 million yen, compared with an operating loss of 1.1 billion yen a year earlier.

#### **- The Kyushu Sanko Group**

The Kyushu Sanko Group continued to provide customer-oriented services, but the business was impacted by the Kumamoto quake, including suspension of the bus service and changes to bus routes and schedules in the aftermath, and full-scale redevelopment work of the Sakura-machi city-center, with the suspension of services at the transportation center and surrounding hotel. The Group recorded net sales of 20.2 billion yen, a decrease of 13.6%, and operating income of 89 million yen, a decrease of 91.4%, as compared with the previous year.

As a result of the forgoing, the H.I.S. Group's consolidated net sales were 523.7 billion yen, less 2.6%; Operating income was 14.2 billion yen, down 28.5%; Ordinary income was 8.6 billion yen, down 61.9%, owing to sharp foreign currency fluctuations. Net income attributable to owners of parent fell by 97.5% to 267 million yen, all compared with a year earlier.

## **(2) Forecast for the Next Full Year Ending October 2017**

The global outlook is likely to remain one of uncertainty, with potential political instability in Europe and elsewhere, and potential market volatility following political and economic fluctuations. The H.I.S. Group expects this uncertainty to continue. In the Travel Business, we anticipate evermore significant change, with ever fiercer competition as rapidly evolving online agencies and new customer-to-customer business models emerge. Given these circumstances, the H.I.S. Group must fully leverage its global network and maximize group synergies, and promote businesses in accordance with market change by, for instance, further evolving existing businesses or exploring new areas through funding or M&A, while continuously improving on productivity, efficiency, and performance in today's businesses.

At Huis Ten Bosch, we will add the "Kingdom of Dream and Adventure", the seventh kingdom in the series, using Virtual Reality and Augmented Reality, export the Henn-na Hotel concept worldwide, and undertake many new power generation projects. The H.I.S. Group will take up new challenges in ever greater business areas.

For the full year ending October 2017, H.I.S. Group anticipates exceeding the results of the current fiscal year.

## **2. Allocation of Profits**

### **(1) Basic approach to allocation of profits**

Returning profits to shareholders is one of the H.I.S. Group's key management principles. The Group aims to maximize its enterprise value, and at the same time pay stable and continuous dividends based on its financial performance and taking into account overall factors including global economic and business trends, the state of the Group and future business developments. Profit sharing with shareholders is based on the concept of sustainable, stable dividends from profits. The Group has adopted a system of interim dividends, but there is a tendency for a greater share of annual sales to be recorded in the second half of the fiscal year. Therefore, at present, dividends are paid on an annual basis at year-end in order to realize fair dividends in terms of earnings.

### **(2) Utilization of internal capital reserves**

In addition to preparation for sudden change, competition or reorganization within the travel industry, in Japan and abroad, as well as the maintenance of a branch network and active investment in the IT business, there is a greater need to respond to unexpected external factors such as recent terrorism, political uncertainty, natural disasters or sudden phenomena. Given these conditions, the Group has strong awareness of the importance of building a stable, readily available financial base. Therefore, the Group intends to stabilize H.I.S. foundations by developing a relatively large internal capital reserve.

The Group plans to pay a year-end dividend of 22 yen per share. As an additional part of our effort to return profits to shareholders, we acquired treasury stock of 10.223 billion yen during the current fiscal year.

For the next fiscal year ending October 2017, the Group plans to pay an annual common dividend of 26 yen per share to ensure sustainable and stable profit sharing, while working to increase the dividend. However, the Group will remain flexible in responding to the situation, if performance worsens in uncertain market conditions.

### **3. Business and Other Types of Risks**

Any of the factors following below could affect the Group's business results, financial condition, share price or others. Having recognized the potential for such risks, the Group intends to make every effort to avoid them and to address them in the event such risks should occur.

Matters regarding forward-looking information described in this section are based on management's judgment as of December 9, 2016, when the financial results were announced. Furthermore, business and other types of risks are not confined only to the following.

#### **(1) Regional character of business expansion**

The travel business comprises 88.9% of group sales by segment; sales by region are also concentrated in Japan, at 91.0%. Changes in the environment for the travel business in Japan therefore have the potential to affect the Group's financial position and operating results among others.

#### **(2) Changes in fuel surcharges**

Parent sales accounted for 73.6% of group sales, and overseas travel comprised 85.8% of parent sales. The company is currently adding a fuel surcharge to overseas travel fares to reflect the change in crude oil prices. A sharp increase in this fuel surcharge could dampen overall demand and adversely affect the Group's financial position and operating results.

#### **(3) Trends in travel to or from Asia; the trend of travelers visiting Japan**

Asia accounted for the largest percentage of the Group's total number of overseas travelers departing Japan, making up 59.4% of the total (or 36.4% of sales). Changes in the external environment at these destinations, such as terrorism, outbreaks of contagious diseases, or natural disasters, could affect the Group's financial position and operating results. If it becomes difficult to secure seats on flights as the number of international tourists visiting Japan from Asia rapidly increases, this could have a similar impact.

#### **(4) Competitions with other competitors**

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

#### **(5) Reduction in commissions on airline tickets sold at the published fare by airline companies**

The Group also sells airline tickets at published fares which airline companies provide directly to consumers. It is possible that in the future commissions on airline tickets paid to travel agencies by airline companies could be reduced or eliminated, which could affect the Group's financial position and operating results.

#### **(6) Fluctuations in the valuation of owned assets including securities**

The Group holds both listed and unlisted shares, and holds debt and other instruments. Hence, the Group's financial position and operating results could be affected by movements in prices for securities possessing a market value, and by the occurrence of losses on sale and valuation losses for securities without a market price due to changes in the financial status of companies in which we have invested.

#### **(7) Exchange rate fluctuations**

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

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

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

#### **(9) Flight operations**

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

#### **(10) Food safety**

The Group developed standards for the arrangement, mediation and quality control for planned tours and optional tours, and carefully selects restaurants. Additionally, Group businesses include operating restaurants, and the Group pays absolute attention to food safety. Amid rising concerns about food safety, the occurrence of health problems such as food poisoning could affect the Group's reputation, and impact its financial position and operating results.

#### **(11) Effect of weather**

The Group operates two theme parks, namely, HUIS TEN BOSCH in Sasebo, Nagasaki prefecture and Laguna Ten Bosch in Gamagori, Aichi prefecture. As a nature of the business, the number of visitors is expected to decline temporarily if there has been prolonged bad weather including typhoon and torrential rainfall. This could affect the Group's financial position and operating results.

#### **(12) System failures**

The Group makes use of computer systems for operations including a reservation arrangement. If there occurs a critical failure in communication networks or programs, or a problem caused by a computer virus and others, this could gravely affect the Group's operations. Depending on the scale of the system failure, the Group's financial position and operating results could be affected, causing an interruption of services to our customers and an increase in repair costs.

#### **(13) Personal information**

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

#### **(14) Changes in external environment**

The risks surrounding the travel business include changes in the world situation such as terrorism, war, and other events; damage to travel infrastructure due to natural disaster; or global disorder as the result of sudden economic upheaval. This could affect the Group's financial position and operating results.

## II. Current State of the H.I.S. Group

H.I.S. Group (H.I.S. Co., Ltd. and its group companies) comprises H.I.S. Co., Ltd., 107 subsidiaries and 14 affiliated companies. The main businesses of the principal subsidiaries are outlined in the following tables, which are organized by the business categories used in segment information.

### (1) Travel Business

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

#### Group Companies

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

The Group owns and operates theme parks located in Sasebo, Nagasaki prefecture and Gamagori, Aichi prefecture, and develops new power generation, including renewable energy, as well as operating other ancillary businesses.

#### Group Companies

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

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

#### Group Companies

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

The Group operates passenger route, including international charters, and other ancillary businesses.

#### Group Companies

ASIA ATLANTIC AIRLINES CO., LTD.
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**(5) The Kyushu Sanko Group**

The Kyushu Sanko Group, the holding company of KYUSHU INDUSTRIAL TRANSPORTATION HOLDINGS CO., LTD., operates automobile transport, real estate and other businesses.

**Group Companies**

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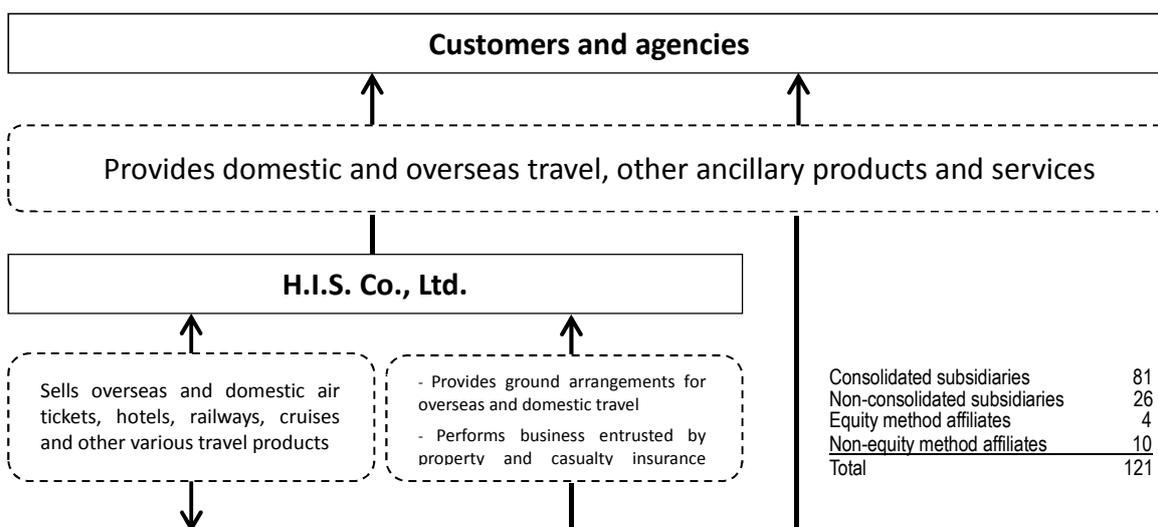
**(6) Other businesses**

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

**Group Companies**

H.S. INSURANCE Co., Ltd.	and 9 other companies
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The following table illustrates the Group's operating relationships.



Subsidiaries & Affiliated Companies	
Travel Business	
HAWAII HIS CORPORATION H.I.S. INTERNATIONAL TOURS (NY) INC. H.I.S. GUAM, INC. H.I.S. CANADA INC. HIS SAIPAN INC H.I.S. KOREA CO., LTD. H.I.S. Tours Co., Ltd. PT. HARUM INDAH SARI TOURS & TRAVEL HIS (HONG KONG) COMPANY LIMITED H.I.S. TAIWAN COMPANY LIMITED H.I.S. INTERNATIONAL TRAVEL PTE LTD H.I.S. AUSTRALIA PTY. LTD. H.I.S. EUROPE LIMITED	H.I.S. INTERNATIONAL TOURS FRANCE SARL H.I.S. Deutschland Touristik GmbH H.I.S. EUROPE ITALY S.R.L. HIS ULUSLARARASI TURIZM SEYAHAT ACENTASI LIMITED SIRKETI GROUP MIKI HOLDINGS LIMITED (Miki Travel Limited) Orion Tour Co., Ltd. QUALITA Co., Ltd. Ohshu Express Ltd TOUR WAVE CO., LTD Japan Holiday Travel CO., LTD Cruise Planet Co., Ltd. H.I.S.ANA Navigation JAPAN Co.,Ltd. and 50 other companies
Huis Ten Bosch Group	
Huis Ten Bosch Co., Ltd. Huis Ten Bosch Technical Center Co., Ltd. HTB Tourism Co., Ltd. HTB CRUISE CO.,LTD.	TEN BOSCH CRUISE PANAMA S.A. LAGUNA TEN BOSCH Co., LTD. HTB ENERGY CO., LTD. and 7 other companies
Hotel Business	
H.I.S. AUSTRALIA HOLDINGS PTY LTD H.I.S. INVESTMENTS PTY LTD THE WATERMARK HOTEL GROUP PTY LTD WHG INVESTMENTS BRISBANE PTY LTD L'MARK PTY LTD	WATERMARK HOTEL JAPAN CO., LTD The Watermark Hotel Nagasaki Co., Ltd. GUAM REEF HOTEL, INC. PT. HARUM INDAH SARI INDONESIA and 1 other company
Transportation Business	
ASIA ATLANTIC AIRLINES CO., LTD.	
The Kyushu Sanko Group	
KYUSHU INDUSTRIAL TRANSPORTATION HOLDINGS CO., LTD. Kyushu Sanko Bus Co., Ltd. Kyushu Sanko Tourism Co.,Ltd. Kyushu Sanko LandMark Co.,Ltd. Kumamoto Ferry Co.,Ltd.	Sanko Bus Co., Ltd. Kyushu Sanko Seibi Co.,Ltd. Kyushu Sanko Retail Co.,Ltd. Kumamoto Sakuramachi Development Co.,Ltd. and 2 other companies
Other businesses	
H.S. INSURANCE Co., Ltd.	and 9 other companies

### **III. Management Policy**

#### **1. Basic management policy**

Under the philosophy "To contribute to peace in the world and the creative development of humankind, in accordance with nature", the H.I.S. Group aims to build a new business model, contributing to peace in world, through tourism and other various businesses, as an evolving and ever changing company.

#### **2. Management goals**

The H.I.S. Group strives to achieve sustainable growth with increasing profitability through customer satisfaction, and seeks to build competitive advantage and a strong position in the travel business through expanding services to meet demand in Asia, and eventually the world. We place importance on performance indicators, including net sales, income, and growth rates for each business segment and for the Group, and weigh the numbers of customers handled and market share as measures of H.I.S. customer satisfaction.

#### **3. Medium to long-term business strategy**

In responding to the H.I.S. Group's business expansion with its background in the travel business, we will reorganize our structure, and drive our efforts to build a new business model in establishing competitive advantage in the global market, by aggressively exploring growth markets, including theme parks, hotels, agriculture, energy, robots, and travels.

#### **4. Key issues**

Competition in the travel industry is increasing, as Japanese and international travel agencies, online travel agencies, direct air ticket sales outlets, and other companies offering new travel-related services emerge. Under these conditions, the following are major issues to be dealt with by the Group.

- **Pursuing customers' satisfaction and providing safety and security**

The H.I.S. Group recognizes that it is of utmost importance to offer a safe and comfortable services to become a global company that is supported by customers and trusted in the world. Fully leveraging its global network and infrastructure, the Group strives to offer safe, secure, and high quality products, services and information by creating new value in experience and providing enhanced services. We will improve on our standards of service, both in Japan and overseas, to make our customers happy around the world, and to hold their support.

- **Efficiency and restructuring**

In rapidly changing market conditions, we must respond promptly in accordance with the development of our business model. We will place priority on efficiency and restructuring in management at all times, by pursuing specialty and exploring growth markets.

• **Human Resource Development**

We anticipate further changes, competition and expansion in our business areas, including rapidly evolving global online businesses, and competition in new business areas as various new services emerge. The H.I.S. Group recognizes that sustainable growth and future business expansion are only made possible by developing and securing our future human capital, and therefore we will push forward our efforts.

**5. Other important matters in company management**

None

**IV. Basic Policy Regarding Selection of Accounting Standards**

The Group currently applies the Japanese Accounting Standards (Japan GAAP) but will continue to follow the development of International Financial Reporting Standards attentively.

## V. Consolidated Financial Statements

### 1. Consolidated Balance Sheets

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

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

## 2. Consolidated Statements of Income

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

### 3. Consolidated Statements of Cash Flows

	<i>Millions of Yen</i>	
	Nov 1, 2015 – Oct 31, 2016	Nov 1, 2014 – Oct 31, 2015
<b>I. Cash flows from operating activities</b>		
Profit before income taxes .....	5,107	22,200
Depreciation .....	6,544	6,310
Impairment loss .....	3,541	—
Amortization of goodwill .....	201	193
Increase (decrease) in provision for bonuses .....	(324)	360
Increase (decrease) in provision for directors' bonuses .....	(49)	17
Increase (decrease) in net defined benefit liability .....	619	782
Increase (decrease) in provision for directors' retirement benefits .....	44	8
Increase (decrease) in provision for repairs .....	(259)	(434)
Interest and dividend income .....	(1,737)	(1,163)
Share of (profit) loss of entities accounted for using equity method .....	751	(77)
Foreign exchange losses (gains) .....	3,616	(743)
Interest expenses .....	337	265
Loss (gain) on sales of investment securities .....	(0)	484
Other loss (gain) .....	33	124
Decrease (increase) in notes and accounts receivable - trade ..	(6,526)	(3,191)
Decrease (increase) in travel advance payments .....	(2,911)	1,423
Decrease (increase) in other assets .....	(1,230)	(2,469)
Increase (decrease) in notes and accounts payable - trade .....	(1,593)	(1,509)
Increase (decrease) in accrued consumption taxes .....	(317)	193
Increase (decrease) in accrued expenses .....	150	273
Increase (decrease) in travel advances received .....	3,704	40
Increase (decrease) in other liabilities .....	1,508	689
<b>Subtotal .....</b>	<b>11,210</b>	<b>23,777</b>
Interest and dividend income received .....	1,479	1,049
Interest expenses paid .....	(309)	(246)
Income taxes (paid) refund .....	(7,229)	(11,983)
<b>Net cash provided by (used in) operating activities .....</b>	<b>5,149</b>	<b>12,597</b>
<b>II. Cash flows from investing activities</b>		
Payments into time deposits .....	(57,392)	(53,732)
Proceeds from withdrawal of time deposits .....	49,732	54,621
Purchase of securities .....	(3,000)	(2,000)
Proceeds from redemption of securities .....	13,345	2,043
Purchase of property, plant and equipment and intangible assets .....	(13,309)	(15,345)
Purchase of investment securities .....	(1,234)	(2,137)
Proceeds from sales of investment securities .....	969	150
Proceeds from redemption of investment securities .....	—	800
Purchase of shares of subs. and associates .....	(1,696)	(5,660)
Purchase of shares of subsidiaries resulting in change in scope of consolidation .....	(180)	—
Payments of loans receivable .....	(1,632)	(7,429)
Collection of loans receivable .....	1,674	1,148
Payments for guarantee deposits .....	(837)	(1,083)
Proceeds from collection of guarantee deposits .....	512	710
Other, net .....	(2,391)	(263)
<b>Net cash provided by (used in) investing activities .....</b>	<b>(15,440)</b>	<b>(28,177)</b>

	<i>Millions of Yen</i>	
	Nov 1, 2015 – Oct 31, 2016	Nov 1, 2014 – Oct 31, 2015
<b>III. Cash flows from financing activities</b>		
Increase in short-term loans payable .....	80,055	37,255
Decrease in short-term loans payable.....	(78,000)	(31,745)
Proceeds from long-term loans payable.....	63,465	13,065
Repayments of long-term loans payable.....	(21,673)	(1,562)
Purchase of treasury shares .....	(11,791)	(2)
Cash dividends paid.....	(1,426)	(1,167)
Dividends paid to non-controlling interests.....	(94)	(33)
Proceeds from share issuance to non-controlling shareholders .....	74	1,080
Other, net.....	(426)	(637)
<b>Net cash provided by (used in) financing activities .....</b>	<b>30,181</b>	<b>16,253</b>
<b>IV. Effect of exchange rate change on cash and cash equivalents .....</b>	<b>(3,460)</b>	<b>1,636</b>
<b>V. Net increase (decrease) in cash and cash equivalents .....</b>	<b>16,430</b>	<b>2,309</b>
<b>VI. Cash and cash equivalents at beginning of period .....</b>	<b>113,330</b>	<b>110,145</b>
<b>VII. Increase in cash and cash equivalents from newly consolidated subsidiary .....</b>	<b>81</b>	<b>875</b>
<b>VIII. Cash and cash equivalents at end of period .....</b>	<b>129,842</b>	<b>113,330</b>

## 4. Segment Information

Information on net sales, incomes or losses, assets, debts and other items

Current Fiscal Year ended October 31, 2016 (November 1, 2015 – October 31, 2016)

(Millions of Yen)

	Reported Segment						Other Businesses *1	Total	Eliminations & Corporate *2	Consolidated *3
	Travel Business	Huis Ten Bosch Group	Hotel Business	Transportation Business	The Kyushu Sanko Group	Subtotal				
Net sales										
(1) Sales to outside customers	465,536	30,283	5,563	2,045	20,230	523,660	45	523,705	—	523,705
(2) Inter-segment sales / transfers	235	1,580	1,045	1,279	17	4,158	—	4,158	(4,158)	—
Total	465,772	31,863	6,609	3,325	20,248	527,819	45	527,864	(4,158)	523,705
Segment incomes (losses)	9,038	7,485	556	(834)	89	16,334	30	16,364	(2,090)	14,274
Segment assets	191,429	37,733	12,197	1,017	41,367	283,745	2,035	285,781	46,603	332,385
Others										
Depreciation and amortization	2,284	1,827	839	29	1,009	5,990	15	6,005	499	6,504
Investment in equity method affiliates	5,004	—	—	—	—	5,004	404	5,408	—	5,408
Increase in Property, plant and equipment and intangible assets	3,740	6,332	166	5	3,475	13,721	680	14,401	99	14,500

Notes:

- Other Businesses refer to the business segment not included in the reported segment, including real estate businesses among others.
- The details of Eliminations & Corporate are as follows:
  - Segment incomes (losses) of (2,090) million yen are corporate-wide expenses not included in each reported segment and refer to administrative expenses at the headquarters, not included in the reported segment.
  - Segment assets of 46,603 million yen include intersegment transactions of (2,007) million yen and corporate-wide assets of 48,611 million yen, not included in each reported segment. Corporate-wide assets refer to surplus fund management (cash and cash equivalents, and securities) at the headquarters, not included in the reported segment.
  - Depreciation and amortization of 499 million yen are corporate-wide expenses not included in each reported segment and refer to depreciation and amortization at the headquarters, not included in the reported segment.
  - Increase in Property, plant and equipment and intangible assets of 99 million yen is capital investment at the headquarters, not included in the reported segment.
- Segment incomes or losses are adjusted with operating incomes in the consolidated financial statements.