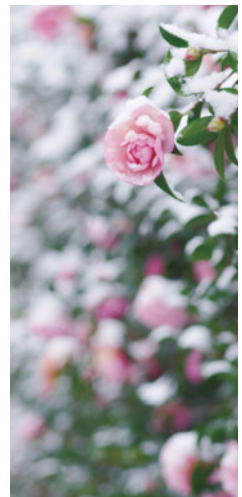
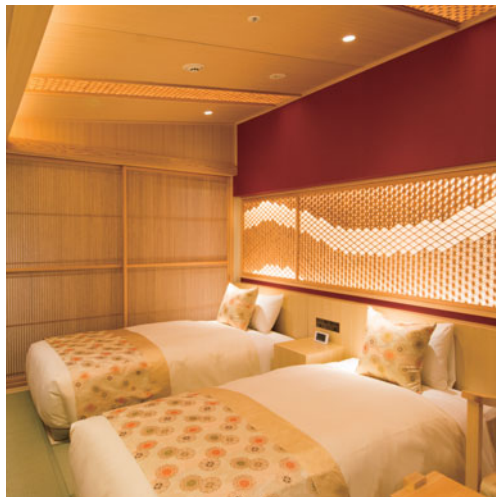
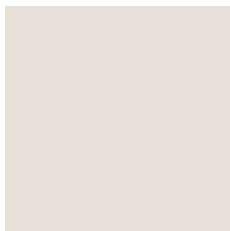
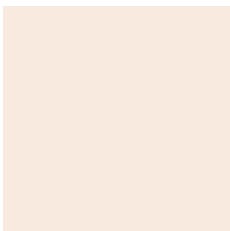
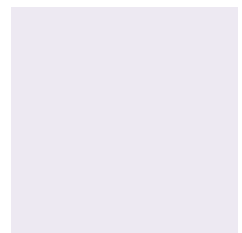
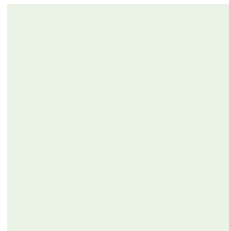




Fujita Kanko Inc.

# Integrated Report 2017

For the fiscal year ended December 31, 2017





Now marking its 62nd 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 enables the Company to contribute 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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WHG Business

Accelerate expansion of this segment as the key driver for company growth



Resort Business

Focus on redevelopment of Hakone-area facilities and attract more upper-middle class, high-end customers



Cash Flow Growth

Business Expansion

Brands

Hospitality (Corporate Philosophy)

New Business Initiatives

Address diversifying needs and increased inbound tourism



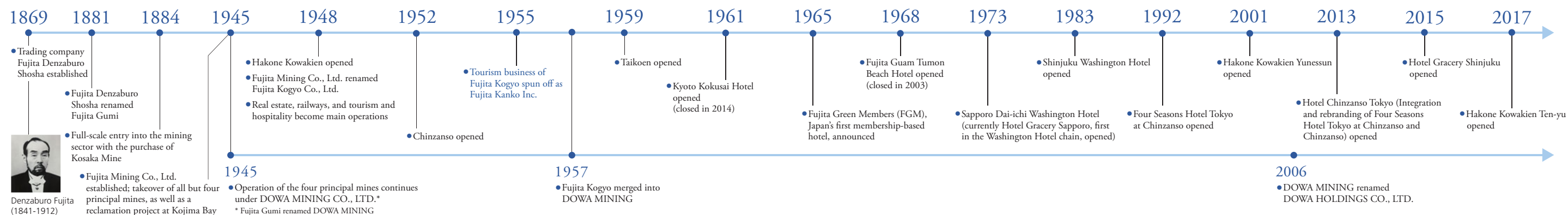
Luxury & Banquet Business

Build an upscale, high-quality business centered around the "Hotel Chinzanso Tokyo" brand





## A Proud History of Creating Value



## The Roots of Fujita Kanko

With roots in the Fujita *zaibatsu* (business conglomerate) 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, Eiichi Ogawa, the first president of Fujita Kanko, 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.

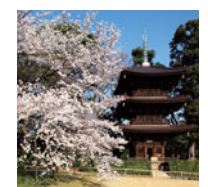


Eiichi Ogawa, the first president of Fujita Kanko

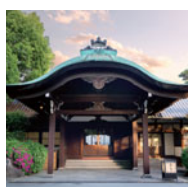


Hakone Kowakien at the time of its opening

### Historic Buildings Inherited



Three-story pagoda (listed as a tangible cultural property)



Yodogawatei Japanese restaurant



Hakone Kowakien Soba Kihinkan (listed as a tangible cultural property)

→ See page 28 for details on "Initiatives to Preserve Cultural Assets and Historical Architecture."

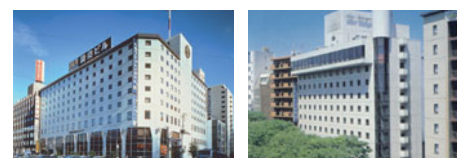
## WHG Business

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

- **Customer base:** Business travelers, tourists from Japan and overseas
- **Purpose:** Business trips, tourism
- **Locations:** 42 properties
- **Guest rooms:** 12,313 rooms

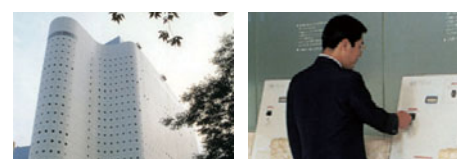
### 1970s

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



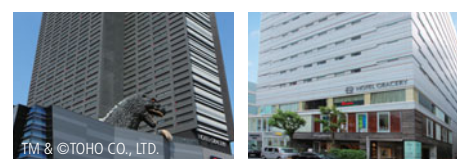
### 1980s

In 1983, the Shinjuku Washington Hotel opens as the Washington Hotel's flagship hotel. Needs are rising for hotels that offer banquet venues and restaurants as places 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. For this reason, the Hotel Gracery brand is created to target tourism and leisure travelers.



## Resort Business

The Resort Business includes the Kowakien 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:** 15 properties
- **Guest rooms:** 361 rooms

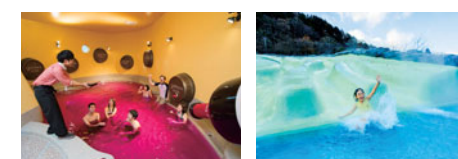
### 1970s

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



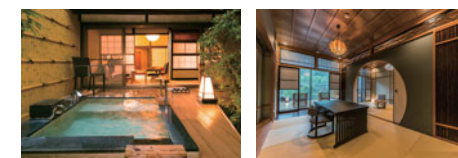
### 1980s

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, opens.



### 2010s

The rise in individual travel and increasing inbound demand leads to diversifying needs, such as the need to separate lodging from meals. In 2014, the Ryokuyu brand of luxury hot spring Japanese-style inns is launched in Yufuin and Ito. In 2017, Hakone Kowakien Ten-yu opens.



## Luxury & Banquet Business

With Hotel Chinzanso Tokyo and Taikoen at its core, the Luxury & Banquet Business 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
- **Purpose:** Tourism, weddings and banquets, meetings, golf
- **Locations:** 16 properties
- **Guest rooms:** 267 rooms

\* Meetings, incentives, conferences and exhibitions/events

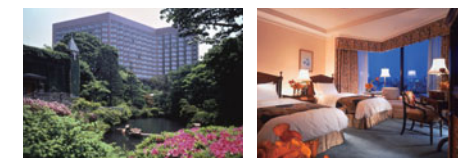
### 1970s

Needs rise for facilities that can hold weddings and receptions, which had generally been held at home. The Company develops a wedding and banquet business model at Chinzanso and Taikoen. These later become Japan's leading luxury wedding and banquet venues.



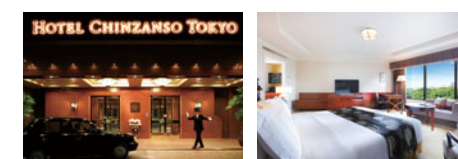
### 1990s

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 business in Japan.



### 2010s

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



Note: Numbers of locations and guest rooms are stated as of April 30, 2018, and include scheduled openings.

Group Strengths

### Hospitality

“Gratitude, commitment to thoughtful attentiveness and understated hospitality” are the standards that underpin our service

➔ See pages 24-26 for details.

### History

Ownership of cultural properties and historic buildings and gardens (Hakone Kowakien, Hotel Chinzanso Tokyo, Taikoen)

➔ See page 28 for details.

### Diverse Brands

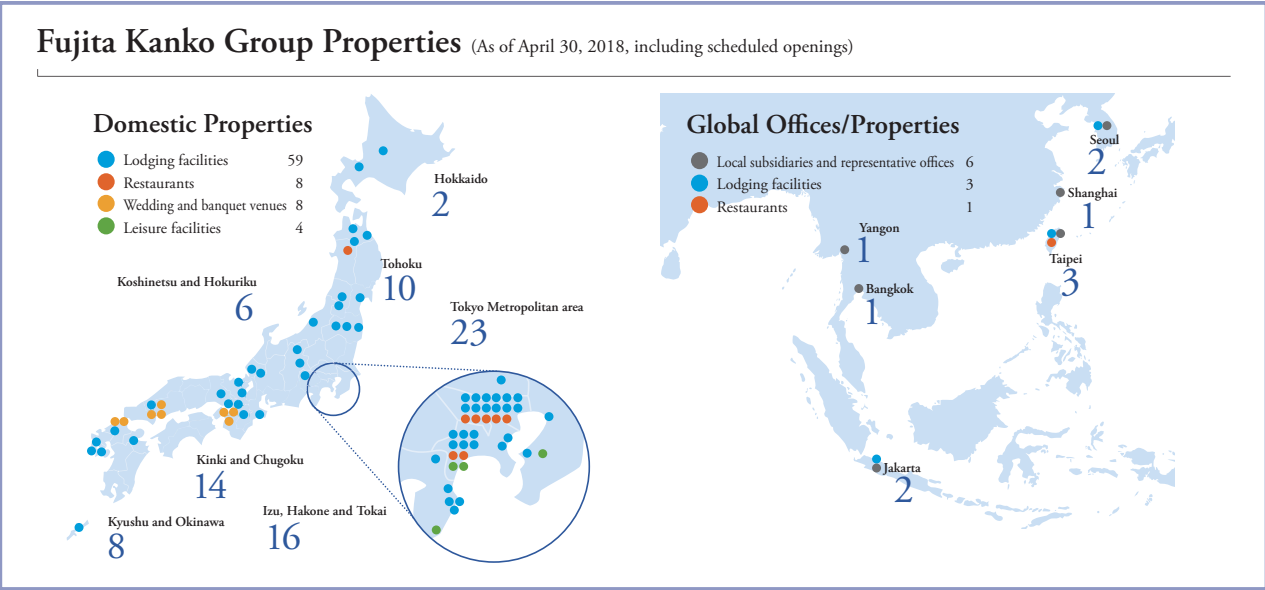
Washington Hotel, Hotel Gracery, Hakone Kowakien and Hotel Chinzanso Tokyo form the core of a diverse accommodations portfolio

➔ See pages 14-20 for details.

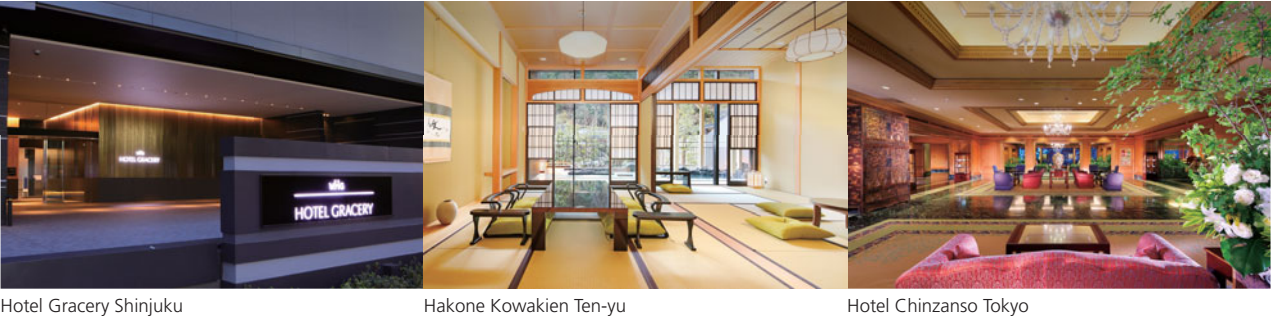
### Properties

An optimum balance of rental models and franchise models and locations throughout Japan and Asia

➔ See page 40 for details.



Business Strengths



WHG Business

**Operation of two hotel brands tailored to business and tourist/leisure needs**

Washington Hotel aims to provide comfort and convenience using mobile ICT to meet the demands of business travelers. Hotel Gracery offers spaces designed to stimulate the senses and local information provided by the concierge to meet the needs of tourists and leisure travelers.

**Use of our longstanding track record with inbound quests to attract more individual travelers**

We are conducting measures to attract individual travelers using the know-how in handling inbound guests we acquired before the rapid increase in inbound demand. We are improving customer satisfaction with concierge service, members’ cards and other measures to increase the number of repeat customers.

**Lease-based business partnerships in cities with increasingly diverse and individual needs**

The WHG Business intends to accelerate new openings through various business schemes such as leasing, franchises and management contracts. Under the leasing method, we rent a portion of a building constructed by an owner company, then we manage and operate it as a hotel. Stable revenue is achieved through long-term lease agreements in areas near terminal stations in Tokyo and in ordinance-designated cities.

Resort Business

**Unique operation of an extensive site in Hakone, Japan’s largest tourist location, for over 60 years**

Fujita Kanko founder Eiichi Ogawa took over the vacation home of one of Hakone’s foremost classical Japanese-style buildings, which was owned by the Fujita family, and opened Hakone Kowakien to the public as a place for healthy relaxation. Its total area of 679,606 square meters is about 14 times the size of Tokyo Dome.

**Bold and flexible ideas that embody our Corporate Philosophy have led to development that anticipates contemporary needs**

Starting with a Japanese-style inn that opened in 1948, our business has consistently anticipated contemporary needs in our home base of Hakone. We are shifting from a large accommodation facility for group tours to an integrated hot springs theme park specializing in day-trip guests, and a high-value-added accommodation facility for individual travelers.

**Improved customer service with a concierge as a communications hub in Hakone**

To provide high-quality service to every guest, we have expanded our concierge service as the communications hub for our high-grade hospitality, food and diverse activities that soothe the five senses. As a communications hub in Hakone, the service also contributes to the revitalization of the entire area.

Luxury & Banquet Business

**Numerous top global rankings for world-renowned Japanese hospitality**

Hotel Chinzanso Tokyo originated from the transformation of the former garden and mansion of Prince Aritomo Yamagata into a garden restaurant in 1952. Since then, it has conveyed the Japanese spirit and hospitality as a prestigious wedding hall and a luxury hotel that is emblematic of Japan.

**Creation of a new customer base through more than 60 years of wedding hospitality**

Hotel Chinzanso Tokyo and Taikoen have hosted many weddings over the past 60 years. The heartfelt hospitality they provide families and guests has led to their repeat use as places to celebrate family anniversaries, birthdays and other occasions.

**Refined service technology and a commitment to hospitality add luster to that special day**

With its many years of operation and high evaluations from external rating agencies, Hotel Chinzanso Tokyo plays the central role in maintaining and improving the high-quality service of the entire Fujita Kanko Group. We offer experiences that exceed expectations with our refined service techniques and diverse programs.



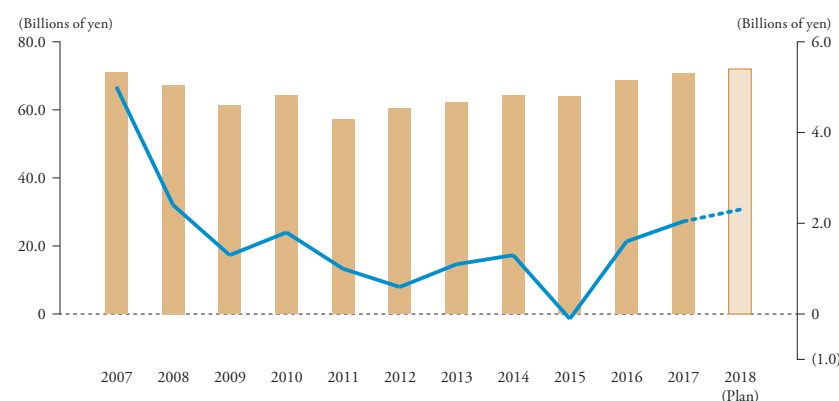
## Financial and Non-Financial Highlights



### Consolidated Operating Results

■ Net sales (left scale)  
— Ordinary profit (right scale)

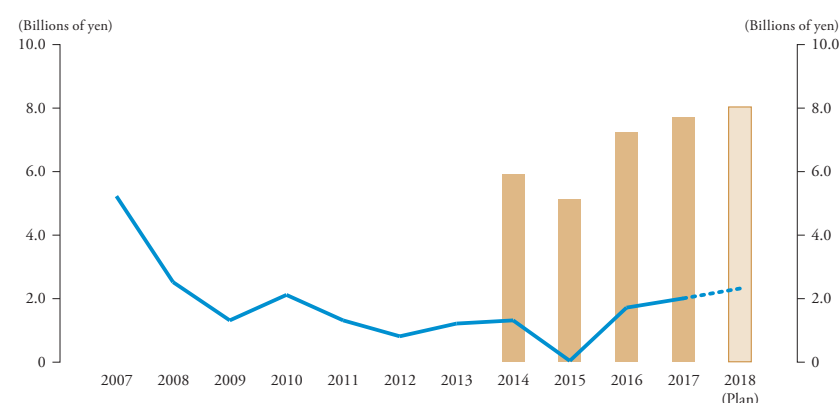
In 2007, the success of structural reforms boosted ordinary profit over ¥5 billion, but results since then have been weakened by the bankruptcy of Lehman Brothers and the impact of the Great East Japan Earthquake. In 2015, aggressive investment pursuant to the medium-term management plan led to an ordinary loss, but results since 2016 have continued to increase year on year due to the effects of that investment.



### Operating Profit before Depreciation/Operating Profit

■ Operating income before depreciation (left scale)  
— Operating profit (right scale)

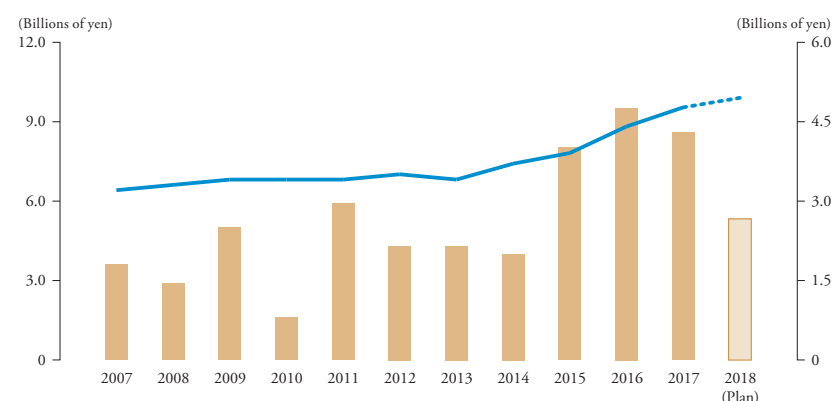
In 2014, the Company established operating profit before depreciation as a unique internal indicator that takes into account depreciation, repair expenses, one-time investment expenditures and other items required to execute aggressive investments. Investments are curtailed in times of faltering performance, but the Company has been making upfront investments since 2015 in line with the medium-term management plan, and operating profit increased ¥450 million year on year in 2017.



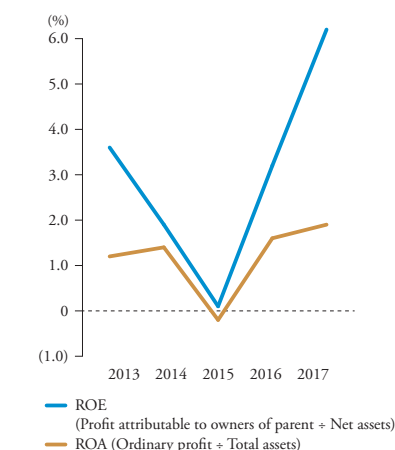
### Capital Investment/Depreciation

■ Capital investment (left scale)  
— Depreciation (right scale)

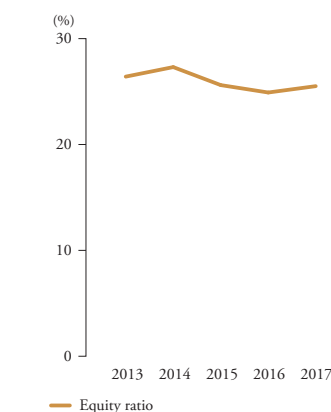
Against the backdrop of heightened demand for accommodations due to increased numbers of visitors to Japan and other factors, the Company has shifted to a policy of aggressively executing investments that in the past it had decided to put off. While striving to strengthen the quality of existing businesses, the Company is planning steady and expanded revenues by accelerating the pace of new openings.



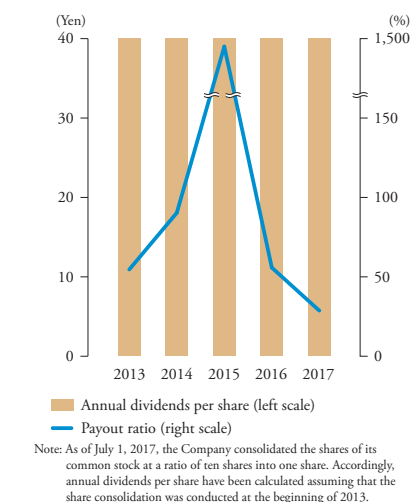
### ROA/ROE



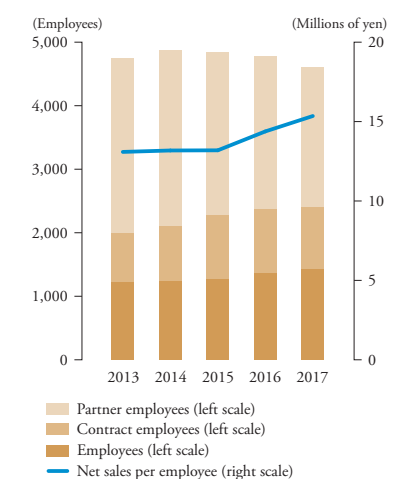
### Equity Ratio



### Annual Dividends per Share/Payout Ratio

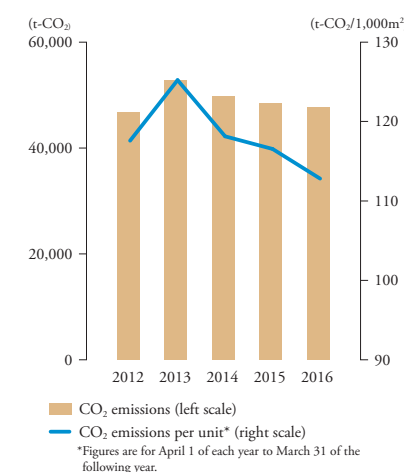


### Consolidated Number of Employees/Net Sales per Employee



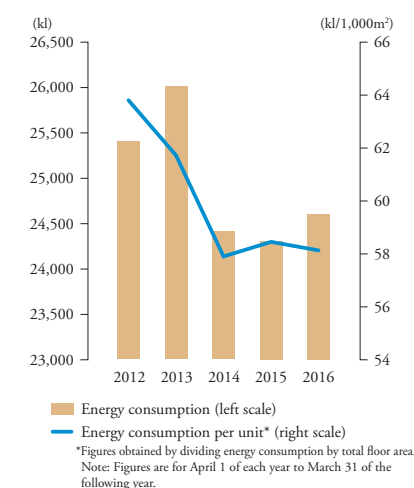
We intend to increase the number of employees who handle the needs of inbound guests by proactively hiring outside Japan, and we are working to continuously ensure a high-quality workforce by shifting from fixed-term to indefinite-term employment through employee appointments. We also strive to improve human resources throughout the Fujita Kanko Group through measures including allowing employees to participate in training and skills competitions regardless of their employment status.

### CO<sub>2</sub> Emissions/CO<sub>2</sub> Emissions per Unit\*



Compared with the year ended March 31, 2014 when there was a series of new openings, CO<sub>2</sub> emissions have been declining owing to reduced CO<sub>2</sub> factors associated with electricity use and the introduction of energy-conservation equipment. CO<sub>2</sub> emissions per basic unit, which express emissions on a unit per area basis, are also falling.

### Energy Consumption/Energy Consumption per Unit\*



Although energy consumption increased in the year ended March 31, 2017 with the opening of Hotel Gracery Kyoto Sanjo and other new facilities, energy consumption per unit, an expression of energy efficiency, has declined by an average of more than 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.

By investing proactively and anticipating changing needs with a forward-looking human resources strategy, we will continue passing down our founding philosophy to the next generation.

Akira Segawa  
Representative Director and President

In 2017, successful efforts to attract inbound guests led to year-on-year growth in sales and income. We exceeded ¥2 billion in ordinary profit for the first time in nine years.

According to the Japan National Tourism Organization (JNTO), the number of inbound visitors (foreign visitors to Japan) in fiscal 2017 increased 19.3% from the previous year to a record high of 28.69 million. For the time being, that number is expected to steadily increase toward the Japanese government’s target of 40 million in 2020.

Meanwhile, a succession of new hotels, mainly in the Tokyo metropolitan area, were opened by competitors as well as new market entrants from other industries, backed by rising demand for accommodations. In addition, as repeat visitors from overseas increasingly visit regional areas, room rates in the Tokyo Metropolitan area are clearly reaching their peak. Moreover, with the enactment of the Private Residence Lodging Business Act (the so-called New Minpaku Act), the operating environment for the accommodations business is becoming increasingly severe, and we believe further strategies for differentiation will be needed.

Under these business conditions, the Fujita Kanko Group steadily attracted guests from overseas, mainly other Asian countries, and the number of inbound guests increased 22.5% year on year to 1.74 million, accounting for approximately 40% of the total number of guests. Also, among our inbound guests, we concentrated on attracting foreign individual travelers (FITs), who stay longer at a higher unit price per room than group travelers. Consequently, FITs accounted for approximately 80% of our inbound guests. We consider this a result of the initiatives and new investments we are conducting under our medium-term management plan. Driven by the WHG Business, which steadily attracted FITs,

Background at the Time of Formulation of the Medium-term Management Plan (2013-2014)

Opportunities

- The government is aggressively promoting tourism, relaxing requirements for issuing visas, etc. (Target for inbound visitors: 20 million by 2020 and 30 million by 2030)
- Global events such as the 2020 Tokyo Olympic Games and Paralympics will be taking place in Japan
- Increased purchasing power of inbound visitors due to weaker yen
- Upscale market segment has increased with highly motivated consumers

Challenges

- Unstable overseas economic situation
- Higher costs for imported resources due to weaker yen
- Louder public demand for safety and security
- Harder to secure labor force
- Diminishing demand for wedding business due to declining birthrate and the trend toward delayed marriage

FUJITA PREMIUM VALUE CREATION 2015  
— Our goal: To be Japan’s leading tourism company —

Overall Strategies of the Medium-term Management Plan

- 1 Business Segments

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

Increase marketing and sales to capitalize on the rising number of inbound visitors, and develop overseas business
- 3 Human Resources

Create fulfilling workplaces where diverse human resources can play an active role



operating profit increased 20.6% year on year to ¥2.04 billion, as we exceeded ¥2 billion in ordinary profit for the first time in the nine years since 2008.

A highlight of 2017 was the opening in April of Hakone Kowakien Ten-yu, our largest investment during the medium-term management plan. As a result, Resort Business sales increased by more than 10%. However, due to a shortage of guest room cleaning staff and additional construction in the months after opening, the start-up of operations took time and the facility did not contribute to income because we kept room occupancy below our initial plan. Operations are now stable, customer evaluations have improved and sales per room are at a higher level than the initial plan. In the WHG Business, we opened Hotel Gracery Kyoto Sanjo South in May, and together with the North tower, which opened in July 2016, the Group now operates 225 rooms in Kyoto. We also opened Kisarazu Washington Hotel on the shores of Tokyo Bay in October. For inbound guests, we focused on attracting customers from East and Southeast Asia, Europe, America and Australia, and as a result use by FITs increased. In 2017, measures to increase the number of members for Fujita Kanko Group Members Card WAON, a membership organization for Group customers, included enrolling approximately 50,000 foreign customers, bringing the total number of cardholders in Japan and abroad to more than 400,000.



#### Revised Targets of the Medium-term Management Plan

(Billions of yen)				
	2018 Plan	YoY Change	2019 Initial Target	2019 Revised Target
Net sales	72.0	1.37	88.0	76.0
Operating profit	2.3	0.3	5.3	2.7
Operating profit before depreciation	8.0	0.32	12.0	9.0
Ordinary profit	2.3	0.25	4.8	2.7
ROA (Ordinary profit ÷ Total assets)	—	—	4% or higher	2.5% or higher
ROE (Net income attributable to owners of parent ÷ Net assets*)	—	—	10% or higher	6% or higher
Capital investment (Cash basis)	5.32	(3.26)	5.4	9.1
Depreciation	4.94	0.18	5.8	5.5

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

#### Targets by Segment

(Billions of yen)						
		1H 2018 Forecast	2H 2018 Forecast	2018 Forecast	2019 Initial Target	2019 Revised Target
WHG Business	Sales	17.45	19.49	36.94	37.6	39.1
	Operating profit	0.67	1.86	2.53	2.3	2.7
Resort Business	Sales	2.81	3.55	6.36	10.6	6.6
	Operating profit	(0.63)	0.26	(0.37)	1.3	(0.36)
Luxury & Banquet Business	Sales	12.53	13.3	25.83	34.0	27.0
	Operating profit	0.22	0.7	0.92	1.9	1.2
Other and adjustments	Sales	1.31	1.56	2.87	5.8	3.3
	Operating profit	(0.46)	(0.32)	(0.78)	(0.3)	(0.84)
Total Sales	Sales	34.1	37.9	72.0	88.0	76.0
	Operating profit	(0.2)	2.5	2.3	5.3	2.7

As a measure to improve convenience for our guests, we introduced Chatbot, a multilingual system for inquiries that uses artificial intelligence (AI), at all Hotel Gracery locations and at Shinjuku Washington Hotel to handle inquiries in four languages, 24 hours a day. In addition to offering greater peace of mind to our foreign guests, who will continue to increase in number, this measure helps raise productivity.

In the Luxury & Banquet Business, Hoseiden, a Shinto-style wedding hall at Taikoen, continued to steadily attract customers and two new guest house facilities in Kita-Kyushu, Fukuoka Prefecture started operation in May 2017. In addition, Hotel Chinzanso Tokyo enhanced its brand power and expanded its sales network through measures including becoming a member of Preferred Hotels & Resorts, the world's largest independent hotel brand network.

**In light of delays in new business, we revised the figures in our medium-term management plan downwards. We aim to rebuild our business structure and achieve sustainable growth through ongoing investments that anticipate customer needs.**

Under our medium-term management plan that began in 2015, we have been making upfront investments based on a policy of “earning a good reputation from customers by proactively investing in people and facilities to provide higher-value-added services.” In the three years from 2015 to 2017, breakout performance in the WHG Business led to strong results in ordinary profit, which exceeded the plan target by a cumulative total of ¥2 billion. On the other hand, during this period we experienced delays in deploying new businesses in the Resort Business and the Luxury & Banquet Business that had originally aimed to turn a profit in 2019. Consequently, we reconsidered the figures in the medium-term management plan and revised the final-year targets downward. Although our basic approach and three overall strategies remain unchanged, we will use the two-year period from 2018 to 2019 to firm up our earnings base, particularly in the Resort Business and the Luxury & Banquet

Business. In the Resort Business, we will focus on enhancing the profitability of Hakone Kowakien Ten-yu and Hakone Kowakien Yunessun and rebuilding operations at Hakone Kowakien, including the start of development of Houraien. In the Luxury & Banquet Business, we will improve the brand power and profitability of Hotel Chinzanso Tokyo and roll out the wedding business to regions outside Tokyo. In the WHG Business, we will accelerate new openings based on a multi-brand approach that will include the establishment of a new brand in addition to Washington Hotel and Hotel Gracery. In 2018, we plan to open the first overseas facility under the Hotel Gracery brand in Seoul as well as a domestic hotel in Asakusa. For our new brand, the first opening is scheduled for summer 2019 in Hamamatsu-cho, with the second in Asakusa in 2020. The new brand will mainly target millennials, who enjoy activity-filled traveling, offering simple, functional rooms and communal spaces that serve as a communication spot for sharing and gathering travel information while achieving low-cost operation through computerization.

We will continue to promote each measure in line with the three overall strategies so that we steadily carry out the revised plan. We will also consider the next medium-term management plan that will start in 2020 and set ¥5 billion in ordinary income as one of its targets.

In addition to the existing businesses discussed above, we have started to develop new businesses that are an extension of our accommodations business. These businesses take advantage of the unique appeal of their location and respond to the need for more experience-based intangible services. In 2018, we started a new glamping\* business with the opening of Fujino Kirameki Fuji Gotemba in Gotemba, Shizuoka Prefecture in April, and we will partner with Danish outdoor goods manufacturer Nordisk to operate Nordisk Village in Japan. The first facility, Nordisk Village Goto Islands, is scheduled to open in Goto, Nagasaki Prefecture in August. In fall 2019, we also plan to open Hakujukan, an accommodation facility that falls somewhere between a Japanese-style inn and temple lodging, in front of Eihei-ji Temple in Fukui Prefecture.

Moreover, in 2018 we established a new department to oversee digital marketing and other functions so that the acquisition of new guests leads to repeat stays. We will study ways to add to the appeal of Fujita Kanko Group Members Card WAON, and work to increase the number of enthusiastic customers of the Group.

\* “Glamping,” a portmanteau of “glamor” and “camping,” refers to a style of camping with amenities and, in some cases, resort-style services not usually associated with traditional camping.

**By creating fulfilling workplaces for our employees, we will grow steadily, fueled by the power of our people.**

We believe that high profit is one of the conditions of a good company. That is because high profit is the result obtained when the services and products provided by the Fujita Kanko Group earn an excellent reputation among its customers. To earn such a reputation, first of all it is essential that our employees are satisfied with their jobs and take pleasure in their work. Therefore, we recognize that improving employee satisfaction and developing human resources are the wellspring of the Group’s growth.

Customer needs are diversifying day by day. Responding precisely to those needs requires the creation of an environment where diverse human resources can display their abilities and participate actively. Therefore, we established a special office in 2012 dedicated to vigorously promoting Diversity & Inclusion initiatives. This is one of the key overall strategies of the medium-term management plan we formulated in 2015. Specifically, along with upgrading our institutions and raising consciousness, we have set up a system for bottom-up response to issues at each workplace. Making full use of this bottom-up system also requires upgrading the level of middle management, with the aim of cultivating “iku-bosses” who not only help their staff to achieve work-life balance, but also reform their own working styles.

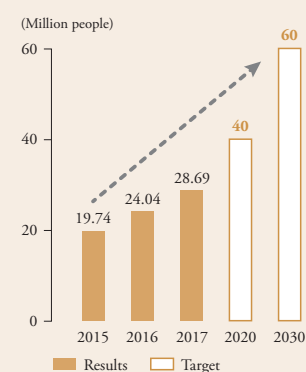
In addition, as a measure to deal with labor shortage issues, we initiated work-style reform in 2015. By revising duties and systems, proactively using AI and IoT to reduce long work hours and other measures, we are creating workplaces that facilitate worthwhile work, allowing employees to continue in their jobs for many years while balancing life events such as child rearing or providing nursing care. Strengthening workplace capabilities through these measures leads to improved capabilities for the organization and in turn to the ability to offer high-value-added services, resulting in a good reputation among customers, thus creating a virtuous cycle.

We believe that conducting business activities based on our Corporate Philosophy will contribute to society as we continue to grow as a leading company in the tourism industry. You can look forward to great things from the Fujita Kanko Group.

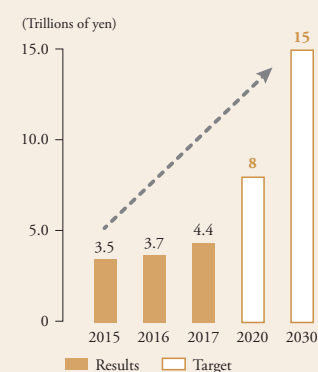
## Growth in Inbound Needs

### Japanese Government Targets

#### Number of Inbound Visitors



#### Spending



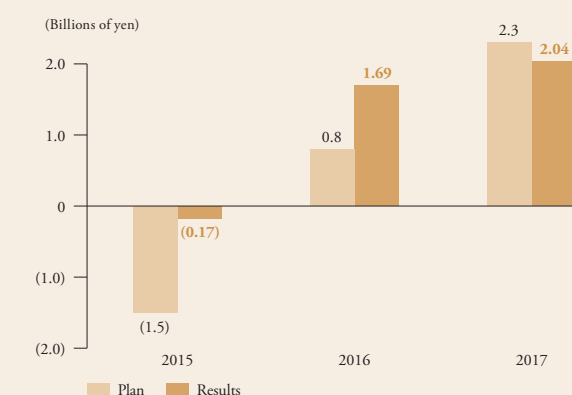
### Fujita Kanko Group Results

#### Fujita Kanko Group's Cumulative Inbound Guests

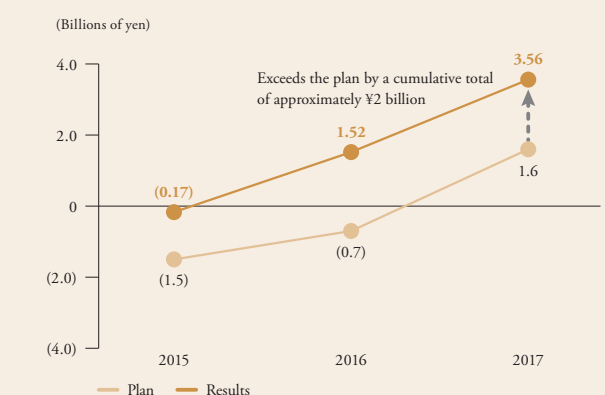


## Ordinary Profit

### Ordinary Profit



### Cumulative Ordinary Profit





# WHG Business

## Medium-term Management Plan

Mission	Accelerate expansion of this segment as the key driver for company growth
Measures	<div>1. Expand business scale through new openings</div> <div>2. Hire and develop human resources to support new openings</div> <div>3. Improve productivity</div> <div>4. Strengthen customer initiatives (acquire more repeat guests)</div>



Hotel Gracery Kyoto Sanjo South



Kisarazu Washington Hotel

## Fiscal 2017 Overview

Shinjuku Washington Hotel, which was remodeled in the previous year, and the newly opened Hotel Gracery Naha and Hotel Gracery Kyoto Sanjo North were all in operation for the full year and contributed to business results. The entry of companies from other industries and openings of competing facilities, among other factors, limited the increase in sales per room in Tokyo Metropolitan area hotels to 0.9% year on year. On the other hand, sales per room of regional hotels increased 6.2% as inbound visitor destinations expanded beyond major cities. As a result, sales per room overall were up 2.6%. At Hotel Gracery Kyoto Sanjo, the opening of a South tower in May 2017 increased total floor space to 225 rooms, and Kisarazu Washington Hotel (146 rooms), which opened in October 2017 as a franchise hotel, is performing steadily.

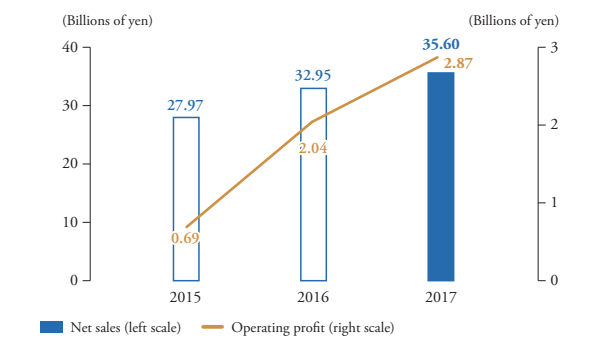
As for inbound tourism, a focus on attracting customers from East and Southeast Asia, Europe, the U.S. and Australia increased use by foreign individual travelers (FITs). Progress in gaining new customers in fiscal 2017 included the enrollment of more than 50,000 foreign customers for Fujita Kanko Group Members Card WAON, a membership organization for Group customers. In addition, the Company introduced Chatbot, a multilingual system for inquiries that uses AI, at all Hotel Gracery locations and at Shinjuku Washington Hotel to handle inquiries in four languages, 24 hours a day. This initiative improved convenience for foreign customers and raised productivity. As a result, net sales for this segment increased ¥2,647 million year on year to ¥35,602 million and operating profit (segment income) increased ¥834 million year on year to ¥2,878 million.

## Future Initiatives

Openings are scheduled in Japan for Hotel Gracery Asakusa (125 rooms) in October 2018 and Hotel Gracery Osaka Namba (170 rooms) in summer 2019 and overseas for Hotel Gracery Seoul (South Korea, 335 rooms) in August 2018 and Hotel Gracery Taipei (Taiwan, 248 rooms) in 2021. The Company will also conduct multi-branding and accelerate new openings in the WHG Business by establishing a new brand and inaugurating a serviced apartment business in addition to Washington Hotel and Hotel Gracery. The new brand will target inbound guests in their twenties and thirties (millennials), a group whose needs are expected to continue growing. To respond to their demand for active and enjoyable trips with affordable prices and services, facilities will offer simple, functional rooms as well as communal

spaces that serve as a communication spot for sharing and gathering travel information. They will also achieve low-cost operation through computerization. In fall 2019, the Company plans to open a Serviced Apartment (214 rooms) in Indonesia that will mainly target employees of Japanese companies stationed abroad or traveling on business. The Company will secure and develop human resources and raise productivity to handle the rush that will follow the opening of these new hotels. To increase the ability of existing hotels to attract guests and further improve their convenience, the Company will enhance quality in the three areas of customer reception and service, rooms and breakfast. Other measures will include improvements to the Fujita Kanko Group Members Card WAON program.

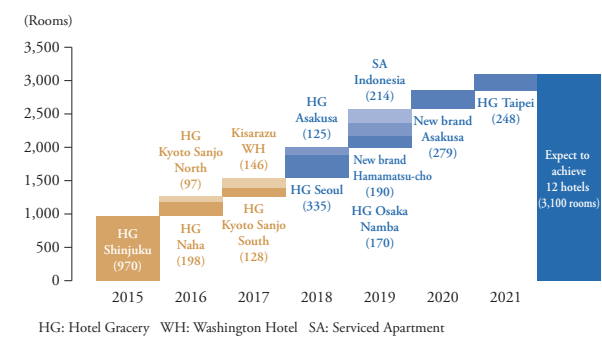
## Net Sales/Operating Profit



### Key Point

In 2015, profits temporarily declined due to aggressive upfront investments pursuant to the medium-term management plan, but since then we have been making investments systematically, strengthening the competitiveness of existing facilities and developing new facilities. As a result, this business has been attracting both business and tourist demand in Japan and overseas and driving profits for the entire Group.

## Number of Guest Rooms



### Key Point

Under the medium-term management plan, we have been promoting new openings with a targeted increase of 10 hotels and 3,000 rooms in five years. We expect to open 10 hotels with 2,573 rooms by 2019, and to reach 12 hotels and 3,100 rooms in 2021. We intend to further accelerate new hotel openings and expand our operations with multi-branding.

## Highlights

Based on the concept of "Active & Relaxed," the Company will launch a new brand of hotel specializing in accommodations, mainly targeting millennials who enjoy activity-filled traveling. It will offer guest rooms that are compact yet functional and relaxing, communication spaces and other facilities, and use an AI concierge system and other advanced technologies to provide support for a satisfying trip. The first hotel is scheduled to open in Hamamatsu-cho in summer 2019 and the second in Asakusa in 2020. Initially, the Company will work to increase brand awareness and improve efficiency by concentrating openings in Tokyo, followed by a rollout to other major cities and surrounding areas, where inbound demand is high. At its Serviced Apartment in Indonesia that is scheduled to open in fall 2019, the Company will use the expertise it has cultivated in hotel management to provide spaces where guests can live with peace of mind. In doing so, the Company will consider a future rollout of this business to support Japanese companies doing business overseas.

With the launch of a new hotel brand and a serviced apartment business in addition to the existing Washington Hotel and Hotel Gracery brands, this multi-branding will address a wide range of needs. It will also expand the scope of opportunities for considering new openings in a heated market for new hotel development centered on the Tokyo metropolitan area, thus accelerating new development.



Artist's rendition of Serviced Apartment in Cikarang, Indonesia



# Resort Business

## Medium-term Management Plan

Mission	Focus on redevelopment of Hakone-area facilities and attract more upper-middle class, high-end customers
Measures	<ol style="list-style-type: none"> <li>1. Strengthen profitability of Hakone Kowakien (Ten-yu, Yunessun)</li> <li>2. Redevelop Hakone Kowakien, starting with Houraien</li> </ol>



Hakone Kowakien Ten-yu exterior view

Hakone Kowakien Ten-yu guest room

## Fiscal 2017 Overview

The Resort Business is transitioning from the services for groups and families that were previously provided by Hakone Hotel Kowakien and other facilities to a business model that provides high-value-added products and services to individual travelers from Japan and overseas. In April 2017, Hakone Kowakien Ten-yu opened as the Company's new flagship facility in the Hakone area. Under the concept of "authentic Japanese hospitality in harmony with nature," this hotel will serve as the core facility of the new business model for the Resort Business.

Net sales in the accommodation business increased ¥895 million year on year to ¥5,594 million due to the opening of Hakone Kowakien Ten-yu, despite the impact of the closure of Hotel Toba Kowakien (Mie Prefecture) in September 2016.

At Hakone Hotel Kowakien, despite an initial plan to partially cut back restaurant operations and limit room occupancy, room occupancy exceeded the plan in order to meet increased demand from customers before the close of business on January 10, 2018. Conversely, at Hakone Kowakien Ten-yu, the Company placed top priority on customer satisfaction and limited room occupancy below the initial plan due to the time required to start operations at the opening in April 2017. This was due in part to the impact of additional construction work and a shortage of housekeeping staff. However, sales per person per night at Hakone Kowakien Ten-yu exceeded the plan.

Net sales in the leisure business decreased ¥64 million year on year to ¥1,640 million due to a decline in the number of visitors to Hakone Kowakien Yunessun.

As a result, although net sales for this segment increased ¥807 million year on year to ¥7,564 million, operating loss (segment loss) increased ¥294 million to ¥688 million due to an increase in expenses associated with Hakone Kowakien Ten-yu.

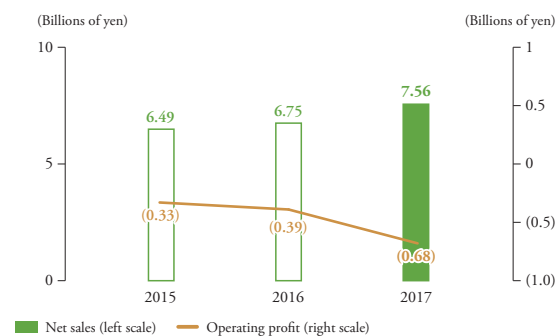
## Future Initiatives

The two years to the end of 2019 will be a period for fortifying the earnings base by giving priority to redeveloping Hakone Kowakien and enhancing its profitability. At Hakone Kowakien Ten-yu, the Company will establish a high-value-added business model and focus on strengthening operations and further

improving services to earn an excellent reputation from customers and encourage repeat visits. At Hakone Kowakien Yunessun, by enhancing food and drinks, product sales and activities as well as the existing hot springs, the Company intends to attract more customers throughout the year. This includes seniors, inbound guests and other visitors to Hakone in the spring and fall tourist seasons, in addition to high family demand in summer.

In addition, development of luxury accommodation facilities at Houraien will begin during 2018 with the aim of a 2020 opening. We will also conduct a series of discussions on the redevelopment of Hakone Hotel Kowakien, which closed on January 10, 2018.

## Net Sales/Operating Profit



### Key Point

Since 2015, the Company has been investing aggressively in the redevelopment of Hakone Kowakien, which is one of the measures of the medium-term management plan. In 2017, net sales increased due to the opening of Hakone Kowakien Ten-yu but, due in part to increased expenses for the opening, it did not result in a contribution to earnings.

## Number of Tourists Visiting Hakone



Reference: Hakone-machi "2016 Report on Number of Tourists"

### Key Point

The number of tourists fell sharply in 2015 due to the impact of a volcanic earthquake near Owakudani but recovered the following year. The number of foreign visitors surpassed 460,000, reaching a record high. Easily accessible from the Tokyo Metropolitan area, Hakone is a major resort area with an average of about 20 million visitors annually.

## Highlights

Hakone Kowakien, which has been conducting the resort business for more than 60 years, has continued to evolve to meet changing needs. In addition to attracting repeat domestic guests, capturing inbound needs is more important than ever for ongoing growth. Hakone Hotel Kowakien welcomed a delegation of Chinese artists in 1961, before the normalization of diplomatic relations between Japan and China, and it has been used since then for as many as 700 delegations visiting Japan in spheres such as culture, art and sports. We have displayed the comments from members of those delegations at exhibitions held jointly with the Japan-China Friendship Association and others. In ways such as these, we have built relationships over many years, and have conducted exchange meetings on tourism with Chinese travel agencies, the town of Hakone and area hotels in recent years. In addition, with overseas subsidiaries and representative offices in six locations in Asia, we conduct Group-wide activities to attract guests.

With the increasing number of inbound visitors to Japan in recent years, needs are diversifying from tangible products to intangible services and from the Tokyo Metropolitan area

to other areas. As the first stage of redevelopment of Hakone Kowakien, we opened Hakone Kowakien Miyama Furin, a hot spring inn specializing in accommodations that include breakfast, as well as Soba Kihinkan and Teppan Shabu Shabu Geihinkan, two restaurants that are located in registered tangible cultural properties. Moreover, Hakone Kowakien Ten-yu offers hot springs, Japanese cuisine and activities that are unique to Japan, and currently inbound guests account for about 20% of all guests. We conduct sales promotions and marketing activities targeting a wide range of regions including the United States, Europe and Australia as well as Asia, and we will continue to enhance our ability to attract guests.



Workshop in Shanghai



# Luxury & Banquet Business

## Medium-term Management Plan

Mission	Build an upscale, high-quality business centered around the “Hotel Chinzanso Tokyo” brand
Measures	<ol style="list-style-type: none"> <li>1. Enhance brand power and profitability of Hotel Chinzanso Tokyo</li> <li>2. In the wedding business, halt trend toward shrinkage of existing business, and accelerate new development</li> </ol>



Hotel Chinzanso Tokyo



Maricolle Wedding Resort

## Fiscal 2017 Overview

In the wedding business, Hoseiden, a Shinto-style wedding hall at Taikoen in Osaka, continued to steadily attract customers and two new guest house facilities in Kita-Kyushu, the Maricolle Wedding Resort and Sayagatani Garden Aglass, started operation in May 2017. On the other hand, the number of bookings and customers declined because of the unavailability of the banquet hall due to renovation and the delayed completion of a detached shrine within the garden at Hotel Chinzanso Tokyo, in addition to the impact of the termination of the management contract with Hotel Azur Takeshiba. Net sales in the wedding business decreased ¥398 million year on year to ¥11,441 million.

In the accommodation business, Hotel Chinzanso Tokyo worked to attract customers, mainly individuals from Japan and overseas, and room occupancy and sales per room rose above the previous-year levels. However, due to the impact of the termination of the management contract with Hotel Azur Takeshiba, net sales decreased ¥213 million year on year to ¥2,293 million.

As a result, net sales for this segment, including the golf business, decreased ¥1,471 million year on year to ¥24,743 million, and operating profit (segment income) decreased ¥467 million year on year to ¥445 million.

## Future Initiatives

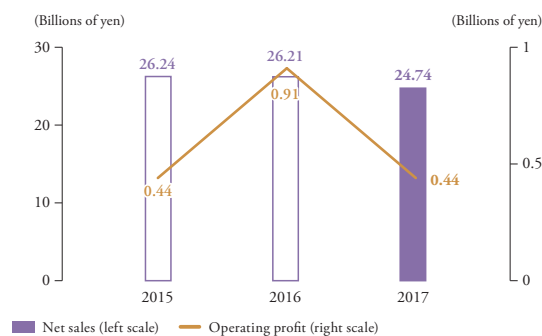
On the service front, the Company will utilize its addition to Preferred Hotels & Resorts, the world's largest independent hotel brand network, which Hotel Chinzanso Tokyo joined in July 2017, to raise awareness overseas and attract upper-class clientele from around the world. In addition, we will continue improving quality to earn a higher rating in global standard hotel rankings such as the Forbes Travel Guide and the Michelin Guide.

Since 2014, Hotel Chinzanso Tokyo has been renovating guest rooms and banquet halls to reflect the value placed on

Japanese harmony and tradition. The Company will work to increase the number of customers by using the hotel's largest banquet hall Orion, which was renovated in 2017, and the new detached shrine built within the garden, as well as the renovated rooms to capture MICE demand and to offer new Japanese-style weddings.

For its wedding business, the Company will promote the development of new business locations mainly in regional cities, along with further improvements to the quality of existing facilities through scheduled investments.

## Net Sales/Operating Profit



### Key Point

In 2016, with the strong performance of the banquet business and the success of efforts to improve productivity, sales decreased but profit increased year on year. In 2017, with the impact of upfront investments for construction of a new detached shrine in the garden of Hotel Chinzanso Tokyo and other purposes, as well as the impact of the termination of the management contract with Hotel Azur Takeshiba, both sales and profit decreased year on year.

## Market Growth (Estimated Business Travelers from Overseas)



Reference: Japan Tourism Agency “White Paper on Promotion of MICE Hosting and Attraction”

### Key Point

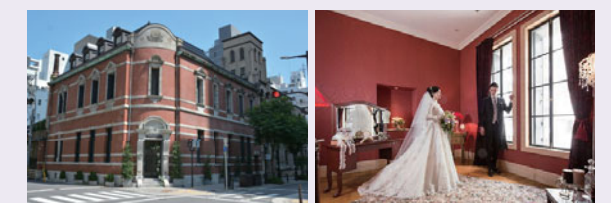
According to the Japan Tourism Agency, the estimated number of business travelers from overseas reached 4.4 million in 2016, more than 1.5 times the number in 2012. MICE usage creates a substantial economic ripple effect centered on the host area and are also expected to generate demand at hotels for banquets and accommodations in addition to the events themselves.

## Highlights

A rollout of the wedding business to major regional cities is one of the core measures of the medium-term management plan. As part of these efforts, following the opening of facilities in Hiroshima in January 2015 (an wedding production business in Hiroshima City centered on operation of two guest houses by Share Clapping Co., Ltd.) and in Kita-Kyushu in May 2017 (operation of two guest houses by Share Clapping Fukuoka Co., Ltd.), the Company began operation of OPERA DOMAINE KORAIBASHI, a wedding facility it took over from Premier Resort Operations Co., Ltd. as of April 1, 2018.

This facility has a history of more than a century since its creation in 1912 from a plan by master architect Kingo Tatsuno. Hotel Chinzanso Tokyo, Hakone Kowakien and Taikoen, which are operated by the Company, contain important cultural assets and historical architecture, and Group company TAIKO-EN INC. owns Yodogawatei, which

was built in the Meiji period, as was OPERA DOMAINE KORAIBASHI. TAIKO-EN's management will maximize the appeal of the historic structure and provide even more attentive hospitality based on the experience it has accumulated over many years in the Osaka area. The Group will continue to roll out its wedding business to major regional cities as it further strengthens the competitiveness and quality of the wedding business throughout the Group.



OPERA DOMAINE KORAIBASHI



## New Business Initiatives

Along with increases in individual travel and inbound tourism, needs are diversifying. In this operating environment, the Company is developing new businesses that leverage its expertise to enable new experiences in accommodations where guests can enjoy Japan's unique culture, history and abundant nature in comfortable spaces.

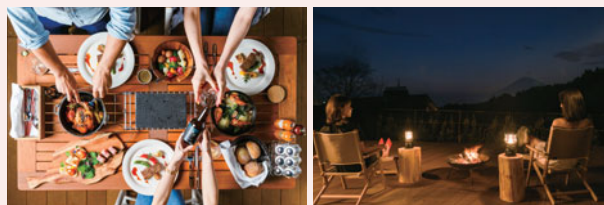
April 2018

### Opening of Fujino Kirameki Fuji Gotemba, Our First Facility in the Glamping Business

In a felicitous location with an unobstructed view of majestic Mt. Fuji, we opened a glamping facility consisting of 20 independent cabins. These distinctive cabins combine a fully equipped living



GRANDE CABIN



Dinner

Outdoor deck

space with air conditioning, heating and other amenities, and an outdoor deck with a sunroof that can be opened and closed. Guests can enjoy the outdoors in comfort and luxury throughout the four seasons, with features such as course-style camping meals prepared by experienced chefs from our hotels.

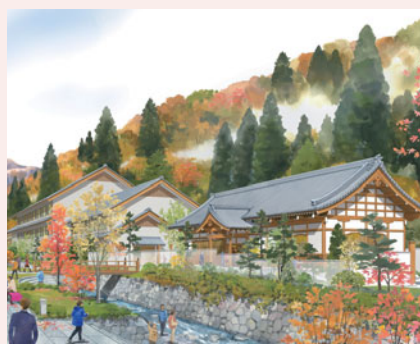
In addition to the Fujino series of facilities, the Company will partner with Danish outdoor goods manufacturer Nordisk to operate Nordisk Village, a tent-type glamping facility that is closer to a conventional campsite. The first opening is scheduled for August 2018 in Goto City, Nagasaki Prefecture for Nordisk Village Goto Islands. We will offer experiences unique to that facility to guests from Japan and overseas.



Artist's rendition of Nordisk Village Goto Islands

Fall 2019

### Opening of Hakujukan, an Accommodation Facility Halfway between a Japanese-style Inn and Temple Lodging, in Front of Eiheiiji Temple



Artist's rendition of Hakujukan

Part of the Eiheiiji Monzen Reconstruction Project, which has been undertaken through the trilateral cooperation of Daihonzan Eiheiiji Temple, Fukui Prefecture and Eiheiiji-cho, Hakujukan will open in front of the gate of Eiheiiji Temple, a Buddhist training space. Based on the concept of "a facility halfway between a Japanese-style inn and temple lodging," it will offer guests meditation and other ways to experience Zen, which has also attracted a great deal of attention outside Japan. The restaurant will serve vegetarian dishes under the supervision of Eiheiiji Temple.

Although advances have been made in the transportation infrastructure of Fukui Prefecture, including the Hokuriku Shinkansen, the number of hotel visitors and inbound visitors is currently low. We will combine the history and culture of Eiheiiji Temple with our accumulated expertise to help revitalize the region through the management of this facility.

Feature

## The Value Creation Cycle at Hakone Kowakien Ten-yu

Fujita Kanko has promoted the growth of Hakone, which had been an area of holiday villas for major business conglomerates and the nobility, into one of Japan's foremost tourist destinations. This process has continued from Japan's postwar reconstruction through its period of rapid economic growth to today's mature information society.

Every time we reach the turning point of an era, we establish a new value creation cycle in our home base of Hakone using our flexible approach and foresight. Today, our response to becoming Japan's leading tourism company is Ten-yu.

### History of Fujita Kanko's Response to Tourism Issues in Hakone

- 1918 • Heitaro Fujita, second generation head of the Fujita business conglomerate, builds a classical Japanese-style house as a vacation home in Hakone (currently Soba Kihinkan).
- 1948 • After World War II, Eiichi Ogawa, who had purchased the house from the Fujita family, opens Hakone Kowakien as a Japanese-style inn. The first hot springs open to the public in the following year.
- 1959 • Opening of Hakone Kowakien Shinkan (new building; later renamed Honkan (main building)) and Hakone Hotel Kowakien.
- 1963 • Opening of Hibari Shinkan (later Hakone Kowakien Yunessun Inn).
- 1966 • Completion of Hakone FGM Hotel, Japan's first membership-based resort hotel, in Hakone Kowakien.
- 1970 • Opening of Hakone Kowakien Shinkan, Japan's first hotel blending Japanese and Western styles.
- 1973 • Opening of Hakone Kowakien Kodomo No Mura.
- 1984 • Completion of Hakone Kowakien Sunshine Utopia.
- 1990 • Completion of Hakone Verde No Mori.
- 1999 • Closure of Hakone Kowakien Japanese-style Inn Department and Kodomo No Mura; start of construction of Yunessun.
- 2000 • Opening of B&B Pension Hakone.
- 2001 • Opening of Hakone Kowakien Yunessun, a hot springs theme park for day trips. Kihinkan and Geihinkan are certified as registered tangible cultural properties of Japan.
- 2006 • Opening of Hakone Kowakien Soba Kihinkan.
- 2014 • Closure of Hakone Kowakien Yunessun Inn and Utopia; start of construction of Ten-yu.
- 2015 • Acquisition of Houraien, which is famed for its azaleas.
- 2016 • Opening of Hakone Kowakien Miyama Furin, a 13-room casual hotel.
- 2017 • Opening of Hakone Kowakien Ten-yu, a hot springs resort for all five senses with an open-air bath in every room.

#### Turning Gardens and Villas into Places Where the Public Can Relax

For people who had been wounded in World War II and those who would be giving their all for the reconstruction of Japan, Eiichi Ogawa, the first president of Fujita Kanko, wanted to open up the gardens and vacation homes that had been owned by business conglomerates and the nobility as places where the general public could relax. His opening of nine guest rooms at the Fujita family vacation home in Kowakudani, Hakone as a Japanese-style inn was the start of Fujita Kanko's operations.



Hakone Kowakien at the time of its opening

#### A Step Ahead in Meeting Demand from Tour Groups for Accommodations

Rapid growth in demand for domestic travel was expected along with Japan's high economic growth. In 1959, when travel mainly consisted of day trips to hot springs and school trips, Fujita Kanko was ahead of other companies in completing two accommodation facilities that could handle group tours. Kowakien grew into the representative of Hakone as a travel destination, earning a reputation as *the* place to go in Hakone.



Hakone Kowakien Honkan (current location of Yunessun)

#### Toward a High-Value-Added Experience of Hakone's Charms

Since the 1980s, Japan's style of traveling has made a major transition from group tours to trips by families and small groups. With the completion of a large hot springs theme park that can easily be enjoyed on a day trip, Fujita Kanko contributed to the revitalization of Hakone. In addition, with the opening of Ten-yu and other projects we are shifting to high-value-added accommodation facilities for the upper-middle class and inbound guests.



Hakone Kowakien Yunessun



## ◆ Current Issues for Hakone Tourism

An average of about 20 million people visit Hakone annually. Groups and families used to account for a preponderance of the tourists visiting Hakone. However, the range of clientele is broadening, with a rapid increase in individual travelers and inbound visitors in recent years. We recognize the importance of addressing these changes by developing and publicizing new tourist spots and routes for interacting with the area's natural, historical and cultural assets to generate a new influx of people. In addition, day-trip guests are more numerous than at other hot springs in the Kanto area. Raising the ratio of tourists who stay in hotels will also be a major issue for revitalizing Hakone.

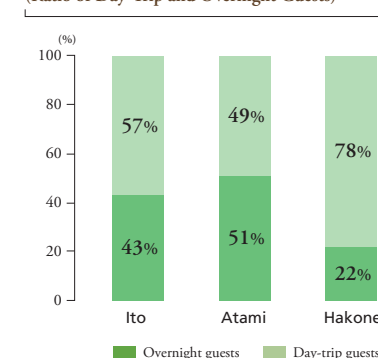
## ◆ Our Response to These Issues: Ten-yu

Ten-yu has opened as a flagship facility where guests can experience the fundamental qualities of Hakone, based on the concept of authentic Japanese hospitality in harmony with nature. Guests can enjoy the hot springs whenever and as often as they wish, in large hot springs such as Ukigumo No Yu, which offers a view of Hakone's outer rim mountains, as well as in the private open-air baths in all rooms. We have also arranged a variety of activities for discovering the natural splendor and new charms of Hakone, such as yoga with a garden view, trekking and hands-on experiences with crafts. Moreover, we have set up a concierge service, which is a rarity among Japanese hot spring inns, to offer new ways to experience the appeal of Hakone and Japan as it generates a new influx of people into the town of Hakone. In doing so, we will encourage a shift from day trips to overnight stays, not just for one night but longer, to convey Hakone's true appeal.



Visitors in Fiscal 2014

(Ratio of Day-Trip and Overnight Guests)

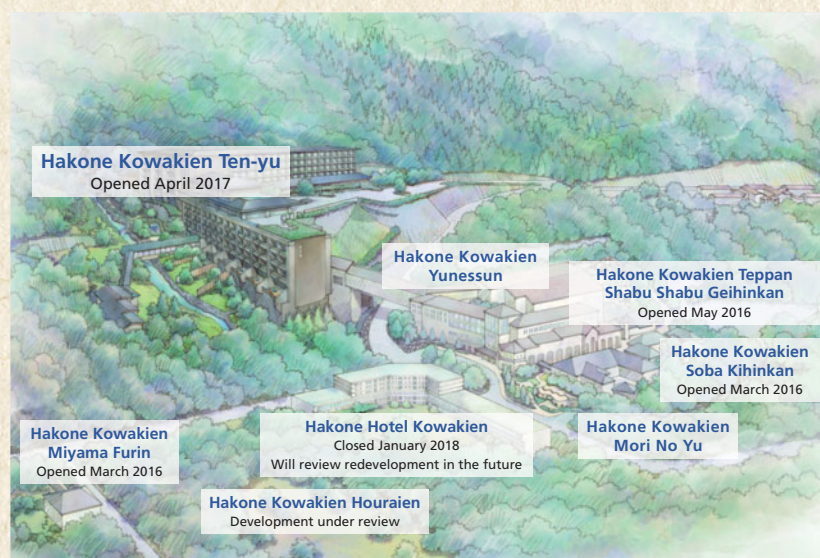


Ito: From "Transition Table of Number of Visitors by Year"  
Atami: From "White Paper on Atami City Statistics"  
Hakone: From "Survey Report on Tourist Conditions"

## ◆ Initiatives for Our New Revenue Model

The mission of Ten-yu is to earn an excellent reputation by providing high-value-added products and services to individual travelers from inside and outside Japan. Ten-yu's main targets are upper-middle-class married and unmarried couples who are experienced travelers, groups of women and other traveling parties, and inbound guests. Therefore, our focus has been on offering superior hospitality through high-value-added services rather than trying to raise the occupancy rate.

These measures are leading to growth in repeat customers won over by our service, and sales per person have exceeded our initial plan.



Activities (Wooden marquetry)



Hakone Kowakien Teppan Shabu Shabu Geihinkan

## Everything about Ten-yu's Carefully Chosen Activities and Hospitality Makes a Stay Special



Akiko Hattori  
Customer Section,  
Hakone Kowakien Ten-yu

At Ten-yu, we arrange activities that allow guests to enjoy the natural splendor of Hakone and various preparations to add flair to special days. Yoga classes, held from spring through summer, have earned high marks from Japanese and foreign guests as an unusual experience where they can relax and breathe the morning air in a greenery-filled garden built to highlight nature. We will continue to plan high-value-added activities in cooperation with local residents to offer new ways to spend time in Hakone as a hotel that is enjoyable no matter how long the visit.

Creating a special day begins before the guests check in. The concierge provides support for people planning anniversary vacations by listening to the customers' ideas and thoughts in order to give specific form to their requirements. To generate new demand for anniversary stays, we try to get a sense of customer needs and trends from their requests, and we intend to offer a full range of options for order-made anniversary getaways under a concept that links celebrating anniversaries with Hakone and a stay at Ten-yu.

In addition to plans that allow active enjoyment of Hakone's natural splendor, we have arranged a variety of activities for guests to experience the culture of Hakone and Japan, such as making wooden marquetry postcards and ceramics. The lineup is full of new attractions to be enjoyed at length during an extended stay.

## Improving Satisfaction and Promoting Repeat Visits with Ten-yu's Unique Features



Keizo Shimizu  
Hospitality Section Chief,  
Hakone Kowakien Ten-yu

As a hot spring resort that soothes the five senses, Ten-yu aims to create an atmosphere of casual hospitality, providing service with a sufficient sense of distance so guests can relax while still receiving tremendous care. Operations at Ten-yu are different from those of yesteryear. We place importance on communication by having the same staff handle both check-in and dinner, among other measures. Full-time staff deal with guests in our special rooms, from confirming reservations to sending a thank-you note after their departure. They remain closely attuned to each guest in all situations from celebration ceremonies to surprise parties, enabling them to provide impeccable service.

My most vivid memory since we opened came from the words of a repeat guest, who told a new staff member, "I came here again because your service was so good last time, but I was impressed by how much more you have grown." When I heard that, I was as happy as if he were praising me.

Fond appreciation of the four seasons is an aspect of Japanese culture and part of Fujita Kanko's traditional hospitality. Ten-yu meticulously designs the spaces where customers spend time throughout the entire facility, with consideration given to refinement in every view and resting spot.





# Capable Human Resources Support a Strategy for Growth

## Human Resources as the Principal Driver 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 driver 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 challenging 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.

## A Commitment to Hospitality Builds Relationships of Trust

In training new employees, whether full-time, part-time or any other type of worker, we share with them the Fujita Group’s overall commitment to hospitality as an indispensable value. We tell them

that they can initially embody this commitment by understanding and acting on the two elements of “knowledge and skills” and “a spirit of dealing with guests in good faith.” By maintaining this commitment when serving guests, they can build relationships of trust.

We believe that even in a challenging operating environment, we can succeed by cultivating hospitality, enhancing the quality of our services, and using that added value to earn a high evaluation from our guests. As a result, we are making Fujita Kanko more appealing and creating a virtuous cycle that allows us to employ capable human resources.

## Stance on Fostering Human Resources

Under its medium-term management plan, FUJITA PREMIUM VALUE CREATION 2015, the Company highlights “creating fulfilling workplaces where diverse human resources can play an active role” 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.

## 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 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 “Main 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 a high evaluation from our guests.

## • Supporting Balance

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 initiatives to support balance. 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 joined the “Iku-Boss Alliance\*” in 2016, and in 2017 held an “Iku-Boss Seminar” for executives, general managers and managerial staff. 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 his or her work.

\* Iku-Boss Alliance: “Iku-Boss” 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.

## • Work-Style Reform

Based on the recognition that reforming employee consciousness is at the heart of work-style reform, 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 implement work-style reform to create a positive and rewarding workplace environment. The Company is taking a dual approach with diversity and inclusion in tandem with work-style reform, and is undertaking the following initiatives.

## Work-Style Reform Initiatives

1. “Working hour innovations” 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.

## Main Initiatives to Strengthen Human Resource Development and Training

### OCP/HRDL

We have established and evolved the Orientation Coaching Program (OCP), our original education and training system for thoroughly instilling our Corporate Philosophy and improving our services in accordance with it.

OCP consists of a study curriculum that includes the importance of passing down our culture, our commitment to hospitality, and deportment.

Employees who have undergone a rigorous internal screening for certification as a human resource development leader (HRDL) serve as lecturers and conduct cross-organizational training.

### WHG Training Center

Our training center in Yokohama Isezakicho Washington Hotel contains replicas of a front desk and guest room, enabling trainees to efficiently master basic techniques such as front desk operation and gain knowledge about guest rooms under a standardized training program. It is also equipped with a test kitchen, which is responsible for developing new menus. As we accelerate new openings in Japan and overseas, we intend to improve the quality and speed of human resources education to smoothly launch new hotels and further improve the level of service, quality and customer satisfaction.

### Skills Competition

The Fujita Kanko Group Skills Competition is held annually as part of our efforts to “create fulfilling workplaces where diverse human resources can play an active role.” It is divided into categories including cooking, services, facilities and flower arrangement. Staff who have been studying day and night to provide guests with superior service compete in the event as an opportunity to present their skills. Through this ongoing initiative, Fujita Kanko works to improve the techniques and motivation of its staff and further refine its superior service.

### Passing Down a Culture of Hospitality

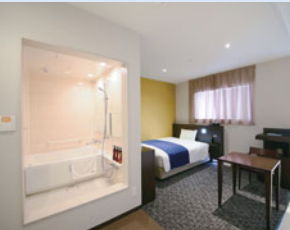
To welcome and satisfy inbound guests, who have been increasing in recent years, we believe that passing down the services and cooking skills cultivated since our founding is indispensable. For this reason, we actively conduct training that includes *okami* (hostess) skills covering Japanese cuisine and serving manners, interactive training by chefs of Japanese and Western dishes, and sharing apps for passing along original cooking techniques. In doing so, we are passing down the Fujita Kanko Group’s unique culture of hospitality.



OCP



HRDL



Model room of training center in Yokohama Isezakicho Washington Hotel



The training center contains replicas of hotel facilities to conduct job training



Restaurant service (Service Department)



Facilities Department



Okami skills training



Cooking training



**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 at All Locations**  
In order to convey our stance on D&I to all employees, we conduct activities to improve workplace culture by assigning steering committee members (general managers) from respective properties, and diversity promotion members who are selected for their eagerness to enthusiastically promote these activities, regardless of their gender or employment format. Currently, we are carefully developing measures to address issues at each of our hotels, restaurants and offices from diverse viewpoints and different values under two commonly shared themes: “what we can do for our employees and workplaces” and “what we can do for our diverse customers.” At the nationwide meetings of diversity promotion members, which are held twice a year, attendees share details of activities at each workplace and conduct rollouts to other workplaces.

• **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 the “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.

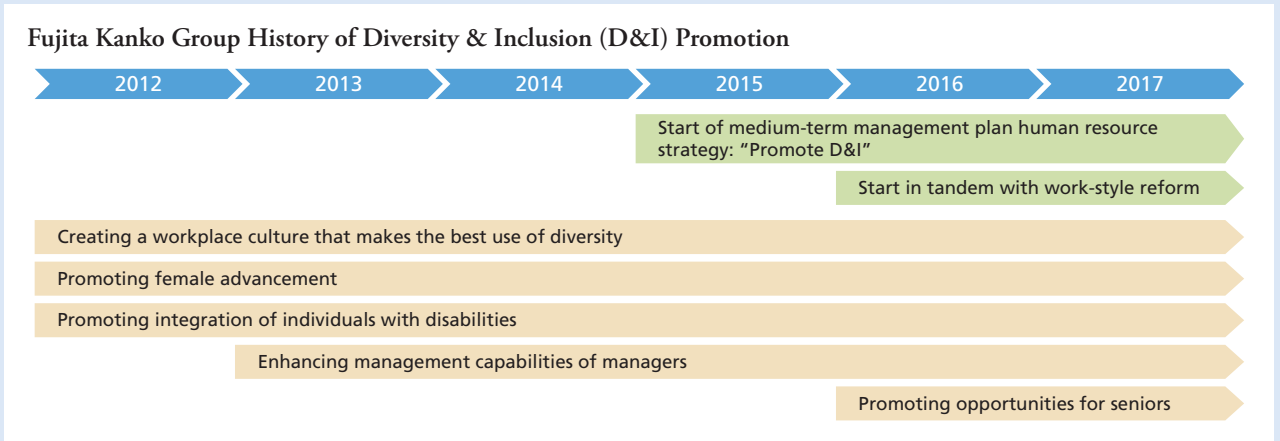
Action Plan Based on the Act of Promotion of Women’s Participation and Advancement in the Workplace (Action plan period: April 1, 2016 to March 31, 2020)	
	April 1, 2018
Objective ❶ Women occupy over 13% of managerial positions	11.9%
Objective ❷ Number of women in pre-managerial positions boosted by 50%	61.5%
Objective ❸ Over 65% of women maintain their employment 7-9 years after entering the Company	55.1%

In addition, the Company is making efforts to integrate individuals with disabilities (taking the Universal Manners Test, sign language courses, etc.) and to promote opportunities for seniors (second life seminars) and other measures for the peace of mind and comfort of customers who require special consideration.

Initiatives for Diversity and Work-Style Reform

Under our human resources strategy to “create fulfilling workplaces where diverse human resources can play an active role,” we are vigorously promoting a Work-Style Reform Project that takes a dual approach to D&I in tandem with work-style reform. For work-style reform, we aim to create positive and rewarding workplaces with respect for the diversity of each employee. As a specific measure, we held the Diversity Forum 2017 in July 2017. Group employees who

are raising children, young employees, manager-track female employees and supervisors who are raising children gathered for a lecture and panel discussion on career advancement for women. Moreover, in November 2017, Fujita Kanko became a member of the TOKYO Work-Style Reform Declaration program. We announce specific targets and share them not only in Tokyo, but at all our business locations.



Initiatives to Improve Corporate Value

Fujita Kanko aims to be a fair and honest corporate citizen with a healthy and open organizational culture. We believe that our business activities themselves, based on our Corporate Philosophy “to contribute to the well-being of society by providing hospitable services and places where people can relax, refresh and revitalize,” will lead to improvement in our corporate value and the realization of a sustainable society.



Contributions to Society and the Community

The Fujita Kanko Group promotes 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 across Japan, 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



Traveling exhibit of works by children in Saitama at Urawa Washington Hotel

and other educational initiatives; and charitable endeavors such as fund-raising and recycling drives. In 2017, Group facilities undertook and promoted a total of 409 such initiatives.

- Initiatives**
- Participation and support of local festivals (Hotel Fujita Nara, Ito Kowakien, others)
  - Exhibition of artworks by local elementary school students held in lobby (Urawa Washington Hotel)
  - Invitations to children and personnel at children’s care facilities (Hakone Kowakien Yunessun)
  - Accepting junior high school students and others for workplace experience programs (Taikoen, Hotel Fujita Fukui, Nagasaki Washington Hotel, others)

Environmental Initiatives

Fujita Kanko promotes environmental protection initiatives under our environmental policy that 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 hectares of rich natural forest land nationwide, which significantly contributes to absorbing CO<sub>2</sub>. Within this there are 691 hectares of forests stretching across the Unehata area of Shingu City in Wakayama Prefecture where it has been calculated that approximately 2,485 tons of CO<sub>2</sub> are absorbed annually. This area is one of the forest areas certified by the FORESTOCK Association. In addition, in the lush gardens of Hotel Chinzanso Tokyo and Taikoen in Osaka, water from the gardens’ natural springs is used to maintain the environment 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 CO<sub>2</sub> 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

Note: See page 7 for details of CO<sub>2</sub> emissions, CO<sub>2</sub> emissions per unit, energy consumption and energy consumption per unit.

Initiatives to Preserve 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 140 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 architectural features, including a three-story pagoda, believed to have been constructed in the Muromachi period (1336 to 1573) and Zangetsu, a historic tea house, both of which are listed as tangible cultural properties; a Hannayaji 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 Kowakien



Soba Kihinkan (listed as tangible cultural property)

The birthplace of Fujita Kanko, Hakone Kowakien boasts two buildings listed as tangible cultural properties. Kihinkan, a sukiyazukuri 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/shabu-shabu* restaurant, which opened in May 2016, have been left essentially unchanged. It provides guests with a historical and memorable experience.

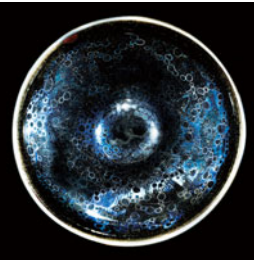
Taikoen



Yodogawatei Japanese restaurant

Taikoen 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 Taikoen. 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



Genjyo 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 53 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.

Note: The Fujita Museum is closed for an extended period of time due to a total reconstruction of the facility.

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 14 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

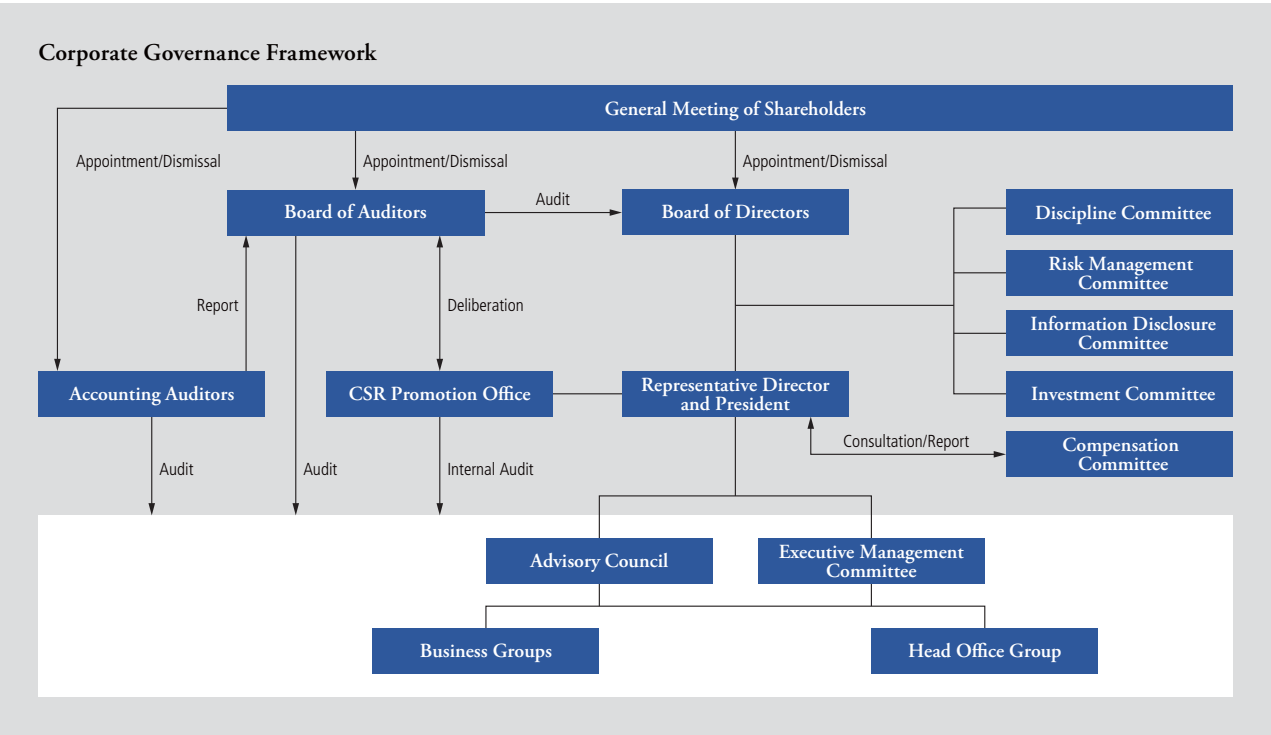
executive officers and the representative director and president, meets once every month to ensure common awareness of the operating environment and to deliberate on measures, as well as to make decisions with regard to the execution of business operations.

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.

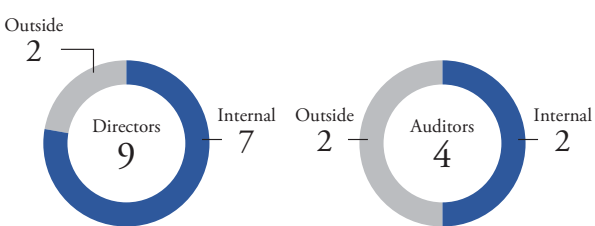
The auditors also receive reports with regard to accounting audit details from the Company's accounting auditors, with whom they exchange information to determine appropriateness of accounting policies, accounting treatment methods and other issues in light of the conditions of Company assets.





Outside Directors and Outside Auditors

As of March 28, 2018, 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 at meetings of Board of Directors for 2017	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. Therefore, she possesses abundant experience and knowledge in a wide range of fields. Furthermore, as we judged that she can contribute to the Company's Diversity & Inclusion initiations, including promoting the active involvement of female employees, we appointed her to the position of Outside Director.
Yuko Mitsuya	Attended all 18 meetings	Ms. Mitsuya has extensive experience in company management and has served as a director and member of multiple sports and other associations. Therefore, she possesses abundant experience and knowledge in a wide range of fields. Furthermore, as we judged that she can contribute to the Company's Diversity & Inclusion initiations, including promoting the active involvement of female employees, we appointed her to the position of Outside Director.

Outside Auditors	
Name	Reasons for Appointment
Hiroshi Nakashio (Full-Time)	Mr. Nakashio has extensive experience in financial markets, including working at Mizuho Bank, Ltd. and Mizuho Securities Co., Ltd. He assumed the position of executive officer of DOWA HOLDINGS CO., LTD. in 2008, and has served as director in the same company since 2009. Therefore, he possesses abundant experience and knowledge, mainly in the planning and administration divisions. He was appointed to the position of outside auditor so that his experience and knowledge could be effectively utilized in the auditing operations of the Company.
Shunji Miyamoto	Mr. Miyamoto has extensive experience in financing and planning fields, including working at Sumitomo Mitsui Trust Bank, Limited and Sumitomo Mitsui Trust Business Service Co., Ltd. Therefore, he possesses abundant experience and knowledge in those areas. He was appointed to the position of outside auditor so that his experience and knowledge could be effectively utilized in the auditing operations of the Company.

Note: Rieko Zanma, Yuko Mitsuya and Shunji Miyamoto have been designated as independent officers pursuant to the regulations of Tokyo Stock Exchange, Inc., to which notification has been submitted.

Compensation and Other Payments for Directors and Auditors

Compensation for directors of the Company consists 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 2017)		
Category	Number of eligible individuals	Total amount of compensation and other payments (Millions of yen)
Directors (excluding outside directors)	8	214
Auditors (excluding outside auditors)	2	42
Outside directors and outside auditors	5	24

Note: The above headcount includes one director and one auditor who retired as of 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 five 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, and periodically reports its findings to the Board of Directors. 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.

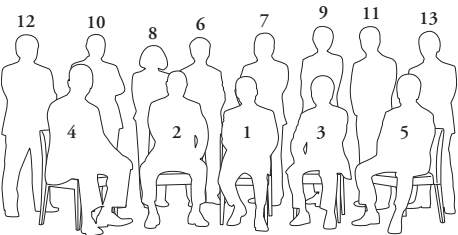
Communication with Shareholders and Investors

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 2017 IR activities are stated as follows.

**Principal IR Activities in Fiscal 2017**

- 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 (one time in Hakone)
- Held briefings for individual investors (total of four times, in Tokyo, Osaka and Yokohama)
- Produced an integrated report





1. Akira Segawa 2. Yoshihiro Ise 3. Takeaki Yamada 4. Akira Kitahara 5. Takashi Wakuri  
6. Masatoshi Nakamura 7. Takanori Matsuda 8. Rieko Zanma 9. Yuko Mitsuya  
10. Kazuo Nakasone 11. Masato Yoshihara 12. Hiroshi Nakashio 13. Shunji Miyamoto

Directors

- 1

**Akira Segawa**  
Representative Director and President,  
Executive Officer and President
- 2

**Yoshihiro Ise**  
Representative Director,  
Senior Managing Executive Officer,  
Chief of Planning Group
- 3

**Takeaki Yamada**  
Director, Senior Managing Executive Officer,  
Chief of Human Resources Group
- 4

**Akira Kitahara**  
Director, Managing Executive Officer,  
Chief Operating Officer of  
WHG Business Group
- 5

**Takashi Wakuri**  
Director, Executive Officer,  
Chief of Administrative Group
- 6

**Masatoshi Nakamura**  
Director, Executive Officer,  
Chief Operating Officer of Luxury &  
Banquet Business Group
- 7

**Takanori Matsuda**  
Director, Executive Officer,  
Chief Operating Officer of Resort Business Group,  
General Manager of Hakone Kowakien
- 8

**Rieko Zanma**  
Outside Director
- 9

**Yuko Mitsuya**  
Outside Director

Auditors

- 10

**Kazuo Nakasone**  
Auditor (Full-Time)
- 11

**Masato Yoshihara**  
Auditor (Full-Time)
- 12

**Hiroshi Nakashio**  
Outside Auditor (Full-Time)
- 13

**Shunji Miyamoto**  
Outside Auditor

Executive Officers (Excluding Executive Officers Who Are Directors)

- Takuya Warashina**  
Executive Officer,  
Planning Group,  
General Manager of IT Systems Department

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

**Toshikatsu Imanari**  
Executive Officer,  
WHG Business Group,  
General Manager of Hotel Gracery Kyoto Sanjyo
- Kazuhiro Kaga**  
Executive Officer,  
Executive Chef,  
Human Resources Group,  
In charge of Food and Beverage Service, Guidance Division

**Michio Murakami**  
Executive Officer,  
Chief of Global Business Group,  
General Manager of China Business Development  
Department

**Hiroshi Izumi**  
Executive Officer,  
Luxury & Banquet Business Group,  
General Manager of Hotel Chinzanso Tokyo
- Shinya Sato**  
Executive Officer,  
Human Resources Group,  
In charge of Food and Beverage Service, Guidance Division

Messages from Outside Directors and Auditors



Rieko Zanma  
Outside Director

The next stage of growth will require deepening.

In the future, Fujita Kanko will need further expansion and deepening. For expansion, Fujita Kanko's many excellent assets put it in a dominant position for realizing the objective of "becoming Japan's leading tourism company." For deepening, establishing more sophisticated hospitality and

refining its sensitivities to grasp the changing needs of customers will be crucial. I hope to use the experience I have gained through my career, which requires a constant awareness of contemporary moods and values, as I strive to make the importance of Fujita Kanko's existence more widely known.

(Career History) After serving as member of the Fiscal System Council of the Ministry of Finance and other positions, appointed outside director of the Company in March 2010. Concurrently serves as president and representative director of Candid Produce and outside director of IBJ, Inc., SHIMA SEIKI MFG., LTD. and Trust Tech Inc.



Yuko Mitsuya  
Outside Director

Sharing clear goals and considering individual potential to contribute is essential.

It is important to act by keeping clear goals in mind and sharing those goals throughout an organization. To achieve this, the task is for the management team and each employee to establish their own action plans to reach their targets. For its future growth, Fujita Kanko will need an external network that comes in contact

with different ways of thinking to give rise to unconventional strengths. In terms of the organization, engagement between the company and employees is essential. In that sense, stronger cultivation of middle management is extremely important. I will continue to do my best to promote such initiatives in the future.

(Career History) Appointed outside director of the Company in March 2015. Concurrently serves as outside director of Paloma Co., Ltd. and chairwoman of Japan Basketball Association. Also serves as advisor to The Tokyo Organizing Committee of the Olympic and Paralympic Games



Hiroshi Nakashio  
Outside Auditor (Full-Time)

Continuing to earn your trust, support and esteem.

I am Hiroshi Nakashio, and I have been appointed as an outside auditor. An outside auditor's function is to impartially and honestly check on the proper execution of a company's accounting and business from a third-party perspective. I hope to fulfill my duties using my expertise in accounting and finance

cultivated over many years, my knowledge of the market as a dealer and portfolio manager, and my management experience in the manufacturing industry so that Fujita Kanko continues to earn the trust, support and esteem of its customers, employees, local communities and shareholders.

(Career History) Joined the Industrial Bank of Japan, Limited (currently Mizuho Bank, Ltd.) in 1980. Became executive officer of DOWA HOLDINGS CO., LTD. in 2008, and after serving as director of that company, he was appointed outside auditor of the Company in March 2018.



Shunji Miyamoto  
Outside Auditor

I will fulfill my duties from the perspective of effective governance.

Fujita Kanko conducts diverse measures to continue to provide services that earn a high degree of customer satisfaction. These include aiming to further raise the level of its tangible products and intangible services in tune with the times, generating vitality at its hotels and other facilities,

and training and deploying human resources. In addition to considering the interests of stakeholders, I will fulfill my duties as outside auditor by utilizing my experience and expertise in business transactions and business management from the perspective of ensuring the effectiveness of corporate governance.

(Career History) Joined Mitsui Trust Bank, Limited (currently Sumitomo Mitsui Trust Bank, Limited) in 1981. After serving as director and managing executive officer of Chuo Mitsui Business Co., Ltd. (currently Sumitomo Mitsui Trust Business Service Co., Ltd.), he was appointed outside auditor of the Company in March 2018.



Analysis of Operating Results and Financial Position for Fiscal 2017

1. Operating Results for Fiscal 2017

In the fiscal year ended December 31, 2017, the Japanese economy continued on a moderate recovery trend, as consumer spending picked up and corporate earnings and the employment situation improved, despite concerns about the policy trends of the new administration in the U.S. and increasing geopolitical risks in Asia.

According to the Japan National Tourism Organization (JNTO), the number of inbound visitors (foreign visitors to Japan) in fiscal 2017 increased 19.3% from the previous year to a record high of 28.69 million, and that number is expected to steadily increase toward the Japanese government's target of 40 million in 2020.

Meanwhile, a succession of new hotels, mainly in the Tokyo metropolitan area, were opened by competitors as well as entrants from other industries, backed by rising demand for accommodations. In addition, the operating environment of the accommodations business is becoming increasingly severe with the enactment of the Private Residence Lodging Business Act (the so-called New Minpaku Act).

Under these business conditions, the Group steadily attracted guests from overseas, mainly other Asian countries, and the number of inbound guests increased 22.5% year on year to 1.74 million, accounting for approximately 40% of the total number of guests. Among inbound guests, the Group concentrated on attracting foreign individual travelers (FITs), who stay longer at a higher unit price per room than group travelers. Consequently, FITs accounted for approximately 80% of all inbound guests.

Under the Group's five-year medium-term management plan, FUJITA PREMIUM VALUE CREATION 2015, which started in 2015, the Group has completed a period of upfront investments and approached a period of achieving returns that will stabilize and expand profit. Having entered the third year, the halfway point of this plan, the Group reexamined its measures by segment according to their progress and changes in the environment, and revised the numerical targets.

During the fiscal year ended December 31, 2017, Hakone Kowakien Ten-yu (150 rooms), which is the largest investment of the medium-term management plan, opened in April. In the accommodation business, the Group also opened Hotel Gracery Kyoto Sanjo South (128 rooms) in May, and together with Hotel Gracery Kyoto Sanjo North (97 rooms), which opened in July 2016, the Group now operates 225 rooms in Kyoto, a highly popular area among inbound guests. In October, Kisarazu Washington Hotel (146 rooms) opened as a franchise hotel of WHG Hotels.

In the wedding business, the Group started operations in May of two new guest house facilities in Kita-Kyushu (Fukuoka Prefecture), the Maricolle Wedding Resort and Sayagatani Garden Aglass, as an expansion into a region where demand is expected to grow going forward. In existing businesses, the Group also strengthened quality

mainly through renovation of the banquet hall and construction of a new detached shrine within the garden at Hotel Chinzanso Tokyo.

As a result, during the fiscal year ended December 31, 2017, net sales for the entire Group amounted to ¥70,624 million, an increase of ¥1,835 million year on year. The Shinjuku Washington Hotel (1,280 rooms), which completed a year-long major renovation in March 2016, Hotel Gracery Naha (198 rooms), which opened in April 2016, and Hotel Gracery Kyoto Sanjo North, which opened in July 2016, operated for a full year and contributed to the increase.

Mainly due to the increase in net sales, operating profit increased by ¥282 million year on year to ¥1,995 million, and ordinary profit increased by ¥349 million year on year to ¥2,048 million. Profit attributable to owners of parent increased by ¥813 million year on year to ¥1,672 million due to recording gain on sales of non-current assets as extraordinary income, despite recording extraordinary losses resulting from the decision to close the business of Hakone Hotel Kowakien (January 10, 2018).

Operating profit before depreciation, which the Group has established as a key indicator, increased by ¥458 million year on year to ¥7,677 million.

2. Analysis of Financial Position

(1) Assets, Liabilities and Net Assets

Total assets amounted to ¥107,362 million as of December 31, 2017, up ¥1,527 million from the end of the previous fiscal year. The main factor in the increase was a ¥1,265 million increase in property, plant and equipment, listed under non-current assets, due to an increase in assets acquired in connection with the opening of Hakone Kowakien Ten-yu and other facilities.

Liabilities increased by ¥416 million from the end of the previous fiscal year, to ¥79,724 million. Contributing factors included a ¥940 million increase in loans payable due to capital investments. The total amount of loans payable as of December 31, 2017 was ¥46,698 million.

Net assets increased by ¥1,110 million from the end of the previous fiscal year, to ¥27,637 million. Retained earnings increased by ¥1,192 million.

(2) Cash Flows

Cash and cash equivalents amounted to ¥4,304 million as of December 31, 2017, down ¥400 million from the end of the previous fiscal year.

(i) Cash flows from operating activities

Net cash provided by operating activities amounted to ¥5,538 million. Operating profit rose by ¥282 million, but an increase in accrued consumption taxes and other factors resulted in an overall decrease of ¥707 million compared with the previous fiscal year.

(ii) Cash flows from investing activities

Net cash used in investing activities amounted to ¥6,667 million, an increase of ¥663 million compared with the previous fiscal year. This was mainly due to ¥8,589 million in outlays for the purchase of property, plant and equipment and intangible assets associated with the construction of Hakone Kowakien Ten-yu and Hotel Gracery Kyoto Sanjo South, and other factors. On the other hand, sales of non-current assets were ¥1,815 million.

(iii) Cash flows from financing activities

Net cash provided by financing activities amounted to ¥736 million, representing an increase of ¥321 million compared with the previous fiscal year. This was mainly attributable to net proceeds from loans payable of ¥1,266 million and total cash dividends paid of ¥485 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 2017 (December 31, 2017). Risk factors related to business are not limited to these items.

(1) Share price fluctuations

The Group owns ¥19,100 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 2017, 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 2017, the Group owned ¥64,000 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 ¥59,900 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 ¥1,500 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 2017, ¥7,800 million of ¥46,600 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	2016	2017
<b>Current assets</b>		
Cash and deposits	4,781	<b>4,381</b>
Notes and accounts receivable–trade	4,614	<b>4,959</b>
Merchandise and finished goods	70	<b>62</b>
Work in process	58	<b>132</b>
Raw materials and supplies	492	<b>526</b>
Deferred tax assets	576	<b>330</b>
Other	1,685	<b>2,322</b>
Allowance for doubtful accounts	(43)	<b>(38)</b>
Total current assets	12,235	<b>12,678</b>
<b>Non-current assets</b>		
Property, plant and equipment		
Buildings and structures	92,053	<b>101,336</b>
Accumulated depreciation	(58,327)	<b>(59,209)</b>
Buildings and structures, net	33,725	<b>42,126</b>
Tools, furniture and fixtures	18,879	<b>20,362</b>
Accumulated depreciation	(12,832)	<b>(14,206)</b>
Tools, furniture and fixtures, net	6,046	<b>6,155</b>
Land	12,532	<b>11,946</b>
Construction in progress	6,653	<b>425</b>
Golf courses	2,773	<b>2,416</b>
Other	4,918	<b>4,678</b>
Accumulated depreciation	(3,874)	<b>(3,708)</b>
Other, net	1,043	<b>969</b>
Total property, plant and equipment	62,775	<b>64,041</b>
Intangible assets		
Goodwill	320	<b>280</b>
Software	540	<b>507</b>
Other	128	<b>119</b>
Total intangible assets	989	<b>906</b>
Investments and other assets		
Investment securities	19,592	<b>19,538</b>
Guarantee deposits	8,477	<b>8,412</b>
Deferred tax assets	1,365	<b>1,207</b>
Other	415	<b>602</b>
Allowance for doubtful accounts	(17)	<b>(24)</b>
Total investments and other assets	29,834	<b>29,735</b>
Total non-current assets	93,599	<b>94,684</b>
Total assets	105,834	<b>107,362</b>

	Millions of yen	
Liabilities	2016	2017
<b>Current liabilities</b>		
Notes and accounts payable–trade	1,666	<b>1,660</b>
Short-term loans payable	2,325	<b>2,985</b>
Current portion of long-term loans payable	7,509	<b>8,907</b>
Income taxes payable	296	<b>1,071</b>
Accrued consumption taxes	760	<b>214</b>
Provision for bonuses	175	<b>197</b>
Provision for directors' bonuses	10	<b>7</b>
Provision for point card certificates	93	<b>121</b>
Other	6,591	<b>6,822</b>
Total current liabilities	19,429	<b>21,988</b>
<b>Non-current liabilities</b>		
Long-term loans payable	35,923	<b>34,805</b>
Provision for directors' retirement benefits	112	<b>117</b>
Provision for loss on business withdrawal	602	<b>530</b>
Net defined benefit liability	9,206	<b>9,425</b>
Deposits received from members	12,282	<b>10,838</b>
Other	1,751	<b>2,018</b>
Total non-current liabilities	59,878	<b>57,736</b>
Total liabilities	79,308	<b>79,724</b>
<b>Net assets</b>		
<b>Shareholders' equity</b>		
Capital stock	12,081	<b>12,081</b>
Capital surplus	5,432	<b>5,431</b>
Retained earnings	4,735	<b>5,927</b>
Treasury shares	(924)	<b>(929)</b>
Total shareholders' equity	21,325	<b>22,511</b>
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	5,095	<b>5,113</b>
Deferred gains or losses on hedges	—	<b>(78)</b>
Foreign currency translation adjustment	(8)	<b>(19)</b>
Remeasurements of defined benefit plans	(85)	<b>(99)</b>
Total accumulated other comprehensive income	5,001	<b>4,916</b>
Non-controlling interests	199	<b>209</b>
Total net assets	26,526	<b>27,637</b>
Total liabilities and net assets	105,834	<b>107,362</b>



# Consolidated Statements of Income and Comprehensive Income (For the fiscal years ended December 31)

## Consolidated Statements of Income

	Millions of yen	
	2016	2017
Net sales	68,789	70,624
Cost of sales	62,593	63,973
Gross profit	6,195	6,651
Selling, general and administrative expenses	4,483	4,655
Operating profit	1,712	1,995
Non-operating income		
Interest income	4	3
Dividend income	381	391
Share of profit of entities accounted for using equity method	71	78
Life insurance dividends	81	78
Other	235	259
Total non-operating income	775	813
Non-operating expenses		
Interest expenses	567	555
Loss on disposal of non-current assets	126	67
Other	94	137
Total non-operating expenses	789	760
Ordinary profit	1,698	2,048
Extraordinary income		
Gain on sales of non-current assets	12	1,814
Compensation income	582	314
Gain on sales of shares of subsidiaries and associates	—	199
Gain on sales of investment securities	1,439	165
Release from memberships deposits obligation	51	38
State subsidy	80	—
Total extraordinary income	2,165	2,531
Extraordinary losses		
Impairment loss	1,318	1,370
Loss on valuation of investment securities	—	16
Provision for loss on business withdrawal	376	15
Loss on sales on non-current assets	—	3
Special maintenance repairs of idle equipment	5	2
Other	11	—
Total extraordinary losses	1,712	1,408
Profit before income taxes	2,151	3,171
Income taxes - current	323	1,049
Income taxes - deferred	948	433
Total income taxes	1,271	1,483
Profit	879	1,688
Profit attributable to non-controlling interests	21	16
Profit attributable to owners of parent	858	1,672

## Consolidated Statements of Comprehensive Income

	Millions of yen	
	2016	2017
Profit	879	1,688
Other comprehensive income		
Valuation difference on available-for-sale securities	(856)	10
Deferred gains or losses on hedges	—	(78)
Foreign currency translation adjustment	(15)	(10)
Remeasurements of defined benefit plans, net of tax	(2)	(14)
Share of other comprehensive income of entities accounted for using equity method	(0)	7
Total other comprehensive income	(875)	(85)
Comprehensive income	4	1,602
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	(17)	1,586
Comprehensive income attributable to non-controlling interests	21	16

# Consolidated Statements of Cash Flows (For the fiscal years ended December 31)

	Millions of yen	
	2016	2017
Cash flows from operating activities		
Profit before income taxes	2,151	3,171
Depreciation	4,473	4,759
Impairment loss	1,318	1,370
Amortization of goodwill	40	40
Increase (decrease) in allowance for doubtful accounts	(3)	1
Increase (decrease) in provision for directors' retirement benefits	10	4
Increase (decrease) in provision for bonuses	18	26
Increase (decrease) in provision for directors' bonuses	(1)	(3)
Increase (decrease) in provision for point card certificates	1	28
Increase (decrease) in provision for loss on business withdrawal	38	(72)
Increase (decrease) in provision of non-current assets removal	(79)	—
Increase (decrease) in net defined benefit liability	249	267
Interest and dividend income	(386)	(395)
Interest expenses	567	555
Foreign exchange losses (gains)	10	(13)
Share of (profit) loss of entities accounted for using equity method	(71)	(78)
Loss (gain) on sales of non-current assets	(12)	(1,810)
Loss on retirement of non-current assets	126	67
Loss (gain) on sales of short-term and long-term investment securities	(1,439)	(165)
Loss (gain) on valuation of investment securities	—	16
Compensation income	(582)	(314)
Release from memberships deposits obligation	(51)	(38)
Decrease (increase) in notes and accounts receivable-trade	(739)	(386)
Decrease (increase) in inventories	(62)	(104)
Increase (decrease) in notes and accounts payable-trade	83	(0)
Loss (gain) on sales of shares of subsidiaries and associates	—	(199)
Increase (decrease) in accrued consumption taxes	452	(544)
Other, net	(69)	(418)
Subtotal	6,044	5,763
Interest and dividend income received	395	404
Interest expenses paid	(564)	(559)
Income taxes paid	(211)	(384)
Proceeds from compensation	582	314
Net cash provided by (used in) operating activities	6,246	5,538
Cash flows from investing activities		
Purchase of property, plant and equipment and intangible assets	(9,500)	(8,589)
Proceeds from sales of property, plant and equipment and intangible assets	13	1,815
Purchase of investment securities	(9)	(1)
Proceeds from sales of investment securities	1,954	290
Payments into time deposits	(0)	(0)
Payments for guarantee deposits	(180)	(33)
Proceeds from collection of guarantee deposits	1,807	99
Payments for sales of shares of subsidiaries resulting in change in scope of consolidation	—	(77)
Other, net	(87)	(171)
Net cash provided by (used in) investing activities	(6,004)	(6,667)
Cash flows from financing activities		
Net increase (decrease) in short-term loans payable	(2,400)	660
Proceeds from long-term loans payable	11,283	8,059
Repayments of long-term loans payable	(7,939)	(7,453)
Proceeds from sales of treasury shares	0	0
Purchase of treasury shares	(4)	(6)
Cash dividends paid	(479)	(479)
Dividends paid to non-controlling interests	(7)	(6)
Repayments of finance lease obligations	(34)	(30)
Other, net	(4)	(8)
Net cash provided by (used in) financing activities	414	736
Effect of exchange rate change on cash and cash equivalents	(15)	(7)
Net increase (decrease) in cash and cash equivalents	640	(400)
Cash and cash equivalents at beginning of period	4,063	4,704
Cash and cash equivalents at end of period	4,704	4,304



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

List of the Fujita Kanko Group’s Commercial Properties

WHG Business (Total number of guest rooms: existing 10,752, new openings (scheduled) 1,561, total 12,313)

Facility name	Number of guest rooms
Fujita Kanko Washington Hotel Asahikawa (scheduled to close on September 30, 2018)	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)	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 <sup>2</sup>	128
Hotel Gracery Naha	198
Hotel Fujita Fukui	354
Hotel Fujita Nara	117
Hotel Gracery Seoul (scheduled to open on August 31, 2018)	335
Hotel Gracery Asakusa (scheduled to open on October 4, 2018)	125
Hotel Gracery Taipei (scheduled to open in 2021)	248
Hotel Gracery Osaka Namba (scheduled to open in summer 2019)	170
Serviced Apartment in Cikarang, Indonesia (scheduled to open in fall 2019)	214
New brand Hamamatsu-cho (scheduled to open in summer 2019)	190
New brand Asakusa (scheduled to open in 2020)	279

Lodging Facilities (42 properties) including 7 properties scheduled to newly open

New Business (Total number of guest rooms: 51)

Facility name	Number of guest rooms
Lodging Facilities (3 properties)	
Hakujukan (scheduled to open in fall 2019)	18
Fujino Kirameki Fuji Gotemba	20
Nordisk Village Goto Islands (scheduled to open in August 2018)	13

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

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

Global Offices

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

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.

List of Main Subsidiaries and Affiliated Companies

Consolidated subsidiaries (28 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
TAIKO-EN INC.	Luxury & Banquet Business
Fujita Kanko Kouei Inc	Luxury & Banquet Business
Visualife Co., Ltd.	Luxury & Banquet Business
Share Clapping Co., Ltd.	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
and 9 other 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

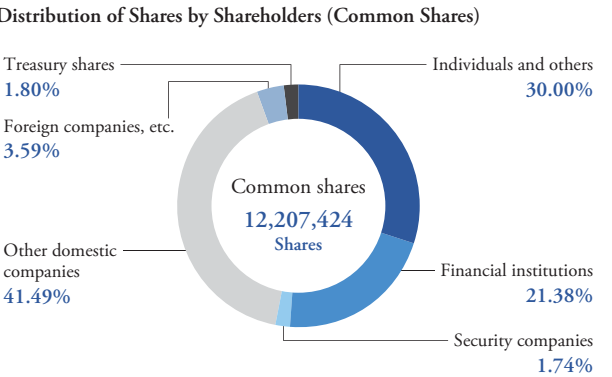
Company Overview/Investor Information

Company Overview

Company name	Fujita Kanko Inc.	Capital	¥12,081,592,677
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	1,421 (Average number of temporary employees: 3,179)

Investor Information

Total number of authorized shares	44,000,000 shares
Total number of issued shares	12,207,424 shares
Number of shareholders	20,004
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

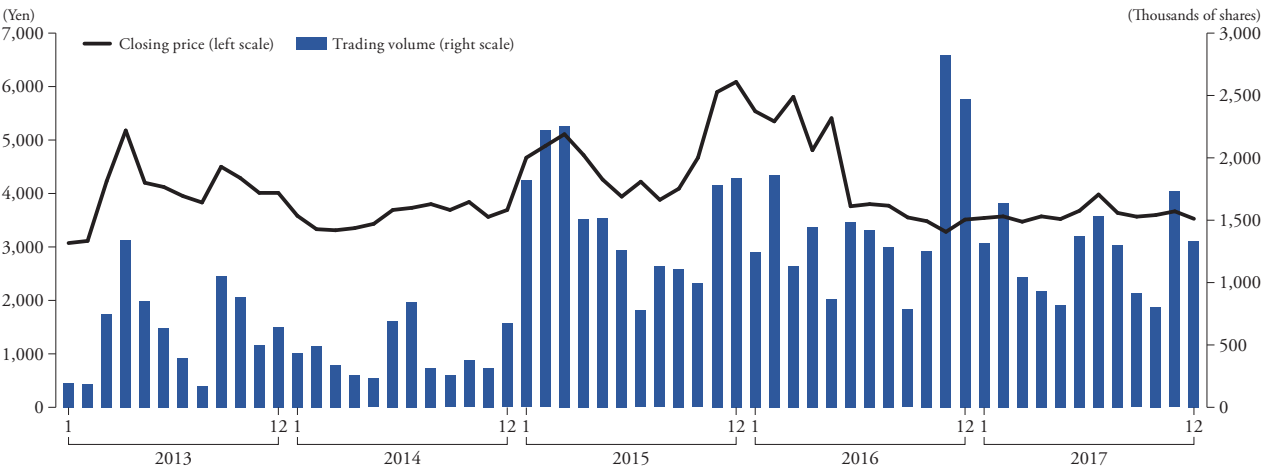


Major Shareholders

Name of shareholder	Number of shares held (Thousands of shares)	Shareholding ratio (%)
DOWA HOLDINGS CO., LTD.	3,814	31.81
The Master Trust Bank of Japan, Ltd. (Trust Account)	399	3.32
Meiji Yasuda Life Insurance Company	300	2.50
Japan Trustee Services Bank, Ltd. (Trust Account)	240	2.00
Nippon Life Insurance Company	218	1.82
SHIMIZU CORPORATION	184	1.53
ASAHI BREWERIES, LTD.	181	1.51
Mizuho Bank, Ltd.	180	1.50
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	180	1.50
UNIZO Holdings Company, Limited	168	1.40

Notes: 1. The Company, which owns 219,000 treasury shares (1.80% 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 219,000 treasury shares.  
3. The numbers of shares held are shown rounded down to the nearest thousand shares.

Stock Price Trends



Note: As of July 1, 2017, the Company consolidated the shares of its common stock at a ratio of ten shares into one share. The above closing price and trading volume have been restated to reflect the change.

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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