

**Consolidated Financial Results for the First Nine Months  
of the Fiscal Year Ending October 31, 2018 (Under Japanese GAAP)**

\* Please note this document is a translation of the original Japanese document “Financial Results for the 9 months ended July 31, 2018 (Kessan Tanshin)” and is only for reference purposes. In the event of any discrepancy between this translated document and the original Japanese document, the latter shall prevail.

August 30, 2018

Company Name: H.I.S. Co., Ltd.

Stock Code: 9603, URL: <http://www.his.co.jp/english/info.html>

Representative Director: Hideo Sawada, Representative Director, Chairman and President

Contact: Shigeru Nakatani, Director and CFO

Scheduled date to file Quarterly Securities Report: September 03, 2018

Scheduled date to commence dividend payments: –

Preparation of supplementary material on quarterly financial results: Yes

Holding of quarterly financial results meeting: None

(Rounded down to the nearest million Japanese Yen)

**1. Consolidated Financial Results for the First Nine Months of the Fiscal Year Ending October 31, 2018  
(November 1, 2017 – July 31, 2018)**

(1) Consolidated Operating Results (Cumulative) (% shows year-on-year changes)

	Sales		Operating Income		Ordinary Income		Net Income Attributable to Owners of Parent	
	JPY million	%	JPY million	%	JPY million	%	JPY million	%
9 months ended Jul 31, 2018	510,438	23.0	9,563	18.1	10,313	△16.1	4,440	△49.3
Jul 31, 2017	415,115	11.8	8,100	2.7	12,298	430.6	8,763	-

(\*Note) Comprehensive Income: JPY4,934 million (△61.1%) for the 9 months ended July 31, 2018  
JPY12,671 million (–%) for the 9 months ended July 31, 2017

	EPS	Diluted EPS
9 months ended	JPY	JPY
Jul 31, 2018	77.39	66.73
Jul 31, 2017	143.72	134.00

(\*Note) As of the end of October 2017, provisional accounting for consolidation was finalized. As a result, the figures for the 3rd quarter of the fiscal year ended October 2017 reflect the finalization of the provisional accounting treatment.

(2) Consolidated Financial Position

	Total Assets	Net Assets	Equity Ratio	BPS
As of	JPY million	JPY million	%	JPY
Jul 31, 2018	521,758	109,022	15.8	1,443.55
Oct 31, 2017	422,809	111,247	20.3	1,466.13

(\*Reference) Shareholders' Equity : JPY82,683 million as of July 31, 2018  
JPY85,773 million as of October 31, 2017

## 2. Dividends

	Annual Dividends Per Share				
	1 <sup>st</sup> Quarter-end	2 <sup>nd</sup> Quarter-end	3 <sup>rd</sup> Quarter-end	Fiscal year-end	Total
	JPY	JPY	JPY	JPY	JPY
Fiscal Year ended October 31, 2017	—	0.00	—	29.00	29.00
Fiscal Year ending October 31, 2018	—	0.00	—		
Fiscal Year ending October 31, 2018(Forecast)				29.00	29.00

(\*Note) Changes from the most recently announced dividend forecasts: None

## 3. Financial Forecasts for Fiscal Year ending October 31, 2018 (November 1, 2017 – October 31, 2018)

(% shows year-on-year changes)

Fiscal Year Ending	Sales		Operating Income		Ordinary Income		Net Income Attributable to Owners of Parent		EPS
	JPY million	%	JPY million	%	JPY million	%	JPY million	%	JPY
Oct 31, 2018	720,000	18.8	17,300	8.7	17,500	△10.9	9,100	△31.4	158.87

(\*Note) Changes from the most recently announced financial forecasts: None

(\*Notes)

(1) Changes in significant subsidiaries during the 9 months ended July 31, 2018 (changes in specified subsidiaries resulting in the change in scope of consolidation): None

(2) Application of special accounting methods for preparing quarterly consolidated financial statements: Yes

For details, please see “Application of accounting treatment specific to preparation of quarterly consolidated financial statements” of the attached appendix.

(3) Changes in accounting policies, changes in accounting estimates, and restatement of prior period financial statements

1) Changes in accounting policies due to amendments to accounting standards and other regulations:

None

2) Changes in accounting policies due to reasons other than 1) above: None

3) Changes in accounting estimates: None

4) Restatement of prior period financial statements: None

## 1. Qualitative Information regarding the Financial Results for the 9 Months Ended July 31, 2018

### (1) Explanation of Operating Results

Regarding the business environment during the 9 months ended July 31, 2018, domestic economic conditions in Japan showed moderate recovery where the employment and income environments continued to improve, despite the economic uncertainties and geopolitical risks outside of Japan.

Under such circumstances, H.I.S. Group reorganized its business execution structure to respond to its expanding business domain and promoted work style reforms. H.I.S. Group also continued its efforts to build a new business model that can contribute to world peace as a company constantly changing and developing not only through travel but also through various businesses with its corporate philosophy "To work in accordance with the laws of the universe and contribute to the creative development of humanity and world peace".

Operating results by business segment are as follows. The amount of each segment is the amount before eliminating intersegment transactions.

#### (Travel Business)

Regarding the travel market during the 9 months ended July 31, 2018, the number of Japanese travelers departing Japan was solid, increasing to 13.35 million (104% of the same period last year), due to major sightseeing destinations remaining safe, relatively stable foreign exchange rates, and favorable day sequence of Golden Week, despite significant weather risks such as heavy rains, floods, heat waves, etc. that are frequently occurring around the world. The number of foreign visitors to Japan continued to be strong and increased to 23.63 million (116% of the same period last year) due mainly to the increase in aviation seat supply volume due to new flights and increase in the number of flights as well as the growing popularity of cherry-blossom viewing, although demand was suppressed in some markets owing to the influence of the Osaka Northern Earthquake and the impact of Western Japan rainstorms. (Source: JNTO).

Regarding the travel business in Japan, summer booking was solid due to "Super Summer Sale" that started in the second half of May as well as record-high level of charter flight procurement and sales. By region, South Korea, which had been sluggish due to the East Asia situation in the previous year recovered, and Europe was solid due to the early capturing of senior customers, although Guam continued to be weak under reduced number of flights. In addition, Okinawa also performed well due to strengthening of original contents such as dedicated lounge. On the other hand, H.I.S. Group worked to improve usability in order to improve services from customer's perspective through seeking efficiency by unifying the promotion and Web production nationwide. For foreign visitors to Japan, the number of customers from North America and Europe increased due to strengthened local sales activities. Significantly increased contents sponsored by H.I.S. Group and promotion of land operator function also contributed to strong results.

Regarding the corporate client business, H.I.S. Group promoted solution business and worked to shift to a more profitable business model.

Regarding the travel business outside of Japan, while Guam was weak, H.I.S. Group took steps to secure customers in a stable manner from markets other than Japan such as Russia and South Korea. In Southeast Asia, the number of travelers from Indonesia to Thailand reached a record high for the first time in six years. Also, increased revenues of important locations due to charter flight tours to Japan for the Vietnamese market, increased passengers for incentive tours of local companies, acceptance of the first school trip, and record high number of customers from H.I.S. Group's tour (Ciao) contributed to strong results. The financial results of three companies that became H.I.S. Group's subsidiaries in the last fiscal year and this fiscal year have been weak due to seasonality, which is already reflected in H.I.S. Group's full year forecasts.

In the meantime, the number of H.I.S. Group's sales locations was 282 in Japan and 274 in 158 cities in 71 countries outside of Japan as of the end of July 2018 as a result of opening new locations and consolidation. As a result of the above, the Travel Business recorded net sales of 454,848 million yen (124.2% of the same period last year), and operating profit of 5,144 million yen (116.1% of the same period last year).

(Huis Ten Bosch Group)

Celebrating its 25th anniversary, Huis Ten Bosch focused on further enhancing customer satisfaction and experience value by providing only one and number one contents.

In addition to opening the new facility "Space Invader Giga Max", Huis Ten Bosch held "Rainbow Fireworks", which was the first in the season. Huis Ten Bosch worked to increase customer satisfaction by holding "Flower Japan Cup" celebrating the 5th year and the "Mum (Chrysanthemum) Exhibition" for the first time at the same time. Also, at the Lily Festival, a new spot "Lily Dress" appeared and contributed to attracting customers.

Due to the initiatives above, the number of visitors during the nine months until 3rd quarter, 2018 was 2,019,000 (95.1% of the same period last year). The year-over-year comparison improved as compared to the six months ended March 31, 2018 (94.4% of the same period last year).

As a result of the above, Huis Ten Bosh Group recorded net sales of 30,437 million yen (121.9% of the same period last year) and operating profit of 5,039 million yen (97.1% of the same period last year) due to increase in selling, general and administrative expenses such as depreciation expense and maintenance costs in the site, as well as increased fuel costs at HTB Energy Co., Ltd. that is engaged in electric power retail business.

(Hotel Business)

In the Hotel Business, which H.I.S. Group is aiming to strengthen as the third pillar following Travel Business and Huis ten Bosh Group, “Henn na Hotel”, aiming to be the most efficient hotel in the world, is the mainstream of business, opening “Henn na Hotel Tokyo Hamamatsu-cho” in April 2018, the fourth in the Tokyo Metropolitan area, which has been showing steady results due to favorable surrounding environments. With respect to existing hotels, the increased number of individual reservations due to online reinforcement at Watermark Hotel Nagasaki, the success of incorporating Ramadan vacation at Watermark Hotel Bali, and the contribution of Green World Hotels Co., Ltd. (Taiwan), which became a consolidated subsidiary, resulted in favorable results. In addition to “Henn na Hotel Tokyo Asakusabashi” and “Henn na Hotel Tokyo Akasaka” which already started operations in July, H.I.S. Group is committed to accelerating the business development by opening one “Henn na Hotel” in Tokyo and five in Western Japan.

As a result of the above, Hotel Business recorded net sales of 9,156 million yen (171.3% of the same period last year), operating profit of 843 million yen (138.4% of the same period last year) and EBITDA of 1,845 million yen (149.6% of the same period last year).

The real estate of Watermark Hotel Sapporo which had been included in this business segment was sold to a 3rd party in March 2018.

(The Kyushu Sanko Group)

The Kyushu Sanko Group recorded net sales of 16,122 million yen (97.5% of the same period last year) and operating profit of 324 million yen (104.5% of the same period last year) as a result of weak travel business due to the reactionary slump from the recovery demand after the Kumamoto earthquake last year as well as increase in diesel oil costs due to oil production cuts. On the other hand, the Sakuramachi redevelopment project progressed as planned.

As a result of the above, H.I.S. Group recorded net sales of 510,438 million yen (123.0% of the same period last year), a record high, and operating profit of 9,563 million yen (118.1% of the same period last year) during the 9 months ended July 31, 2018. Ordinary profit was 10,313 million yen (83.9% of the same period last year) with 1,046 million yen of foreign exchange losses (2,697 million yen of foreign exchange gains in the same period last year), and profit attributable to owners of parent was 4,440 million yen (50.7% of the same period last year).

## (2) Explanation of Financial Position

Total assets as of July 31, 2018 increased by 98,949 million yen as compared to October 31, 2017 to 521,758 million yen. This was due mainly to 37,517 million yen increase in cash and deposits, 22,732 million yen increase in travel advance payments, 18,156 million yen increase in property, plant and equipment and 3,201 million yen increase in notes and accounts receivable – trade.

Total liabilities as of July 31, 2018 increased by 101,174 million yen as compared to October 31, 2017 to 412,736 million yen. This was due mainly to 39,023 million yen increase in travel advance received, 25,083 million yen issuance of convertible bond-type bonds with subscription rights to shares, and 24,850 million yen increase in loans payable.

Net assets as of July 31, 2018 decreased by 2,225 million yen as compared to October 31, 2017 to 109,022 million yen. This was due mainly to 4,999 million yen of acquisition of treasury shares in accordance with the resolution of board of directors on October 31, 2017, partially offset by 2,726 million yen increase in retained earnings by recording quarterly profit, etc.

Capital ratio as of July 31, 2018 was 15.8% as compared to 20.3% as of October 31, 2017. This was due to fund raising through bonds payable, convertible bond-type bonds with subscription rights to shares, and loans payable. Capital ratio excluding the impact of the fund raising was 27.5% as of July 31, 2018 and 34.1% as of October 31, 2017.

## (3) Explanation of Forward-Looking Statements including Financial Forecasts

There is no change to the consolidated financial forecasts for the full year that were announced on “Revision of Financial Forecasts dated April 27, 2018”.

The following events could possibly have an impact on the financial forecasts for the full year.

### 1. Foreign Exchange Fluctuations

H.I.S. Group has transactions denominated in foreign currencies, resulting in income, expenses, assets and liabilities denominated in foreign currencies. Risks are hedged via foreign exchange contracts to reduce the impact of fluctuations in foreign exchange rates, but if the exchange rate fluctuates significantly, there is a possibility that the financial forecasts for the full year could be affected.

### 2. Reduction of Fuel Surcharges

Fuel surcharges included in the net sales of the Travel Business may be increased or decreased with the change of fuel oil price. There is a possibility that consolidated net sales forecasts could be affected by this, but there is no impact on consolidated operating profit, ordinary profit, profit attributable to owners of parent, and EPS forecasts.

## Consolidated Balance Sheet

(Millions of yen)

	As of October 31, 2017	As of July 31, 2018
<b>Assets</b>		
Current assets		
Cash and deposits	193,039	230,557
Notes and accounts receivable - trade	34,801	38,002
Operating accounts receivable	6,194	3,419
Securities	39	90
Travel advance payments	28,062	50,794
Prepaid expenses	2,909	2,651
Deferred tax assets	2,328	2,400
Short-term loans receivable	5,634	3,783
Short-term loans receivable from subsidiaries and associates	373	192
Accounts receivable - other	2,381	2,356
Other	7,954	21,562
Allowance for doubtful accounts	△234	△286
<b>Total current assets</b>	<b>283,485</b>	<b>355,525</b>
Non-current assets		
Property, plant and equipment		
Buildings, net	22,015	22,389
Tools, furniture and fixtures, net	5,442	6,189
Vessels, net	62	54
Land	28,744	31,148
Leased assets, net	2,701	3,031
Construction in progress	18,086	32,334
Other, net	5,949	6,010
<b>Total property, plant and equipment</b>	<b>83,001</b>	<b>101,158</b>
Intangible assets		
Goodwill	6,237	9,024
Other	11,428	11,160
<b>Total intangible assets</b>	<b>17,666</b>	<b>20,185</b>
Investments and other assets		
Investment securities	10,957	13,608
Shares of subsidiaries and associates	1,681	1,829
Investments in capital of subsidiaries and associates	632	175
Long-term loans receivable	1,371	1,124
Long-term loans receivable from subsidiaries and associates	128	1,159
Net defined benefit asset	622	546
Deferred tax assets	4,362	3,983
Guarantee deposits	7,643	8,521
Other	11,210	13,807
Allowance for doubtful accounts	△181	△189
<b>Total investments and other assets</b>	<b>38,427</b>	<b>44,566</b>
<b>Total non-current assets</b>	<b>139,095</b>	<b>165,909</b>
<b>Deferred assets</b>	<b>227</b>	<b>323</b>
<b>Total assets</b>	<b>422,809</b>	<b>521,758</b>

(Millions of yen)

	As of October 31, 2017	As of July 31, 2018
<b>Liabilities</b>		
Current liabilities		
Operating accounts payable	23,590	33,589
Short-term loans payable	7,474	11,236
Current portion of long-term loans payable	1,847	871
Accounts payable - other	3,199	4,647
Accrued expenses	10,049	3,593
Income taxes payable	3,929	2,291
Accrued consumption taxes	724	955
Travel advance received	58,437	97,461
Lease obligations	864	991
Provision for bonuses	4,077	3,157
Provision for directors' bonuses	162	111
Other	17,509	27,200
<b>Total current liabilities</b>	<b>131,866</b>	<b>186,107</b>
Non-current liabilities		
Bonds payable	40,000	40,000
Convertible bond-type bonds with subscription rights to shares	20,073	45,156
Long-term loans payable	101,603	123,666
Deferred tax liabilities	4,786	4,813
Net defined benefit liability	7,588	6,910
Provision for directors' retirement benefits	861	313
Provision for repairs	159	13
Lease obligations	2,211	2,350
Other	2,410	3,404
<b>Total non-current liabilities</b>	<b>179,694</b>	<b>226,628</b>
<b>Total liabilities</b>	<b>311,561</b>	<b>412,736</b>
Net assets		
Shareholders' equity		
Capital stock	11,000	11,000
Capital surplus	3,581	3,605
Retained earnings	92,731	95,457
Treasury shares	△23,875	△28,652
<b>Total shareholders' equity</b>	<b>83,437</b>	<b>81,410</b>
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	283	518
Deferred gains or losses on hedges	265	137
Foreign currency translation adjustment	1,716	628
Remeasurements of defined benefit plans	70	△10
<b>Total accumulated other comprehensive income</b>	<b>2,336</b>	<b>1,273</b>
Subscription rights to shares	252	385
Non-controlling interests	25,221	25,952
<b>Total net assets</b>	<b>111,247</b>	<b>109,022</b>
<b>Total liabilities and net assets</b>	<b>422,809</b>	<b>521,758</b>



Consolidated Statements of Income

(Millions of yen)

	Nine months ended July 31, 2017	Nine months ended July 31, 2018
Net sales	415,115	510,438
Cost of sales	337,155	415,801
Gross profit	77,959	94,637
Selling, general and administrative expenses	69,859	85,073
Operating profit	8,100	9,563
Non-operating income		
Interest income	1,271	1,193
Foreign exchange gains	2,697	—
Other	1,183	1,566
Total non-operating income	5,152	2,759
Non-operating expenses		
Interest expenses	318	429
Foreign exchange losses	—	1,046
Share of loss of entities accounted for using equity method	0	1
Other	634	531
Total non-operating expenses	953	2,009
Ordinary profit	12,298	10,313
Extraordinary income		
Gain on step acquisitions	2,009	—
Gain on sales of non-current assets	—	2,625
Gain on revision of retirement benefit plan	—	282
Total extraordinary income	2,009	2,907
Extraordinary losses		
Loss on sales of non-current assets	641	—
Loss on valuation of investment securities	—	330
affiliated company debt waiver	—	1,687
Total extraordinary losses	641	2,018
Profit before income taxes	13,666	11,203
Income taxes	3,208	5,132
Profit	10,458	6,070
Profit attributable to non-controlling interests	1,695	1,630
Profit attributable to owners of parent	8,763	4,440

## Segments Information

Information on net sales, incomes or losses by reported segment

Nine months ended July 31, 2017 (November 1, 2016 – July 31, 2017)

(Millions of yen)

	Reportable segments						Other Businesses *1	Total	Emanations & Corporate *2	Consolidated *3
	Travel Business	Huis Ten Bosch Group	Hotel Business	Transportation Business	Kyushu Sanko Group	Subtotal				
Net Sales										
(1)Sales of outside customers	365,292	23,843	4,609	3,181	16,516	413,444	1,670	415,115	—	415,115
(2)Inter-Segment sales/transfers	885	1,123	736	91	18	2,854	0	2,854	△2,854	—
Total	366,178	24,966	5,346	3,272	16,534	416,298	1,671	417,970	△2,854	415,115
Segment income (loss △)	4,429	5,188	609	△840	310	9,697	△8	9,689	△1,589	8,100

Note

1. Other Businesses refer to the business segment not included in the report segment, including insurance business and real estate business among others.
2. Segment incomes (losses △) of △1,589 millions of 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.
3. Segment incomes (losses △) are adjusted with operating incomes in the consolidated financial statements.

Nine months ended July 31, 2018 (November 1, 2017 – July 31, 2018)

(Millions of yen)

	Reportable segments					Other Businesses *1	Total	Emanations & Corporate *2	Consolidated *3
	Travel Business	Huis Ten Bosch Group	Hotel Business	Kyushu Sanko Group	Subtotal				
Net Sales									
(1)Sales of outside customers	453,638	29,157	8,501	16,111	507,408	3,029	510,438	—	510,438
(2)Inter-Segment sales/transfers	1,209	1,280	655	11	3,156	39	3,195	△3,195	—
Total	454,848	30,437	9,156	16,122	510,565	3,068	513,633	△3,195	510,438
Segment income (loss △)	5,144	5,039	843	324	11,351	△144	11,207	△1,644	9,563

Note

1. Other Businesses refer to the business segment not included in the report segment, casualty insurance business and real estate business among others.
2. Segment incomes (losses △) of △1,644 millions of 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.
3. Segment incomes are adjusted with operating incomes in the consolidated financial statements.
4. As of the end of October 2017, provisional accounting for consolidation was finalized. As a result, the figures for the 3rd quarter of the fiscal year ended October 2017 reflect the finalization of the provisional accounting treatment.