Consolidated Financial Results
for the Fiscal Year Ended December 31, 2016
[Japanese GAAP]

February 14, 2017

Company name: FUJITA KANKO INC.
Stock exchange listing: Tokyo Stock Exchange
Code number: 9722
URL: http://www.fujita-kanko.co.jp/
Representative: Akira Segawa, President and Representative Director
Contact: Yoshihiro Ise, Director and Chief of Corporate Planning Group
Phone: +81-3-5981-7723
Scheduled date of Ordinary General Meeting of Shareholders: March 28, 2017
Scheduled date of filing annual securities report: March 28, 2017
Scheduled date of commencing dividend payments: March 29, 2017
Availability of supplementary briefing material on annual financial results: Available
Schedule of annual financial results briefing session: Scheduled (for institutional investors and securities analysts)

(Amounts of less than one million yen are rounded down.)

1. Consolidated Financial Results for the Fiscal Year Ended December 31, 2016 (January 1, 2016 to December 31, 2016)

(1) Consolidated Operating Results (% indicates changes from the previous corresponding period.)

	Net sales		Operating income		Ordinary income		Profit attributable to owners of parent	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
Fiscal year ended December 31, 2016	68,789	7.5	1,712	-	1,698	-	858	-
Fiscal year ended December 31, 2015	63,981	(0.4)	39	(97.1)	(172)	-	32	(93.8)

(Note) Comprehensive income: Fiscal year ended December 31, 2016: ¥4 million [(98.4)%]
Fiscal year ended December 31, 2015: ¥268 million [(40.4)%]

	Net income per share	Diluted net income per share	Return on equity	Ordinary income to total assets	Operating income to net sales
	Yen	Yen	%	%	%
Fiscal year ended December 31, 2016	7.17	-	3.2	1.6	2.5
Fiscal year ended December 31, 2015	0.27	-	0.1	(0.2)	0.1

(Reference) Profit (loss) of entities accounted for using equity method: Fiscal year ended December 31, 2016: ¥71 million
Fiscal year ended December 31, 2015: ¥50 million

Changes from the previous corresponding period in operating income and profit attributable to owners of parent for the fiscal year ended December 31, 2016 are stated as "-," since they exceed 1,000%.

(2) Consolidated Financial Position

	Total assets	Net assets	Equity ratio	Net assets per share
	Million yen	Million yen	%	Yen
As of December 31, 2016	105,834	26,526	24.9	219.70
As of December 31, 2015	104,732	27,012	25.6	223.85

(Reference) Equity:
As of December 31, 2016: ¥26,326 million
As of December 31, 2015: ¥26,826 million

(3) Consolidated Cash Flows

	Net cash provided by (used in) operating activities	Net cash provided by (used in) investing activities	Net cash provided by (used in) financing activities	Cash and cash equivalents at end of period
	Million yen	Million yen	Million yen	Million yen
Fiscal year ended December 31, 2016	6,246	(6,004)	414	4,704
Fiscal year ended December 31, 2015	(415)	(8,184)	6,748	4,063

2. Dividends

	Annual dividends					Total dividends	Payout ratio (consolidated)	Dividends to net assets (consolidated)
	1st quarter-end	2nd quarter-end	3rd quarter-end	Year-end	Total			
	Yen	Yen	Yen	Yen	Yen	Million yen	%	%
Fiscal year ended December 31, 2015	-	0.00	-	4.00	4.00	479	1,463.0	1.8
Fiscal year ended December 31, 2016	-	0.00	-	4.00	4.00	479	55.8	1.8
Fiscal year ending December 31, 2017 (Forecast)	-	0.00	-	40.00	40.00		43.6	

At the Board of Directors' meeting held today, it is resolved that share consolidation (consolidation of 10 shares of common stock to 1 share) effective July 1,2017 will be deliberated at the 84th Ordinary General Meeting of Shareholders, scheduled on March 28, 2017. The dividend forecast for the fiscal year ending December 31, 2017 states the dividend per share in light of the aforementioned share consolidation. For details, please refer to "Notification of Change to Number of Shares Per Unit, Share Consolidation, and Partial Revision to Articles of Incorporation" announced today.

3. Consolidated Financial Results Forecast for the Fiscal Year Ending December 31, 2017 (January 1, 2017 to December 31, 2017)

(% indicates changes from the previous corresponding period.)

	Net sales		Operating income		Ordinary income		Profit attributable to owners of parent		Net income per share
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Yen
First half	33,500	4.0	(400)	-	(400)	-	(1,100)	-	(91.79)
Full year	72,000	4.7	2,300	34.3	2,300	35.4	1,100	28.1	91.79

Net income per share in the consolidated financial results forecast for the fiscal year ending December 31, 2017 takes into account the aforementioned share consolidation. For details, please refer to "Notification of Change to Number of Shares Per Unit, Share Consolidation, and Partial Revision to Articles of Incorporation" announced today.

*** Notes:**

(1) Changes in significant subsidiaries during the period under review: No

(2) Changes in accounting policies, changes in accounting estimates and retrospective restatement
1) Changes in accounting policies due to the revision of accounting standards: No
2) Changes in accounting policies other than 1) above: No
3) Changes in accounting estimates: No
4) Retrospective restatement: No

(3) Total number of issued shares (common shares)
1) Total number of issued shares at the end of the period (including treasury shares):
December 31, 2016: 122,074,243 shares
December 31, 2015: 122,074,243 shares

2) Total number of treasury shares at the end of the period:
December 31, 2016: 2,240,735 shares
December 31, 2015: 2,232,854 shares

3) Average number of shares during the period:
Fiscal Year ended December 31, 2016: 119,838,741 shares
Fiscal Year ended December 31, 2015: 119,847,782 shares

(Note) For the number of shares that form the basis for the calculation of net income per share (consolidated), please see "Per Share Information" on page 48.

(Reference) Summary of Non-consolidated Financial Results

1. Non-consolidated Financial Results for the Fiscal Year Ended December 31, 2016 (January 1, 2016 to December 31, 2016)

(1) Non-consolidated Operating Results (% indicates changes from the previous corresponding period.)

	Net sales		Operating income		Ordinary income		Profit	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
Fiscal year ended December 31, 2016	49,978	5.9	728	-	869	-	342	-
Fiscal year ended December 31, 2015	47,204	(3.6)	(729)	-	(827)	-	(280)	-

	Net income per share	Diluted net income per share
	Yen	Yen
Fiscal year ended December 31, 2016	2.85	-
Fiscal year ended December 31, 2015	(2.34)	-

(2) Non-consolidated Financial Position

	Total assets	Net assets	Equity ratio	Net assets per share
	Million yen	Million yen	%	Yen
As of December 31, 2016	101,489	24,561	24.2	204.86
As of December 31, 2015	100,463	25,558	25.4	213.17

(Reference) Equity: As of December 31, 2016: ¥24,561 million
As of December 31, 2015: ¥25,558 million

* Presentation regarding implementation status of audit procedures

These financial results are outside the scope of audit procedures under the Financial Instruments and Exchange Act. At the time of disclosure of these financial results, audit procedures for the financial statements under the Financial Instruments and Exchange Act have not been completed.

* Explanation of the proper use of financial results forecast and other notes

The financial results forecasts and other forward-looking statements herein are made based on currently available information and include a number of uncertainties. Accordingly, actual results may differ materially due to various factors. For the assumptions underlying the financial results forecasts, please see “Analysis of Operating Results” on page 2 of the attached material.

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1. Analysis of Operating Results and Financial Position

(1) Analysis of Operating Results

(Operating Results for the Fiscal Year Ended December 31, 2016)

The Japanese economy during the fiscal year ended December 31, 2016 was on a moderate recovery trend, as corporate earnings and the employment situation began to improve, on the back of measures by the government and the Bank of Japan. Meanwhile, the outlook for the future remained uncertain, due to uncertainties in overseas economics including the economic downturn in China, volatile fluctuations of exchange rates, the BREXIT vote, and the U.S. presidential election.

In the tourism industry, the number of foreign visitors continued to grow since last year. According to the Japan National Tourism Organization (JNTO), in fiscal year 2016, number of visitors increased 21.8% year on year to 24.03 million and their spending in Japan increased 7.8% to ¥3,700 billion, both reaching record highs. On the other hand, the travel expenditures per foreign visitors to Japan decreased 11.5% year on year due to the changes in consumption trends of foreign visitors. Their main purpose of traveling Japan has shifted from "spending," which was so-called "bakugai" (shopping spree), to "experience" in which they enjoy nature and culture of Japan. Moreover, their accommodation destinations have been dispersed from major metropolitan areas to rural areas.

Under such circumstances, in the second year of the five-year medium-term management plan, FUJITA PREMIUM VALUE CREATION 2015, the Group strengthened the quality of existing businesses, launched new openings in Japan and abroad, and made aggressive investments towards the future.

During the fiscal year ended December 31, 2016, the year-long major renovation of all rooms of the main building of Shinjuku Washington Hotel in Nishi-Shinjuku, Tokyo has completed in March as planned, and the hotel re-opened its doors to guests on April 1. As a result, together with Hotel Gracery Shinjuku, which opened in April 2015 near East exit of Shinjuku Station, the Group operates a total of about 2,600 guest rooms in the Shinjuku area.

In terms of new openings, the Group opened Hotel Gracery Naha (198 rooms) in April, and Hotel Gracery Kyoto Sanjo North (97 rooms) in July.

As part of the Group's efforts to redevelop the Hakone area in Kanagawa Prefecture, the Group opened Hakone Kowakien Miyamafurin, a hot-spring hotel with special emphasis on accommodation, near Hakone Hotel Kowakien, adding more attractiveness to the Hakone area. The Group is also working toward the opening of a new flagship accommodation facility, Hakone Kowakien, Ten-yu, which is scheduled to open in April 2017.

In overseas development, the Group is opening restaurants overseas with the aim of increasing the name recognition of the Company's facilities. In Taipei (Taiwan), the Group opened a Japanese restaurant produced by Hotel Chinzanso Tokyo, "KINSUI TAIPEI by HOTEL CHINZANSO TOKYO" in January and a Japanese Cuisine KOURIN Da'an in December.

During the fiscal year ended December 31, 2016, in addition to the completion of renovation in Shinjuku Washington Hotel and the contribution of year-round operation of Hotel Gracery Shinjuku, the strong average sales per room in other accommodation facilities contributed to the performance, and net sales for the entire Group amounted to ¥68,789 million, an increase of ¥4,807 million year on year.

As a result of the revenue increase, operating income increased by ¥1,673 million year on year to ¥1,712 million, and ordinary income increased by ¥1,871 million year on year to ¥1,698 million. In addition, while the Group recorded an extraordinary income of ¥2,165 million due to sales of investment securities owned by the Company and receipt of damages payments, the Group also recorded an extraordinary loss of ¥1,712 million, mainly from losses due to the closing of business of Hotel Toba Kowakien (Mie Prefecture). As a result, profit attributable to owners of parent increased by ¥825 million year on year to ¥858 million.

Operating income before depreciation, which the Group has established as a key indicator, increased by ¥2,077 million year on year to ¥7,219 million.

An overview of business results and business results by segment for the current consolidated fiscal year is as follows.

Overview of business results

(Million yen)

	Actual results for the current period	YoY change	Change
Net sales	68,789	4,807	7.5%
Operating income	1,712	1,673	-
Ordinary income	1,698	1,871	-
Profit attributable to owners of parent	858	825	-

Operating income before depreciation	7,219	2,077	40.4%

* Changes from the previous corresponding period in operating income and profit attributable to owners of parent for the fiscal year ended December 31, 2016 are stated as "-," since they exceed 1,000%.

Sales and operating income by segment

(Million yen)

	Net sales		Operating income	
	Actual	YoY change	Actual	YoY change
WHG Business	32,954	4,975	2,044	1,344
Resort Business	6,757	263	(394)	(63)
Luxury & Banquet Business	26,215	(26)	913	467
Other (including adjustment amounts)	2,861	(404)	(850)	(75)
Total	68,789	4,807	1,712	1,673

*1 Adjustment amounts refers to eliminations of inter-segment transactions, and corporate expenses not allocated to any particular segment.

*2 From the fiscal year ended December 31, 2016, the Company has changed its allocation method of headquarters expense in order to assess segment performance more appropriately. Therefore, the operating income for each segment in the previous fiscal year has been converted to the new method.

1) WHG Business

During the fiscal year 2016, the number of foreign visitors to Japan continued to grow at a rate of over 30% year on year until March. However, the growth rate stalled to around 10% to 20% after April. The growth rate of the sales per room of the Group's accommodation facilities has also slowed down, especially in the Tokyo metropolitan area partly due to the continued yen appreciation compared to the previous fiscal year, and accommodation destinations dispersed throughout regional areas. In response to these changes, each accommodation facility of the WHG Business worked to maximize sales through a sales measures based on both price per room and occupancy by continuously taking initiatives to gain repeat inbound guests and improve customer satisfaction.

As a result, sales per room of hotels in the Tokyo metropolitan area increased by 19% year on year, owing largely to changes to the sales prices of Shinjuku Washington Hotel following its renovation, and sales from Hotel Gracery Shinjuku, which have been achieving sales surpassing the planned level since its opening.

Hotel Gracery Naha, which opened in April, and Hotel Gracery Kyoto Sanjo North, which opened in July, launched smoothly, and have been achieving higher sales per room than as planned. As a result, sales per room of regional hotels also increased by 11% year on year.

In the accommodations business, the number of guests increased by 334,000 year on year to 3,536,000 and sales increased by ¥4,807 million year on year to ¥27,151 million.

As a result, net sales for this segment increased by ¥4,975 million year on year to ¥32,954 million and segment income (operating income) increased by ¥1,344 million year on year to ¥2,044 million.

2) Resort Business

As the accommodation business has recovered from the effects of the volcanic earthquakes that struck Hakone Owakudani in 2015, due to the effect of activities to attract individual travelers, sales per room surpassed the level in the previous year. Additionally, as part of the redevelopment of the Hakone area, we have been making preparations for the opening on April 20, 2017 of Hakone Kowakien Ten-yu, an accommodation facility featuring open-air baths in each room. As the first step, the Group opened Hakone Kowakien Miyamafurin, a hot-spring hotel with special emphasis on accommodation in March, followed by the openings of restaurants, Soba KIHINKAN and Teppan-Yaki GEIHINKAN, which utilize two registered tangible cultural properties held by the Company. In the accommodation business overall, the number of guests increased by 37,000 year on year to 783,000 and sales increased by ¥111 million year on year to ¥4,699 million.

In the leisure business, the number of visitors to the hot spring theme park Hakone Kowakien Yunessun increased year on year, due mainly to the resume of the full services of the Hakone Ropeway, a major Hakone tourist route in July, and partial lifting of the road closures around Owakudani. Consequently, in the leisure business, the number of guests increased by 6,000 year on year to 659,000, and net sales increased by ¥90 million year on year to ¥1,704 million.

As a result, net sales for this segment increased by ¥263 million year on year to ¥6,757 million, and due to the posting of anticipatory expenses associated with the re-development of the Hakone area, segment loss (operating loss) deteriorated by ¥63 million year on year to ¥394 million.

3) Luxury & Banquet Business

In the wedding business, sales for existing facilities decreased by ¥278 million year on year, due to the declines in bookings and number of customers at Hotel Chinzanso Tokyo, despite the increased revenues from Taiko-en in Osaka thanks to increased number of customers using the Shinto-style wedding hall, Hoseiden, which was reopened in 2015. Consequently, in the wedding business, sales decreased by ¥544 million year on year to ¥11,840 million, and the number of customers decreased by 18,000 year on year to 209,000, due to the impact of the closing of business of Tokyo Minami Aoyama CONVIVION in December 2015.

In the banquet business, Hotel Chinzanso Tokyo steadily tapped into the banquet demand of its corporate customers and captured MICE accommodation demand including conferences and seminars by both Japanese and overseas companies, and sales increased by ¥394 million year on year to ¥5,569 million, offsetting the losses in the wedding business.

In the accommodation business, Hotel Chinzanso Tokyo completed the third phase of room renovations that have been ongoing since 2014, renovating new Japanese-style suites and opening a suite guest lounge. Consequently, in the accommodation business, sales increased by ¥66 million year on year to ¥2,506 million, due to increases in accommodation usage by foreign visitors to Japan and MICE users, as well as increased sales per room.

As a result, net sales for this segment, including the golf business, decreased by ¥26 million year on year to ¥26,215 million, while segment income (operating income) increased by ¥467 year on year to ¥913 million yen, due mainly to the increased price per room in the accommodation business and the effect of the revision of the pricing structure in the wedding business.

(Outlook for Next Fiscal Year)

Fiscal year 2017 is the third year of the medium-term management plan. Although the previous two years were a period of aggressive upfront investment, from this fiscal year, the Company enters the period to collect returns in order to stabilize and expand revenues.

In the WHG business, in addition to Hotel Gracery Naha and Hotel Gracery Kyoto North which opened in 2016, Shinjuku Washington Hotel, which completed a year-long major renovation, will be operating for a full-year around starting this year, and will make a full contribution to revenues. The business also plans to open Hotel Gracery Kyoto Sanjo South (128 rooms) adjacent to Sanjo North with additional rooms in May, and Kisaradu Washington Hotel (146 rooms) as a franchise in November. It will also continuously renovate rooms at existing facilities, strive to further improve customer convenience, and work to attract customers from Japan and abroad in an aim to maximize sales.

In the Resort business, Hakone Kowakien Ten-yu (150 rooms), a new flagship accommodation in the Hakone area, will open on April 20, 2017. The Group will also consider further utilization and redevelopment of the Hakone area, including Hourai-en, located adjacent to Hakone Hotel Kowakien.

In the Luxury & Banquet business, the fourth phase of the room renovation at Hotel Chinzanso Tokyo will be implemented, in addition to the renovation of Orion, the hotel’s largest banquet hall, aiming to capture more MICE bookings from overseas in line with increasing demand.

Due to such circumstances, net sales are expected to increase by ¥3,200 million year on year to ¥72,000 million for the next fiscal year. Operating income and ordinary income are expected to increase by ¥600 million year on year to ¥2,300 million, and profit attributable to owners of parent is expected to increase by ¥200 million to ¥1,100 million.

Forecast for the consolidated business results and business results by segment is as follows.

(Million yen)

	First half (total)				Full year			
	Net sales	Operating income	Ordinary income	Profit attributable to owners of parent	Net sales	Operating income	Ordinary income	Profit attributable to owners of parent
Consolidated total	33,500	(400)	(400)	(1,100)	72,000	2,300	2,300	1,100
WHG Business	16,800	600	-	-	35,500	2,500	-	-
Resort Business	3,100	(700)	-	-	8,100	(100)	-	-
Luxury & Banquet Business	12,300	100	-	-	25,700	700	-	-
Total	32,200	0	-	-	69,300	3,100	-	-
Other	2,700	(350)	-	-	5,500	(700)	-	-
Adjustment amounts (*)	(1,400)	(50)	-	-	(2,800)	(700)	-	-

* Adjustment amounts: refers to eliminations of inter-segment transactions, and corporate expenses not allocated to any reportable segment.

(2) Analysis of Financial Position

(Analysis of Assets, Liabilities, Net Assets and Cash Flows)

Total assets as of December 31, 2016 increased by ¥1,101 million from the end of the previous fiscal year to ¥105,834 million. With regard to non-current assets, while property, plant and equipment increased by ¥3,969 million, due mainly to capital investments in new openings, such as Hakone Kowakien Ten-yu, while investments and other assets decreased by ¥3,215 million, due mainly to sales of investment securities and payments of guarantee deposits.

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

Net assets decreased by ¥486 million from the end of the previous fiscal year to ¥26,526 million. Valuation difference on available-for-sale securities decreased by ¥857 million, while retained earnings increased by ¥379 million.

(Historical Cash Flow Indicators)

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

i) Cash flows from operating activities

Net cash provided by operating activities was ¥6,246 million, an increase of ¥6,662 million compared with the previous fiscal year. This was mainly due to an improvement in operating income of ¥1,673 million, in addition to a decrease in income taxes paid of ¥1,528 million.

ii) Cash flows from investing activities

Net cash used in investing activities was ¥6,004 million, a decrease of ¥2,180 million compared with the previous fiscal year. This was mainly due to sales of investment securities of ¥1,954 million and payments of guarantee deposits of ¥1,807 million, despite cash outflows of ¥9,500 million for purchase of property, plant, equipment and intangible assets, including the construction of "Hakone Kowakien Ten-yu" and "Hotel Gracery Kyoto Sanjo South."

iii) Cash flows from financing activities

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

(Reference) Historical cash flow indicators

	FY2012	FY2013	FY2014	FY2015	FY2016
Years of debt redemption (years)	10.6	9.6	10.3	-	7.4
Interest coverage ratio (times)	5.8	6.8	6.1	-	11.0

* Years of debt redemption: Interest-bearing debt / Operating cash flow
* Interest coverage ratio: Operating cash flow / Interest expenses

1. "Operating cash flow" uses cash flows from operating activities in the consolidated statements of cash flows. "Interest-bearing debt" includes all liabilities bearing interest posted in the consolidated balance sheets. "Interest expenses" uses interest expenses paid in the consolidated statements of cash flows.
2. For the fiscal year ended December 31, 2015, the years of debt redemption and interest coverage ratio are not stated as operating cash flow was negative.

(3) Basic Dividend Policy and Dividend Payments for Current Fiscal Year and Next Fiscal Year

Regarding dividends of surplus, the Company has a basic policy to fully consider passing its profits on to shareholders, and pay dividends in proportion to the results of its business in consideration of further reinforcement of corporate structure and accumulation of internal reserves to be utilized to promote businesses.

Taking into comprehensive consideration of business performance during the term, future business environment, financial conditions, payout ratio, etc., the Company will pay a dividend of ¥4 per share of the Company's common stock, same as the previous year.

The dividend for the next fiscal year is planned to be ¥40 per share of the Company's common stock, due to the plan to implement a reverse stock split (consolidation of 10 shares of common stock to 1 share) effective July 1, 2017.

(4) Risks Related to Business

Major risk factors involving the Group's business activities and other aspects of operations that may have a significant effect on investor decisions are described as follows. The Group takes into consideration the possibility of such risks materializing and intends to take every measure to avoid occurrence of any risks, as well as to minimize their impact should they occur.

The following risk factors include foreseen items based on our judgment as of the announcement of the financial results on February 14, 2017, and risk factors related to business are not limited to these items.

1) Stock price fluctuations

The Group owns ¥18,300 million of marketable securities mainly of its business partners and affiliated companies and is subject to risk of stock price fluctuations. As of the end of the current fiscal year, the valuation based on the market price yielded an unrealized gain on marketable securities; however, this may affect the operating results and financial position, depending on the future trend of stock prices.

2) Recording of impairment loss

The Group owns ¥62,700 million of property, plant and equipment such as hotel properties as of the end of the current fiscal year. The future fall in real estate prices exceeding a certain range or deteriorating business income may lead to an impairment loss in a part of property, plant and equipment.

3) Continued use or earlier termination of leased property

In the hotels business, such as the Washington Hotels, some of the hotel properties are on long-term lease. In case any owner of such properties is forced into bankruptcy, etc., making continued use difficult, it may negatively affect our operating results. Additionally, if the Group may intentionally choose to cancel a long-term lease contract before its expiration for whatever reason, it may be required to assume obligation to pay the rent or compensate for part of the lease payment, which is ¥66,700 million for the remaining portion of the lease period.

4) Natural disaster and pandemic outbreak

In the case of natural disasters including a massive earthquake, volcanic eruption, typhoon, or extraordinary weather conditions occur, or a pandemic such as new strains of influenza breaks out, temporary suspension of business operations or cancellation of trips are expected, and may negatively affect the Group's business.

5) Loss from withdrawal of real estate-related businesses

The Group was once actively involved in property sales business, and currently continues with peripheral businesses such as infrastructure including road and water, and property management. Many of them are low profit or non-profitable, and if we decide to exit from these businesses, a considerable amount of loss may be temporarily incurred.

6) Deferred tax assets

The Group recorded ¥1,900 million of deferred tax assets for deductible temporary differences. Deferred tax assets are recorded through evaluation of recoverability based on a forecast of future taxable income, etc.; however, in cases where the actual taxable income would be much lower than the forecast, the recoverability would be revised, and 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.

We pay close attention to safety and hygiene; however, if by any chance food poisoning does occur, it would damage our customer confidence and may lead to temporary suspension of business operations.

8) Fluctuation in Japanese yen interest rate

Among ¥45,700 million of loans payable as of the end of the current fiscal year, ¥7,400 million is loans with floating interest rates, which may result in increased interest payments if the yen interest rate rises due to recovery of Japanese economy in the future.

9) Fluctuation in exchange rate

The revenues and expenses as well as debts and liabilities from operating activities of the Group's overseas businesses are denominated in foreign currencies. Consequently, the results could be affected by exchange rate fluctuations when converting financial results of overseas subsidiaries to yen amount.

(5) Important Information about Going Concern Assumption

Not applicable.

2. Overview of the Corporate Group

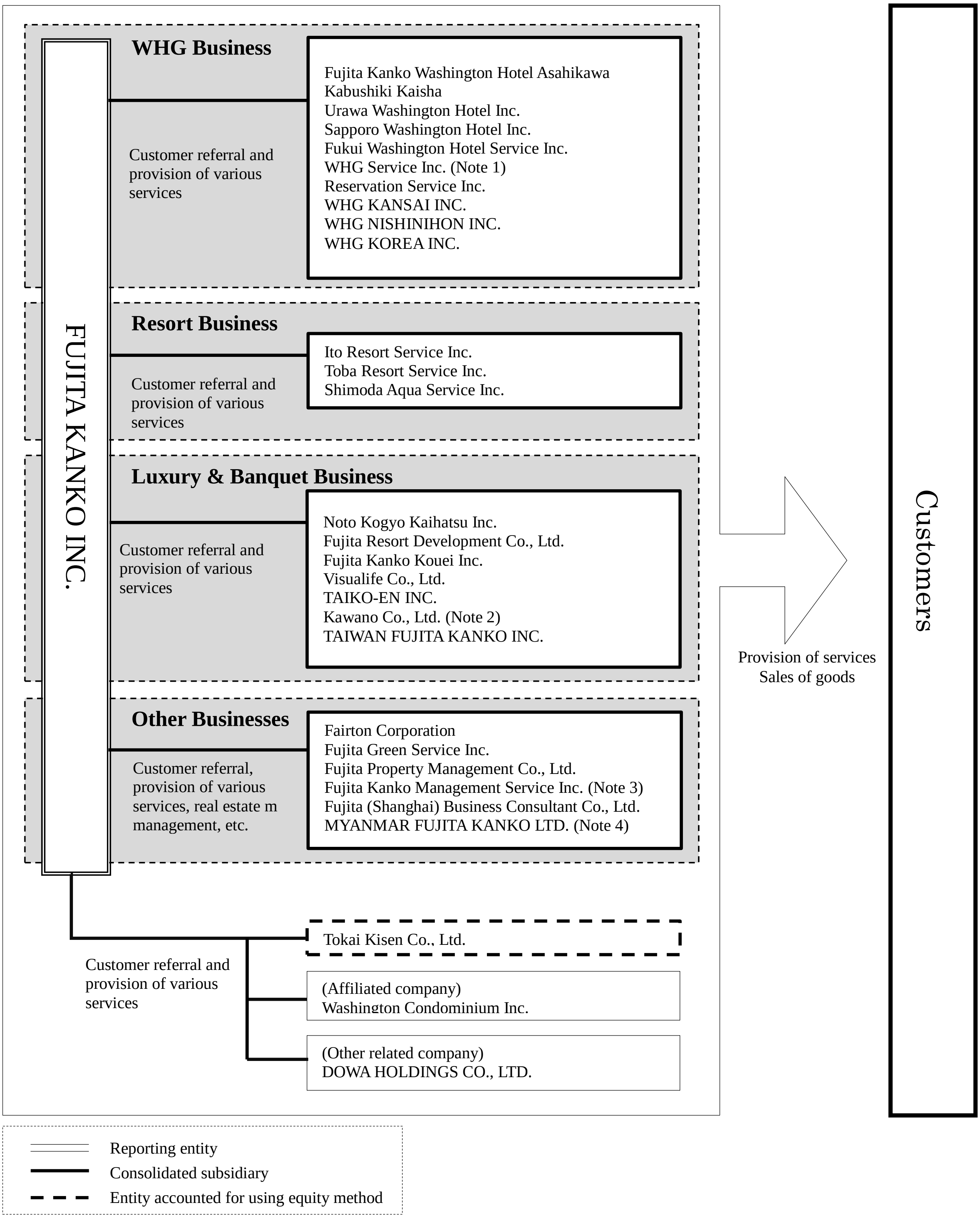
The Group consists of FUJITA KANKO INC., 25 consolidated subsidiaries, 2 affiliated companies, and 1 other related company. The Group engages in WHG Business, Resort Business, and Luxury & Banquet Business as the main businesses and provides various services related to each business.

The position of businesses operating in each segment is as follows.

		Main businesses	Major affiliates, etc. (Note)
Reportable segment	WHG Business	Hotel business emphasis on accommodations	Total of 9 companies including FUJITA KANKO INC. (the Company) and Fujita Kanko Washington Hotel Asahikawa Kabushiki Kaisha
	Resort Business	Resort hotel/leisure business	Total of 3 companies including FUJITA KANKO INC. (the Company) and Ito Resort Service Inc.
	Luxury & Banquet Business	Wedding/banquet/restaurant/hotel/golf/flower arrangement/garden management/imaging businesses	Total of 7 companies including FUJITA KANKO INC. (the Company) and Noto Kogyo Kaihatsu Inc.
Other Businesses		Cleaning and maintenance/real estate management/management contract businesses	Total of 6 companies including FUJITA KANKO INC. (the Company) and Fairton Corporation

(Note) With the exception of the Company, company names and numbers of companies listed under “Major affiliates, etc.” are all consolidated subsidiaries of the Company.

The following diagram illustrates the business structure.



(Notes)

1. WHG Service Inc. changed its trade name from Okinawa Washington Hotel Service Inc.
2. Kawano Co., Ltd. changed its trade name to Share Clapping Co., Ltd. in January 2017.
3. Fujita Kanko Management Service Inc. is inactive as of the end of the current fiscal year.
4. MYANMAR FUJITA KANKO LTD. was established during the current fiscal year.
5. Kansai Airport Washington Hotel Corp., Ltd. completed liquidation on July 6, 2016.
6. Nagasaki Washington Hotel Service Inc. was absorbed by WHG KANSAI INC. as of January 1, 2016.
7. Plus Thank Inc. completed liquidation on December 26, 2016.
8. FUJITA KANKO SINGAPORE PTE. LTD. completed liquidation on March 17, 2016.

3. Management Policies

(1) Basic Management Policies of the Company

The FUJITA KANKO Group sets its goal to "contribute to the well-being of our society by providing hospitable services and places where people can relax, refresh, and revitalize," and has defined its management guidelines and code of conduct that establish a specific guideline based on this philosophy.

(2) Targeted Management Indicators

The Group will aggressively make various investments to enhance its business, for which we defined operating income before deducting depreciation as the important management indicator to expand actual profit.

(3) Medium- and Long-Term Business Strategies

The Group has been working on a five-year medium-term management plan "FUJITA PREMIUM VALUE CREATION 2015" from two years ago. We will aim to "strengthen the business base" by adapting to the changing environment, and get the Group on a "growth" track. By ensuring the implementation of the medium-term management plan, we strive to achieve ordinary income of ¥4,800 million, ROA of 4% or more, and ROE of 10% or more by 2019, which will be the last year of the plan.

(4) Issues to be Addressed

The Group recognizes offering higher quality services, foods, and facilities to domestic and foreign customers to be an important issue and will continue to promote measures in each of these areas.

In the business environment for fiscal year 2017, the demand for accommodation by foreign visitors are expected to increase, while the outlook for the future remains unclear and unpredictable as symbolized by the BREXIT vote and the U.S. presidential election last year. Precisely in this era of change, the Group recognizes the importance of its philosophy to "contribute to the well-being of our society by providing hospitable services and places where people can relax, refresh, and revitalize," as well as the strengthening of management basis. The Group will continue to promote the measures in the five-year medium-term management plan, FUJITA PREMIUM VALUE CREATION 2015, which has started two years ago.

The overall strategies in the medium-term management plan are as below.

I. Improvement and expansion of added value of existing businesses capturing various customer needs
II. Attracting more guests among the increasing number of foreign visitors to Japan, and overseas development
III. Nurturing diversified human resources and creating fulfilling workplaces

The progress status of the medium-term management plan

Fiscal year 2017 is the third year of the medium-term management plan. The past two years were the period of aggressive upfront investment, and this year is the period to collect returns in order to stabilize and expand revenues.

The initiatives taken in each segment are described below.

1) WHG Business

In addition to Hotel Gracery Naha and Hotel Gracery Kyoto Sanjo North opened last year, Shinjuku Washington Hotel, which finished the year-long major renovation, will start operating for a full-year around, and will make a full contribution to revenues. Moreover, Hotel Kyoto Sanjo South having additional rooms will open adjacent the Sanjo North in May, 2017, and Kisaradu Washington Hotel is planned to open as a franchise in November.

As the future development plans, the Group has decided to open a new hotel in Taipei (Taiwan) in 2019, following the opening of a hotel in Seoul (South Korea) in 2018. In the medium-term management plan, our target is to add 10 hotels and 3,000 rooms during the period. Currently, we have achieved about 70% of this target, but there are still several projects under consideration. We will continue to expand our domestic and overseas network as part of the Group's growth driver.

Meanwhile, on the service front, in addition to conducting training for nurturing concierge staff, we are making various efforts to improve the quality of rooms and breakfasts. In addition, since December, 2016, we linked the

“Fujita Kanko Group Members Card WAON,” the Group’s common member’s card, to the WHG Hotels App for smartphones to simplify online reservations and check-in procedures, striving for further improvement of customer convenience. Going forward, we continue to aim to be a hotel chain supported by domestic and foreign customers.

2) Resort Business

Hakone Kowakien Ten-yu, a new accommodation facility under construction on the site of Hakone Kowakien Yunessun Inn, will finally open on April 20, 2017. Based on the concept, “harmony of authentic Japanese hospitality and the nature,” the facility provides 150 Japanese and western-style rooms all installed with open-air hot springs as well as two large open-air hot spring bathes offering attractive views of Mt. Hakone’s outer rim and valley. As a new flagship facility in the Hakone area, we aim to offer hospitality that meets each customer’s needs. In the future, while bringing out various enjoyments found in Hakone’s nature, we are considering further utilization and redevelopment of the Hakone area centered on Hourai-en, located adjacent to Hakone Hotel Kowakien.

In addition, the Group positioned the high-end Japanese-style hotels named “Ryokuyu” operating in Izu (Shizuoka Prefecture) and Yufuin (Oita Prefecture) as leading examples of its resort business that propose and offer a variety of exceptional services and products including foods, space, hospitality and stay at the hotels, which could become highly valuable for customers. While enhancing the value of the “Ryokuyu” brand, the Group endeavors to expand the business locations.

3) Luxury & Banquet Business

Hotel Chinzanso Tokyo is enhancing its quality to meet global standards as it shifts from a wedding brand to a hotel brand. The hotel received the Five Red Pavilion Award, the highest ranking in the “Michelin Guide 2017” for the tenth consecutive year. In addition, the hotel has received the 4 stars in the hotels and spas section of the Forbes Travel Guide last year.

This year, as we implement the fourth phase of room renovations reflecting the value of harmony and tradition of Japan, we will implement renovations of Orion, the largest banquet hall in the hotel, in anticipation of obtaining MICE related reservations from overseas in line with its increasing demand.

In addition, followed by the opening of a Japanese restaurant, KINSUI TAIPEI by HOTEL CHINZANSO TOKYO in January, 2016 in Taipei (Taiwan), we have opened the Japanese Cuisine KOURIN Da’an, a second restaurant in Taipei in December, and will continue to raise the recognition of the Company overseas.

Our human resources support each of our businesses, and as we work on “attracting more guests among the increasing number of foreign visitors to Japan, and overseas development,” we recognize that “nurturing diversified human resources and creating fulfilling workplaces” is essential. In order to meet the diverse needs of domestic and foreign customers, the Group will also focus its effort on foreign language education and management education through utilization of overseas representative offices in addition to education for improving services and cooking skills.

Moreover, we also recognize that creating a fulfilling work environment where employees can balance work and lifestyle and family to have healthy body and mind is the most important factor to further increase customer satisfaction. Bearing it in mind, we will promote work-life balance and continue to enhance the diversity & inclusion approach that aims to change the diversity of individuals including their nationalities, genders and ages, into the power of the Company, which means, the Group endeavor to continue the reform of the work styles.

4. Basic Policy on Selecting Accounting Standard

The Group will continue to prepare consolidated financial statements based on Japanese GAAP for the time being, taking into consideration comparability of consolidated financial statements in terms of periods and companies.

In the future, we will take appropriate actions in accordance with various conditions in Japan and overseas.

5. Consolidated Financial Statements
(1) Consolidated Balance Sheets

(Million yen)

	As of December 31, 2015	As of December 31, 2016
Assets		
Current assets		
Cash and deposits	4,142	4,781
Notes and accounts receivable - trade	3,875	4,614
Merchandise and finished goods	83	70
Work in process	32	58
Raw materials and supplies	443	492
Deferred tax assets	1,178	576
Other	2,014	1,685
Allowance for doubtful accounts	(47)	(43)
Total current assets	11,722	12,235
Non-current assets		
Property, plant and equipment		
Buildings and structures	92,219	92,053
Accumulated depreciation	(56,907)	(58,327)
Buildings and structures, net	35,312	33,725
Tools, furniture and fixtures	17,254	18,879
Accumulated depreciation	(11,740)	(12,832)
Tools, furniture and fixtures, net	5,513	6,046
Land	12,983	12,532
Construction in progress	1,151	6,653
Golf courses	2,773	2,773
Other	4,870	4,923
Accumulated depreciation	(3,799)	(3,880)
Other, net	1,070	1,043
Total property, plant and equipment	58,805	62,775
Intangible assets		
Goodwill	360	320
Software	667	540
Other	127	128
Total intangible assets	1,154	989
Investments and other assets		
Investment securities	21,472	19,592
Guarantee deposits	9,990	8,477
Deferred tax assets	1,134	1,365
Other	469	415
Allowance for doubtful accounts	(17)	(17)
Total investments and other assets	33,049	29,834
Total non-current assets	93,010	93,599
Total assets	104,732	105,834

(Million yen)

	As of December 31, 2015	As of December 31, 2016
Liabilities		
Current liabilities		
Notes and accounts payable - trade	1,583	1,666
Short-term loans payable	4,725	2,325
Current portion of long-term loans payable	7,931	7,509
Income taxes payable	450	296
Accrued consumption taxes	307	760
Provision for bonuses	157	175
Provision for directors' bonuses	12	10
Provision for point card certificates	92	93
Provision for noncurrent assets removal cost	79	–
Other	6,017	6,591
Total current liabilities	21,356	19,429
Non-current liabilities		
Long-term loans payable	32,157	35,923
Provision for directors' retirement benefits	101	112
Provision for loss on business withdrawal	563	602
Net defined benefit liability	8,953	9,206
Deposits received from members	12,807	12,282
Other	1,780	1,751
Total non-current liabilities	56,363	59,878
Total liabilities	77,719	79,308
Net assets		
Shareholders' equity		
Capital stock	12,081	12,081
Capital surplus	5,432	5,432
Retained earnings	4,356	4,735
Treasury shares	(921)	(924)
Total shareholders' equity	20,949	21,325
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	5,952	5,095
Foreign currency translation adjustment	6	(8)
Remeasurements of defined benefit plans	(82)	(85)
Total accumulated other comprehensive income	5,877	5,001
Non-controlling interests	186	199
Total net assets	27,012	26,526
Total liabilities and net assets	104,732	105,834

(2) Consolidated Statements of Income and Comprehensive Income

Consolidated Statements of Income

(Million yen)

	For the fiscal year ended December 31, 2015	For the fiscal year ended December 31, 2016
Net sales	63,981	68,789
Cost of sales	59,534	62,593
Gross profit	4,446	6,195
Selling, general and administrative expenses	4,407	4,483
Operating income	39	1,712
Non-operating income		
Interest income	5	4
Dividend income	381	381
Share of profit of entities accounted for using equity method	50	71
Other	334	317
Total non-operating income	771	775
Non-operating expenses		
Interest expenses	567	567
Commission for syndicate loan	167	–
Other	248	221
Total non-operating expenses	983	789
Ordinary income (loss)	(172)	1,698
Extraordinary income		
Gain on sales of investment securities	556	1,439
Compensation income	–	582
State subsidy	37	80
Release from memberships deposits obligation	52	51
Gain on sales of non-current assets	7	12
Reversal of provision for loss on contract	265	–
Total extraordinary income	919	2,165
Extraordinary losses		
Impairment loss	36	1,318
Provision for loss on business withdrawal	141	376
Special maintenance repairs of idle equipment	3	5
Loss on retirement of non-current assets	42	–
Other	12	11
Total extraordinary losses	237	1,712
Profit before income taxes	509	2,151
Income taxes - current	209	323
Income taxes - deferred	(588)	948
Income taxes for prior periods	828	–
Total income taxes	450	1,271
Profit	58	879
Profit attributable to non-controlling interests	26	21
Profit attributable to owners of parent	32	858

Consolidated Statements of Comprehensive Income

(Million yen)

	For the fiscal year ended December 31, 2015	For the fiscal year ended December 31, 2016
Profit	58	879
Other comprehensive income		
Valuation difference on available-for-sale securities	219	(856)
Foreign currency translation adjustment	(10)	(15)
Remeasurements of defined benefit plans, net of tax	(21)	(2)
Share of other comprehensive income of entities accounted for using equity method	22	(0)
Total other comprehensive income	209	(875)
Comprehensive income	268	4
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	242	(17)
Comprehensive income attributable to non-controlling interests	26	21

(3) Consolidated Statements of Changes in Net Assets
For the fiscal year ended December 31, 2015 (January 1, 2015 to December 31, 2015)

(Million yen)

	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at beginning of current period	12,081	5,431	5,305	(916)	21,902
Cumulative effects of changes in accounting policies			(502)		(502)
Restated balance	12,081	5,431	4,803	(916)	21,399
Changes of items during period					
Dividends of surplus			(479)		(479)
Profit attributable to owners of parent			32		32
Purchase of treasury shares				(7)	(7)
Disposal of treasury shares		0		3	3
Net changes of items other than shareholders' equity					–
Total changes of items during period	–	0	(446)	(4)	(450)
Balance at end of current period	12,081	5,432	4,356	(921)	20,949

	Accumulated other comprehensive income				Non-controlling interests	Total net assets
	Valuation difference on available-for-sale securities	Foreign currency translation adjustment	Remeasurements of defined benefit plans	Total accumulated other comprehensive income		
Balance at beginning of current period	5,728	17	(78)	5,668	204	27,774
Cumulative effects of changes in accounting policies						(502)
Restated balance	5,728	17	(78)	5,668	204	27,272
Changes of items during period						
Dividends of surplus						(479)
Profit attributable to owners of parent						32
Purchase of treasury shares						(7)
Disposal of treasury shares						3
Net changes of items other than shareholders' equity	224	(10)	(3)	209	(18)	190
Total changes of items during period	224	(10)	(3)	209	(18)	(260)
Balance at end of current period	5,952	6	(82)	5,877	186	27,012

For the fiscal year ended December 31, 2016 (January 1, 2016 to December 31, 2016)

(Million yen)

	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at beginning of current period	12,081	5,432	4,356	(921)	20,949
Changes of items during period					
Dividends of surplus			(479)		(479)
Profit attributable to owners of parent			858		858
Purchase of treasury shares				(4)	(4)
Disposal of treasury shares		(0)		0	0
Net changes of items other than shareholders' equity					–
Total changes of items during period	–	(0)	379	(3)	375
Balance at end of current period	12,081	5,432	4,735	(924)	21,325

	Accumulated other comprehensive income				Non-controlling interests	Total net assets
	Valuation difference on available-for-sale securities	Foreign currency translation adjustment	Remeasurements of defined benefit plans	Total accumulated other comprehensive income		
Balance at beginning of current period	5,952	6	(82)	5,877	186	27,012
Changes of items during period						
Dividends of surplus						(479)
Profit attributable to owners of parent						858
Purchase of treasury shares						(4)
Disposal of treasury shares						0
Net changes of items other than shareholders' equity	(857)	(15)	(2)	(875)	13	(862)
Total changes of items during period	(857)	(15)	(2)	(875)	13	(486)
Balance at end of current period	5,095	(8)	(85)	5,001	199	26,526

(4) Consolidated Statements of Cash Flows

(Million yen)

	For the fiscal year ended December 31, 2015	For the fiscal year ended December 31, 2016
Cash flows from operating activities		
Profit before income taxes	509	2,151
Depreciation	3,998	4,473
Impairment loss	36	1,318
Amortization of goodwill	40	40
Increase (decrease) in allowance for doubtful accounts	10	(3)
Increase (decrease) in provision for directors' retirement benefits	(6)	10
Increase (decrease) in provision for bonuses	3	18
Increase (decrease) in provision for directors' bonuses	0	(1)
Increase (decrease) in provision for point card certificates	2	1
Increase (decrease) in provision for loss on contract	(298)	–
Increase (decrease) in provision for loss on business withdrawal	(566)	38
Increase (decrease) in provision of noncurrent assets removal	(327)	(79)
Increase (decrease) in net defined benefit liability	(212)	249
Interest and dividend income	(386)	(386)
Interest expenses	567	567
Foreign exchange losses (gains)	17	10
Share of (profit) loss of entities accounted for using equity method	(50)	(71)
Loss (gain) on sales of non-current assets	(7)	(12)
Loss on retirement of non-current assets	156	126
Loss (gain) on sales of short-term and long-term investment securities	(556)	(1,439)
Compensation income	–	(582)
Release from memberships deposits obligation	(52)	(51)
Decrease (increase) in notes and accounts receivable - trade	(207)	(739)
Decrease (increase) in inventories	20	(62)
Increase (decrease) in notes and accounts payable - trade	(203)	83
Increase (decrease) in accrued consumption taxes	(371)	452
Other, net	(615)	(69)
Subtotal	1,502	6,044
Interest and dividend income received	394	395
Interest expenses paid	(573)	(564)
Income taxes paid	(1,739)	(211)
Proceeds from compensation	–	582
Net cash provided by (used in) operating activities	(415)	6,246

(Million yen)

	For the fiscal year ended December 31, 2015	For the fiscal year ended December 31, 2016
Cash flows from investing activities		
Purchase of property, plant and equipment and intangible assets	(8,160)	(9,500)
Proceeds from sales of property, plant and equipment and intangible assets	14	13
Purchase of investment securities	(16)	(9)
Proceeds from sales of investment securities	1,018	1,954
Proceeds from withdrawal of time deposits	16	–
Payments for guarantee deposits	(1,198)	(180)
Proceeds from collection of guarantee deposits	978	1,807
Purchase of shares of subsidiaries resulting in change in scope of consolidation	(746)	–
Other, net	(89)	(87)
Net cash provided by (used in) investing activities	(8,184)	(6,004)
Cash flows from financing activities		
Net increase (decrease) in short-term loans payable	1,839	(2,400)
Proceeds from long-term loans payable	13,950	11,283
Repayments of long-term loans payable	(8,470)	(7,939)
Proceeds from sales of treasury shares	3	0
Purchase of treasury shares	(7)	(4)
Payments from changes in ownership interests in subsidiaries that do not result in change in scope of consolidation	(36)	–
Cash dividends paid	(479)	(479)
Dividends paid to non-controlling interests	(8)	(7)
Repayments of finance lease obligations	(32)	(34)
Other, net	(11)	(4)
Net cash provided by (used in) financing activities	6,748	414
Effect of exchange rate change on cash and cash equivalents	(9)	(15)
Net increase (decrease) in cash and cash equivalents	(1,861)	640
Cash and cash equivalents at beginning of period	5,925	4,063
Cash and cash equivalents at end of period	4,063	4,704