Consolidated Financial Results
for the Fiscal Year Ended December 31, 2017
[Japanese GAAP]

February 13, 2018

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
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Scheduled date of Ordinary General Meeting of Shareholders: March 28, 2018
Scheduled date of filing annual securities report: March 28, 2018
Scheduled date of commencing dividend payments: March 29, 2018
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, 2017 (January 1, 2017 to December 31, 2017)

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

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
Fiscal year ended December 31, 2017	70,624	2.7	1,995	16.5	2,048	20.6	1,672	94.7
Fiscal year ended December 31, 2016	68,789	7.5	1,712	-	1,698	-	858	-

(Note) Comprehensive income: Fiscal year ended December 31, 2017: ¥1,602 million [-%]
Fiscal year ended December 31, 2016: ¥4 million [(98.4)%]

	Profit per share	Diluted profit per share	Return on equity	Ordinary profit to total assets	Operating profit to net sales
	Yen	Yen	%	%	%
Fiscal year ended December 31, 2017	139.54	-	6.2	1.9	2.8
Fiscal year ended December 31, 2016	71.65	-	3.2	1.6	2.5

(Reference) Profit (loss) of entities accounted for using equity method: Fiscal year ended December 31, 2017: ¥78 million
Fiscal year ended December 31, 2016: ¥71 million

Change from the previous corresponding period in comprehensive income for the fiscal year ended December 31, 2017 is stated as "-," since it exceeds 1,000%.

The Company implemented a share consolidation at a ratio of 10 shares of the Company's common stock to 1 share, effective July 1, 2017. Profit per share is calculated based on the assumption that the share consolidation was implemented at the beginning of the fiscal year ended December 31, 2016.

(2) Consolidated Financial Position

	Total assets	Net assets	Equity ratio	Net assets per share
	Million yen	Million yen	%	Yen
As of December 31, 2017	107,362	27,637	25.5	2,289.13
As of December 31, 2016	105,834	26,526	24.9	2,196.96

(Reference) Equity: As of December 31, 2017: ¥27,428 million
As of December 31, 2016: ¥26,326 million

The Company implemented a share consolidation at a ratio of 10 shares of the Company's common stock to 1 share, effective July 1, 2017. Net assets per share are calculated based on the assumption that the share consolidation was implemented at the beginning of the fiscal year ended December 31, 2016.

(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, 2017	5,538	(6,667)	736	4,304
Fiscal year ended December 31, 2016	6,246	(6,004)	414	4,704

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, 2016	-	0.00	-	4.00	4.00	479	55.8	1.8
Fiscal year ended December 31, 2017	-	0.00	-	40.00	40.00	479	28.7	1.8
Fiscal year ending December 31, 2018 (Forecast)	-	0.00	-	40.00	40.00		36.9	

The Company implemented a share consolidation at a ratio of 10 shares of the Company's common stock to 1 share, effective July 1, 2017. The dividends for the fiscal year ended December 31, 2017 and the fiscal year ending December 31, 2018 (forecast) are the amount of dividend per share that factors in the share consolidation.

3. Consolidated Financial Results Forecast for the Fiscal Year Ending December 31, 2018 (January 1, 2018 to December 31, 2018)

(% indicates changes from the previous corresponding period.)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent		Profit per share
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Yen
First half	34,100	0.8	(200)	-	(200)	-	(200)	-	(16.69)
Full year	72,000	1.9	2,300	15.3	2,300	12.3	1,300	(22.3)	108.50

*** 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, 2017: 12,207,424 shares
December 31, 2016: 12,207,424 shares

2) Total number of treasury shares at the end of the period:
December 31, 2017: 225,555 shares
December 31, 2016: 224,073 shares

3) Average number of shares during the period:
Fiscal Year ended December 31, 2017: 11,982,767 shares
Fiscal Year ended December 31, 2016: 11,983,874 shares

The Company implemented a share consolidation at a ratio of 10 shares of the Company's common stock to 1 share, effective July 1, 2017. Total number of issued shares at the end of the period, total number of treasury shares at the end of the period, and average number of shares during the period are calculated based on the assumption that the share consolidation was carried out at the beginning of the fiscal year ended December 31, 2016.

(Reference) Summary of Non-consolidated Financial Results

1. Non-consolidated Financial Results for the Fiscal Year Ended December 31, 2017 (January 1, 2017 to December 31, 2017)

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

	Net sales		Operating profit		Ordinary profit		Profit	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
Fiscal year ended December 31, 2017	51,222	2.5	579	(20.5)	933	7.4	1,090	218.9
Fiscal year ended December 31, 2016	49,978	5.9	728	-	869	-	342	-

	Profit per share	Diluted profit per share
	Yen	Yen
Fiscal year ended December 31, 2017	90.98	-
Fiscal year ended December 31, 2016	28.53	-

The Company implemented a share consolidation at a ratio of 10 shares of the Company's common stock to 1 share, effective July 1, 2017. Profit per share is calculated based on the assumption that the share consolidation was implemented at the beginning of the fiscal year ended December 31, 2016.

(2) Non-consolidated Financial Position

	Total assets	Net assets	Equity ratio	Net assets per share
	Million yen	Million yen	%	Yen
As of December 31, 2017	104,086	25,100	24.1	2,093.85
As of December 31, 2016	101,489	24,561	24.2	2,048.61

(Reference) Equity: As of December 31, 2017: ¥25,100 million
As of December 31, 2016: ¥24,561 million

The Company implemented a share consolidation at a ratio of 10 shares of the Company's common stock to 1 share, effective July 1, 2017. Net assets per share are calculated based on the assumption that the share consolidation was implemented at the beginning of the fiscal year ended December 31, 2016.

* Financial results are outside the scope of audit.

* 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 "Overview of Operating Results for Current Fiscal Year" on page 2 of the attached material.

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1. Overview of Operating Results, etc.

(1) Overview of Operating Results for Current Fiscal Year

(Operating Results for the Fiscal Year Ended December 31, 2017)

The Japanese economy during the fiscal year ended December 31, 2017 continued on a moderate recovery trend, as consumer spending showed a pickup 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 foreign visitors to Japan increased 19.3% year on year to reach a record high of 28.69 million in fiscal year 2017, and the number is expected to continue growing favorably toward the government's target of 40.00 million by the year 2020.

Meanwhile, new hotels opened one after another mainly in the Tokyo metropolitan area, prompted by entry from other industries in addition to our competitors on the back of rising demand for accommodation. In addition, the environment surrounding the accommodation business is becoming more challenging with the enactment of the Private Lodging Business Act (the so-called New Minpaku Act).

Under such circumstances, the Group strongly attracted overseas customers mainly from Asian countries, and the number of inbound guests reached 1.74 million, an increase of 22.5% year on year, representing roughly 40% of the number of guests overall. The Group focused on attracting foreign individual travelers (FIT), who stay for longer periods and generate higher sales per room compared to group travelers, among inbound customers. As a result of this effort, FIT accounted for approximately 80% of all inbound customers.

Under the Group's five-year medium-term management plan, FUJITA PREMIUM VALUE CREATION 2015, which started in 2015, the Group completed the period of investment toward the future, and approached the period to collect returns in order to stabilize and expand profit. Having entered the third year, the halfway point of this plan, the Group reexamined the measures by segment according to the progress status of the measures 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 visitors. 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 the 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 of the above, 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.

As a result of mainly the revenue increase, 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 the recording of extraordinary income as gain on sales of non-current assets, despite the recording of 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.

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	70,624	1,835	2.7%
Operating profit	1,995	282	16.5%
Ordinary profit	2,048	349	20.6%
Profit attributable to owners of parent	1,672	813	94.7%

Operating profit before depreciation	7,677	458	6.3%

Sales and operating profit by segment

(Million yen)

	Net sales		Operating profit	
	Actual	YoY change	Actual	YoY change
WHG Business	35,602	2,647	2,878	834
Resort Business	7,564	807	(688)	(294)
Luxury & Banquet Business	24,743	(1,471)	445	(467)
Other (including adjustment amounts)	2,713	(148)	(639)	211
Total	70,624	1,835	1,995	282

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

1) WHG Business

The WHG Business strived to maximize sales by attracting inbound customers and gaining repeat guests. With regard to inbound customers, the Group focused also on attracting customers from Europe, the U.S. and Australia in addition to East Asia and Southeast Asia. As a result of this effort, use by FIT increased. We made progress in winning customers in fiscal year 2017, with approximately 50,000 foreign customers becoming members of the "Fujita Kanko Group Members Card WAON," a membership organization for Group customers.

As an initiative to improve customer convenience, the Group introduced Chatbot, a multilingual inquiry system using artificial intelligence (AI), at all Hotel Gracery hotels and Shinjuku Washington Hotel to handle inquiries in four languages 24 hours a day. Through this initiative, the Group strived to ensure that foreign customers, who will further increase in number in the future, had peace of mind during their stay, as well as to improve productivity.

In the accommodation business, operation of Shinjuku Washington Hotel, Hotel Gracery Naha and Hotel Gracery Kyoto Sanjo North for the full year contributed to business results. With inbound customers spreading out to the countryside, sales per room of hotels in the Tokyo metropolitan area rose only 0.9% year on year, but sales per room of regional hotels increased 6.2%. As a result, sales per room overall were up 2.6%.

As a result, net sales for this segment increased by ¥2,647 million year on year to ¥35,602 million and operating profit (segment income) increased by ¥834 million year on year to ¥2,878 million.

2) Resort Business

In the Resort Business, Hakone Kowakien Ten-yu opened in April 2017 as our new flagship facility in the Hakone area. In the Hakone area, we are shifting from the services for groups and families that were previously provided by Hakone Hotel Kowakien to a business model that provides high added value products and services to individual travelers from Japan and overseas. We positions Hakone Kowakien Ten-yu, which is based on the concept of "harmony of authentic Japanese hospitality and the nature," as a core facility of this business model.

Net sales in the accommodation business increased by ¥895 million year on year to ¥5,594 million owing to the opening of Hakone Kowakien Ten-yu, despite the impact of Hotel Toba Kowakien (Mie Prefecture), which closed business in September 2016. At Hakone Hotel Kowakien, although we had initially planned to reduce operations of part of the restaurants and restrict room occupancy, we increased room occupancy compared to the initial plan to meet the growing demand from customers before the closing of business on January 10, 2018. Meanwhile, we restricted room occupancy beyond our initial plan at Hakone Kowakien Ten-yu, due to limited housekeeping capacity and additional construction work, as well as in light of the situation of growing demand at Hakone Hotel Kowakien. Sales per person per night at Hakone Kowakien Ten-yu were above planned levels.

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

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

3) Luxury & Banquet Business

In the Luxury & Banquet Business, sales and profit decreased year on year in each business, affected by the termination of the management contract with Hotel Azur Takeshiba in March 2017.

In the wedding business, the number of customers using the Shinto-style wedding hall, Hoseiden, at Taiko-en in Osaka continued increasing, and operations of two guest house facilities, the Maricolle Wedding Resort and Sayagatani Garden Aglass, started in May in Kita-Kyushu. Meanwhile, bookings and the number of 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 overall decreased by ¥398 million year on year to ¥11,441 million.

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

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

(Outlook for Next Fiscal Year)

In the WHG business, Hotel Gracery Kyoto Sanjo, of which the South tower opened in May 2017 with additional rooms, and Kisarazu Washington Hotel, which opened in October 2017 as a franchise hotel, will be operating for a full year from this year. In addition, with Hotel Gracery Seoul (South Korea) (335 rooms) scheduled to open in the summer and Hotel Gracery Asakusa (125 rooms) set to open in the fall, we will develop and expand the business and press ahead with gaining repeat guests from Japan and overseas.

In the Resort Business, Hakone Kowakien Ten-yu, which opened in April 2017, will be operating for a full year from this year. In 2018, we will take initiatives to reinforce operations and further improve services with a view to gaining a high reputation from customers. At Hakone Kowakien Yunessun, we will enhance food and drinks, sale of goods and activities, in addition to the existing hot bath facilities, to capture not only families during the summer when demand is high but also senior and inbound customers who visit Hakone during the tourist seasons of spring and fall, in an effort to attract more customers throughout the year.

In the Luxury & Banquet Business, we will work to increase customers and expand profit at Hotel Chinzanso Tokyo through continuing the room renovation, which started in 2014, and capturing MICE accommodation demand as well as proposing new Japanese-style weddings by utilizing the hotel’s largest banquet hall Orion, which was renovated in 2017, and the new detached shrine built within the garden.

In addition to the existing businesses, we will newly start the glamping (*) business in April 2018 and open Fujino Kirameki Fuji Gotemba (20 cabins) in Gotemba City, Shizuoka Prefecture.

As a result of the above circumstances, net sales are expected to increase by ¥1,300 million year on year to ¥72,000 million, despite the impact of the closing of Hakone Hotel Kowakien. Both operating profit and ordinary profit are expected to increase by about ¥300 million year on year to ¥2,300 million. Profit attributable to owners of parent is expected to decrease by ¥300 million to ¥1,300 million.

As stated earlier, fiscal year 2017 was the third year, or the halfway point, of the Group’s five-year medium-term management plan, FUJITA PREMIUM VALUE CREATION 2015, which started in 2015. Accordingly, the Group reexamined the measures by segment according to the progress status of the measures and changes in the environment and revised the numerical targets.

For the revised numerical targets, please see "Notice Concerning Revision of Numerical Targets of the Medium-term Management Plan" announced today (February 13, 2018).

(*) "Glamping" is coined from two words "glamorous" and "camping" and refers to comfortable and luxury camping in nature using hotel-like facilities and services.

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

(Million yen)

	First half (total)				Full year			
	Net sales	Operating profit	Ordinary profit	Profit attributable to owners of parent	Net sales	Operating profit	Ordinary profit	Profit attributable to owners of parent
Consolidated total	34,100	(200)	(200)	(200)	72,000	2,300	2,300	1,300
WHG Business	17,450	670	-	-	36,940	2,530	-	-
Resort Business	2,810	(630)	-	-	6,360	(370)	-	-
Luxury & Banquet Business	12,530	220	-	-	25,830	920	-	-
Total	32,790	260	-	-	69,130	3,080	-	-
Other	2,730	(410)	-	-	5,720	(680)	-	-
Adjustment amounts (*)	(1,420)	(50)	-	-	(2,850)	(100)	-	-

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

(2) Overview of Financial Position for Current Fiscal Year

Total assets as of December 31, 2017 increased by ¥1,527 million from the end of the previous fiscal year to ¥107,362 million. This is mainly due to an increase in property, plant and equipment by ¥1,265 million as a result of an increase in assets acquired in association with the new opening of Hakone Kowakien Ten-yu and Hotel Gracery Kyoto Sanjo South.

Liabilities increased by ¥416 million from the end of the previous fiscal year to ¥79,724 million due to an increase in loans payable from capital investments by ¥940 million. 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, and retained earnings increased by ¥1,192 million.

(3) Overview of Cash Flows for Current Fiscal Year

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

i) Cash flows from operating activities

Net cash provided by operating activities was ¥5,538 million, a decrease of ¥707 million compared with the previous fiscal year. This was mainly due to an increase in the amount of consumption tax payment, despite an increase in operating profit of ¥282 million.

ii) Cash flows from investing activities

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

iii) Cash flows from financing activities

Net cash provided by financing activities was ¥736 million, an increase of ¥321 million compared with the previous fiscal year. This was mainly due to proceeds from loans payable of ¥1,266 million, and cash dividends paid of ¥485 million.

(Reference) Historical cash flow indicators

	FY2013	FY2014	FY2015	FY2016	FY2017
Years of debt redemption (years)	9.6	10.3	-	7.4	8.5
Interest coverage ratio (times)	6.8	6.1	-	11.0	10.0

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.

(4) 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 ¥40 per share of the Company's common stock. The dividend for the next fiscal year is planned to be ¥40 per share of the Company's common stock.

(5) 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 13, 2018, and risk factors related to business are not limited to these items.

1) Stock price fluctuations

The Group owns ¥19,100 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 ¥64,000 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 ¥59,900 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 ¥1,500 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 ¥46,600 million of loans payable as of the end of the current fiscal year, ¥7,800 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.

(6) Important Information about Going Concern Assumption

Not applicable.

2. Overview of the Corporate Group

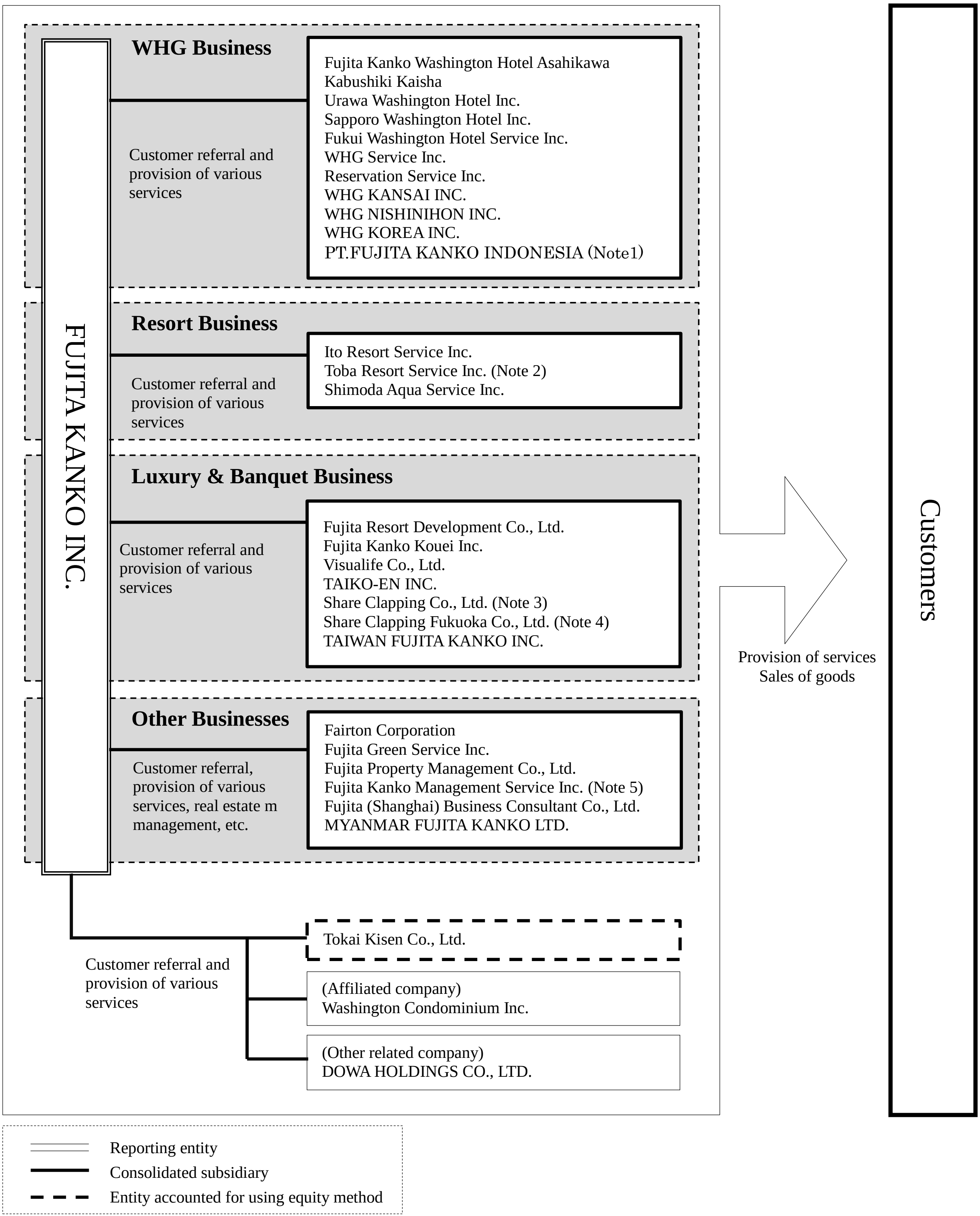
The Group consists of FUJITA KANKO INC., 26 consolidated subsidiaries, 2 affiliated companies, and 1 other related company. The Group engages in WHG Business, Resort Business, and Luxury & Banquet Business as the main businesses and provides various services related to each business.

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

<table>
<tr><th colspan="2"></th><th>Main businesses</th><th>Major affiliates, etc. (Note)</th></tr>
<tr><td rowspan="3">Reportable segment</td><td>WHG Business</td><td>Hotel business emphasis on accommodations</td><td>Total of 10 companies including FUJITA KANKO INC. (the Company) and Fujita Kanko Washington Hotel Asahikawa Kabushiki Kaisha</td></tr>
<tr><td>Resort Business</td><td>Resort hotel/leisure business</td><td>Total of 3 companies including FUJITA KANKO INC. (the Company) and Ito Resort Service Inc.</td></tr>
<tr><td>Luxury & Banquet Business</td><td>Wedding/banquet/restaurant/hotel/golf/flower arrangement/garden management/imaging businesses</td><td>Total of 7 companies including FUJITA KANKO INC. (the Company) and Fujita Resort Development Co., Ltd.</td></tr>
<tr><td colspan="2">Other Businesses</td><td>Cleaning and maintenance/real estate management/management contract businesses</td><td>Total of 6 companies including FUJITA KANKO INC. (the Company) and Fairton Corporation</td></tr>
</table>

(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. PT.FUJITA KANKO INDONESIA was established during the current fiscal year.
2. Toba Resort Service Inc. is inactive as of the end of the current fiscal year.
3. Kawano Co., Ltd. changed its trade name to Share Clapping Co., Ltd. in January 2017.
4. Share Clapping Fukuoka Co., Ltd. was established during the current fiscal year.
5. Fujita Kanko Management Service Inc. is inactive as of the end of the current fiscal year.
6. Noto Kogyo Kaihatsu Inc. was excluded from the scope of consolidation of the Company due to sale of all shares in said company in May 2017.

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) Medium- and Long-Term Business Strategies and Targeted Management Indicators

The Group positions the five years up to 2019 as the period of the medium-term management plan, FUJITA PREMIUM VALUE CREATION 2015. Please refer to "(3) Issues to be Addressed" for the overall strategies. The quantitative targets have been partially revised, aiming to achieve ordinary profit of ¥2,700 million, ROA of 2.5% or more and ROE of 6% or more in 2019. In addition, the Group defines operating profit before depreciation, which indicates actual profit, as an important management indicator in order to aggressively make various investments to enhance its business, and targets operating profit before depreciation of ¥9,000 million in 2019.

(3) Issues to be Addressed

In fiscal year 2018, while the number of foreign visitors to Japan is expected to continue increasing, there is still no prospect of a resolution of concerns over international politics and other issues. In such times, the Company will continue providing higher quality services, food and facilities to strengthen its management structure in accordance with the Company's corporate philosophy of "contributing to the well-being of our society by providing hospitable services and places where people can relax, refresh and revitalize."

As for the medium-term management plan, the Group reviewed it in 2017, the third year of this plan, and reexamined the measures by segment according to the progress status of the measures and changes in the environment and revised the numerical targets, even though there were no major changes to the three strategies stated below.

For the revised numerical targets, please see "Notice Concerning Revision of Numerical Targets of the Medium-term Management Plan" announced today (February 13, 2018).

The Group will promote the measures based on the following overall strategies.

I. Improvement and expansion of added value of existing businesses capturing various customer needs
II. Attracting more customers among increasing inbound visitors, and overseas development
III. Creating fulfilling workplaces where diversified human resources can play an active role

I. Improvement and expansion of added value of existing businesses capturing various customer needs

The basic policy of each segment and the initiatives currently taken under the medium-term management plan are as follows.

WHG Business

[Basic policy]

Positioned as the core of profitability, accelerate expansion of business in Japan and overseas.

[Initiatives taken]

For expansion of business, Hotel Gracery Kyoto Sanjo with a total of 225 rooms, of which the South tower opened in May 2017 with additional rooms, and Kisarazu Washington Hotel (146 rooms), which opened in October 2017 as a franchise hotel, will be operating for a full year from 2018 to contribute to the business performance. Hotel Gracery Asakusa (125 rooms) is scheduled to open in the fall of 2018, and Hotel Gracery Osaka Namba (170 rooms) is set to open in the summer of 2019. Overseas, we are pushing forward with plans for Hotel Gracery Seoul (South Korea) (335 rooms) in the summer of 2018, a service apartment (214 rooms) in Jakarta, Indonesia in the fall of 2019 and Hotel Gracery Taipei (Taiwan) (248 rooms) in 2021, in an effort to continue developing and expanding our business in Japan and overseas.

On the service front, we will continue attracting FIT and gaining repeat guests from Japan and overseas.

Resort Business

[Basic policy]

Prioritize redevelopment of Hakone Kowakien, and build high-quality businesses to meet the individual needs of upper-middle class and high-end customers.

[Initiatives taken]

Hakone Kowakien Ten-yu, which opened in April 2017 as our new flagship facility in Hakone Kowakien, will be operating for a full year from 2018 to contribute to the business performance. We will establish a high added value business model and work to reinforce operations and further improve services with a view to gaining a high reputation from customers who use the facility.

At Hakone Kowakien Yunessun, we will enhance food and drinks, sale of goods and activities, in addition to the existing hot bath facilities, to capture not only families during the summer when demand is high but also senior and inbound customers who visit Hakone during the tourist seasons of spring and fall, in an effort to attract more customers throughout the year.

Meanwhile, Hakone Hotel Kowakien, which had been loved by many people for 60 years since its opening in 1959, closed its business on January 10, 2018. In the future, we will consider utilizing this site and undertake redevelopment of Hakone Kowakien, including the opening of a high-end accommodation facility in Hourai-en, located adjacent to Hakone Hotel Kowakien.

Luxury & Banquet Business

[Basic policy]

Focus on improving the quality of facilities, food and services, with the “Hotel Chinzanso Tokyo” brand positioned as the symbol of high quality.

[Initiatives taken]

On the service front, we will continue improving services with the aim of gaining a high reputation in world standard hotel rankings such as the Forbes Travel Guide and the Michelin Guide, in addition to Preferred Hotels & Resorts, the world’s largest independent hotel brand network, which Hotel Chinzanso Tokyo joined in July 2017.

In addition, since 2014, Hotel Chinzanso Tokyo has been implementing the renovation of rooms and banquet halls that reflect the value of harmony and tradition of Japan. Going forward, we will work to increase customers through capturing MICE accommodation demand and proposing new Japanese-style weddings by utilizing 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.

In the wedding business of the entire Group, we started operations of two guest house facilities, the Maricolle Wedding Resort and Sayagatani Garden Aglass, in May 2017 in Kita-Kyushu. Along with further improving the quality of existing facilities, we will continue to develop the guest house business going forward.

In addition to the existing businesses above, we will newly start the glamping business from 2018. As the first series of the Company’s original “Fujino” brand, Fujino Kirameki Fuji Gotemba (20 cabins) is scheduled to open in April 2018 in Gotemba City, Shizuoka Prefecture. In addition, the Company will operate in Japan Nordisk Village, which opened in Italy in 2017, through a business partnership with Nordisk, a Danish tent manufacturer.

Furthermore, as a temple lodging (*) related business, we participate in the Eiheiji Monzen Reconstruction Project, which has been undertaken through the trilateral cooperation of Daihonzan Eiheiji Temple, Fukui Prefecture and Eiheiji Town, Fukui Prefecture, and plan to open an accommodation facility with a total of 18 rooms in front of Eiheiji Temple in the fall of 2019, based on the concept of “a facility categorized between a Japanese-style hotel and a temple lodging.”

Moreover, we will develop a new-style hotel specialized in private lodging and conduct multi-brand operations in response to demand for “active and enjoyable trips at affordable prices and services,” targeting inbound millennials who are expected to continue increasing in number in the future.

Further, in order to gain new customers and promote repeat guests, the Group will establish a new organization primarily in charge of digital marketing in 2018. We will also conduct a review of the "Fujita Kanko Group Members Card WAON," a membership organization for Group customers, to make it more attractive in an effort to broaden the Group's fan base.

(*) An accommodation facility for monks and worshippers mainly in a Buddhist temple

II. Attracting more customers among increasing inbound visitors, and overseas development

To attract more inbound visitors, Hotel Chinzanso Tokyo will enhance the name value of the brand globally by utilizing the network of Preferred Hotels & Resorts, which the hotel joined in 2017. In addition, we will enhance the provision of information and offer support for a secure and comfortable stay by means of the free smartphone rental service introduced in September 2017 to enhance customer service.

We will also fully introduce Chatbot, a multilingual inquiry system using artificial intelligence (AI), which we introduced in WHG hotels earlier, in other facilities of the Group such as Hakone Kowakien Ten-yu. Moreover, we plan to successively introduce mobile settlement services such as Alipay and WeChat Pay in response to the shift toward a digital economy, in addition to an interpretation service using a tablet.

As for overseas development, we plan to open a service apartment in Jakarta, Indonesia in the fall of 2019 as a new business, in addition to the planned opening of Hotel Gracery Seoul (South Korea) and Hotel Gracery Taipei (Taiwan). The service apartment will offer an accommodation facility for long-term stay, mainly targeting Japanese companies' employees working locally or visiting on business trips. We will consider this business going forward with a view to developing it as a business that supports Japanese companies expand overseas.

III. Creating fulfilling workplaces where diversified human resources can play an active role

At present, realize sustainable economic growth in Japan, measures are required to deal with the low birthrate and aging society as well as labor shortage. The Group will create a workplace culture that is not bound by nationality, gender, age, etc., and build a system that allows employees to work for a long time. By doing so, we will create an employee-friendly workplace environment where every employee can demonstrate various abilities. Moreover, in order to realize a fulfilling company for employees, we will pursue both "promotion of diversity & inclusion" and "reform of work styles" as two pillars of this initiative.

Furthermore, in November 2017, we became a company taking part of the TOKYO Work-Style Reform Declaration program of the Bureau of Industrial and Labor Affairs, Tokyo Metropolitan Government and also announced a specific goal for work-style reform. We will share this goal not only with the Tokyo headquarters and facilities but also on a companywide basis in an effort to create a fulfilling work environment where employees can balance work, lifestyle and family to work with a healthy body and mind.

We appreciate the continued support of shareholders, and ask for further guidance and encouragement in the future.

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, 2016	As of December 31, 2017
Assets		
Current assets		
Cash and deposits	4,781	4,381
Notes and accounts receivable - trade	4,614	4,959
Merchandise and finished goods	70	62
Work in process	58	132
Raw materials and supplies	492	526
Deferred tax assets	576	330
Other	1,685	2,322
Allowance for doubtful accounts	(43)	(38)
Total current assets	12,235	12,678
Non-current assets		
Property, plant and equipment		
Buildings and structures	92,053	101,336
Accumulated depreciation	(58,327)	(59,209)
Buildings and structures, net	33,725	42,126
Tools, furniture and fixtures	18,879	20,362
Accumulated depreciation	(12,832)	(14,206)
Tools, furniture and fixtures, net	6,046	6,155
Land	12,532	11,946
Construction in progress	6,653	425
Golf courses	2,773	2,416
Other	4,918	4,678
Accumulated depreciation	(3,874)	(3,708)
Other, net	1,043	969
Total property, plant and equipment	62,775	64,041
Intangible assets		
Goodwill	320	280
Software	540	507
Other	128	119
Total intangible assets	989	906
Investments and other assets		
Investment securities	19,592	19,538
Guarantee deposits	8,477	8,412
Deferred tax assets	1,365	1,207
Other	415	602
Allowance for doubtful accounts	(17)	(24)
Total investments and other assets	29,834	29,735
Total non-current assets	93,599	94,684
Total assets	105,834	107,362

(Million yen)

	As of December 31, 2016	As of December 31, 2017
Liabilities		
Current liabilities		
Notes and accounts payable - trade	1,666	1,660
Short-term loans payable	2,325	2,985
Current portion of long-term loans payable	7,509	8,907
Income taxes payable	296	1,071
Accrued consumption taxes	760	214
Provision for bonuses	175	197
Provision for directors' bonuses	10	7
Provision for point card certificates	93	121
Other	6,591	6,822
Total current liabilities	19,429	21,988
Non-current liabilities		
Long-term loans payable	35,923	34,805
Provision for directors' retirement benefits	112	117
Provision for loss on business withdrawal	602	530
Net defined benefit liability	9,206	9,425
Deposits received from members	12,282	10,838
Other	1,751	2,018
Total non-current liabilities	59,878	57,736
Total liabilities	79,308	79,724
Net assets		
Shareholders' equity		
Capital stock	12,081	12,081
Capital surplus	5,432	5,431
Retained earnings	4,735	5,927
Treasury shares	(924)	(929)
Total shareholders' equity	21,325	22,511
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	5,095	5,113
Deferred gains or losses on hedges	–	(78)
Foreign currency translation adjustment	(8)	(19)
Remeasurements of defined benefit plans	(85)	(99)
Total accumulated other comprehensive income	5,001	4,916
Non-controlling interests	199	209
Total net assets	26,526	27,637
Total liabilities and net assets	105,834	107,362

(2) Consolidated Statements of Income and Comprehensive Income

Consolidated Statements of Income

(Million yen)

	For the fiscal year ended December 31, 2016	For the fiscal year ended December 31, 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
Dividend income of life insurance	81	78
Other	235	259
Total non-operating income	775	813
Non-operating expenses		
Interest expenses	567	555
Loss on retirement 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 of 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

(Million yen)

	For the fiscal year ended December 31, 2016	For the fiscal year ended December 31, 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

(3) Consolidated Statements of Changes in Net Assets

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	Deferred gains or losses on hedges	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

For the fiscal year ended December 31, 2017 (January 1, 2017 to December 31, 2017)

(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	4,735	(924)	21,325
Changes of items during period					
Dividends of surplus			(479)		(479)
Profit attributable to owners of parent			1,672		1,672
Purchase of treasury shares				(7)	(7)
Disposal of treasury shares		(0)		2	1
Net changes of items other than shareholders' equity					–
Total changes of items during period	–	(0)	1,192	(5)	1,186
Balance at end of current period	12,081	5,431	5,927	(929)	22,511

	Accumulated other comprehensive income					Non-controlling interests	Total net assets
	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Foreign currency translation adjustment	Remeasurements of defined benefit plans	Total accumulated other comprehensive income		
Balance at beginning of current period	5,095	–	(8)	(85)	5,001	199	26,526
Changes of items during period							
Dividends of surplus							(479)
Profit attributable to owners of parent							1,672
Purchase of treasury shares							(7)
Disposal of treasury shares							1
Net changes of items other than shareholders' equity	17	(78)	(10)	(14)	(85)	9	(75)
Total changes of items during period	17	(78)	(10)	(14)	(85)	9	1,110
Balance at end of current period	5,113	(78)	(19)	(99)	4,916	209	27,637

(4) Consolidated Statements of Cash Flows

(Million yen)

	For the fiscal year ended December 31, 2016	For the fiscal year ended December 31, 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 noncurrent 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

(Million yen)

	For the fiscal year ended December 31, 2016	For the fiscal year ended December 31, 2017
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