



Fujita Kanko Inc.

Integrated Report 2016

For the fiscal year ended December 31, 2016





Now marking its 61st year, Fujita Kanko has become a familiar name to its guests, and those in the communities in which it operates, as a specialist in hotel, leisure and other tourism-centered businesses. Having a guest return is of the utmost importance, and there are more than a few family customers who have been returning for three generations. Over the years, the Company's Corporate Philosophy has been to contribute to the well-being of society. This goal, together with aiming to earn the appreciation of its guests, has raised the level of customer praise, which certainly has led to further enhancing corporate value. Moreover, providing hospitable services and places works to revitalize the industry and communities as a whole, and is a way that the Company contributes to society through its business operations.

Corporate
Philosophy

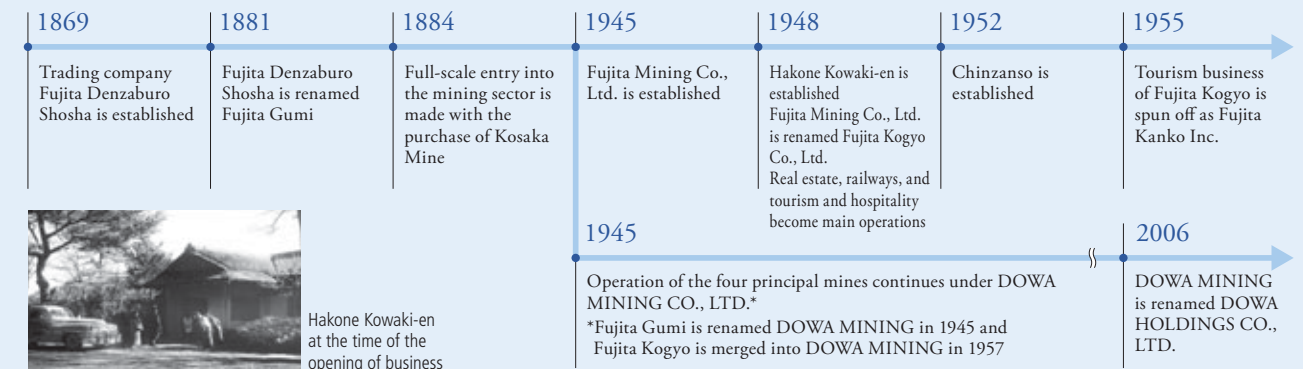
Our goal is to contribute to the well-being of society by providing hospitable services and places where people can relax, refresh and revitalize.

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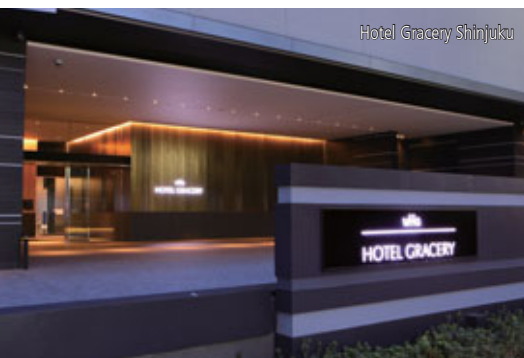
Offering service that reflects the times

What is the value of a hotel to a visiting guest?
What is heart-felt service to a visiting guest?
As society and times change, so too do the aims and needs of hotel guests. Providing hospitable places and services, the basic concept of the Company's Corporate Philosophy, has also undergone change in ways and approaches that reflect the times, and this has become a driving force in the industry. Fujita Kanko continues to evolve with the aim of becoming a leading company that offers heart-felt service in a top tourism destination.

With roots in the Fujita zaibatsu established in 1869, Fujita Kanko became an independent company in 1955 when Fujita Kogyo spun off its tourism business. In the aftermath of World War II, the first president of Fujita Kanko, Eiichi Ogawa, sought to open some of the estates, villas and gardens formerly owned by Japan's privileged class to the public, seeing this as a way to contribute to society by providing weary citizens—now faced with the monumental task of rebuilding the country—with affordable, peaceful and comfortable public gathering places. It was this idea that led to the transformation of the estate and gardens of the Fujita family into a hotel and restaurant and the launch of the tourism and hospitality business that would eventually become Fujita Kanko Inc. The spirit behind Fujita Kanko's philosophy, which emphasizes contributions to the well-being of society, remains very much alive today in all of its employees, despite changes in society and the passing of time.



Three business segments/business model transition



Hotel Gracery Shinjuku

WHG Business

The WHG Business includes the Washington Hotel, Hotel Gracery and Hotel Fujita brands, with locations throughout Japan, particularly the Tokyo Metropolitan area.

- **Customer base:** Business travelers, tourists from Japan and overseas
- **Purpose:** Business trips, tourism
- **Locations:** 37 properties
- **Guest rooms:** 11,334 rooms

1970s

In 1973, Sapporo Dai-ichi Washington Hotel, the first directly managed Washington Hotel is established. In an age when business travelers would naturally stay at a Japanese-style inn, this marked the launch of a business hotel where privacy could be assured.

1980s

In 1983, the Shinjuku Washington Hotel is established as the Washington Hotel's flagship hotel. Needs are rising for hotels that offer a banquet venue and restaurants as well as a place for the local community.

2010s

Business is not the only reason people stay at a hotel; tourism and leisure travel are growing, and inbound demand is also increasing. Needs are rising for hotel stays with breakfast included, and there is a shift toward specialized accommodation hotels. Given this, the Hotel Gracery brand is born to target tourism and leisure travelers.



Hakone Kowaki-en Ten-yu

Resort Business

The Resort Business includes the Kowaki-en and Ryokuyu brands and other hotel facilities, as well as restaurant and leisure facilities management.

- **Customer base:** Tourists from Japan and overseas
- **Purpose:** Tourism, leisure, relaxation, hot springs
- **Locations:** 17 properties
- **Guest rooms:** 809 rooms

1960s

Demand for large-scale Japanese-style inns that accept company tours and other large group travelers grows. The Kowaki-en brand of large-scale resorts is expanded to Hakone, Ito, Toba, Shimabara, Oshima, Onuma and other locations throughout Japan.

1980s

Group tours decline, while family trips and small group travel become mainstream. In Hakone, a hot springs theme park, where bathers can enjoy hot springs in their bathing suits, and athletics facilities open.

2010s

The rise in individual travel and increasing inbound tourism demand leads to diversifying needs, such as with separating lodging from meals. In 2014, the Ryokuyu brand of high-end hot springs Japanese-style inns is launched in Yufuin and Ito. In 2017, Hakone Kowaki-en Ten-yu opens.



Hotel Chinzanso Tokyo

Luxury & Banquet Business

Based on the linchpins of Hotel Chinzanso Tokyo and Taiko-en, the Company operates luxury hotels, wedding and banquet facilities, restaurants, golf courses and other properties.

- **Customer base:** Business guests, tourists from Japan and overseas, wedding reception guests, MICE usage, meetings
- **Purpose:** Tourism, weddings and banquets, meetings, golf
- **Locations:** 17 properties
- **Guest rooms:** 267 rooms

1960s

Needs rise for facilities that can hold weddings and receptions, which had generally been held at home. The Company developed a wedding and banquet business model at Chinzanso and Taiko-en, which were to become Japan's leaders for luxury wedding and banquet venues.

1990s

In a tie-up with Four Seasons Hotels and Resorts, the Company opens Japan's first foreign-capitalized luxury hotel, the Four Seasons Hotel Tokyo at Chinzanso. The high-quality facilities and ample service offered expanded the wedding and banquet venue business in Japan.

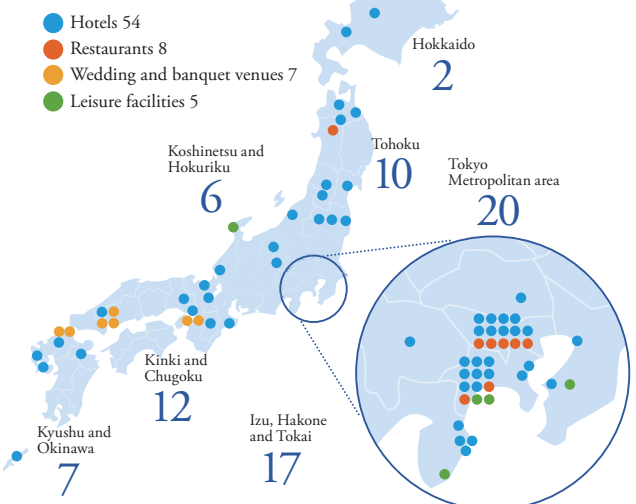
2010s

In line with the expiration of the franchise contract with Four Seasons Hotels and Resorts, the Four Seasons Hotel Chinzanso Tokyo was rebranded as Hotel Chinzanso Tokyo. The Company responded to the social issues of low-birthrates and an aging population by working to transition business from weddings to hotel businesses.

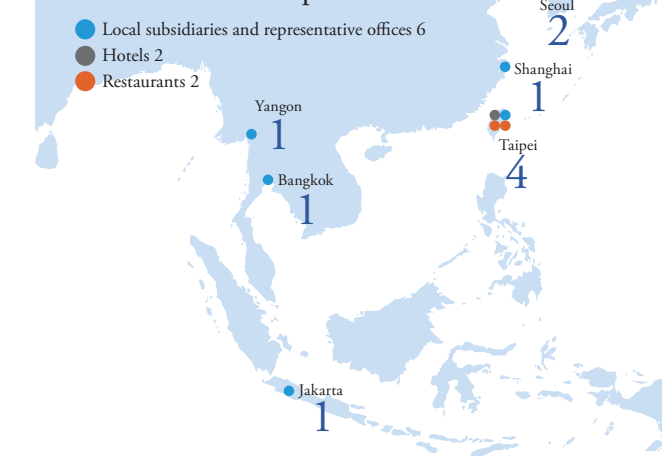
Fujita Kanko Group Properties

(As of April 30, 2017, including scheduled openings)

Domestic Properties



Global Offices/Properties



Note: Numbers of locations and guest rooms are stated as of April 30, 2017, and include scheduled openings.

Gratitude, commitment to thoughtful attentiveness and understated hospitality

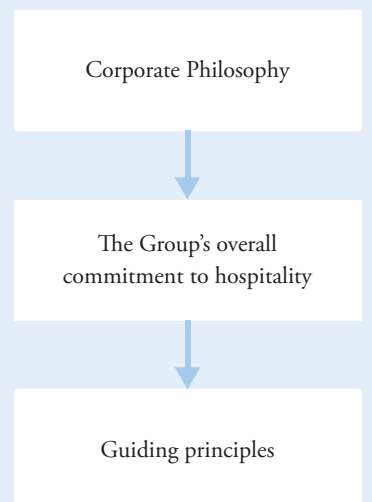
To ensure that Fujita Kanko Group businesses continue to be selected into the future, there is nothing greater than to place importance on appreciation for each and every guest. The Group's overall commitment to hospitality, based on the Corporate Philosophy, is an expression of the values shared throughout the Group, and is the basis of the actions performed by all employees. In providing ever-better service, the greatest asset is people, and that is why the Company will continue to strengthen its efforts to nurture human talent and character, and to hone skills.



The Group's overall commitment to hospitality

Gratitude, commitment to thoughtful attentiveness and understated hospitality

Fujita Kanko offers a feeling of family, and brings thoughtful attentiveness and understated hospitality to the service it provides.



Fostering Hospitality-Conscious Human Resources

To consistently meet customer needs and stay ahead of changing times, the Fujita Kanko Group aims to be a company that can continue to reinvent itself and grow. This is why the Group is making concerted efforts to nurture human resources, offering an ample program for training in which regular employees, part-time staff or anyone can participate, regardless of employment format. In this way, the Group's overall commitment to hospitality as a specialist in the tourism industry becomes rooted in Company culture. In 2004, the Company launched a unique educational and training Orientation Coaching Program (OCP) to thoroughly instill the Corporate Philosophy, and in line with that, raise the level of service. Today, this program continues to evolve and grow as a framework to nurture human resources, and works to nurture newly hired employees at an early stage as well as to provide review for current employees. The detailed curriculum is comprised of a variety of training, and teaches the Company's history and principles, the importance of passing down the corporate DNA, as well as training that engrains a consciousness of hospitality and etiquette.

Training is conducted by employees who have completed coaching and services skills training and gone through a rigorous examination process to qualify as Human Resource Development Leader (HRDL). Such employees are leaders that foster human resources, and reporting directly to general managers, are in charge of cross-sectional training throughout their organization.



Orientation Coaching Program (OCP)



Human Resource Development Leader (HRDL)

Fostering a Diverse Mastery of Skills

The annual skills competition seeks to raise the level of staff skills, but is not limited to just employees. Also participating are part-time staff and others working under a variety of employment formats. Categories range from Japanese and Western-style cooking, to skills for each business area, including customer interaction and service, specific hotel skills, and flower arranging. Together with raising employee motivation, this activity works to develop the ability to offer services unique to Fujita Kanko that earn the gratitude of customers.

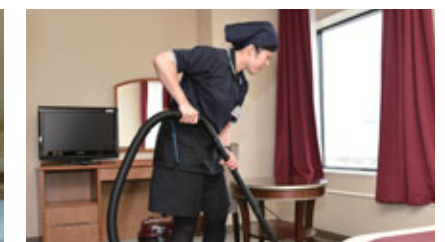
2016 Skills Competition Grand Prize Winners



Japanese cooking



Western cooking



Specific hotel skills



Flower arranging at wedding reception



Front desk services



Restaurant services



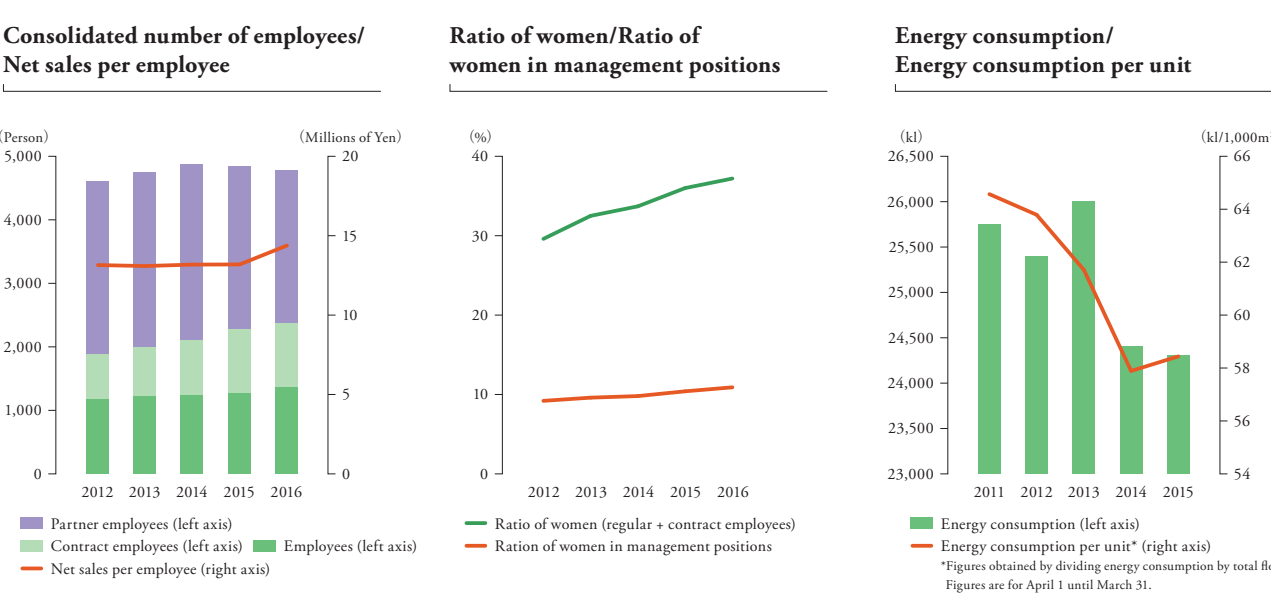
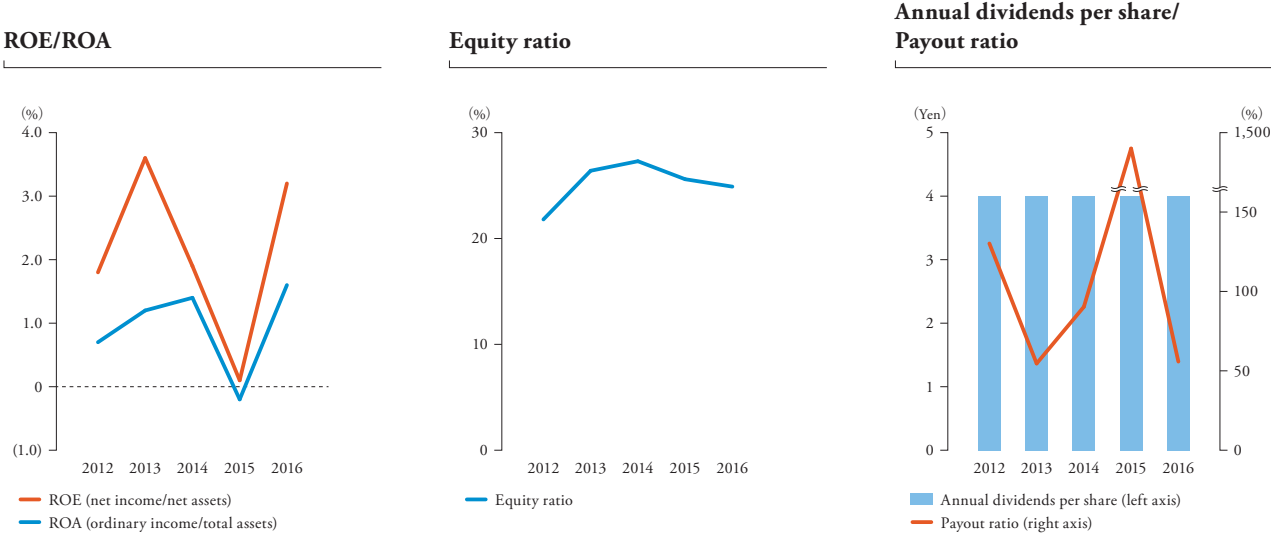
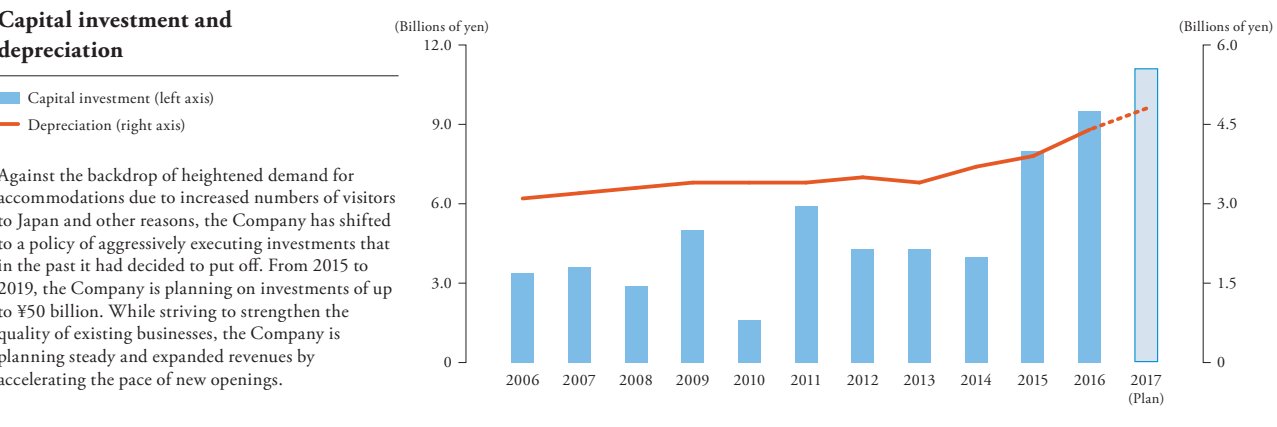
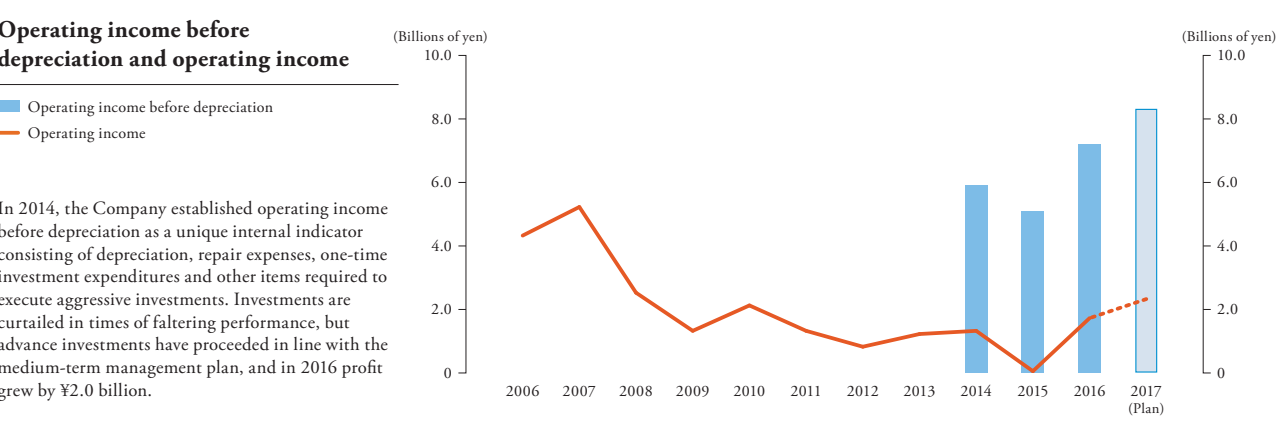
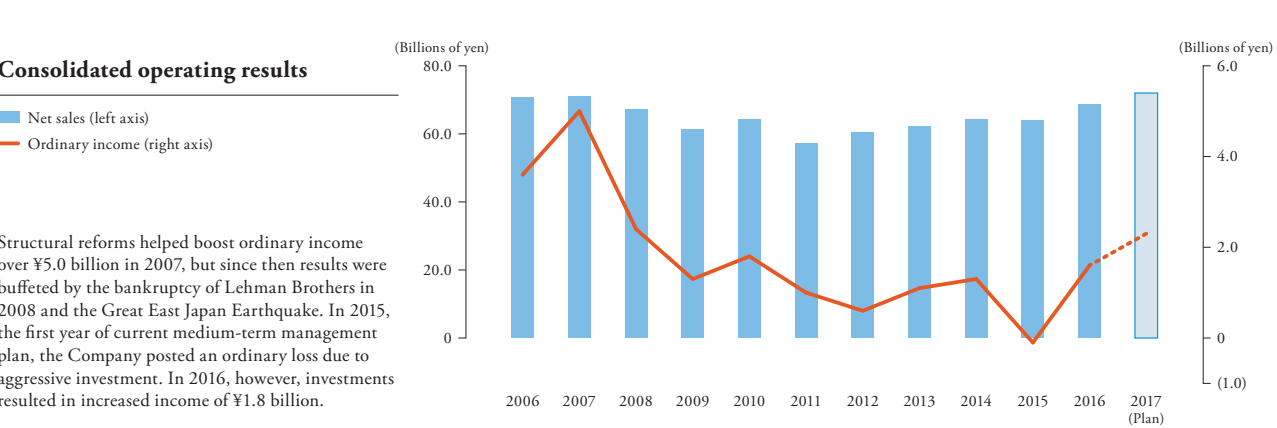
English speech



Services for new customer at wedding venues



Sign language



Consistently ensuring a high-quality workforce has driven the Company's efforts to conduct hiring activities both in and outside of Japan, and shift to permanent-type employment from fixed-term employment by appointing people as regular employees. It is also possible for all—regardless of employment format—to participate in training and competitions to hone their skills. These and other initiatives are representative of the Company's efforts to raise the level of human resource capabilities throughout the entire Group.

The introduction of various work-life balance initiatives has enabled employees to maintain their employment status while also having compatibility with life events. In addition, for female employees in pre-management positions, the Company conducts awareness building and skills enhancement training with an eye toward management positions, as well as career planning development, promoting growth with a medium-to long-term perspective.

Energy consumption has declined, excluding in fiscal 2013 when there was a series of new openings. Energy consumption per unit, an expression of energy efficiency, also declined over an average of 1% per year. Given this, the Company exceeded the non-binding targets of the Energy Conservation Act, and has received S-Class certification from the Ministry of Economy, Trade and Industry in the evaluation system that categorizes business operators.

Akira Segawa

Representative Director and President

Based on our founding philosophy, we continue to welcome the challenge of creating “hospitable services and places” that are a step ahead of the times, and aim to be Japan’s leading tourism company.

In 2016, the WHG Business was a key driver in achieving sales and income growth, results that surpassed medium-term management plan goals.

Fujita Kanko’s goal is to become Japan’s leading tourism company, and since 2015, the Group has pressed ahead with its five-year medium-term management plan, FUJITA PREMIUM VALUE CREATION 2015. This medium-term management plan has shifted us away from the pressure of responding to long years of deflation, the bankruptcy of Lehman Brothers in 2008, the Great East Japan Earthquake, and aging facilities, to a policy of investing in people and properties. It sets goals for achieving higher profits, not by cost cutting, but by raising added value. It has been a boost to making aggressive investments both with the government’s plan aimed at guiding Japan into a leading tourist destination and also with the decision to hold the Olympics and Paralympics in Tokyo.

In fiscal 2015, the first year of the medium-term management plan, we were set to accept a major deficit with large-scale advance investments. The result, though, exceeded our goals, and in 2016, the second year of the plan as well, we actively pursued our business strategy, which enabled us to take a great stride forward.

As demand in the tourism industry becomes increasingly pronounced, services that respond to customer needs of diversification and individualization will be required more and more.

In particular, we stayed a step ahead of an evolving environment characterized by Japanese people who were changing the way they traveled and increasing numbers of inbound foreign individual travelers (FITs). We also positioned the WHG Business as a key driver of growth and poured efforts into raising added value and attracting FITs. The result is that while at the same time as attaining sales and income growth, we are exceeding the progress goals of the medium-term management plan and achieving noteworthy results. The first full year that Hotel Gracery Shinjuku was open for business, completion of the large-scale renovations at Shinjuku Washington Hotel Main Building and other factors, as well as the successful preparation for inbound initiatives made with advance investments, have been fair winds that made huge contributions to profits.

Nonetheless, the hotel industry has seen a slowing rate of growth in foreign guests visiting Japan since April 2016, as reported by the Japan National Tourism Organization (JNTO), and as not all hotels share in the benefits of inbound demand, we are reminded of the importance of strategic differentiation between each hotel. Moreover, the Resort Business and the Luxury & Banquet Business have fallen behind in establishing new initiatives, so these are issues that will have to be dealt with in the future.

Looking at future market trends, even after the Olympics and Paralympics in Tokyo, it is anticipated that together with global mid-range expansion there will be overall growth in tourism demand, and the number of tourists to Japan will continue to grow. On the other hand, the hotel industry in this country will likely also experience a steady stream of entrants by foreign operators and players in other industries, further escalating competition and increasing transformation in the market environment.

Hotel guests in the accommodation market in Japan are changing, such as with individual travelers and those staying at hotels for tourism purposes. The market for

Background of medium-term management plan

Opportunities

- A boost from policies that ease requirements for the acquisition of visas
- A steady stream of planned world-class events, such as the Olympics and Paralympics in Tokyo
- Greater purchasing power for foreign visitors due to yen depreciation
- A generation with a greater degree of consumer confidence

Risks

- Instability in the world economic situation
- Soaring costs of some imported resources due to yen depreciation
- Rising public concern for safety and security
- Securing a labor force
- Falling wedding-related demand due to declining birth rates and trends toward later marriage

FUJITA PREMIUM VALUE CREATION 2015

Becoming Japan’s leading tourism company

Overall strategies of the medium-term management plan

1

Increase and expand added value of existing businesses by meeting diverse customer needs

2

Increase marketing and sales to capitalize on the rising number of foreign visitors to Japan, and develop overseas business

3

Develop diverse human resources and improve employee satisfaction

weddings is also seeing a contraction in scale, along with diversification in wedding ceremony style and party venues. On top of that, change in the way people get their information, such as with social media, is expected to drive even further diversifying needs and individualization. Moreover, with regard to inbound guests as well, needs are becoming more diverse, with shifts from the consumption of things to services, and decentralization to Japan's regions.

To respond to this “made-to-order age,” we are moving forward on a shift to high-value-added services in each business segment.

Leveraging what makes our business unique, and by responding to individuals’ needs, we aim to boost the level of our profits.

In our aim to achieve sustainable future growth for the Fujita Kanko Group, we understand the importance of having a grasp of, and responding to, the needs of individuals for both domestic and inbound guests. Our goal is to boost the level of profits, and in order to do that, we will use the profits gained in the WHG Business to expand that business, which is currently running at a solid pace. We will also direct investments toward the Resort Business and Luxury & Banquet Business in our efforts to build a circulation model that works to further generate profits.

Specifically, in the WHG Business, we will handle members’ cards and enhance concierge and other services in efforts to foster repeater customers from within Japan. In tandem with this, we will also work to attract FITs who have long stays and who expect to have high-value-added services. With regard to this point, in 2015 we renovated all rooms in the Shinjuku Washington Hotel Main Building and opened the Hotel Gracery Shinjuku, representing aggressive investments. This total of 2,586 rooms in the Shinjuku area, where FIT demand is high, gives us the ability to develop a large-scale business and precisely respond to its needs. Moreover, having been able to reestablish the Hotel Gracery brand in Naha, Okinawa, Japan’s premier

Targets of the medium-term management plan

	(Billions of yen/%)			
	2014/12 (Results)	2015/12 (Results)	2016/12 (Results)	2017/12 (Plan)
Net sales	64.2	63.9	68.7	72.0
Operating income before depreciation	5.9	5.1	7.2	8.3
Operating income	1.3	0.03	1.7	2.3
Ordinary income	1.3	(0.1)	1.6	2.3
ROA (ordinary income/total assets)	1.4	(0.2)	1.6	-
ROE (net income/net assets)*	1.9	0.1	3.2	-
Capital investment	3.6	8.1	9.5	11.1
Depreciation	3.7	3.9	4.4	4.8
Interest-bearing debt	37.4	44.8	45.7	-

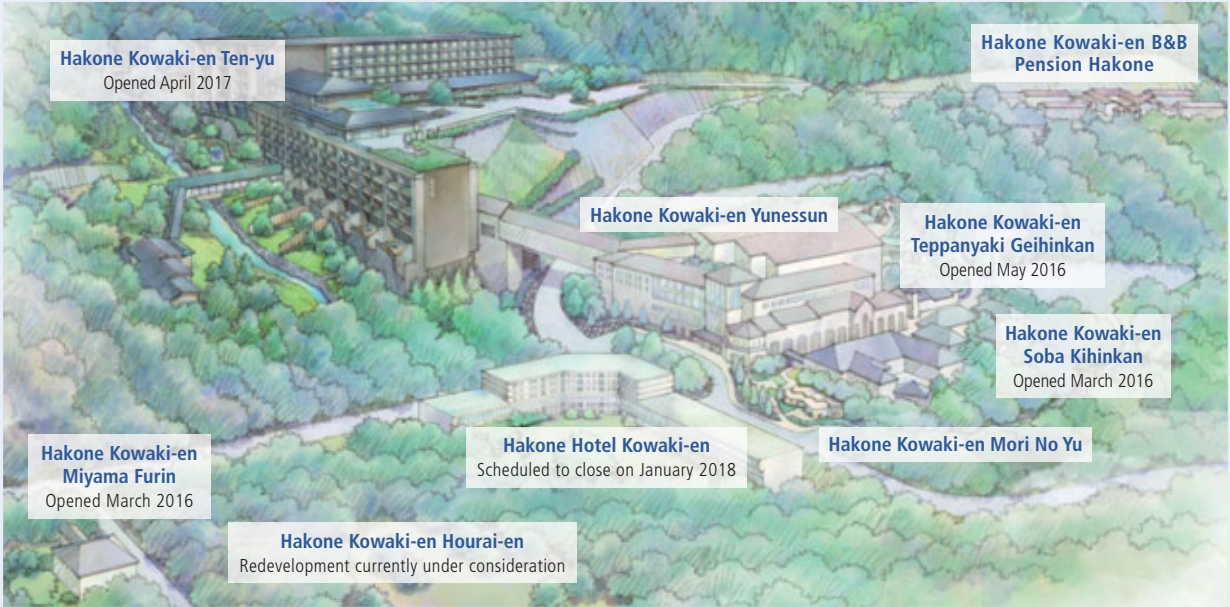
*Net assets in ROE include total shareholders’ equity and total accumulated other comprehensive income

Five-year plan for growth

From 2016 and beyond, recover the cost of investments and expand revenues, while at the same time continuing to allocate funds to enhance both hard and soft infrastructure

~2014	2015	2016	2017	2018	2019	2020~
				Period of renewed growth: Increasing profitability from new business initiatives		
		Period of return on investment: Stabilization and expansion of profit				
Period of upfront investment: Actively moved up the schedule of investment						

Redevelopment of Hakone Kowaki-en



resort location and in Kyoto, a city recognized for its international tourism, has been extremely fruitful. In 2017, together with renovations at Kansai Airport Washington Hotel where demand is similarly high, we will continue to enhance quality in the entire WHG Business Group to achieve differentiation.

In the Resort Business, Hakone Kowaki-en Ten-yu, our flagship resort opened in April 2017 and the largest investment project under this medium-term management plan, is anticipated to be a driver of this segment going forward. In addition to implementing concierge services that introduce activities with connections to the local community and that attract customers to restaurants, while conveying area information, “Ten-yu” also plays a leading role in our initiatives for FITs, who represent changing needs such as with regard to their hope for the kind of experiences that they can have only in Japan. As the types of customers change, including with those from Japan, we feel that getting this property up and running smoothly will be key to building a revenue model for the future.

In the Luxury & Banquet Business, we recognize that respective brands are not yet sufficiently established, and we are considering efforts to raise brand equity as well as profitability. In the Hotel Chinzanso Tokyo and Taiko-en brands, in addition to strengthening efforts with meetings, incentives, conferences and exhibitions/event, or “MICE” initiatives, we will advance measures that work to increase added value, such as by remodeling guest rooms in phases at Hotel Chinzanso Tokyo and by refurbishing suite room guest lounges to target upscale guests. Moreover, by further developing restaurants that offer Japanese cuisine in Asia, we aim to achieve synergistic effects to attract FITs.

In advancing measures that leverage the characteristics of each business in this way, considering our wide-ranging accommodation portfolio is an advantage of the Group, we are conducting sales in Asia, primarily in six locations, and developing PR activities to capture the repeater business for the entire Group. In tandem with this, the tourism business, being particularly susceptible to global economic and political conditions, is anticipated to see fluctuating demand. Given expectations such as these, we also aim to differentiate ourselves and look to undertake measures that include targeting regions other than Asia and business travelers from overseas locations.

Further enhancement of human resources is the very source of strategy implementation and growth.

For the Group to firmly secure the capability to grow, it is critical that we continue to be chosen by customers, and to conduct ourselves in a way that earns their ongoing praise. In the first pages of this report we stated that the results of our pursuit of “contributing to the well-being of society” is what will earn customer accolades, and our firm belief that this will lead to further increases in corporate value. “Providing hospitable services and places where people can relax, refresh and revitalize” that are a step ahead of the times is the characteristic linchpin of Fujita Kanko, and this is also at the core of our future business strategy development. Furthermore, based on our Corporate Philosophy and as a tourism specialist, we have over many years attracted human resources with exceptional consideration for hospitality, and have nurtured an understanding of the importance of earning the appreciation of each and every guest.

The very human resource strengths that embody our founding philosophy are what define the source of growth and the ability to execute strategy. Our business is supported by people, and in achieving a high level of customer satisfaction (CS), first we need employee satisfaction (ES), and this means instilling motivation to work, and making it easy to work. Based on this concept, we are moving forward on our human resource strategy.

In organizing our system of education, we offer training and conduct competitions in which regular employees, contract employees, part-time employees and others, regardless of employment format, can hone their skills. We have also commenced *okami* training where participants can systematically learn skills related to Japanese dining, one of our characteristic strengths. This and other efforts will work to raise the skills, techniques and knowledge of each employee.

Fujita Kanko also offers an ample system of support that provides generous assistance for child rearing and home care, among others. Additionally, we are also making efforts to transform the way we work, and to realize work-life balance,

diversity and inclusion. The important point here is that these are things that each employee must consider on their own, namely, how do you balance the relationship between work and private life, and why is this the place where you work. These are questions to which employees must answer for themselves. It is not just an issue of the system; it is also important to give consideration to making decisions and taking positions autonomously.

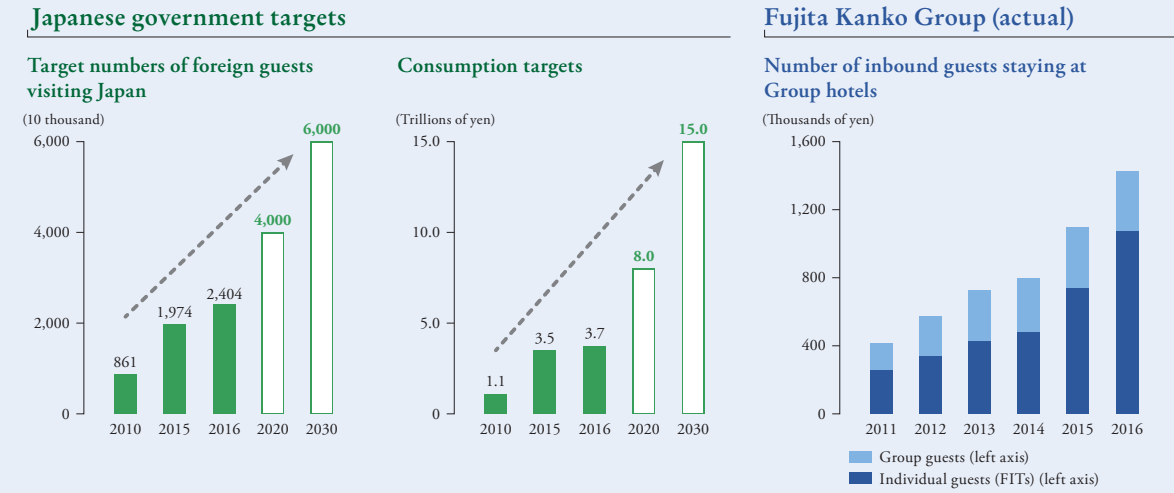
Looking to market conditions that are significantly evolving, adapting to a made-to-order age requires human resources to change in such a way that they can go about their tasks in an autonomous way. What we are looking for are employees who can take notice and speak up about what they see and change at their different work sites. To get employees on the front lines to raise their voices about what is important to strengthen workplace skills, namely, a “bottom-up” type of organization is necessary. Based on this concept, we are advancing the creation of a framework in which on-site decisions will be able to take priority. One part of this is having a business group-type structure, in which COOs are stationed in each business. However, we understand that the point of building an organization for the future will also be to nurture middle management, which is essential to on-site operations. Such initiatives as these will lead to strengthened organizational capabilities and a greater ability to respond to needs. This, together with realizing high-value-added services from the workplace and creating a virtuous cycle with a strong stream of revenues is the stance we have taken.

Our intent is to broadly contribute to society through tourism activities, based on our philosophy that has always given us guidance. To achieve this goal, we will work to further enhance the services we provide and to strengthen our organizational capabilities. We certainly hope that you will look forward to the future of the Fujita Kanko Group.



Growth of inbound needs

The Japanese government has substantially raised its foreign guest-related targets, to 60 million visitors in 2030, and ¥15 trillion in expenditures. Inbound consumption, if stated in another way, is the export of services. In 2015, the automotive industry had the top export figures, at ¥15 trillion. Chemical products for that year amounted to ¥8 trillion. In comparison to these figures, the service industry in 2030 is anticipated to become a key industry. Amidst such ongoing environmental change, the Fujita Kanko Group seeks to provide more than just accommodations, but also with plans and experiences linked with local communities, and services specific to Japan. By strengthening these and other value-added services, the Group is making concerted efforts to address the FIT segment, which has seen continued expansion in recent years.



Fujita Kanko Group initiatives to respond to inbound needs

From before “inbound” became a common expression, the Fujita Kanko Group has stayed a step ahead of the industry, having made efforts to address inbound needs in Asia.

In 2010, Fujita Kanko established its sales department in China (thereafter reorganized as the “International Group”). In that same year, Fujita Kanko held an exhibition of commemorative calligraphic works at the Japan-China Friendship Association’s Court of Peace. In 1961, before the normalization of diplomatic relations between China and Japan, Hakone Hotel Kowaki-en welcomed a visiting delegation of Chinese writers. Since then, Fujita Kanko has hosted an increasing number of cultural, arts and sports organizations from China. Following that, as background there have been 700 delegations from the country visiting Japan who have been guests.

Based on this ongoing exchange, even today, Hakone Hotel Kowaki-en is host to an annual autumn event* promoting cultural exchange between China and Japan. Chinese travel agencies, Hakone Town and local hotels conduct tourism-related exchanges. The Company also holds workshops at its six locations in Asia, and participates in travel fairs, among other PR activities, to raise the name awareness of the Fujita Kanko Group. The Company will continue to roll out its business in Asia, aiming to achieve synergies between both inbound and outbound tracks.

*A Chinese holiday, the mid-autumn festival held on August 15 of the lunar year, it takes place around September or October in the Western calendar.



WHG Business

Medium-term management plan

Mission	Accelerate expansion of this segment as the key driver for company growth
Measures	1. Accelerate new openings 2. Strengthen competitive edge

Fiscal 2016 Overview

In 2016, until March the number of foreign guests visiting Japan was up over 30% from 2015, although from April onward this had fallen to the 10% level. Moreover, there was the continued tendency of the yen to appreciate compared with the previous year and the pronounced trend of lodging destinations becoming more dispersed throughout Japan's regions. This meant that the Group's facilities for accommodation also experienced a leveling off of growth in unit price per room, particularly in the Tokyo Metropolitan area. It was amidst this transitioning environment that each accommodation facility in the WHG Business strived to implement sales measures with regard to both room pricing and

occupancy, together with continuing ongoing initiatives to capture the business of domestic repeat visitors and to raise the level of customer satisfaction. The result was to achieve maximized sales. It was through this proactive rollout of strategy that the Company posted a 19% increase in unit price per room over the previous year, and in the Tokyo Metropolitan area, a major contribution for this came from Hotel Gracery Shinjuku, which has since its opening operated at a level higher than anticipated, as well as due to pricing changes made in line with the renovation of Shinjuku Washington Hotel Main Building. In addition, by taking measures to deal with inbound guests staying in areas throughout Japan, regional hotels also saw unit price per room rise 11% from the previous year.



Hotel Gracery Naha



Kansai Airport Washington Hotel

Moreover, Hotel Gracery Naha, opened in April 2016, and the opening of Hotel Gracery Kyoto Sanjo North in July of that year, both were off to a strong start and experienced higher than anticipated average unit price per room. As a result of these factors, the number of guests in the accommodations business was up 10.4%, to 3,536,000, net sales also increased, by 21.5%, to ¥27,151 million. In addition, net sales for the segment rose 17.8% year on year, to ¥32,954 million, operating income also grew 192.0%, to ¥2,044 million.

Future Initiatives

Fiscal 2017 marks the third year of the Company's medium-term management plan, and is a year positioned as a period of return on investment where profit is stabilized and expanded. In the WHG Business, set to accelerate business development as a key driver of company growth, it has been decided that 2,122 rooms will be made available by 2019, compared with the plans to increase the number of rooms to 3,000 at 10 facilities, with research on the remaining 878 rooms intensifying. In addition to the openings of Hotel Gracery Naha and Hotel Gracery Kyoto Sanjo North in 2016, the Shinjuku Washington Hotel Main Building will this year have its first full year of operation after having completed a year-long large-scale renovation. These factors

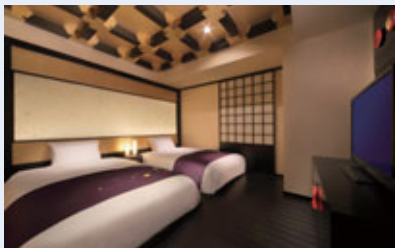
are anticipated to make full-fledged contributions to profits. There are also plans for Hotel Gracery Kyoto Sanjo South (128 guest rooms) to open up increased floor space adjacent to the North facility in May 2017, and to open Kisarazu Washington Hotel (146 guest rooms) as a franchise in October 2017. In addition, in order to offer customers comfort and added value, the Company will work to enhance the quality of guest rooms by refurbishing those in existing facilities (in 2017 at Kansai Airport Washington Hotel and Yokohama Sakuragicho Washington Hotel), and to raise service capabilities through focused education that utilizes the Company's training center, as well as to raise assessments of breakfast with menu development and other measures. Through these initiatives the Company seeks to raise the level of customer satisfaction. There is also the strategy to attract guests, under which the Company began to accept applications from foreign visitors for member's cards, from the end of October 2016, and from the end of December of the year, commenced distribution of smartphone apps. Through these and other strengthened measures to attract FITs and customer memberships to the Fujita Kanko Group Member's Card, the WHG Business will work to further raise the unit price per room and to enhance customer satisfaction.

Strengths of the WHG Business



High awareness

- High name recognition for Washington Hotel
- Two major flagship hotels in the Shinjuku area where there is high demand, from both inside Japan and from foreign guests



Experience and expertise

- A track record and expertise in managing large-scale hotels
- Concept rooms and breakfast menus that leverage hotel management experience based on close contact with communities



Originality that reflects the needs of the times

- Opening facilities under the Hotel Gracery brand that targets tourism and leisure guests
- Introduction of concierge services that satisfy individual guest needs

Hotel Gracery establishing a presence in Asia

WHG hotels consist of the Washington Hotel brand, with 25 properties in Japan, and the Hotel Gracery brand, with six properties. In particular, in response to trends in recent years of increasing inbound and outbound guests, the Company is establishing Hotel Gracery in the Asian region. Following the opening of Hotel Gracery Seoul in Korea, scheduled for summer 2018, in Taiwan, plans are for the opening of Hotel Gracery Taipei (tentative name), in 2019. Hotel Gracery, leveraging its exceptional advantage to attract tourists, is expanding to areas that have the

potential for tourist guests, and the recently opened properties in Kyoto and Naha are both doing well. In locations outside of Japan as well, it has set tourism and leisure guests as primary targets, and in addition to guests from Japan, anticipates that there will be interest from guests from the local country and the region. Together with conducting PR activities in six overseas locations—Shanghai, Taipei, Seoul, Bangkok, Jakarta and Yangon—the Company believes setting up hotels in Asia will also be able to achieve a sufficiently synergistic effect with attracting inbound guests.



Hotel Gracery Kyoto Sanjo North
Kabuki Room (Sakura no Ma)



Hotel Gracery Kyoto Sanjo South
(May 2017)



Hotel Gracery Seoul
(Summer 2018)



Hotel Gracery Taipei (tentative name)
(2019)

Resort Business

Medium-term management plan

Mission	Focus on redevelopment of Hakone-area facilities and attract more upper-middle class, high-end customers
Measures	1. Large-scale investment in Hakone Kowaki-en 2. More new properties in resort destinations

Fiscal 2016 Overview

In the accommodations business, Hakone Kowaki-en recovered from the impact of the 2015 volcanic earthquake in nearby Owakudani, there was a shift to increased numbers of individual travelers, and unit prices per room rose above the level of the previous year. Moreover, as one redevelopment initiative in the Hakone area, the Company opened Hakone Kowaki-en Miyama Furin in March 2016, and after that, opened Hakone Kowaki-en Geihinkan, a teppanyaki restaurant. With the soba noodle restaurant Hakone Kowaki-en Soba Kihinkan, these restaurants are housed in two listed as tangible cultural properties in Japan, which are held by the Company. Furthermore, leading up to the

opening of Hakone Kowaki-en Ten-yu, an accommodation facility where every room has its own private open-air bath, the Company has conducted preparations, including human resource education and staff training, as well as formed a sales team to seek out new guests. In the accommodations business overall, guest numbers rose 5.0% from the previous year, to about 783 thousand people, and sales increased 2.4%, to ¥4,699 million.

In the leisure business, the main tourist route, the Hakone Ropeway, fully reopened in July 2016 and certain restrictions have been lifted, such as those on closed courses in the Owakudani vicinity. Visitor numbers have also risen to the Hakone Kowaki-en Yunessun hot spring theme park, compared with the previous year. In the business overall, guest numbers



Ito Ryokuyu



Yufuin Ryokuyu

rose 0.9% from the previous year, to about 659 thousand people, and likewise, sales increased 5.6%, to ¥1,704 million.

As a result of these factors, net sales in the segment rose 4.1%, to ¥6,757 million. However, due to advance costs associated with redevelopment in the Hakone area, the Company posted an operating loss of ¥394 million.

Future Initiatives

Continuing to move forward on large-scale investments in Hakone Kowaki-en, the Company is making concerted efforts on the redevelopment of Hakone-area facilities and to attract more upper-middle class, high-end customers. With the April 2017 opening of Hakone Kowaki-en Ten-yu (150 rooms) as a new flagship accommodation facility in the Hakone area, the Company is planning on a 2017 occupancy rate at the 70% level, with room rates per guest at the ¥28,000 level. In 2017, for the Hakone Kowaki-en Yunessun spa facilities as well, the Company is planning for a 9.3% increase in entries by targeting foreign visitors as they are visiting Hakone in increasing numbers, and by invigorating demand from seniors visiting on weekdays.

On another front, as new projects, the Company has taken measures in response to local volcanic earthquake and, although delays had occurred as it concentrated human resources ahead of opening of Hakone Kowaki-en Ten-yu, considerations have begun into the development of a luxury accommodation facility in Hourai-en, adjacent to Hakone Hotel Kowaki-en, which was acquired in 2015. While shifting to high-value-added services, the Company aims to develop a space that will delight guests with a greater level of luxury as it moves forward on further development in the Hakone area.

The Hakone Hotel Kowaki-en will close its doors in January 2018 on account of its aging facilities. Nonetheless, the Company is moving forward on expanding properties into other resort areas, and is considering putting to use its experience managing the high-end Japanese-style inns Yufuin Ryokuyu and Ito Ryokuyu to develop and open luxury accommodation facilities at domestic hot springs and resort areas. It will endeavor to capitalize on new grades of guests and sales channels.

Strengths of the Resort Business



Superior site location and brand

- Business development in Hakone, a resort area located nearby to the Tokyo Metropolitan area, giving it stable numbers of tourists
- High brand name recognition of “Kowaki-en” owing to factors such as over 60 years of history and New Year’s sports events



Historic heritage and cultural inheritance

- Management of two restaurants housed in listed as tangible cultural properties
- Employee education with regard to Japanese cuisine, kimonos and other Japanese cultural inheritance



Experience and expertise

- A track record and expertise in managing a wide range of businesses
- Accelerate new property development that leverages experience

Hakone Kowaki-en Ten-yu, a new flagship facility from April 2017



Exterior view of Hakone Kowaki-en Ten-yu



Large open-air bath, Ukigumo-no-Yu (Bath of Drifting Clouds)



Japanese executive suite room with open-air bath “Hakone Yusan” (Sengoku-hara)

Having over 60 years of experience in the resort business in Hakone, Kanagawa Prefecture, the Company has in April 2017 opened Hakone Kowaki-en Ten-yu as its new flagship facility in this area. The new facility welcomes guests from in and outside of Japan based on the concept of harmony of authentic Japanese hospitality and nature. A stay at Hakone Kowaki-en Ten-yu will awaken the five senses—sight, sound, smell, taste and touch—allowing guests to savor singular moments of refreshment from head to toes. Immersed in private open-air baths, which are offered in all of its 150 rooms, guests can enjoy the high-quality waters of the Kowakudani Hot Springs and a gorgeous view. Creative Japanese cuisine with an emphasis on seasonal ingredients, and from the large open-air baths an expansive view of Mount Hakone’s crater, Hakone’s foremost garden built into a ravine, and other features and activities for a one-of-a-kind Hakone Kowaki-en Ten-yu experience to discover the harmony of Japanese hospitality and nature.

Luxury & Banquet Business

Medium-term management plan

Mission	Build upscale, high-quality business centered around Hotel Chinzanso Tokyo brand
Measures	1. Transition Chinzanso from a wedding brand to a hotel brand 2. Actively develop restaurant business 3. Expand wedding business through new ventures

Fiscal 2016 Overview

In the wedding business, with favorable numbers of guests, sales increased for Taiko-en's (Osaka) Shinto Shrine "Houseiden," which the Company renovated in 2015. On the other hand, Hotel Chinzanso Tokyo experienced a decline in usage and numbers of guests, resulting in a year-on-year decline in net sales of ¥278 million for existing properties. The closing of CONVIVION (Minami Aoyama, Tokyo) in December 2015 impacted the business overall, and guest numbers declined 7.9% from the previous year, to 209,000, and sales declined 4.4%, to ¥11,840 million. In the banquet business, Hotel Chinzanso Tokyo received steady demand for banquets from corporate

customers, and captured MICE usage business associated with accommodations in tandem with business meetings and seminars from companies based both in and outside of Japan. Sales increased 7.6% year on year, to ¥5,569 million, a result that offset the decline in sales in the wedding business.

In the accommodations business, the Company completed the third phase of guest room renovation that had continued at Hotel Chinzanso Tokyo from 2014, with refurbished Japanese-style suites and a new lounge exclusively for the suite room guests. Furthermore, there was increased accommodations associated with foreign visitors and MICE usage, and unit price per room was also higher. Sales throughout this business were up 2.7%, to ¥2,506 million.



Kinsui Taipei by Hotel Chinzanso Tokyo



"Kourin," a kappo-style restaurant

As a result of these factors, sales in this segment, including with golf and other businesses, fell slightly from the previous year, to ¥26,215 million, although unit price per room in the accommodations business increased, and as a result of reviewing the wedding business cost structure, operating income rose 104.7%, to ¥913 million.

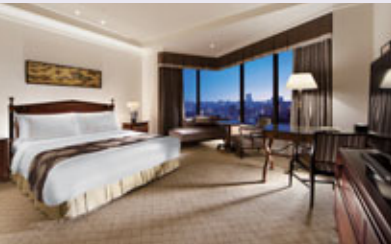
Future Initiatives

Having positioned Hotel Chinzanso Tokyo as a core brand, the Group is developing high-quality businesses that exemplify the Group's overall commitment to hospitality. At Hotel Chinzanso Tokyo, we are constantly striving to bolster the power of the brand, undertaking a fourth stage of guest room renovation, refurbishing Orion, the largest banquet venue so as to strengthen our ability to capture MICE business and differentiate ourselves from competitors, newly establishing a Shinto shrine in all-out efforts to launch popular Japanese style wedding services.

In addition, continuing on with its receiving five red pavilions, the highest ranking from the Michelin Guide for a 10th consecutive year, Hotel Chinzanso Tokyo was also highly acclaimed by the Forbes Travel Guide, having earned four stars, among other honors. In this way we are working to shift Hotel Chinzanso Tokyo from a wedding brand to a hotel brand.

Taiko-en has newly established a dedicated sales team, strengthening its structure and products, and is working to spread opportunities for inbound guests to become aware of Japan's historical assets and culture. In the restaurant business, following the two Japanese restaurants opened in Taiwan in 2016, "Kinsui Taipei by Hotel Chinzanso Tokyo" and kappo-style restaurant "Kourin," the Company is considering an active expansion of restaurants, mainly in the Asian region. In the wedding business, in 2015, we acquired all shares of a company that produces original weddings in Hiroshima. Continuing on from that we are seeking to grow our business, with a focus on Japan's regional cities.

Strengths of the Luxury & Banquet Business



Brand power

- Hotel Chinzanso Tokyo: Sixty years of business results and guest service
- Recognized for exceptional service capabilities by Michelin Guide and Forbes Travel Guide



Historical assets

- Having abundant seasonal gardens, historical assets (Hotel Chinzanso Tokyo, Taiko-en)



Venue and area development

- Management of large and small banquet venues and extensive restaurant facilities
- Expertise gained with acquisition of all shares in a wedding production company

Strengthening development of wedding business in Japan's regional cities



In response to wedding needs that reflect the times, under the current and upcoming medium-term management plans, the Company is strengthening development of its wedding business in principal cities in Japan's regions. As a first step, in January 2015, Fujita Kanko acquired all shares of Share Clapping Inc. (name changed from Kawano Co., Ltd. in January 2017), a company that operates two guest houses and develops original wedding productions in the City of Hiroshima, making it a subsidiary company. From the perspective of sales, one result is of course a collaborative structure, as well as the sharing of experience and know how held by both companies, among other advantages. This acquisition is working to further enhance competitiveness in the wedding business across the entire Group. Moreover, in April 2017 we entered into a building lease agreement for two guest house facilities held by Chigusa Inc. in Kita Kyushu, Fukuoka Prefecture, and in the same year the newly established Share Clapping Fukuoka Inc. began management of these facilities on May 1. We will set ourselves apart while making concerted efforts in facilities and the wedding production business in consideration of regional city wedding needs, based on capabilities that Share Clapping cultivated in Hiroshima. This being the first foray of the wedding business into Kyushu, together with moving forward to further strengthen the wedding business throughout the Group, we will aim to expand our presence in principal cities across Japan.

Special
Feature

Witnessing Value Creation at Shinjuku Washington Hotel and Hotel Gracery Shinjuku

Positioned at the core of the business portfolio under the medium-term management plan is the WHG Business, a driver of growth. The Shinjuku area is a particularly powerful example of a contributor to profit, and here Fujita Kanko introduces the competitiveness it has developed and just how value will be created in the future.

Background to the WHG hotels breakout performance

The Washington Hotel and Hotel Gracery are two brands that together make up the newly named “WHG,” a business which Fujita Kanko is aggressively promoting.

The first Washington Hotel was established in Sapporo, Hokkaido in 1973. This was a period when rapid economic growth was coming to a conclusion, and although the number of business travelers was rapidly increasing, accommodations were limited to either low-cost Japanese-style inns or high-end city hotels. Fujita Kanko had another idea from which the Washington Hotel emerged, namely, to offer accommodations for each guest that would be a comfortable, individual room in which to relax, while in a price range that would still allow for the purchase of a souvenir. This business model, developed by Fujita Kanko, was the forerunner of today’s business hotels. Based on a concept of reasonable price and high value, good location conditions, the development and deployment of unit baths suitable to individual rooms, and providing what business travelers are looking for, this hotel precisely meets the needs of the age, and as of 2000, had expanded to 38 locations nationwide.

Hotel Gracery launched its first property in Tamachi, Tokyo in 2008. After the start of 2000, rising demand for city resorts

and the expanded movement of active seniors underpinned growth in the volume zones of tourist and leisure guests in Japan. Moreover, there was also a greater number of inbound guests, which boosted demand for tourism and leisure-focused hotels. Fujita Kanko seized upon these trends, and based on the concept of again rebuilding hotels that would cater to these guests, established the Gracery brand. Then, in 2015, the Company opened the brand’s flagship hotel, the Hotel Gracery Shinjuku. The brand is now booming, and currently is operated at six locations in major cities around Japan.

Capturing a competitive edge in the Shinjuku area

The hotel industry in Japan does benefit from inbound demand, but within that as well, each hotel’s relative merits becomes ever-more clear. Fujita Kanko believes that to address such demand, the key will be to adjust to an area’s characteristics, and whether or not it can somehow meet guest needs.

A case in point is the Shinjuku area where the two brands of the Washington Hotel and Hotel Gracery are being developed. More than just its enormous demand for hotels as a place where a variety of urban functions come together, this area is a source of culture, and is at the forefront of change. It has its own unique

character and it is from here that the shift to hotel demand driven by individual travelers is beginning. Together, the Shinjuku Washington Hotel and the Hotel Gracery Shinjuku now represent the large-scale capacity of 2,586 rooms.

As background to the competitive capabilities Fujita Kanko brings to bear in this area of such enormous demand, the first things to cite are the development of marketing to guide inbound guests and the ongoing proactive infrastructure development. In addition to the employees who can communicate in English and Chinese, as standard, service is available in multiple languages from around Asia. There is also a counter dedicated to inbound guests for smooth check-in service, and a concierge to provide area information and services. These and other services are what gives Fujita Kanko a big advantage in capturing the business of repeater FITs. To further ensure such exceptional capabilities, the Company is strengthening its efforts to attract guests by tying up with six overseas locations, namely, Shanghai, Taipei, Seoul, Bangkok, Jakarta and Yangon.

Next is also the creation of concepts that reflect the times that are chosen by guests and make a great contribution to increased customer satisfaction. The Shinjuku Washington Hotel has long catered to many inbound guests, and in addition to earning a steady degree of awareness even outside of Japan, it is meeting the business demand of the western Shinjuku area.

A Snapshot of WHG Hotels



1973

Launch of the first Washington Hotel



37 properties

Number of WHG hotel properties
(As of April 30, 2017, including new business openings)



11,334 guest rooms

Number of WHG hotel guest rooms
(As of April 30, 2017, including new business openings)



3,530 thousand people

Number of guests in 2016 WHG hotels
(directly managed subsidiaries)



1,300 thousand people

Total number of inbound guests staying in 2016 WHG hotels
(directly managed subsidiaries)



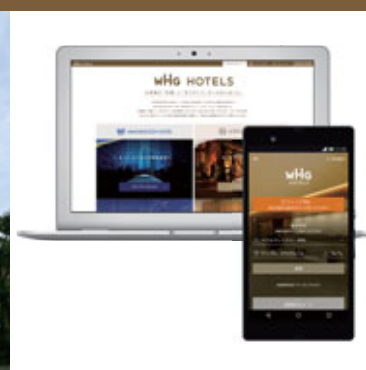
77 %

Percentage of inbound guests staying in 2016 Hotel Gracery Shinjuku



300 thousand people

Number of memberships Fujita Kanko Group members card
(As of April 30, 2017)



WHG hotels website

A content-rich website, offering multiple languages, for an effortless way to make reservations, even from outside of Japan. It also serves major online booking agents, with contracts with such agents in respective countries that work to strengthen efforts to attract guests.



Smart check-in system

WHG hotels has introduced a smart check-in system for total automation of filling in accommodation cards and accounting tasks. This enables fast check-in and check-out, even during crowded times.



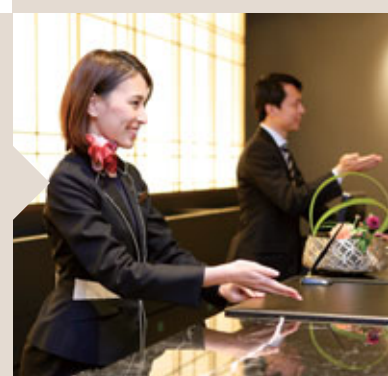
An ideal location for business

With numerous converging routes, Shinjuku Station is one of Japan’s premier locations for customer traffic. Given this positioning, WHG hotels have secured an ideal location for business use.



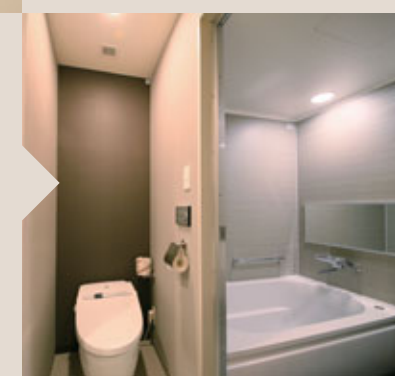
Front desk and concierge

By establishing a counter dedicated to inbound guests, and providing a diverse range of information and guidance services through a concierge desk, WHG hotels provide highly convenient services to both inbound guests as well as those traveling domestically.



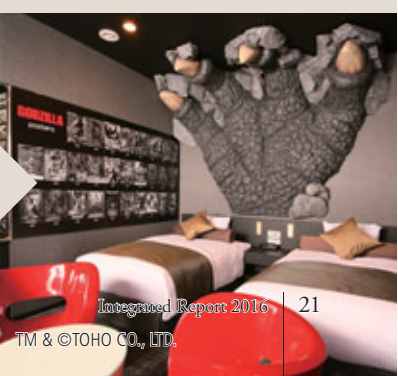
Guest rooms and amenities

WHG hotels strive to offer guest rooms designed for unparalleled comfort with interiors and lighting suitable to respective business or tourism uses, original beds to refresh, and other features. There are also ample amenities offered for female guests.



Concept rooms (Godzilla Room)

From the moment a guest enters their room, the layout and trick walls serve to create an atmosphere that seems to be a different world. These and other features are designed to maximize the sense of fun to experience the world of Godzilla.



Moreover, the Hotel Gracery Shinjuku has become a tourist target with such attractions as the giant Godzilla head object fixed to the eighth floor portion of the building, which since its opening has become catapulted to fame as the “Godzilla Hotel.” With word being spread by social media as well, name recognition of the hotel has risen dramatically worldwide, with a ratio of inbound guests up to 77%.

In the hotel industry, harmony with the community is what matters. Shinjuku is a place that maximizes the appeal of diversity and places importance on relationships with all in the community. With the intent of even further driving tourist numbers, the Kabukicho Shopping District Association, in which Hotel Gracery Shinjuku is a member, petitioned to christen the street leading up to the hotel as “Godzilla Road,” which the Shinjuku City authority granted with the support of TOHO Co., Ltd. In addition, Hotel Gracery Shinjuku, together with other nearby hotels, established the Kabukicho Concierge Committee, and working with the Kabukicho Shopping District Association jointly developed a guidebook that is used to introduce the area’s restaurants and tourism spots. These and other activities represent the unity of the community in offering a variety of services. The hotel’s Godzilla Room, based on collaboration with TOHO, has been another way of achieving harmony with the community. The Company believes that by

actively building relationships with local residents, this will consequently lead to increased customer satisfaction.



The Kabukicho Concierge Committee

Strategic development that balances business with tourism and leisure demand

In the market going forward, it appears that business guest needs are in decline, and that there will be a gradual increase in tourism and leisure needs, with overall hotel supply set to rise steadily. Amidst escalating severity in market competition due to competitors expanding their own properties, it will be ever more important that Fujita Kanko take a balanced approach to business as well as tourism and leisure demand. Utilizing the brand characteristics of the Washington Hotel for business, and Hotel Gracery for tourism, the Company will use an aggressive property expansion strategy that leverages the merits of both brands’ respective hotel chains to continue its nationwide growth.

With regard to guests staying at hotels in Japan, the Company is planning to capture the business of repeat guests by making efforts that enhance convenience, such as by simplifying procedures to increase Fujita Kanko Group Members Card holders and developing smartphone apps. For inbound demand that is progressively seeing a shift from groups to individual travelers, the Company is bolstering its approach to FITs, where it has a competitive edge. From the end of 2016, the Company introduced card membership system for FITs, and is also strengthening its efforts to attract guests from Europe, the

United States, Australia, the countries of South East Asia and other locations.

In promoting these strategic initiatives, human resources will have a critical position. For that reason, the Company established a training center for this business group in 2015 to nurture employees and to conduct focused training for new employees. In this way, the Company is striving to raise the awareness of customer satisfaction. In addition, with regard to franchise development as well, so as not to lose the merit of being in a hotel chain, the heads of each region make the rounds to ensure that there is a uniform level of service as WHG hotels.

The Company is also set to launch two overseas hotel properties, those being Seoul in 2018 and Taipei in 2019. More than just catering to tourists from Japan, guests from the local countries, or other countries in the region will also be approached to raise brand recognition, thus achieving a synergistic effect with inbound and outbound guests.

The Company is working to further popularize the WHG hotels brand both in and outside of Japan, and aims to soar as a hotel chain supported by its customers. Then, by constantly developing in a way that reflects the needs of the times, the Company will drive its own evolution, working to provide high-value-added services.

The Evolution of Future Service to Foster the Spread of Customer Appreciation

Remaining the choice of customers by accelerating development of measures that stay a step ahead of change, together with further raising capabilities to meet customer needs

The Marketing Team works on the promotion of measures to increase the number of Fujita Kanko Group Members Card holders, secure a steady volume of individual guests by retaining those card holders as members, and by raising the level of customer satisfaction. In recent years, we’ve seen demand transition to urban tourists and foreign guests visiting Japan, and within this, it appears guest trends are also changing, with Internet reservations becoming the norm, and rising emphasis placed on quality, not just cost.

Given this, our efforts focus on planning new measures, as well as formulating and instituting a framework where we can constantly stay on top of guest needs through such measures as deploying a smart check-in system that increase guest convenience. Working on these initiatives is something that I personally find enjoyable as well.

On the other hand, the very acceleration of these initiatives has driven home the feeling that what we must emphasize more is the further strengthening of an awareness of hospitality. A guest who had not been to our hotel in over 10 years once told me, “I used to stay at your hotels on family trips, so this brought back really nostalgic and enjoyable memories and warmed my heart. Thank you.” I think that what we have to do is to raise our ability to sense what customers want.

Looking ahead, together with tackling the challenge of raising the rate of WHG hotels members, I’m aiming to increase their use of services across the Fujita Kanko Group overall. Being recognized by everyone, I would like to see us evolve into a hotel chain supported by its guests.



Kozo Noguchi
Manager, Marketing Team
WHG Business Group

Valuing the bonds we have with customers, our mission is to consistently think ahead and offer service that exceeds guest expectations.

The concierge performs the role of responding to the various requests of those guests staying at a hotel. Specifically, at our hotel where the percentage of inbound guests is approximately 80%, our main tasks are making restaurant reservations and advising on sight-seeing. In particular, lately there has been an increase in the number of guests who have been to Japan two or more times, and there are more occasions when we get asked to recommend places to see other than the major tourism spots. In response to this trend, at Fujita Kanko we are developing original services that address the needs of such guests, and rolling out measures that leverage our unique qualities, namely, our location in Kabukicho, Shinjuku, one of Asia’s largest entertainment districts.

Working jointly with other hotels in the area and the Kabukicho Shopping District Association, we launched the Kabukicho Concierge Committee, and offer information well selected by the committee. Another initiative has been the development of a guidebook which contains the names of shops that with their honest billing practices customers enjoy themselves without concern. As for myself, I enjoy telling people about the appeal of Kabukicho.

One might say that the concierge is the face of the hotel. Once, I was told by a couple that had just arranged for a tour at the front desk, “Every day was enjoyable with your smiling face. Thank you.” I even received flowers, which deeply impressed me. Placing importance on the bonds we have with such guests, our mission, I believe, is to constantly think ahead and offer service that exceeds guest expectations. Looking forward, I want to continue tackling challenges, leveraging my experience here with the aim of establishing concierge services at business hotels.



Toshimi Hirano
Concierge
Hotel Gracery Shinjuku
WHG Business Group

Capable Human Resources Support a Strategy for Growth

Human Resources as the Principal Strength of Our Growth

The Group has formulated one of its management guidelines as “having recognized that the heart of a company is its people, and that fostering human resources is crucial to growth, we strive to foster motivated, well-balanced employees.” Given this, we have positioned human resources as the principal strength of our growth. In the service industry, a diverse range of human resources is the driving force that supports a company, beginning with its customer-facing front-line service staff. Based on this concept, we are endeavoring to further strengthen human resources so that we can attain even greater heights of competitive excellence amidst a harsh operating environment in these diversifying times.

Based on the Group’s overall commitment to hospitality—an expression of the values shared by all employees, with emphasis on attentiveness—together with providing outstanding service, we aim for an environment where each and every employee can take action with autonomy, and can realize personal growth.

Stance on Fostering Human Resources

Under its medium-term management plan, FUJITA PREMIUM VALUE CREATION 2015, the Company highlights the “develop diverse human resources and improve employee satisfaction” as one of its important strategies for growth, and is tackling the issue of securing human resources that can respond to the needs of inbound guests and overseas development amidst an aging society with falling birthrates. Particularly critical is that as we work toward the effective implementation of our growth strategies we should not be bound by conventional human resource systems, but welcome diverse human resources that enables us to cultivate new capabilities.

Moreover, based on our fundamental policy that states employee satisfaction is at the root of customer satisfaction, we will also endeavor to reform the way we work and focus our efforts on further honing employee skills.

1. Strengthen human resource development and training
We seek to further strengthen the capabilities of human resources that support our strategy for growth, starting with specialized training provided by each respective business group so as to expand the pool of human resources. We are making efforts to conduct training that works to instill the shared consciousness that we are all

members of the Fujita Kanko Group, and training that is rank-based and in line with an individual’s role, while supporting diversity and promoting self-empowerment so that all employees can on their own initiative raise their capabilities. (See Initiatives to Strengthen Human Resource Development and Training below for details.)

2. Promote work-life balance

Being in the service industry, we believe that the source of our growth is, in essence, the improvement of human resource capabilities, and that quality and productivity are raised under the banner of personally experienced “employee satisfaction.” In this way, we believe, it will be possible to earn high praise from customers.

Balance Support

With labor and management considering ways to work while balancing employee life events, such as child care and nursing care, the Company has implemented various balance support initiatives. This has made it possible for many employees to continue their careers. Moving forward, support will extend beyond that for just balance. Support will be provided to ensure that it will be natural for both men and women to work on advancing their careers while fulfilling their household responsibilities. As one element of this endeavor, Fujita Kanko has joined the “IkuBoss Alliance*,” an initiative that looks to have those who are in managerial positions, being key to an organization, take another look at their values and the way work is performed. More than just realizing work-life balance of their subordinates, this initiative will work to foster managers who can reform the way one goes about their work.

* IkuBoss Alliance: “IkuBoss” is a corporate network, that, having been recognized as necessary in an age of diversifying employee values, actively seeks to reform the awareness of those in managerial positions at companies, nurturing bosses that are well suited to a new age.

Modifying Working Styles

Based on the recognition that reforming employee consciousness is at the heart of modifying work styles, we believe accomplishing this will make it possible to bolster the foundation of our business. Fujita Kanko values the diversity of its labor force, and is already moving forward with its aim to modify working styles so as to create positive and rewarding workplace environments. The Company is taking a dual approach with diversity and inclusion in tandem with modifying work styles, and is undertaking the following initiatives.

Initiatives to Modify Workstyle

- 1. A “working hour revolution” that aims to eliminate excessive overtime and raise productivity
- 2. Strengthening measures to enable continuation of long-term work
- 3. Devising and operating a new employment format
- 4. Promoting utilization of ICT and IoT
- 5. Building a human resource portfolio

3. Encourage Diversity & Inclusion (D&I)

In March 2012 the Group newly established its Diversity Promotion Office as a division under the direct control of the president. Together with commencing measures to promote the following human resource diversity measures and taking action to foster the vitality of a broad range of human talent, the Group institutes a framework capable of responding to an increased number of inbound guests as well as business globalization.

Diversity Policy

Customer needs are diversifying on a daily basis. In addressing this trend, if our own products and services are not also flexible and diverse, we cannot expect to achieve growth. In order to further drive growth for the Fujita Kanko Group, we position this diversity as one important corporate strategy, upon which we are steadily advancing.

Promotional Activities in All Offices

In order to convey our stance on D&I to all employees, we have put in place a framework to conduct promotional activities by assigning steering committee members (general managers) from respective properties, and diversity promotion members who, regardless of their employment format, are selected for their eagerness to enthusiastically engage in promotional activities. Initially, this framework provided employees who had few opportunities to attend such meetings with a venue where they could make their opinions known, as well as to undertake measures such as reflecting those comments to product planning proposals at their properties. Currently, we have as a goal the creation of a corporate culture in which workplaces can naturally accept, and utilize diversity, and we



Okami skills training (okami, traditionally female service managers)



New employee follow-up training



Nationwide meeting of diversity promotion members

are striving to improve workplaces by utilizing a D&I check sheet, which is standard throughout the Company, as well as other measures.

Promotion of Opportunities for Female Employees

The Company is working to illuminate a path for female employees at every level who are aiming to take the next step in their careers, and is steadily moving forward on motivating female leaders.

In tandem with the Act of Promotion of Women’s Participation and Advancement in the Workplace, which went into force starting from April 2016, the Company announced an action plan that stated three objectives. As specific measures, we implemented “Mind Up Training” for women who are in a pre-management position, and career format training for young female employees who have just set out on their careers. Moreover, because the point is to see what kind of experience can be gained in daily management, there is also training such as “Seminar for Promoting Opportunities for Female Employees,” which targets their superiors. In addition, we have established consultation services within the Human Resources Group for advice on work-life balance and with regard to careers. Through actions such as implementing various initiatives, we are building a framework in which people are able to stay on their jobs for the long term.

Action Plan Based on the Act of Promotion of Women’s Participation and Advancement in the Workplace
(Action plan period: April 1, 2016 to March 31, 2020)

	April 1, 2017
Objective ❶ Women make up over 13% of managerial positions	11.1%
Objective ❷ Number of women in pre-managerial positions boosted by 50%	40.4%
Objective ❸ Over 65% of women maintain their employment 7-9 years after entering the Company	66.7%

In other areas, the Company is offering training for the integration of individuals with disabilities into the workplace, such as with sign language courses, and is also working to promote opportunities for seniors, including “second life seminars.”

Initiatives to Strengthen Human Resource Development and Training

1. Thoroughly convey Corporate Philosophy

(1) Proliferation of customized training and training systems (OCP)
(2) Secure and reinforce HRDL² personnel
Training to nurture HRDL, training to enhance HRDL skills

2. Regular training

(1) Rank-based training
New manager training, pre-manager training, sub-manager training, leader training, sub-leader training
(2) Introductory training
New employee introductory training, internal mid-career transfer training, OCP

3. Strengthen management capabilities

(1) Develop competency to be able to think, make decisions, and act from the perspective of corporate management
Training to nurture management staff
(2) Strengthen communication capabilities for mid-level managers
Mid-level manager training

4. Promote growth among new and young employees, and enhance nurturing programs that make progress on alleviating concerns

(1) Foster growth among new and young employees
Young employee exchange training, new employee follow-up training
(2) Regular career interviews

5. Promote self-empowerment

(1) Convey and advise on necessary skills for each respective rank
Encourage correspondence education, acquisition of certifications
(2) Training that blends pre-learning and group education (flipped education)

6. Raise and pass along knowledge and technical capabilities

(1) Skills-based training to heighten knowledge and technical capabilities
Training for young and mid-career cooks, okami skills training (okami traditionally female service managers), passing along culinary techniques with apps
(2) Skills competitions
Cooking, service, facilities and individual skills

7. Respond to the needs of inbound guests and overseas development

(1) Strengthen on-site support for inbound tourists
Utilization of hotel's English conversation apps, Topic-based training to bolster language skills (negotiations, presentations)
(2) Measures to raise the capabilities of foreign employees
(3) Cross-cultural understanding training for managers
Evaluator training

Notes: 1. Orientation Coaching Program (OCP): Developed as a framework in which to nurture human resources on the job, this program works to foster new recruits at an early stage and provide educational review to existing employees.
2. Human resource development leader (HRDL): Having participated in coaching and service skill curriculum training, those employees that become HRDL-certified will conduct training throughout the Company’s properties as an OCP instructor.

Contributions to Society and the Community

As a good corporate citizen, the Fujita Kanko Group strives to ensure the effective use of its corporate resources in its mission to promote distinctive initiatives that contribute to bringing prosperity to society and communities. The Group conducts ongoing activities based on the concept that it is essential to develop together with local communities, not just itself in the tourism and hospitality industry.

Activities Rooted in Society and the Community

At hotels and restaurants around the nation, Fujita Kanko Group facilities undertake activities directed at promoting positive relations with communities, including participation in and support for community events, clean-up projects, and road safety and disaster management programs; workplace experience programs and other educational initiatives; and charitable endeavors such as fund-raising and recycling drives. In 2016, Group facilities undertook and promoted a total of 300 such initiatives.

Initiatives

- Participation and support of local festivals (Hotel Gracery Kyoto Sanjo, Hotel Fujita Nara, others)
- Participation in town night time security activities (Nagasaki Washington Hotel)
- Invitations to children at children's care facilities (Hakone Kowaki-en Yunessun)
- Accepting junior high school students for workplace experience programs (Yokohama Washington Hotel, Tokyo Bay Ariake Washington Hotel, Hotel Fujita Fukui, others)

Recent years have seen a rapidly rising number of inbound guests during the cherry blossom viewing season, and media reports have appeared with regard to cherry blossom viewing manners for inbound guests. Given this, as the Group operates accommodation facilities with a great number of inbound guests, by conveying knowledge of Japan's culture, customs and manners, we developed and distributed a leaflet that states how to best enjoy cherry blossom viewing along with related manners. In this way guests will be able to enjoy the culture of blossom viewing together with those in the local community.

Moreover, we are also contributing to vitality in local communities by listing up in the leaflets the cherry blossom viewing spots located in the vicinity of each hotel.



A leaflet that introduces ways to enjoy, and manners for cherry blossom viewing

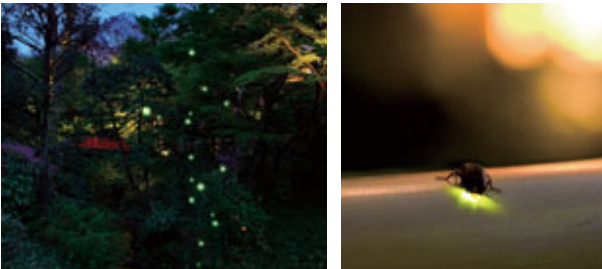
Environmental Initiatives

Fujita Kanko promotes environmental protection initiatives under our environmental policy which states, "As a corporate citizen, it is our responsibility to be friendly to the earth and our community, to do our best to reduce any negative effects our activities have on the environment, and to help build a sustainable society in which people will be safe and free to pursue rich and joyful lives."

Environmental Protection

Fujita Kanko possesses roughly 1,800 ha of rich natural forest land nationwide, which significantly contributes to absorbing CO₂. Within this there are 691 ha of forests stretching across the Sehata area of Shingu City in Wakayama Prefecture where it has been calculated that approximately 2,485 t of CO₂ are absorbed annually. This area is numbered among the forest areas certified by the FORESTOCK Association.

In addition, in the lush gardens of Hotel Chinzanso Tokyo and Taiko-en in Osaka, water from the gardens' natural springs is used to maintain the environment so as to develop conditions where fireflies can flourish naturally. Every year guests can enjoy fireflies in flight while study groups are held for local students to convey the importance of environmental protection.



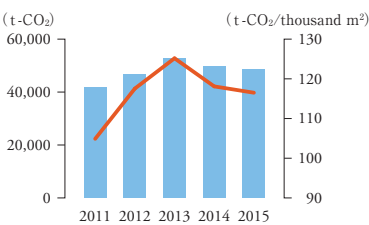
Response to the Energy Conservation Act

Across the Group initiatives are being promoted based on the Energy Conservation Act, utilizing advanced ecological technologies to tackle global warming and reduce its CO₂ emissions.

Main initiatives

- Installed LED and high-efficiency lighting
- Introduced a Building Energy Management System (BEMS) to clarify energy use
- Replaced cogeneration systems with high-efficiency models
- Introduced an automated system that automatically switches air conditioning and lighting to energy-saving mode when guest rooms are unattended
- Water conservation through the adoption of water-saving showerheads
- Introduction of energy-efficient eco-pumps, and other initiatives

CO₂ emissions and basic units



Note: Figures are for April 1 until March 31

Compared with fiscal 2013 when there was a series of new openings, CO₂ emissions have been declining owing to reduced CO₂ factors associated with electricity use and the introduction of energy-conservation equipment. CO₂ basic units, which express emissions on a unit per area basis, are also falling.

Note: See page 7 for energy consumption and per units.

Preserving Cultural Assets and Historical Architecture

Since its founding, the Group has owned numerous valuable cultural assets and historical architecture. The Company takes its role as custodian of these properties very seriously, recognizing them as precious assets belonging to all of Japan, and sees protecting them for future generations as a key component of its CSR activities.

Hotel Chinzanso Tokyo



Three-story pagoda (listed as tangible cultural property)

This property was given the name Chinzanso in 1878 by Prince Aritomo Yamagata. For approximately 130 years since, the garden has been a unique urban oasis, delighting visitors with its verdant beauty and refined form. The garden's natural beauty is enhanced by many historic architecture, including a three-story pagoda, believed to have been constructed in the Muromachi period (1336–1573) and Zangetsu, a historic tea house, both of which are listed as tangible cultural properties; a Hannyaaji Temple stone lantern and stone statues of Rakan created from a sketch by Jakuchu Ito. In 2009, a three-year project to restore all of the cultural assets in the garden was launched.

Hakone Kowaki-en



Soba Kihinkan (listed as tangible cultural property)

The birthplace of Fujita Kanko, Hakone Kowaki-en boasts two buildings listed as tangible cultural properties. Kihinkan, a sukiya-zukuri house built in 1918 as a villa for Baron Heitaro Fujita, features interior furnishings that represent the highest level of craftsmanship in that era. Both the decor and the garden of the villa, which today houses a soba restaurant, remain exactly as they were originally. Geihinkan was initially a village headman's house, built by a Shinto shrine carpenter in 1875 and features a tiled roof and uses such other materials as pine and chestnut. The beams and pillars of the building, which today houses a teppanyaki restaurant, have been left essentially unchanged. It provides guests with a historical and memorable experience.

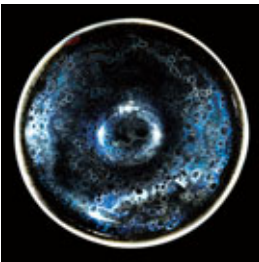
Taiko-en



Yodogawatei, Japanese cuisine restaurant

Taiko-en is a historic property built in the Meiji period to serve as the primary residence of Denzaburo Fujita. The property features a principal residence and west and east wings. The only one of Fujita's homes to survive the Osaka air raids in 1945, the property was later reborn as Taiko-en. The east residence currently houses the Yodogawatei restaurant, which enables guests to experience the essence of Japanese cuisine while admiring the seasonal beauty of the elegant gardens. The property also has a *Tsukiyama-shiki kaiyu*-style garden, which features a pond and a hill as well as rare and unusual stones gathered from Shodoshima and Ikomayama. In addition, the property features rare lanterns and precious rocks collected from around Japan.

Fujita Museum



Yohen Tenmoku *chawan* (tea bowl) (national treasure)
Photo: Kazuyoshi Miyoshi



Genjo Sanzo *emaki* (scroll) (national treasure)

The Fujita Museum, which houses an extensive collection of East Asian art assembled by industrialist Denzaburo Fujita, his eldest son Heitaro and his second son Tokujiro, was established in 1951 and opened to the public in 1954.

Extremely knowledgeable about antiques and tea ceremonies, Denzaburo Fujita and his sons collected paintings, calligraphy, ceramics, sculpture, lacquer, metal, textiles and archaeological artifacts. The collection comprises approximately 2,000 items, including nine national treasures and 52 important cultural properties. With the aim of protecting these cultural assets and its own roots, Fujita Kanko donates funds and provides PR support to the Fujita Museum.

Basic Philosophy

Fujita Kanko aims to become a company which contributes to the realization of a prosperous society through its business operations. Moreover, the Company is in constant pursuit of corporate governance practices of the highest standards in order to fulfill its social responsibility as a company while ensuring favorable relationships with its shareholders, and all stakeholders. Together with such robust efforts, the Company continuously undertakes reviews as it strives to further raise its corporate value, and adheres to all rules set forth in Japan's Corporate Governance Code.

Basic Stance on Corporate Governance

- The Company constantly pursues, and undertakes ongoing efforts to achieve corporate governance of the highest standards.
- With the goal of raising long-term corporate value, and in line with its basic policy stated below, the Company works to realize robust corporate governance.

Corporate Governance Framework

Directors, Board of Directors and Executive Officers

Fujita Kanko has nine directors, two of whom are outside directors. The Company also has 16 executive officers, seven of whom serve concurrently as directors. In principle, all directors, including outside directors, hold a Board of Directors' meeting once a month to pass resolutions and report on legally stipulated matters and important management items. In addition, as a general rule, the Executive Management Committee, which is chaired by the representative director and president and composed of members appointed by the executive officers and the representative director and president, meets

once every month to ensure common awareness of the operating environment and to deliberate on measures, as well as to make decisions with regard to the execution of business operations.

Auditors and Board of Auditors

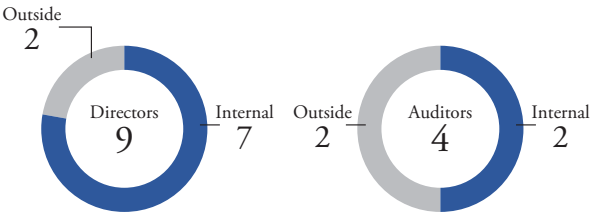
Fujita Kanko has instituted a corporate auditor system. Of the Company's four auditors, two are outside auditors. The Company has also installed a Board of Auditors as an entity to audit the execution of business by the directors. Each auditor attends meetings of the Board of Directors and offers opinions as necessary from the perspective of ensuring proper and appropriate decision making conducted at these meetings. In addition, auditors audit the execution of duties performed by the directors, and to enhance efficiency and effectiveness of audits, report their findings to meetings of the Board of Auditors, which in principle are held once a month.

Full-time auditors also attend meetings of the Advisory Council (chaired by the representative director and president), which are held prior to regularly scheduled meetings of the Board of Directors, and participate as appropriate in deliberations on matters of importance to management of the Fujita Kanko Group. They also receive meeting materials that are promptly distributed at meetings of the Executive Management Committee. Furthermore, in the event of concurrent service as an auditor for a subsidiary, the full-time auditor will also attend that subsidiary's regularly scheduled Board of Directors' meetings.

The auditors also receive reports with regard to accounting audit details from the Company's accounting auditors, with whom they exchange information to determine appropriateness of accounting policies, accounting treatment methods and other issues in light of the conditions of Company assets.

Outside Directors and Outside Auditors

As of March 28, 2017, the Company has two outside directors and two outside auditors. In principle, each attend all meetings of the Board of Directors, where they offer opinions, as necessary and from an objective position, thereby sufficiently ensuring an objective and neutral executive monitoring function.



Reasons for Appointment of Outside Directors and Outside Auditors

Outside Directors		
Name	Attendance in meetings of Board of Directors for 2016	Reasons for Appointment
Rieko Zanma	Attended all 18 meetings	Ms. Zanma has extensive experience in company management and has participated in government councils and other public sector committees. She has also been involved in a number of major events as a producer. She was appointed to the position of outside director so that her experience and insight can be of benefit to the Company.
Yuko Mitsuya	Attended 17 out of 18 meetings	Ms. Mitsuya has extensive experience in company management and has served as a director and member of multiple sports and other associations. She was appointed to the position of outside director so that her experience and insight can be of benefit to the Company.

Outside Auditors			
Name	Attendance in meetings of Board of Directors for 2016	Attendance in meetings of Board of Auditors for 2016	Reasons for Appointment
Jiro Kawanishi	Attended all 18 meetings	Attended all 17 meetings	Mr. Kawanishi has extensive business experience at Mitsui Trust and Banking Company, Limited (the present Sumitomo Mitsui Trust Bank, Limited) and other companies. He was appointed to the position of outside auditor so that his experience and insight can be of benefit to the Company.
Masayuki Naka	Appointed effective March 28, 2017		Mr. Naka has extensive business and management experience at DOWA MINING CO., LTD. (the present DOWA HOLDINGS CO., LTD.). In addition, Mr. Naka is the Planning and Public Relations Department Director at that company, and concurrently serves as a director at that company's subsidiary, among other roles. He was appointed to the position of outside auditor so that his experience and insight can be of benefit to the Company.

Note: Outside directors and outside auditors in the above charts, have been designated as an independent officers on the regulations of Tokyo Stock Exchange, Inc., to which notification has been submitted.

Compensation and Other Payments for Directors and Auditors

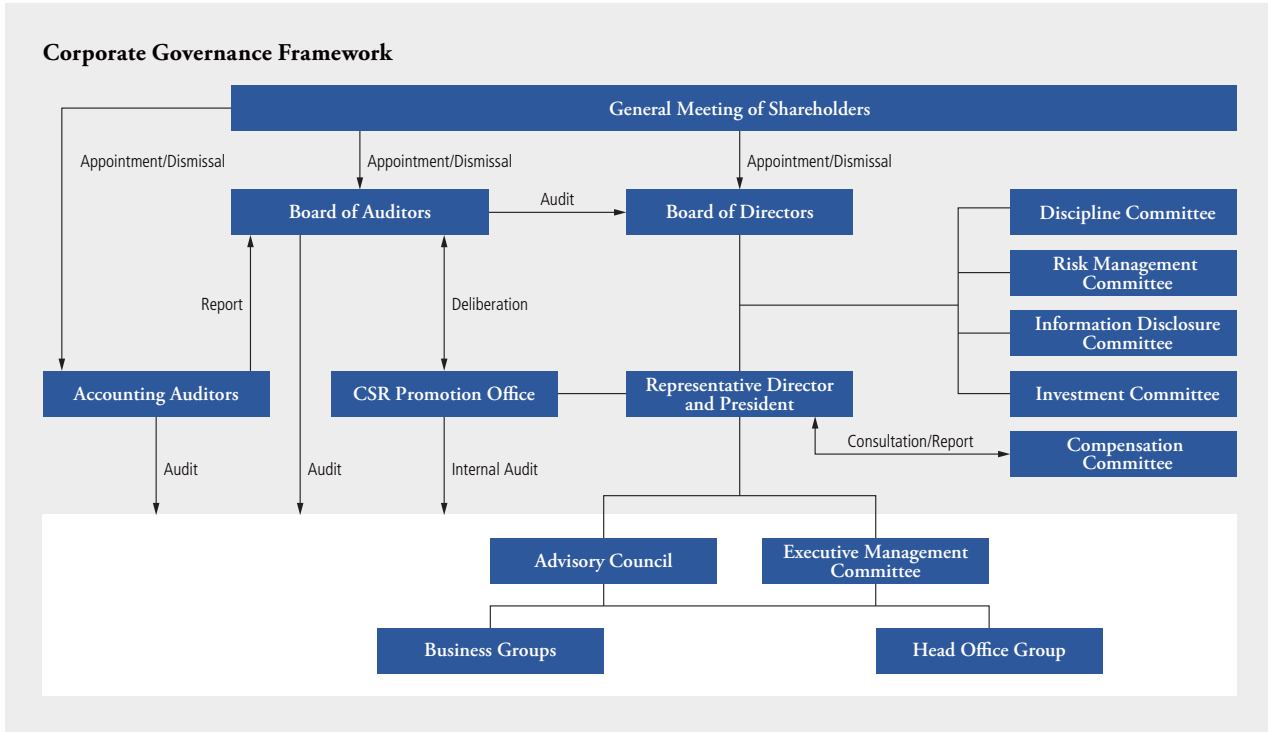
Compensation for directors and auditors is comprised of basic compensation and performance-linked compensation. The maximum aggregate limit on compensation and other payments to directors and auditors, which is determined by resolution of the General Meeting of Shareholders, is based on internal regulations governing compensation for directors and auditors and takes into

account management conditions and the economic climate. To improve the objectivity and transparency of compensation and other payments given to directors and executive officers, we have set up a Compensation Committee as an advisory body to the representative director and president. The majority of committee members consist of auditors, outside experts such as outside directors and outside auditors and legal counsel. In principle, the committee reports its results of reviews to the representative director and president more than once a year.

Compensation for Directors and Auditors

(Results for 2016)		
Category	Number of eligible individuals	Total amount of compensation and other payments (Millions of yen)
Directors (excluding outside directors)	9	244
Auditors (excluding outside auditors)	3	42
Outside directors and outside auditors	4	24

Note: The above headcount includes 1 director and 1 auditor who retired at March 2016, and 1 director who retired at March 2017.



Implementation Status of Internal Control System

To clarify its mission and values, the Fujita Kanko Group has established a Corporate Philosophy and guiding precepts (management guidelines and a code of conduct) as its basic policy on conduct and frame of mind for directors, auditors and employees. The Group has also formulated a code of ethics with the aim of securing the trust of all individuals and stakeholders associated with the Group and of ensuring that Fujita Kanko is recognized as an organization that complies with laws and regulations and is open, fair and transparent. The code sets forth standards for resolving legal and ethical issues that may arise in the course of implementing measures for achieving its objectives. Recognizing that enhancing corporate governance is essential for fulfilling its corporate social responsibilities, the Group is working to improve and refine its internal control system to reinforce its reputation as a trustworthy and transparent company, and has on an organizational level moved forward on initiatives, including the establishment of a CSR Promotion Office and an Information Disclosure Committee.

Compliance System
CSR Promotion Office

The Company has established the CSR Promotion Office, which is controlled directly by the president, as an internal audit department. The office consists of a chairperson and four members. It conducts regular internal audits of the Group's offices and subsidiaries, and examines the Group's compliance status to verify that, among other matters, operations are being conducted competently, appropriately and rationally in a manner that complies with laws and regulations, the Articles of Incorporation and internal regulations, and that these regulations are valid and appropriate. The office periodically reports these findings to the representative director and auditors.

Internal Whistleblowing Schemes

The Company has set up a hotline ("Ring Ring Hotline") whereby employees can seek anonymous advice or report compliance violations with regard to the Group. It has also established internal whistleblowing schemes such as the Whistleblower Protection Regulations, which it operates through several internal and external hotlines, to ensure that employees reporting violations do not suffer negative consequences as a result.

Risk Management System

The Company has established a Risk Management Committee with the goal of identifying risks which have the potential to negatively impact its performance. Along with periodic reviews, the committee implements measures as necessary to mitigate loss and damage. The Company has also formalized accident reporting standards whereby in the event of an incident or accident, it is necessary that the information be reported promptly and countermeasures be taken in line with these standards.

System for Responding to Anti-Social Forces

Based on its basic policy, the Group takes a resolute stance against anti-social forces that threaten the order and safety of society, and adamantly rejects unjustified demands. This principle is included in its code of ethics, which all directors, auditors and employees are thoroughly trained to follow.

System for Ensuring Appropriateness of Group Operations

The Company's subsidiaries fall under the control of either one of the Company's business groups or the head office group. Based on guidelines formulated in line with the Company's corporate governance regulations, these subsidiaries develop management plans and performance targets, as well as measures aimed at ensuring such plans and targets are attained. In this way the internal control system functions adequately. The Company has also formulated its Guidelines for Management of Affiliated Companies and Companies in Which It Has an Equity Stake, and ensures that appropriate management and decision making are conducted for these companies. Also, the CSR Promotion Office conducts periodic internal audits of directly operated offices and subsidiaries without discrimination. Moreover, in principle, one of the Company's full-time auditors assumes an auditor position at each subsidiary and audits these subsidiaries to ensure the appropriateness of operations.

Policy on Information Disclosure

Fujita Kanko has made as its basic policy the timely and proper disclosure of information, to all shareholders, so that information disparity between shareholders does not occur. Looking to raise corporate value over the long term, the Company respects its shareholders and all of its various stakeholders, with whom it strives to maintain positive and smooth relationships. In addition, with regard to information disclosure, the Company proactively and appropriately provides shareholders with important Company-related information. Furthermore, the Company has also established its Information Disclosure Committee as a body that deliberates on whether or not information disclosure meets legal standards.

Communication with Shareholders and Investors

Fujita Kanko recognizes that all of its shareholders are its good and understanding partners for its business continuity, and are important stakeholders. As its basic policy for IR, the Company disseminates corporate information in a fair, as well as timely and appropriate manner, promotes dialog with all of its shareholders, and endeavors to build relationships of trust. Principal fiscal 2016 IR activities are stated as follows.

Principal IR Activities in Fiscal 2016

- Conducted briefings for institutional investors when year-end and interim performance results were announced (in attendance was the president)
- Held IR discussions on an individual basis
- Conducted facility visits for institutional investors (two times in Tokyo)
- Held briefings for individual investors (two times, in Kyoto and Yokohama)
- Produced an integrated report

Messages from Outside Directors



Rieko Zanma
Outside Director

Today the Company is experiencing a healthy expansion, and that is precisely why it must work deepen its foundation as it looks toward the next stage of growth.

For Fujita Kanko to achieve future growth, it must "expand" and "deepen." First, there is the need to "expand." Given the steady progress it is today making on its medium-term management plan, and its firm-handed execution of investments, I feel that Fujita Kanko, with its numerous outstanding assets, is in an excellent position to help guide Japan into becoming a leading tourism destination, a challenging goal to be sure. Step by step, the Company has accumulated value, as represented by the Hotel Chinzanso Tokyo, its numerous facilities in the Hakone area, and in its WHG Business. You might say that all of the hard work it has made up until now is paying off. With regard to its investments and facility openings as well, with its site locations, concepts, partner collaborations, and other factors, Fujita Kanko has made thoughtful and thorough deliberations and considerations, and such management is now bearing fruit.

Given such healthy expansion, it is now more important than ever to "deepen" its foundation to reach the next stage of growth. In the mid- to long-term, what will give depth to the Company will of course be its people, and there will be a necessity to secure an ever greater level of standardized hospitality. It will be essential to seize upon, and to stay a step ahead, of ongoing changes in customer values and social trends. I expect that if those people who are both "on the stage" and "behind the scenes" can perform with an awareness of what a customer values, then the Company will be able to attain even greater strides toward its development. As for myself, having been engaged in work where I was constantly aware of the mood and sense of value of the times, and having made efforts to create new value, I want to put this experience to use. Together with conveying the values held by management to those outside the Company, I will work diligently so that Fujita Kanko has a firm sense of purpose.



Yuko Mitsuya
Outside Director

Set clear goals, share them, and for the individuals of a team, consider how they will be able to contribute—this is what is important.

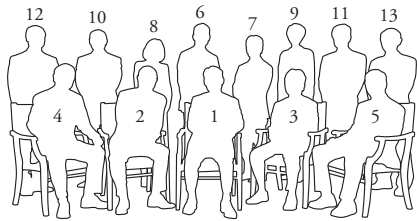
Speaking from the perspective of a specialist in team management, whether it be corporate administration or sports, the important thing is to have clear goals, to share them throughout the organization and to take action accordingly. With regard to Fujita Kanko, I see that goals are being shared, and that they work well in terms of overall direction. Nonetheless, working to achieve goals is not just a matter of the management team. Each and every employee should consider what role they should perform as an individual to realize those goals, and then execute. Basically, what this means is that each individual needs to establish their own action plan. This will be, I believe, the issue going forward.

All the people of Fujita Kanko are serious and faithful to their mission, but if I may say this, I sense that the only thing that comes out of this is that they are "seeking solutions." In order for Fujita Kanko to continue to grow, what I would like to see more of is a feeling of excitement. To accomplish that, what will also be important is the development of a network with

outside participants where they can experience first-hand different ways of thinking. From this will emerge an unconventional strength. With regard to the organization, on the other hand, it is critical to have engagement between the Company and its employees. A sports analogy would be a team's coach and its captain. The coach performs management, and the captain is both a player and a manager. In an enterprise, the captain could be said to be middle management, but it is vital to have that existence for the team to be strong. A team is a collective of different opinions, so there may be discussions at times and there will necessarily be confrontation with the coach. In that sense, it will be absolutely vital for Fujita Kanko to pour its efforts into nurturing its middle management. I also intend to make concerted efforts so as to promote such initiatives.

Directors, Auditors and Executive Officers

(As of March 28, 2017)



1. Akira Segawa 2. Yoshihiro Ise 3. Takeaki Yamada 4. Terumi Tsuzuki 5. Tatsuhiro Makino
6. Akira Kitahara 7. Takashi Wakuri 8. Rieko Zanma 9. Yuko Mitsuya 10. Kazuo Nakasone
11. Masato Yoshihara 12. Jiro Kawanishi 13. Masayuki Naka

Directors

1 Akira Segawa

Representative Director and President
Executive Officer and President

April 1977 Joined The Industrial Bank of Japan, Limited (present Mizuho Bank, Ltd.)
Sept. 2000 General Manager of Eleventh Sales Department, The Industrial Bank of Japan
April 2002 General Manager of Twelfth Sales Department of Head Office, The Industrial Bank of Japan
Oct. 2002 General Manager of Third Planning Department, The Industrial Bank of Japan
April 2003 General Manager of Third Sales Department of Head Office, The Industrial Bank of Japan
June 2004 General Manager of Fifth Sales Department, The Industrial Bank of Japan
April 2005 Executive Officer, General Manager of Nagoya Sales Department, The Industrial Bank of Japan
April 2008 Managing Executive Officer, executive in charge of sales, The Industrial Bank of Japan
April 2010 Executive Director, The Industrial Bank of Japan
June 2010 Full-Time Auditor, DOWA HOLDINGS CO., LTD.
June 2011 Director, DOWA HOLDINGS CO., LTD.
Mar. 2012 Adviser, Fujita Kanko Inc.
Oct. 2012 Executive Officer and Vice President, Fujita Kanko Inc.
Mar. 2013 Representative Director and President, Executive Officer and President, Fujita Kanko Inc. (to present)

2 Yoshihiro Ise

Representative Director
Managing Executive Officer, Chief of Planning Group

April 1983 Joined Fujita Kanko Inc.
May 2002 Group Leader of Development and Construction, Corporate Center, Fujita Kanko Inc.
Nov. 2003 Manager of Planning Department, Leisure Business, Fujita Kanko Inc.
Mar. 2005 Group Leader of Affiliated Companies, Corporate Center, Fujita Kanko Inc.
Oct. 2006 Group Leader of Development, Washington Hotel Company, Fujita Kanko Inc.
Mar. 2008 Representative Director and President of Canal City Fukuoka Washington Hotel Inc., General Manager of Canal City Fukuoka Washington Hotel
Mar. 2010 Representative Director and President of Urawa Washington Hotel Inc., General Manager of Urawa Washington Hotel
Mar. 2012 General Manager of Chiba Washington Hotel
Mar. 2014 Executive Officer, General Manager of Management Planning and Business Promotion, Fujita Kanko Inc.
Mar. 2015 Director and Executive Officer, Chief of Planning Group, Fujita Kanko Inc.
Mar. 2016 Outside Director, Tokai Kisen Co., Ltd. (to present)
Mar. 2017 Representative Director, Managing Executive Officer, Chief of Planning Group, Fujita Kanko Inc. (to present)

3 Takeaki Yamada

Managing Director, Managing Executive Officer,
Chief of Human Resources Group

April 1982 Joined DOWA MINING CO., LTD. (present DOWA HOLDINGS CO., LTD.)
April 2003 General Manager of Electronics Material Business Department, Electronics & Metal Processing Company, DOWA MINING CO., LTD.
April 2006 General Manager of Personnel, DOWA HOLDINGS CO., LTD.
June 2007 Executive Officer, Chief of Personnel, DOWA HOLDINGS CO., LTD.
April 2008 Executive Officer, Chief of Personnel and Human Resource Development, DOWA HOLDINGS CO., LTD.
June 2008 Director, DOWA HOLDINGS CO., LTD.
Mar. 2012 Managing Director, Managing Executive Officer, in charge of Human Resources Group, Fujita Kanko Inc.
July 2012 Managing Director, Managing Executive Officer, Chief of Human Resources Group, Fujita Kanko Inc. (to present)

4 Terumi Tsuzuki

Director, Managing Executive Officer,
Chief Operating Officer of Luxury & Banquet Business Group

April 1979 Joined Fujita Kanko Inc.
Aug. 2001 General Manager of Narita Airport Washington Hotel
Dec. 2002 Marketing Manager of Washington Hotel Business Division, Fujita Kanko Inc.
July 2003 Planning and Marketing Manager of Washington Hotel Business Division, Fujita Kanko Inc.
Mar. 2004 Executive Officer, Planning Manager of Washington Hotel Company, Fujita Kanko Inc.
Jan. 2005 Executive Officer, General Manager of Shinjuku Washington Hotel, Fujita Kanko Inc.
Oct. 2007 Executive Officer, Vice President of Washington Hotel Company, Fujita Kanko Inc.
Jan. 2009 Representative Director and President of Kansai Airport Washington Hotel Inc., General Manager of Kansai Airport Washington Hotel
Mar. 2013 Director, Executive Officer, COO of Washington Hotel Business Group, Fujita Kanko Inc.
Mar. 2014 Director, Managing Executive Officer, COO of Washington Hotel Business Group, Fujita Kanko Inc.
April 2014 Director, Managing Executive Officer, COO of WHG Business Group, Fujita Kanko Inc.
Jan. 2015 Director, Managing Executive Officer, COO of Luxury & Banquet Business Group, Fujita Kanko Inc. (to present)

5 Tatsuhiro Makino

Director, Managing Executive Officer,
Chief Operating Officer of Resort Business Group

April 1979 Joined Fujita Kanko Inc.
April 2001 Group Leader of Administrative Group, Fujita Kanko Inc.
Mar. 2003 Director, in charge of Corporate Center, Fujita Kanko Inc.
Mar. 2007 Executive Officer, Vice President of Resort Company, Fujita Kanko Inc.
Jan. 2009 Executive Officer, Chief of Human Resources Group, Fujita Kanko Inc.
Mar. 2009 Executive Officer, Chief of Human Resources Group, General Manager of Human Resources Department, Fujita Kanko Inc.
Mar. 2010 Director, Executive Officer, Chief of Human Resources Group, General Manager of Human Resources Department, Fujita Kanko Inc.
July 2012 Director, Executive Officer, Vice Chief of Human Resources Group, Fujita Kanko Inc.
Mar. 2013 Executive Officer, COO of Kowaki-en Business Group, Fujita Kanko Inc.
Mar. 2014 Managing Executive Officer, COO of Kowaki-en Business Group, Fujita Kanko Inc.
Jan. 2015 Managing Executive Officer, COO of Resort Business Group, Fujita Kanko Inc.
Mar. 2015 Director, Managing Executive Officer, COO of Resort Business Group, Fujita Kanko Inc. (to present)

6 Akira Kitahara

Director, Managing Executive Officer,
Chief Operating Officer of WHG Business Group

April 1982 Joined Fujita Kanko Inc.
Sept. 2001 General Manager of Fujita Kanko Washington Hotel Asahikawa
July 2003 Representative Director and President of Fujita Kanko Washington Hotel Asahikawa Kabushiki Kaisha, General Manager of Fujita Kanko Washington Hotel Asahikawa
Jan. 2004 Representative Director and President of Narita Washington Hotel Service Inc., General Manager of Narita Airport Washington Hotel
Mar. 2005 Representative Director and President of Kansai Airport Washington Hotel Inc., General Manager of Kansai Airport Washington Hotel
Oct. 2007 General Manager of Shinjuku Washington Hotel, Fujita Kanko Inc.
Mar. 2011 Executive Officer, General Manager of Shinjuku Washington Hotel, Fujita Kanko Inc.
Mar. 2013 Director, Executive Officer, General Manager of Shinjuku Washington Hotel, Fujita Kanko Inc.
Mar. 2014 Director, Executive Officer, General Manager of Shinjuku Washington Hotel, Co-COO of International Business Group, Fujita Kanko Inc.
Jan. 2015 Director, Executive Officer, COO of WHG Business Group, Co-Chief of International Group, Fujita Kanko Inc.
Mar. 2016 Director, Managing Executive Officer, COO of WHG Business Group, in charge of International Group, Fujita Kanko Inc.
Mar. 2017 Director, Managing Executive Officer, COO of WHG Business Group, Fujita Kanko Inc. (to present)

7 Takashi Wakuri

Director, Executive Officer,
Chief of Administrative Group

April 1983 Joined Fujita Kanko Inc.
July 2002 Administrative Manager of Chinzanso (present Hotel Chinzanso Tokyo), Fujita Kanko Inc.
Jan. 2004 Sales Manager of Chinzanso, Fujita Kanko Inc.
Oct. 2005 Administrative Manager of Bridal and Luxury Hotel Company, Fujita Kanko Inc.
July 2006 Sales Manager of Taiko-en, Fujita Kanko Inc.
Oct. 2007 Bridal Sales Manager of Mejiro Sales Headquarters, Fujita Kanko Inc.
Mar. 2012 Representative Director and President of Urawa Washington Hotel Inc., General Manager of Urawa Washington Hotel
Feb. 2015 Vice Chief of Administrative Group, Fujita Kanko Inc.
Oct. 2015 Executive Officer, Vice Chief of Administrative Group, Fujita Kanko Inc.
Mar. 2016 Director, Executive Officer, Chief of Administrative Group, Fujita Kanko Inc. (to present)

8 Rieko Zanma

Outside Director

April 1970 Joined Shizuoka Broadcasting System Co., Ltd., as a newscaster
June 1973 Joined Kobunsha Co., Ltd., as editor of Josei Jishin
June 1980 Established and became Representative Director and President, CANDID INC. (present CANDID COMMUNICATIONS INC.), Representative Director and Chairman since Dec. 2002
Jan. 2001 Member of the Fiscal System Council, Ministry of Finance
Feb. 2001 Member of the Council for Social Infrastructure, Ministry of Land, Infrastructure, Transport and Tourism
Mar. 2004 Executive Producer of the International Skills Festival for All, Japan 2007, Ministry of Health, Labor and Welfare
July 2005 Established and became Representative Director and President, Creative Senior Inc. (present CANDID PRODUCE INC.) (to present)
Jan. 2009 Established and became Representative, club willbe (to present)
Aug. 2009 Member of the Review Meeting for Lay Judge System, Ministry of Justice (to present)
Mar. 2010 Outside Director, Fujita Kanko Inc. (to present)
Mar. 2014 Outside Director, IBJ, Inc. (to present)
June 2016 Outside Director, SHIMA SEIKI MFG., LTD. (to present)
Sept. 2016 Outside Director, Trust Tech Inc. (to present)

9 Yuko Mitsuya

Outside Director

April 1981 Joined Hitachi, Ltd.
April 1990 Part-time lecturer, University of Tsukuba
July 2010 Representative Director, cipher co., LTD (to present)
May 2011 Trustee, Educational Corporation Fujimura Gakuen (to present)
April 2012 Member of the Management Committee, University of Tsukuba
April 2014 Visiting Professor, Tokyo Women's College of Physical Education, Junior College
June 2014 Advisor of The Tokyo Organizing Committee of the Olympic and Paralympic Games (to present), Councillorship of Japan Volleyball Association (to present)
June 2014 Outside Auditor, ASICS Corporation (to present)
Mar. 2015 Outside Director, Fujita Kanko Inc. (to present)
April 2015 Outside Director, Paloma Co., Ltd. (to present)
May 2015 Vice Chairman, Japan Basketball Association
June 2016 Chairman, Japan Basketball Association (to present)

1. Operating Results for Fiscal 2016

In the fiscal year ended December 31, 2016, the Japanese economy was on track toward a gradual recovery, bolstered by improvements in corporate earnings and the employment environment against the backdrop of policies put in place by the government and the Bank of Japan. Meanwhile, rising uncertainties and a lack of clarity existed with regard to the outlook for overseas economies owing to an economic downswing in China, volatile fluctuations in currency exchange rates, the Brexit issue and the U.S. presidential election.

In the tourism industry, the number of foreign visitors to Japan grew year on year. According to the Japan National Tourism Organization (JNTO), fiscal 2016 was witness to the setting of two new records, a 21.8% increase in foreign visitor numbers, to 24.03 million, and 7.8% growth in travel expenditures, to ¥3.7 trillion. On the other hand, travel outlays per foreign visitor to Japan declined by 11.5% compared with the previous year. There was also a noticeable shift in consumption trends by foreign visitors to Japan, with travel objectives changing from “consumption” as had been seen some time ago with activities like “shopping sprees,” to “experience” type enjoyment of nature and culture. Furthermore, lodging destinations also tilted away from major cities and surrounding areas to a dispersed range of regional locations.

In this environment, the Group welcomed the second year of its five-year medium-term management plan, FUJITA PREMIUM VALUE CREATION 2015. Together with moving forward on reinforcing the quality of existing business operations, the Company actively engaged in opening and investing in new facilities both in and outside of Japan.

In fiscal 2016, the Company in March completed, on schedule, the major year-long renovation of all guest rooms at the Shinjuku Washington Hotel Main Building. The newly renovated hotel, located near the West Exit of Shinjuku Station in Tokyo, opened on April 1. Together with Hotel Gracery Shinjuku, which opened for business in April 2015, this renovation has driven the development of a structure of approximately 2,600 operating guest rooms in the Shinjuku area.

With regard to new facilities, the Company opened Hotel Gracery Naha (198 guest rooms) in April, and in July, Hotel Gracery Kyoto Sanjo North (97 guest rooms).

In addition, as one redevelopment initiative in the Hakone area of Kanagawa Prefecture, the Company opened Hakone Kowaki-en Miyama Furin, a hotel located in the vicinity of Hakone Hotel Kowaki-en, thereby raising the appeal of the Hakone area. The Company is also moving forward on preparations for its new flagship resort, Hakone Kowaki-en Ten-yu, which is scheduled to open in April 2017.

In terms of our overseas development, in Taipei (Taiwan) in January the Company opened a new Japanese restaurant

Major Financial Index

	(Millions of yen)				
	2012	2013	2014	2015	2016
For the fiscal years:					
Net sales	60,498	62,109	64,250	63,981	68,789
Operating income	877	1,205	1,365	39	1,712
Operating income before depreciation	—	—	5,995	5,141	7,219
Ordinary income (loss)	630	1,169	1,390	(172)	1,698
Net income	368	878	531	32	858
Net cash provided by (used in) operating activities	3,886	4,367	3,663	(415)	6,246
Net cash provided by (used in) investing activities	(4,407)	(4,643)	1,901	(8,184)	(6,004)
Net cash provided by (used in) financing activities	(1,371)	220	(4,671)	6,748	414
Free cash flows	(521)	(275)	5,565	(8,600)	242
As of December 31:					
Total assets	97,027	104,787	100,881	104,732	105,834
Net assets	21,358	27,894	27,774	27,012	26,526
Interest-bearing debt	40,843	41,614	37,463	44,813	45,757
Per share data (yen):					
Net income	3.07	7.33	4.43	0.27	7.17
Net assets	176.82	231.17	230.04	223.85	219.70
Key performance indicators (%):					
ROA (ordinary income/total assets)	0.6	1.1	1.4	(0.2)	1.6
ROE (net income/net assets)*	1.8	3.6	1.9	0.1	3.2
Equity ratio	21.8	26.4	27.3	25.6	24.9

*Net assets in ROE include total shareholders' equity and total accumulated other comprehensive income

Auditors

10 Kazuo Nakasone

Full-Time Auditor	
April 1979	Joined Fujita Kanko Inc.
Mar. 2001	Group Leader of Total Planning, Corporate Center, Fujita Kanko Inc.
Mar. 2003	Executive Officer, General Manager of Shinjuku Washington Hotel, Fujita Kanko Inc.
Mar. 2005	Executive Officer, Planning Manager of Washington Hotel Company, Fujita Kanko Inc.
Mar. 2007	Director, Executive Officer, in charge of Corporate Center
Jan. 2009	Director, Executive Officer, Chief of Planning Group, Fujita Kanko Inc., Representative Director and President, Fujita Kanko Kouei Inc.
Mar. 2010	Executive Officer, Group Leader of Washington Hotel Business Promotion Division, Fujita Kanko Inc.
	Representative Director and President, Fujita Kanko Kouei Inc.
Mar. 2012	Representative Director and President, Fujita Kanko Kouei Inc.
Mar. 2015	Full-Time Auditor, Fujita Kanko Inc. (to present)
June 2015	Outside Auditor, DOWA HOLDINGS CO., LTD. (to present)

11 Masato Yoshihara

Full-Time Auditor	
April 1980	Joined The Industrial Bank of Japan, Limited (present Mizuho Bank, Ltd.)
April 2005	General Manager of Securities Office, Mizuho Corporate Bank, Ltd. (present Mizuho Bank, Ltd.)
Mar. 2006	Manager of Capital Market Control Division, Mizuho Corporate Bank, Ltd. (present Mizuho Bank, Ltd.)
April 2007	Manager of Personnel Development, Personnel Division, Mizuho Financial Group
Mar. 2009	Vice General Manager of Tokyo Bay Ariake Washington Hotel
April 2010	General Manager of Personnel, Education and Allowance, Fujita Kanko Inc.
Mar. 2015	Manager of CSR Promotion Office, Fujita Kanko Inc.
Mar. 2016	Full-Time Auditor, Fujita Kanko Inc. (to present)

12 Jiro Kawanishi

Outside Auditor	
April 1974	Joined The Mitsui Trust & Banking Company, Limited (present Sumitomo Mitsui Trust Bank, Limited)
June 1997	Manager of Asakusabashi Branch, The Mitsui Trust & Banking Company, Limited
Oct. 1998	General Manager of First and Second Sales Division of Osaka Branch, The Mitsui Trust & Banking Company, Limited
May 2000	Manager of Shinjuku Nishiguchi Branch, The Chuo Mitsui Trust and Banking Company, Limited
May 2001	General Manager of Fourth Sales Division, Nihonbashi Sales Department, The Chuo Mitsui Trust and Banking Company, Limited
June 2001	Executive Officer, General Manager of Fourth Sales Division, Nihonbashi Sales Department, The Chuo Mitsui Trust and Banking Company, Limited
Mar. 2003	Managing Director, Chuo Mitsui Card Co., Ltd. (present SUMITOMO MITSUI TRUST CARD CO., LTD.)
May 2008	Representative Director and President, Chuo Mitsui Card Co., Ltd.
June 2009	Full-Time Auditor, GS Yuasa Corporation
Mar. 2014	Outside Auditor, Fujita Kanko Inc. (to present)
Dec. 2015	Executive Officer, Daiwa House Residential Investment Corporation (present Daiwa House REIT Investment Corporation)

13 Masayuki Naka

Outside Auditor	
April 1981	Joined DOWA MINING CO., LTD. (present DOWA HOLDINGS CO., LTD.)
May 1988	Natural Resources Department, DOWA MINING CO., LTD.
May 1995	Strategic Planning & Development Department, DOWA MINING CO., LTD.
April 2000	Recycle Promotion Department, Eco-Business & Recycling Company, DOWA MINING CO., LTD.
April 2012	Director, General Manager of Recycling Business Unit, DOWA ECO-SYSTEM Co., Ltd.
April 2016	General Manager of Strategic Planning & Public Relations Department, DOWA HOLDINGS CO., LTD. (to present)
April 2016	Director, DOWA METALTECH CO., LTD. (to present)
April 2016	Representative Director and President, DOWA HOLDINGS (THAILAND) CO., LTD. (to present)
Mar. 2017	Outside Auditor, Fujita Kanko Inc. (to present)

Executive Officers (Excluding Executive Officers Who Are Directors)

Koichi Urashima

Executive Officer
Human Resources Group, in charge of Food and Beverage Service, Guidance Division

Takuya Warashina

Executive Officer
Planning Group, Manager of IT Systems Office

Kazuhiro Kaga

Executive Officer
Executive Chef
Human Resources Group, in charge of Food and Beverage Service, Guidance Division

Masatoshi Nakamura

Executive Officer
Luxury & Banquet Business Group, Representative Director and President of TAIKO-EN INC., General Manager of Taiko-en

Yukiharu Fujita

Executive Officer
WHG Business Group, General Manager of Tokyo Bay Ariake Washington Hotel

Tetsu Motomura

Executive Officer
Luxury & Banquet Business Group, General Manager of Hotel Chinzanso Tokyo

Kenji Murakami

Executive Officer
WHG Business Group, General Manager of WHG Shinjuku Control Center

Michio Murakami

Executive Officer
Chief of International Group
In charge of Customer Sales

Toshikatsu Imanari

Executive Officer
WHG Business Group, General Manager of Hotel Gracery Kyoto Sanjyo

called Kinsui Taipei by Hotel Chinzanso Tokyo produced by Hotel Chinzanso Tokyo, and in December, also within Taipei, established “Kourin,” a *kappo*-style restaurant where chefs cook in front of diners seated at a long counter. This advance into restaurant development is representative of efforts to raise the Company’s profile outside of Japan.

Group-wide net sales in fiscal 2016 amounted to ¥68,789 million, an increase of ¥4,807 million compared with the previous fiscal year. Contributing factors included the completion of renovation work at Shinjuku Washington Hotel Main Building, year-round operation of Hotel Gracery Shinjuku, and favorable unit prices per guest room also at other hotel facilities.

Primarily due to increased sales, operating income rose ¥1,673 million from the previous fiscal year, to ¥1,712 million, and ordinary income grew ¥1,871 million, to ¥1,698 million. In addition, the Company posted extraordinary income of ¥2,165 million owing to a gain on sale of investment securities held by the Company, receipt of compensation for damage, and other factors. On the other hand, the Company posted extraordinary losses of ¥1,712 million due to a loss incurred with the closure of Hotel Toba Kowaki-en (Mie Prefecture). As a result of these factors, net income attributable to owners of parent rose ¥825 million, to ¥858 million. Operating income before depreciation, which the Group has positioned as a unique internal indicator, grew ¥2,077 million, to ¥7,219 million.

2. Analysis of Financial Position

(1) Assets, Liabilities and Net Assets

Total assets amounted to ¥105,834 million as of December 31, 2016, up ¥1,101 million from the end of the previous fiscal year. In non-current assets, property, plant and equipment rose ¥3,969 million due to capital investments associated with the opening of Hakone Kowaki-en Ten-yu and other facilities. Meanwhile, investments and other assets declined ¥3,215 million on account of the sale of investment securities, repayment of guarantee deposits and other factors.

Liabilities increased by ¥1,588 million from the end of the previous fiscal year, to ¥79,308 million. Contributing factors included a ¥943 million increase of loans payable due to capital investments. The total amount of loans payable as of December 31, 2016 was ¥45,757 million.

Net assets decreased by ¥486 million from the end of the previous fiscal year, to ¥26,526 million. This was mainly due to a decrease of ¥857 million in valuation difference on available-for-sale securities and an increase of ¥379 million in retained earnings.

(2) Cash Flows

Cash and cash equivalents amounted to ¥4,704 million as of December 31, 2016, up ¥640 million from the end of fiscal 2015.

(i) Cash flows from operating activities

Net cash provided by operating activities amounted to ¥6,246 million. In addition to improved operating income of ¥1,673 million, income tax payments declined by ¥1,528 million, resulting in an increase of ¥6,662 million compared with the previous fiscal year.

(ii) Cash flows from investing activities

Net cash used in investing activities amounted to ¥6,004 million, representing a decline in outlays of ¥2,180 million compared with the previous fiscal year. This was mainly due to ¥9,500 million in outlays for the purchase of property, plant and equipment and intangible assets associated with the construction of Hakone Kowaki-en Ten-yu and Hotel Gracery Kyoto Sanjo South, and other factors. On the other hand, there was ¥1,954 million in proceeds from the sales of investment securities and ¥1,807 million in proceeds from the collection of guarantee deposits.

(iii) Cash flows from financing activities

Net cash provided by financing activities amounted to ¥414 million, representing a decline of ¥6,333 million compared with the previous fiscal year. This was mainly attributable to net proceeds from loans payable of ¥943 million and total cash dividends paid of ¥487 million.

3. Business Risks

The following are major risk factors involving the Group’s business activities and other aspects of its operations that may significantly affect investor decisions. Based on the recognition that these risks do arise, the Group will make its utmost efforts to avoid such risks, or to respond to them in the event that they do occur. The following risk factors include foreseen items based on our judgment as of the closing date of fiscal 2016 (December 31, 2016). Risk factors related to business are not limited to these items.

(1) Share price fluctuations

The Group owns ¥18,300 million in marketable securities, primarily in its business partners and affiliated companies, and is therefore subject to the risk of share price fluctuations. As of the end of fiscal 2016, valuation of available-for-sale securities based on market prices yielded an unrealized gain on marketable securities. However, share price movements in the future may affect the Group’s operating results and financial position.

(2) Recording of impairment losses

As of the end of fiscal 2016, the Group owned ¥62,700 million in property, plant and equipment, which includes hotel properties. Future declines in real estate prices exceeding a certain range and the deterioration in income from the Group’s businesses may result in an impairment loss on a portion of property, plant and equipment.

(3) Continued use or early termination of leased property

In the Group’s hotels business, which includes the Washington Hotel chain, some of the hotel properties are on long-term lease. Should the owner of such property go bankrupt or some other situation arise that makes the continued use of such property difficult, the Group’s operating results may be negatively affected. Additionally, should the Group, for any reason, choose intentionally to withdraw from a long-term lease contract before the end of the contract period, it may be required to assume obligation to pay rent or compensate for the remaining portion of the lease payment, which is currently ¥66,700 million.

(4) Natural disasters and pandemic outbreaks

The occurrence of a massive earthquake, volcanic eruption, typhoon, extraordinary weather conditions or other natural disasters as well as the outbreak of a pandemic involving, for example, a new strain of influenza, is likely to result in the temporary suspension of operations or cancellation of travel, which may negatively affect the Group’s operating results.

(5) Loss from withdrawal of real estate-related businesses

The Group was once actively involved in the real estate sales business and remains active in peripheral businesses, including infrastructure projects such as roads and waterworks, and property management. Many of these projects are low profit or unprofitable. Should we decide to exit from any of these businesses, a considerable temporary loss may be incurred.

(6) Deferred tax assets

The Group recorded ¥1,900 million in deferred tax assets for deductible temporary differences. Deferred tax assets are recorded through evaluation of recoverability based on forecasts for future taxable income, among others. Should actual taxable income be considerably lower than its forecast, recoverability would be reassessed, as a result of which deferred tax assets may be reversed to the recoverable amount, negatively affecting the Group’s operating results and financial position.

(7) Incidents including food poisoning, etc.

The Group pays close attention to safety and hygiene. However, in the unlikely event of food poisoning or any other incident, our customers’ confidence would be damaged and our operations could be suspended temporarily.

(8) Fluctuation in Japanese yen interest rate

As of the end of fiscal 2016, ¥7,400 million of ¥45,700 million in loans payable were loans with floating interest rates. Should Japan’s economic recovery in the future cause the yen interest rate to rise, it may result in an increase to interest payments.

(9) Fluctuation in currency exchange rates

The Group’s revenue and expenses, as well as debt and credit from operating activities in its businesses outside of Japan are denominated in foreign currencies. When converting into Japanese yen the financial statements of overseas companies that are within the scope of consolidation, there may be an affect due to exchange rate fluctuations.

Consolidated Balance Sheets

As of December 31

	Millions of yen	
Assets	2015	2016
Current assets		
Cash and deposits	4,142	4,781
Notes and accounts receivable–trade	3,875	4,614
Merchandise and finished goods	83	70
Work in process	32	58
Raw materials and supplies	443	492
Deferred tax assets	1,178	576
Other	2,014	1,685
Allowance for doubtful accounts	(47)	(43)
Total current assets	11,722	12,235
Non-current assets		
Property, plant and equipment		
Buildings and structures	92,219	92,053
Accumulated depreciation	(56,907)	(58,327)
Buildings and structures, net	35,312	33,725
Tools, furniture and fixtures	17,254	18,879
Accumulated depreciation	(11,740)	(12,832)
Tools, furniture and fixtures, net	5,513	6,046
Land	12,983	12,532
Construction in progress	1,151	6,653
Golf courses	2,773	2,773
Other	4,870	4,918
Accumulated depreciation	(3,799)	(3,874)
Other, net	1,070	1,043
Total property, plant and equipment	58,805	62,775
Intangible assets		
Goodwill	360	320
Software	667	540
Other	127	128
Total intangible assets	1,154	989
Investments and other assets		
Investment securities	21,472	19,592
Guarantee deposits	9,990	8,477
Deferred tax assets	1,134	1,365
Other	469	415
Allowance for doubtful accounts	(17)	(17)
Total investments and other assets	33,049	29,834
Total non-current assets	93,010	93,599
Total assets	104,732	105,834

	Millions of yen	
Liabilities	2015	2016
Current liabilities		
Notes and accounts payable–trade	1,583	1,666
Short-term loans payable	4,725	2,325
Current portion of long-term loans payable	7,931	7,509
Income taxes payable	450	296
Accrued consumption taxes	307	760
Provision for bonuses	157	175
Provision for directors' bonuses	12	10
Provision for point card certificates	92	93
Provision for noncurrent assets removal cost	79	—
Other	6,017	6,591
Total current liabilities	21,356	19,429
Non-current liabilities		
Long-term loans payable	32,157	35,923
Provision for directors' retirement benefits	101	112
Provision for loss on business withdrawal	563	602
Net defined benefit liability	8,953	9,206
Deposits received from members	12,807	12,282
Other	1,780	1,751
Total non-current liabilities	56,363	59,878
Total liabilities	77,719	79,308
Net assets		
Shareholders' equity		
Capital stock	12,081	12,081
Capital surplus	5,432	5,432
Retained earnings	4,356	4,735
Treasury shares	(921)	(924)
Total shareholders' equity	20,949	21,325
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	5,952	5,095
Foreign currency translation adjustment	6	(8)
Remeasurements of defined benefit plans	(82)	(85)
Total accumulated other comprehensive income	5,877	5,001
Non-controlling interests	186	199
Total net assets	27,012	26,526
Total liabilities and net assets	104,732	105,834

Consolidated Statements of Income and Comprehensive Income

For the fiscal years ended December 31

Consolidated Statements of Income

	Millions of yen	
	2015	2016
Net sales	63,981	68,789
Cost of sales	59,534	62,593
Gross profit	4,446	6,195
Selling, general and administrative expenses	4,407	4,483
Operating income	39	1,712
Non-operating income		
Interest income	5	4
Dividend income	381	381
Share of profit of entities accounted for using equity method	50	71
Life insurance dividends	73	81
Other	260	235
Total non-operating income	771	775
Non-operating expenses		
Interest expenses	567	567
Loss on disposal of non-current assets	114	126
Commission for syndicate loan	167	—
Other	134	94
Total non-operating expenses	983	789
Ordinary income (loss)	(172)	1,698
Extraordinary income		
Gain on sales of investment securities	556	1,439
Compensation income	—	582
State subsidy	37	80
Release from memberships deposits obligation	52	51
Gain on sales of non-current assets	7	12
Reversal of provision for loss on contract	265	—
Total extraordinary income	919	2,165
Extraordinary losses		
Impairment loss	36	1,318
Provision for loss on business withdrawal	141	376
Special maintenance repairs of idle equipment	3	5
Loss on retirement of non-current assets	42	—
Other	12	11
Total extraordinary losses	237	1,712
Income before income taxes	509	2,151
Income taxes - current	209	323
Income taxes - deferred	(588)	948
Income taxes for prior periods	828	—
Total income taxes	450	1,271
Net income	58	879
Income attributable to non-controlling interests	26	21
Income attributable to owners of parent	32	858

Consolidated Statements of Comprehensive Income

	Millions of yen	
	2015	2016
Net income	58	879
Other comprehensive income		
Valuation difference on available-for-sale securities	219	(856)
Foreign currency translation adjustment	(10)	(15)
Remeasurements of defined benefit plans, net of tax	(21)	(2)
Share of other comprehensive income of entities accounted for using equity method	22	(0)
Total other comprehensive income	209	(875)
Comprehensive income	268	4
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	242	(17)
Comprehensive income attributable to non-controlling interests	26	21

Consolidated Statements of Cash Flows

For the fiscal years ended December 31

	Millions of yen	
	2015	2016
Cash flows from operating activities		
Profit before income taxes	509	2,151
Depreciation	3,998	4,473
Impairment loss	36	1,318
Amortization of goodwill	40	40
Increase (decrease) in allowance for doubtful accounts	10	(3)
Increase (decrease) in provision for directors' retirement benefits	(6)	10
Increase (decrease) in provision for bonuses	3	18
Increase (decrease) in provision for directors' bonuses	0	(1)
Increase (decrease) in provision for point card certificates	2	1
Increase (decrease) in provision for loss on contract	(298)	—
Increase (decrease) in provision for loss on business withdrawal	(566)	38
Increase (decrease) in provision of non-current assets removal	(327)	(79)
Increase (decrease) in net defined benefit liability	(212)	249
Interest and dividend income	(386)	(386)
Interest expenses	567	567
Foreign exchange losses (gains)	17	10
Share of (profit) loss of entities accounted for using equity method	(50)	(71)
Loss (gain) on sales of non-current assets	(7)	(12)
Loss on retirement of non-current assets	156	126
Loss (gain) on sales of short-term and long-term investment securities	(556)	(1,439)
Compensation income	—	(582)
Release from memberships deposits obligation	(52)	(51)
Decrease (increase) in notes and accounts receivable-trade	(207)	(739)
Decrease (increase) in inventories	20	(62)
Increase (decrease) in notes and accounts payable-trade	(203)	83
Increase (decrease) in accrued consumption taxes	(371)	452
Other, net	(615)	(69)
Subtotal	1,502	6,044
Interest and dividend income received	394	395
Interest expenses paid	(573)	(564)
Income taxes paid	(1,739)	(211)
Proceeds from compensation	—	582
Net cash provided by (used in) operating activities	(415)	6,246
Cash flows from investing activities		
Purchase of property, plant and equipment and intangible assets	(8,160)	(9,500)
Proceeds from sales of property, plant and equipment and intangible assets	14	13
Purchase of investment securities	(16)	(9)
Proceeds from sales of investment securities	1,018	1,954
Payments into time deposits	—	(0)
Proceeds from withdrawal of time deposits	16	—
Payments for guarantee deposits	(1,198)	(180)
Proceeds from collection of guarantee deposits	978	1,807
Purchase of shares of subsidiaries resulting in change in scope of consolidation	(746)	—
Other, net	(89)	(87)
Net cash provided by (used in) investing activities	(8,184)	(6,004)
Cash flows from financing activities		
Net increase (decrease) in short-term loans payable	1,839	(2,400)
Proceeds from long-term loans payable	13,950	11,283
Repayments of long-term loans payable	(8,470)	(7,939)
Proceeds from sales of treasury shares	3	0
Purchase of treasury shares	(7)	(4)
Payments from changes in ownership interests in subsidiaries that do not result in change in scope of consolidation	(36)	—
Cash dividends paid	(479)	(479)
Dividends paid to non-controlling interests	(8)	(7)
Repayments of finance lease obligations	(32)	(34)
Other, net	(11)	(4)
Net cash provided by (used in) financing activities	6,748	414
Effect of exchange rate change on cash and cash equivalents	(9)	(15)
Net increase (decrease) in cash and cash equivalents	(1,861)	640
Cash and cash equivalents at beginning of period	5,925	4,063
Cash and cash equivalents at end of period	4,063	4,704

List of Commercial Properties, Main Subsidiaries and Affiliated Companies of the Fujita Kanko Group

(As of April 31, 2017)

List of the Fujita Kanko Group’s Commercial Properties

WHG Business (Total number of guest rooms: existing 10,477, new openings (scheduled) 857, total 11,334)

	Facility name	Number of guest rooms
Hotels (37 properties) including 4 properties scheduled to newly open	Fujita Kanko Washington Hotel Asahikawa	260
	Aomori Washington Hotel (FC)	228
	Hachinohe Washington Hotel (FC)	126
	Sendai Washington Hotel	223
	Yamagata Nanokamachi Washington Hotel (FC)	213
	Yamagata Eki Nishiguchi Washington Hotel (FC)	100
	Aizu Wakamatsu Washington Hotel (FC)	154
	Koriyama Washington Hotel (FC)	184
	Iwaki Washington Hotel (MC)	148
	Shinjuku Washington Hotel Main Building	1,279
	Shinjuku Washington Hotel Annex Building (MC)	337
	Akihabara Washington Hotel	369
	Tokyo Bay Ariake Washington Hotel	830
	Tachikawa Washington Hotel (FC)	170
	Yokohama Sakuragicho Washington Hotel	553
	Yokohama Isezakicho Washington Hotel	399
	Urawa Washington Hotel	140
	Chiba Washington Hotel (MC)	181
	Kisarazu Washington Hotel (FC) (scheduled to open on October 28, 2017)	146
	Tsubame Sanjo Washington Hotel (FC)	103
	Kansai Airport Washington Hotel	504
	Takarazuka Washington Hotel (FC)	135
	Hiroshima Washington Hotel	266
	Canal City Fukuoka Washington Hotel	423
	Nagasaki Washington Hotel	300
	Sasebo Washington Hotel (FC)	190
	Hotel Gracery Sapporo	440
	Hotel Gracery Ginza	270
	Hotel Gracery Tamachi	216
	Hotel Gracery Shinjuku	970
	Hotel Gracery Kyoto Sanjo North	97
	Hotel Gracery Kyoto Sanjo South (scheduled to open in May 1, 2017) ²	128
	Hotel Gracery Naha	198
	Hotel Fujita Fukui	354
	Hotel Fujita Nara	117
	Hotel Gracery Seoul (scheduled to open in summer 2018)	335
	Hotel Gracery Taipei (tentative name) (scheduled to open in 2019)	248

Resort Business (Total number of guest rooms: 809)

	Facility name	Number of guest rooms
Hotels (11 properties)	Towada Hotel (business partnership)	50
	Hakone Hotel Kowaki-en (scheduled to close on January 10, 2018) ¹	224
	Hakone Kowaki-en Miyama Furin ¹	13
	Hakone Kowaki-en Ten-yu ¹	150
	Hakone Kowaki-en B&B Pension Hakone ¹	224
	Yugawara Onsen Chitose (MC)	38
	Green Pal Yugawara (MC)	19
	Ito Kowaki-en ¹	48
	Ito Ryokuyu ¹	7
	Hotel Yamanami (MC)	26
	Yufuin Ryokuyu	10
Restaurants (3 properties)	Akashia-Tei	—
	Hakone Kowaki-en Soba Kihinkan ¹	—
	Hakone Kowaki-en Teppanyaki Geihinkan ¹	—
Leisure Facilities (3 properties)	Hakone Kowaki-en Yunessun ¹	—
	Hakone Kowaki-en Mori No Yu ¹	—
	Shimoda Aquarium ¹	—

FC: Franchise system
Ownership, management and operations are administered by its ownership entity. The Company licenses its brand and provides operational guidance.
MC: Management Contract system
Ownership and management are administered by its ownership entity, and operations are outsourced to the Company.
Notes: 1. Both the land and building(s) are owned by the Company
2. Building(s) is/are owned by the Company
3. Land and building(s) are jointly owned by its members and the Company
Land and building(s) of facilities without a note are not owned by the Company, and are managed and operated through a lease system, etc.

Luxury & Banquet Business (Total number of guest rooms: 267)

	Facility name	Number of guest rooms
Hotels (1 properties)	Hotel Chinzanso Tokyo ¹	267
Wedding/ Banquet Venues (7 properties)	Taiko-en ¹	—
	Ouen ¹	—
	Marryaid ¹	—
	The South Harbor Resort ²	—
	Remercier Motoujina ²	—
	Maricolle Wedding Resort (scheduled to open on May 1, 2017)	—
	Sayagatani Garden Aglass (scheduled to open on May 1, 2017)	—
Restaurants (7 properties)	University of Tokyo Ito International Research Center Restaurant (MC)	—
	Civic Sky Restaurant Chinzanso	—
	Meiji University Shikonkan Foresta Chinzanso (MC)	—
	Tokyo FM JET STREAM (members club) (MC)	—
	Tokyo FM CORNET (MC)	—
	Kinsui Taipei by Hotel Chinzanso Tokyo	—
	Kourin, a <i>kappo</i> -style restaurant	—
Leisure Facilities (2 properties)	Camellia Hills Country Club ¹	—
	Noto Country Club ¹	—

Membership-based Resort Hotels (Total number of guest rooms: 460)

	Facility name	Number of guest rooms
Hotels (7 properties)	Wisterian Life Club Verde No Mori ³	100
	Wisterian Life Club Hakone ³	18
	Wisterian Life Club Atami ³	54
	Wisterian Life Club Usami ³	58
	Wisterian Life Club Nojiriko ³	64
	Wisterian Life Club Prominent Kurumayama Kogen ³	90
	Wisterian Life Club Toba ³	76

Global Offices

	Facility name
(6 properties)	Shanghai
	Seoul
	Taipei
	Bangkok
	Jakarta
	Yangon

List of Main Subsidiaries and Affiliated Companies

Consolidated subsidiaries (26 companies)

Company name	Main business
Sapporo Washington Hotel Inc.	WHG Business
Fujita Kanko Washington Hotel Asahikawa Kabushiki Kaisha	WHG Business
Urawa Washington Hotel Inc.	WHG Business
Fukui Washington Hotel Service Inc.	WHG Business
WHG NISHINIHON INC.	WHG Business
WHG KANSAI INC.	WHG Business
Reservation Service Inc.	WHG Business
WHG KOREA INC.	WHG Business
Ito Resort Service Inc.	Resort Business
Shimoda Aqua Service Inc.	Resort Business
Fujita Resort Development Co., Ltd.	Luxury & Banquet Business
Noto Kogyo Kaihatsu Inc.	Luxury & Banquet Business
TAIKO-EN INC.	Luxury & Banquet Business
Fujita Kanko Kouei Inc.	Luxury & Banquet Business
Visualife Co., Ltd.	Luxury & Banquet Business
Share Clapping Inc.	Luxury & Banquet Business
TAIWAN FUJITA KANKO INC.	Luxury & Banquet Business
Fairton Corporation	Other
Fujita Green Service Inc.	Other
Fujita (Shanghai) Business Consultant Co., Ltd.	Other
Other 6 companies	

Entity accounted for using equity method (1 company)

Company name	Main business
Tokai Kisen Co., Ltd.	Shipping business

Other related company (1 company)

Company name	Main business
DOWA HOLDINGS CO., LTD.	Non-ferrous metal business

Company Overview/Investor Information

(As of December 31, 2016)

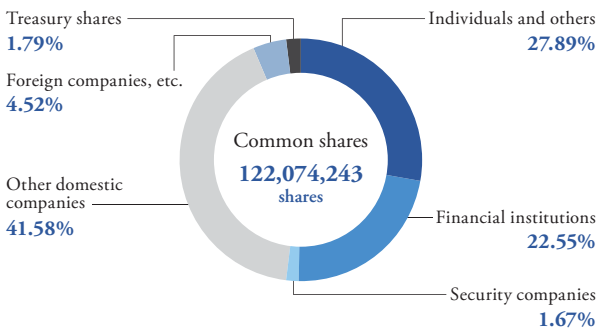
Company Overview

Company name	Fujita Kanko Inc.	Capital	12,081,592,677 yen
Establishment	November 7, 1955 (Registered June 12, 1946)	Main lines of business	Hotels, Japanese-style inns, restaurants, etc.
Head office	2-10-8 Sekiguchi, Bunkyo-ku, Tokyo 112-8664 Japan Telephone: +81-3-5981-7700 (main) Website: https://www.fujita-kanko.com/	Number of employees	1,356 (Average number of temporary employees: 3,427)

Investor Information

Total number of authorized shares	440,000,000 shares
Total number of issued shares	122,074,243 shares
Number of shareholders	18,880
Date of settlement	December 31
Listed exchange	Tokyo Stock Exchange First Section
Stock code	9722
Administrator of shareholder registry	Sumitomo Mitsui Trust Bank, Limited 1-4-1 Marunouchi, Chiyoda-ku, Tokyo 100-8233

Distribution of Shares by Shareholders (Common Shares)

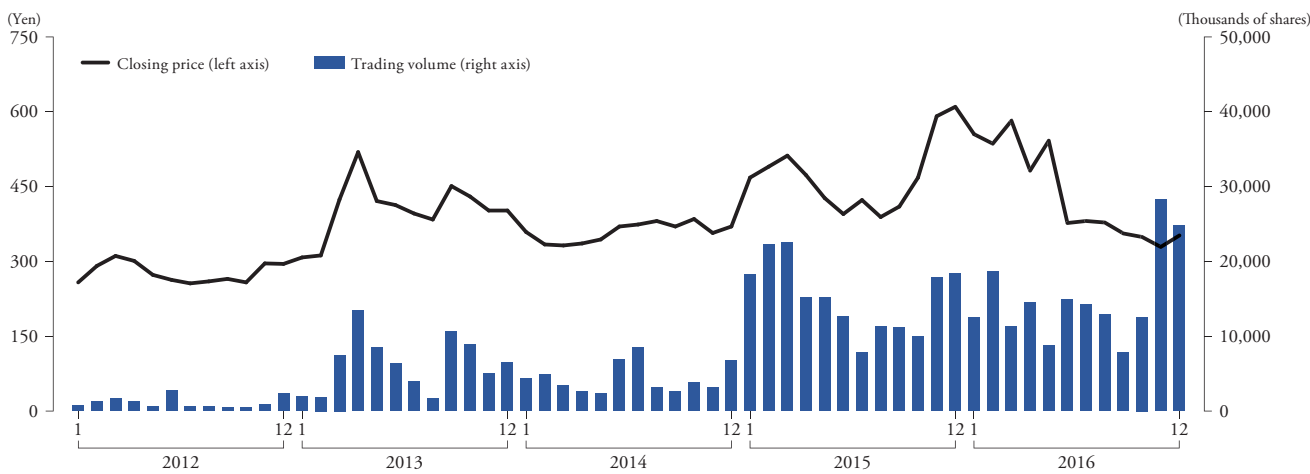


Major Shareholders

Name of shareholder	Number of shares held (Thousands of shares)	Shareholding ratio (%)
DOWA HOLDINGS CO., LTD.	38,143	31.81
The Master Trust Bank of Japan, Ltd. (Trust Account)	4,579	3.81
Japan Trustee Services Bank, Ltd. (Trust Account)	3,016	2.51
Meiji Yasuda Life Insurance Company	3,008	2.50
Nippon Life Insurance Company	2,184	1.82
SHIMIZU CORPORATION	1,842	1.53
ASAHI BREWERIES, LTD.	1,811	1.51
Mizuho Bank, Ltd.	1,806	1.50
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	1,806	1.50
UNIZO Holdings Company, Limited	1,686	1.40

Notes: 1. The Company, which owns 2,182,000 treasury shares (1.79% of the total number of issued shares), is excluded from consideration as a major shareholder as defined above.
2. The shareholding ratio is calculated from the total number of issued shares less 2,182,000 treasury shares.
3. The numbers of shares held are shown rounded down to the nearest thousand shares.

Stock Price Trends



Cautionary Note Regarding Forward-Looking Statements

This report contains forward-looking statements concerning the future plans, strategies, beliefs and performance forecasts of the Company and those of its Group. These statements are based on analyses and conclusions from the information available as of the date of preparation of this report and may contain risks and uncertainties concerning economic trends, market environment, etc. Please be aware that actual results may differ from our expectations. The information reported herein was prepared based on details we believe are reliable, however, we cannot guarantee the accuracy and completeness of all information.

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