

Financial Results for the Fiscal Year Ended December 31, 2018

February 14, 2019
FUJITA KANKO INC.
(Code number: 9722)

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I. Financial Results for the Fiscal Year Ended December 31, 2018 and Forecast for the Fiscal Year Ending December 31, 2019

Statements of Income for the Fiscal Year Ended December 31, 2018

Resort and Wedding Businesses Struggled. Revenue and Profit Decreased YoY and from Forecast

	2018 Actual	2017 Actual	YoY	2018 Forecast (As of Oct. 24)	Difference from forecast	2018 Initial forecast (As of Feb. 13, 2018)	Difference from initial forecast
(Billion yen)							
Net sales	69.28	70.62	(1.33)	69.00	0.28	72.00	(2.71)
Operating profit	1.09	1.99	(0.89)	0.90	0.19	2.30	(1.20)
Operating profit before depreciation	6.76	7.68	(0.91)	-	-	8.00	(1.23)
Ordinary profit	1.10	2.04	(0.94)	0.90	0.20	2.30	(1.19)
Profit attributable to owners of parent	0.55	1.67	(1.11)	0.40	0.15	1.30	(0.74)

■ Extraordinary income 0.41 billion yen

(Main items: Reversal of loss on business withdrawal)

■ Extraordinary losses 0.23 billion yen

(Main items: Impairment loss on operating facilities and idle real estate)

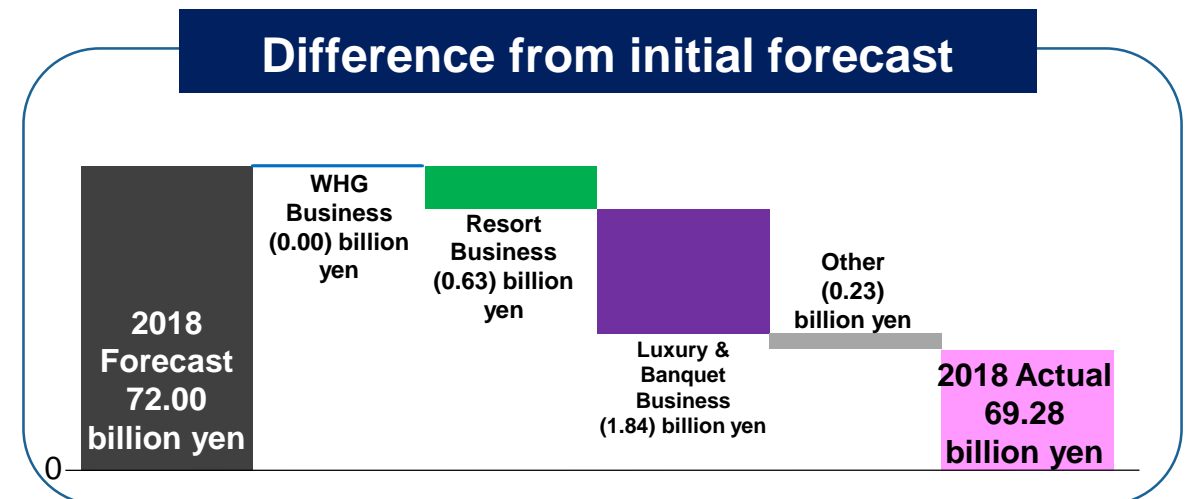
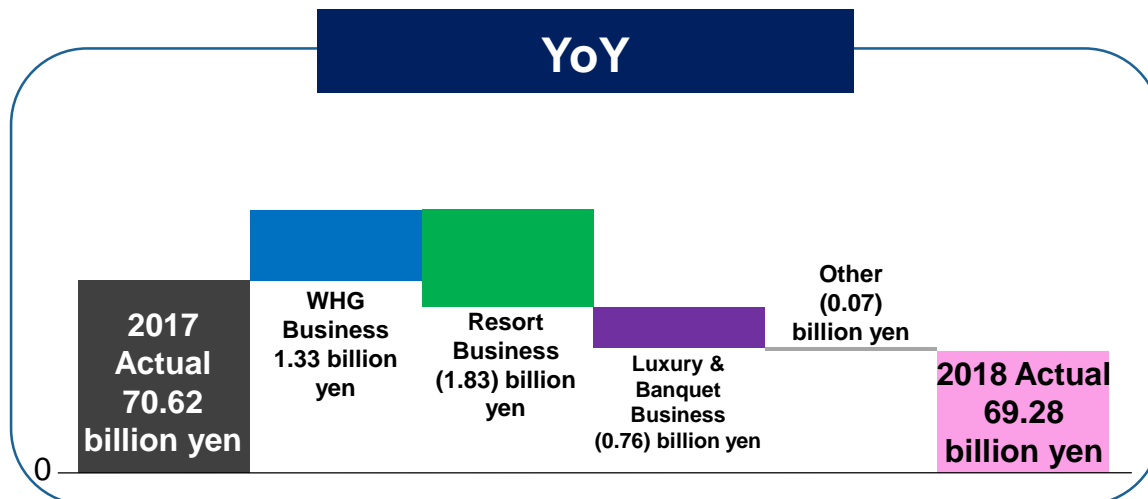
Balance Sheets and Statements of Cash Flows for the Fiscal Year Ended December 31, 2018

	2018 Actual	2017 Actual	YoY
(Billion yen, %)			
Total assets	102.04	107.36	(5.31)
Net assets	24.72	27.63	(2.91)
Interest-bearing debt	45.37	46.69	(1.32)
Equity ratio	24.0%	25.5%	(1.5%)
Cash flows from operating activities	5.42	5.53	(0.10)
Cash flows from investing activities	(4.32)	(6.66)	2.34
Free cash flow	1.10	(1.12)	2.23
Cash flows from financing activities	(1.88)	0.73	2.61
Capital investment (Cash-based)	4.39	8.58	(4.19)

- Compressed interest-bearing debt with completion of a large investment
- Implemented investments associated with new businesses including Hotel Gracery Seoul

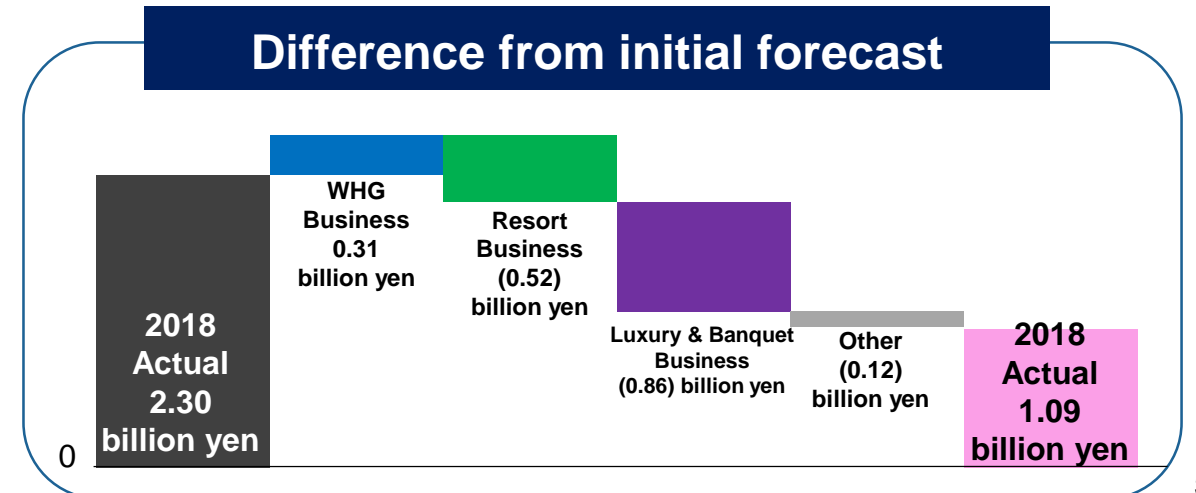
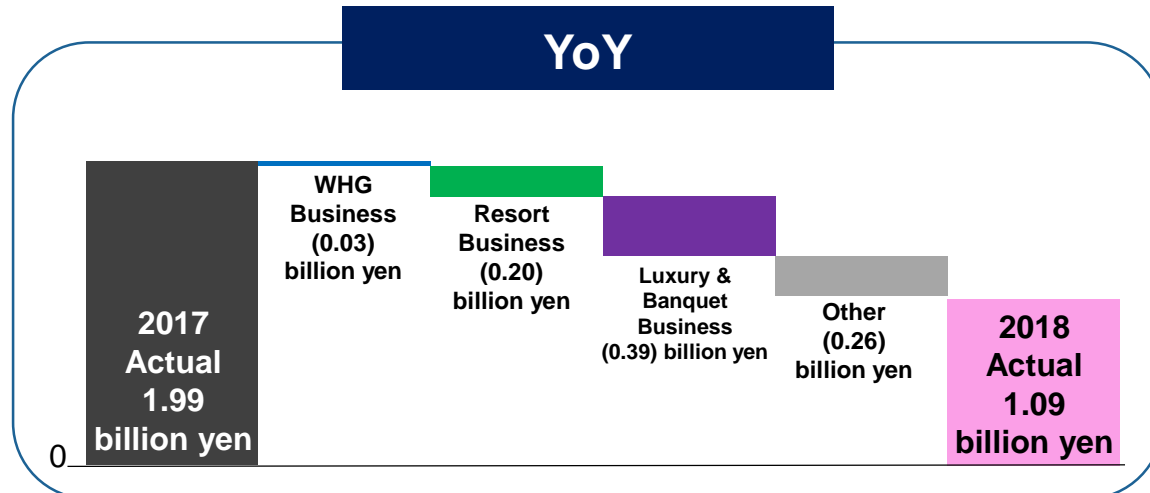
Net Sales by Segment for the Fiscal Year Ended December 31, 2018

(Billion yen)	2018 Actual	2017 Actual	YoY	2018 Forecast (As of Oct. 24)	Difference from forecast	2018 Initial forecast (As of Feb. 13, 2018)	Difference from initial forecast
WHG Business	36.93	35.60	1.33	36.80	0.13	36.94	(0.00)
Resort Business	5.72	7.56	(1.83)	5.75	(0.02)	6.36	(0.63)
Luxury & Banquet Business	23.98	24.74	(0.76)	23.85	0.13	25.83	(1.84)
Other and adjustments	2.63	2.71	(0.07)	2.60	0.03	2.87	(0.23)
Total net sales	69.28	70.62	(1.33)	69.00	0.28	72.00	(2.71)



Operating Profit by Segment for the Fiscal Year Ended December 31, 2018

(Billion yen)	2018 Actual	2017 Actual	YoY	2018 Forecast (As of Oct. 24)	Difference from forecast	2018 Initial forecast (As of Feb. 13, 2018)	Difference from initial forecast
WHG Business	2.84	2.87	(0.03)	2.70	0.14	2.53	0.31
Resort Business	(0.89)	(0.68)	(0.20)	(0.92)	0.02	(0.37)	(0.52)
Luxury & Banquet Business	0.05	0.44	(0.39)	0.00	0.05	0.92	(0.86)
Other and adjustments	(0.90)	(0.63)	(0.26)	(0.88)	(0.02)	(0.78)	(0.12)
Total operating profit	1.09	1.99	(0.89)	0.90	0.19	2.30	(1.20)



Full-Year Forecast for the Fiscal Year Ending December 31, 2019 (Consolidated)

	2019 Forecast	2018 Actual	YoY
(Billion yen)			
Net sales	72.00	69.28	2.71
Operating profit	0.90	1.09	(0.19)
Operating profit before depreciation	6.80	6.76	0.04
Ordinary profit	0.90	1.10	(0.20)
Profit attributable to owners of parent	0.30	0.55	(0.25)
Capital investment (Cash-based)	5.30	4.39	0.91
Depreciation	5.00	4.86	0.14

Full-Year Forecast for the Fiscal Year Ending December 31, 2019 (by Segment)

(Billion yen)		2019 First Half Forecast		2019 Second Half Forecast		2019 Full-Year Forecast	
			YoY		YoY		YoY
WHG Business	Net sales	18.70	0.95	20.60	1.40	39.30	2.36
	Operating profit	0.90	(0.21)	1.70	(0.02)	2.60	(0.24)
Resort Business	Net sales	2.60	(0.03)	3.30	0.20	5.90	0.17
	Operating profit	(0.60)	0.10	(0.05)	0.14	(0.65)	0.24
Luxury & Banquet Business	Net sales	11.60	(0.30)	12.20	0.12	23.80	(0.18)
	Operating profit	(0.20)	(0.16)	0.20	0.10	0.00	(0.05)
Other and adjustments	Net sales	1.30	(0.00)	1.70	0.36	3.00	0.36
	Operating profit	(0.50)	(0.06)	(0.55)	(0.08)	(1.05)	(0.14)
Total	Net sales	34.20	0.60	37.80	2.10	72.00	2.71
	Operating profit	(0.40)	(0.33)	1.30	0.13	0.90	(0.19)

II. Financial Results by Segment for the Fiscal Year Ended December 31, 2018, Financial Results Forecast for the Fiscal Year Ending December 31, 2019 and Main Measures

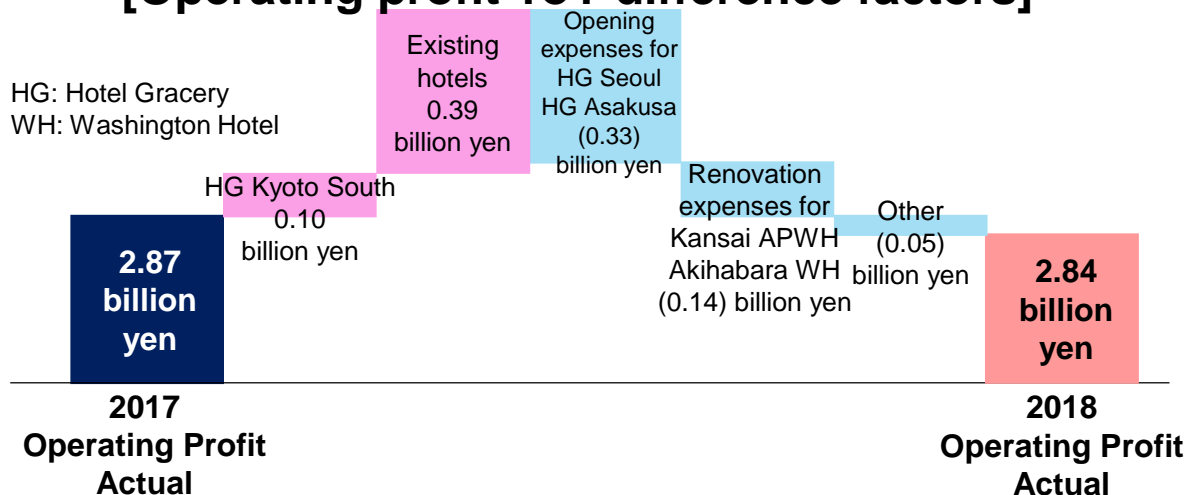
WHG Business (1) (Financial Results for the Fiscal Year Ended December 31, 2018)

Fast Recovery Despite Effects From Typhoons and Earthquakes

(Billion yen)	2018 Actual	2017 Actual	YoY	2018 Forecast (As of Oct. 24)	Difference from forecast	2018 Initial forecast (As of Feb. 13, 2018)	Difference from initial forecast
Net sales	36.93	35.60	1.33	36.80	0.13	36.94	(0.00)
Operating profit	2.84	2.87	(0.03)	2.70	0.14	2.53	0.31

- While Hotel Gracery Kyoto Sanjo South operated the full year, Hotel Gracery Seoul and Asakusa incurred opening expenses.
- Shinjuku, which had strong inbound demand, lead the Group. Regional hotels were impacted by Typhoon Jebi (Kansai) and the Hokkaido Eastern Iburi Earthquake, but captured the inbound dispersal flow, and recovered sooner than expected.

[Operating profit YoY difference factors]



[Change (%) of sales per room and occupancy rate, YoY and from forecast]

	Sales per room		Occupancy rate	
	YoY	Difference from forecast	YoY	Difference from forecast
Total	+2.0%	+0.3%	+0.6%	(0.0)%
Tokyo metropolitan area	+1.4%	+0.3%	+1.6%	+1.1%
Regional hotels	+3.1%	(0.1)%	(1.0)%	(1.7)%

* Excluding Seoul and Asakusa

Strengthen Sales Foundation by Capturing Individual Travelers (FITs) and Repeat Guests

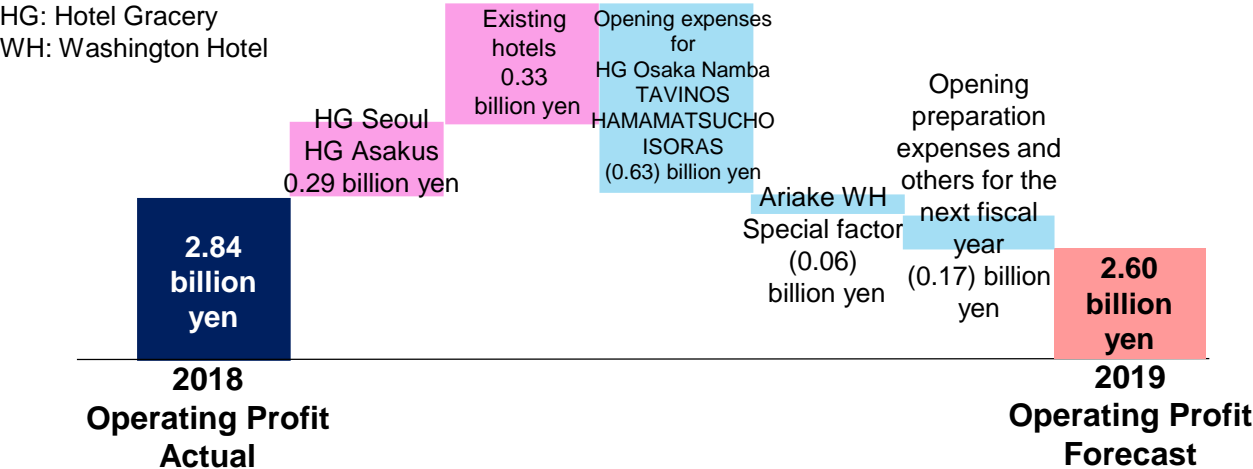
Main measures

- 1. Build solid sales foundation
(Capture FITs/repeat guests and improve customer satisfaction)
- 2. Deal with labor shortages and improve productivity
- 3. Open more new locations

(Billion yen)	2019 Forecast	YoY
Net sales	39.30	2.36
Operating profit	2.60	(0.24)

- Capture repeat guests by improving convenience for card members.
- Secure human resources through human-resource development and employee satisfaction improvement, and improve productivity through revising accommodation system, automation and AI.
- Accelerate new openings and smoothly launch new brands (HOTEL TAVINOS, ISORAS).

[Operating profit YoY difference factors]



[Planned sales per room and occupancy rate]

	Sales per room	Occupancy rate
	YoY	YoY
Total	+1.5%	+1.3%
Tokyo metropolitan area	+1.1%	+0.2%
Regional hotels	+3.0%	+3.0%

* Excluding HG Osaka Namba, TAVINOS and ISORAS

Create Multi-Brand Business by Launching New Brands

◆ Accelerate New Openings ◆

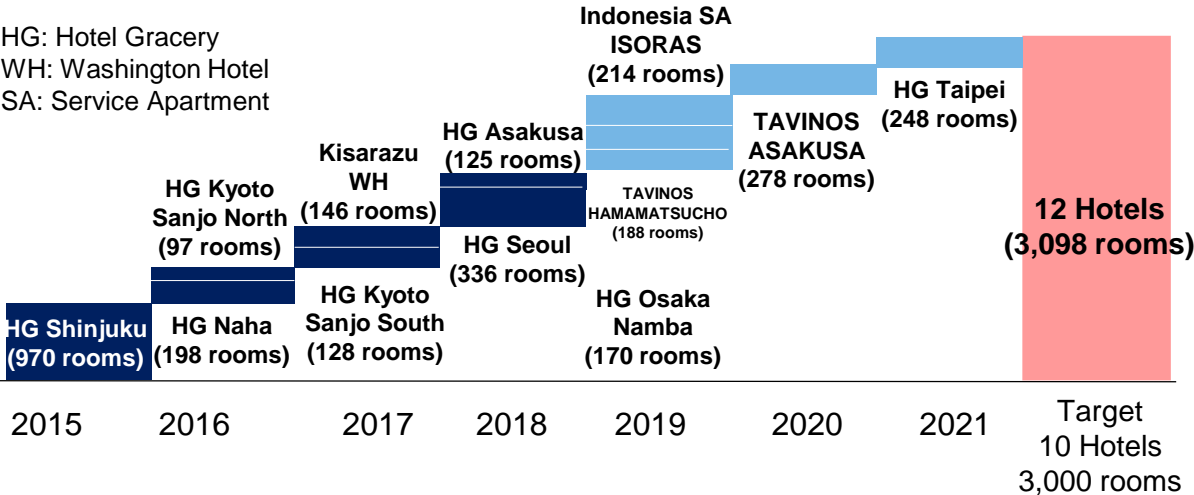
- Planning to achieve the medium-term management plan: an increase of 3,000 rooms (3,098 rooms in 2021). Further accelerate openings.



HOTEL TAVINOS HAMAMATSUCHO Lobby



ISORAS CIKARANG Guest Room



◆ Smooth Launch of New Brands ◆

[HOTEL TAVINOS]

- Main targets are FITs (inbound individual guests) of the Millennial generation who enjoy active travel.
- Improve productivity through use of latest technology, such as check-in terminals and AI chatbots.
- In addition to Hamamatsucho and Asakusa, aim to open three more locations in Tokyo and cities with high inbound demand by 2021.

	Sales per room	Occupancy rate
Plan for the first year	Around 10,000 yen	70% level

[ISORAS]

- First service apartment business by the Company; opened in Cikarang area near Jakarta, where there is a high concentration of Japanese-owned factories.
- Around 90% of total use are expected to be from long-staying guests.

Resort Business (1) (Financial Results for the Fiscal Year Ended December 31, 2018)

Hakone Kowakien Ten-yu Strongly Captures FITs and Improves Customer Reputation and Occupancy Rate

(Billion yen)	2018 Actual	2017 Actual	YoY	2018 Forecast (As of Oct. 24)	Difference from forecast	2018 Initial forecast (As of Feb. 13, 2018)	Difference from initial forecast
Net sales	5.72	7.56	(1.83)	5.75	(0.02)	6.36	(0.63)
Operating profit	(0.89)	(0.68)	(0.20)	(0.92)	0.02	(0.37)	(0.52)

◆ Status of Hakone Kowakien ◆

- After stabilizing operation, Hakone Kowakien Ten-yu has improved customer reputation and occupancy rate. However, the number of guests decreased in Hakone Kowakien Yunessun due to more than anticipated impact from the termination of operations of Hakone Hotel Kowakien.

[Hakone Kowakien Ten-yu]

Sales per person		Occupancy rate	
YoY	Difference from forecast	YoY	Difference from forecast
(2.7)%	(3.8)%	+16.2%	+ 3.6%

- Inbound ratio of around 40%. Up about 15% year on year.
- While sales were secured, dormitory maintenance and other costs that are resort-area specific were incurred, as well as soaring labor expenses and increased agent fees.

[Hakone Kowakien Yunessun]

Sales per person		Visitors	
YoY	Difference from forecast	YoY	Difference from forecast
(1.6)%	(8.4)%	(22.3)%	(20.7)%

- Visitors decreased due to delays in sales measures after termination of operation of Hakone Hotel Kowakien and lack of event advertising.

Strengthen Earning Capability of Hakone Kowakien

Main measures

1. Restructure existing businesses
 - Hakone Kowakien Ten-yu
 - Hakone Kowakien Yunessun
2. Advance Hakone Kowakien redevelopment plan

	2019 Forecast	YoY
(Billion yen)		
Net sales	5.90	0.17
Operating profit	(0.65)	0.24

◆Restructure existing businesses◆

[Hakone Kowakien Ten-yu]

Plan	
Sales per person	Occupancy rate
YoY	YoY
+2.5%	+0.5%

- Further increase unit prices during busy times by strengthening high value-added products.
- Capture direct-reservation customers by expanding sales channels.
- Capture repeat guests through card-member initiatives.
- Improve productivity by streamlining operations and multi-tasking.

[Hakone Kowakien Yunessun]

Plan	
Sales per person	Visitors
YoY	YoY
(1.1)%	+13.0%

- Partner with nearby accommodation facilities and strengthen capture of groups in Japan and abroad.
- Enhance PR by creating new campaigns.
- Review personnel headcounts and improve restaurant balance sheets.

◆Advance Hakone Kowakien redevelopment plan◆

- Currently revising the plan that was scheduled to start developing Hourai-en first, and drafting redevelopment plan including currently closed Hakone Hotel Kowakien.

Luxury & Banquet Business (1)

(Financial Results for the Fiscal Year Ended December 31, 2018)

Revenue and Profit Decreased YoY and from Forecast due to Decrease in Numbers of Weddings and Users in the Wedding Business

(Billion yen)	2018 Actual	2017 Actual	YoY	2018 Forecast (As of Oct. 24)	Difference from forecast	2018 Initial forecast (As of Feb. 13, 2018)	Difference from initial forecast
Net sales	23.98	24.74	(0.76)	23.85	0.13	25.83	(1.84)
Operating profit	0.05	0.44	(0.39)	0.00	0.05	0.92	(0.86)

- Banquet and accommodation businesses were unable to offset the drop in the numbers of wedding and users in wedding business.
- While Share Clapping Fukuoka is transitioning its strategy, it will require time.

[Sales per business]

(Billion yen)

Business	2018 Actual	YoY [YoY change excluding Azur Takeshiba]	
Accommodation	2.20	(0.08)	[0.01]
Wedding	11.00	(0.43)	[(0.33)]
Banquet	5.08	(0.09)	[0.00]
Restaurant	3.93	(0.11)	[(0.05)]
Other	1.75	(0.01)	[(0.00)]

Wedding Business			Sales per room		Occupancy rate			
			YoY	Difference from forecast	YoY	Difference from forecast		
Hotel Chinzanso Tokyo			+1.2%	+0.6%	(0.2)%	(2.5)%		
Wedding and Banquet Business	Wedding				Banquet			
	Sales per user		Users		Sales per user		Users	
	YoY	Difference from forecast	YoY	Difference from forecast	YoY	Difference from forecast	YoY	Difference from forecast
Hotel Chinzanso Tokyo	+1.4%	+2.3%	(7.2)%	(11.2)%	(0.0)%	+0.3%	(0.1)%	(4.8)%
Taiko-en	+3.2%	+1.5%	(8.6)%	(3.1)%	+3.1%	+2.9%	(2.2)%	(3.1)%

Luxury & Banquet Business (2)

(Financial Results Forecast for the Fiscal Year Ending December 31, 2019 and Main Measures)

Transition Profit Structure by Strengthening Sales Capabilities of Accommodation, Banquet, and Restaurant Businesses

Main measures

1. Strengthen sales capabilities of accommodation, banquet, and restaurant businesses
2. Review Wedding Business, including sales measures

	(Billion yen)	2019 Forecast	YoY
Net sales		23.80	(0.18)
Operating profit		0.00	(0.05)

◆ Strengthen sales capabilities of accommodation, banquet, and restaurant businesses ◆

- Add staff to overseas MICE, banquet and restaurant team, and strengthen sales structure.
- Actively participate in overseas business-matching meetings
- Taiko-en is marking its 60th anniversary. Capture banquet business using anniversary plans, etc. as an attraction, and cultivate new customer base.

◆ Review Wedding Business, including sales measures ◆

- At Hotel Chinzanso Tokyo and Taiko-en, enhance proposal capabilities based on Japanese-style weddings, which are their strengths, to increase customer satisfaction and improve profit margins.

Plan

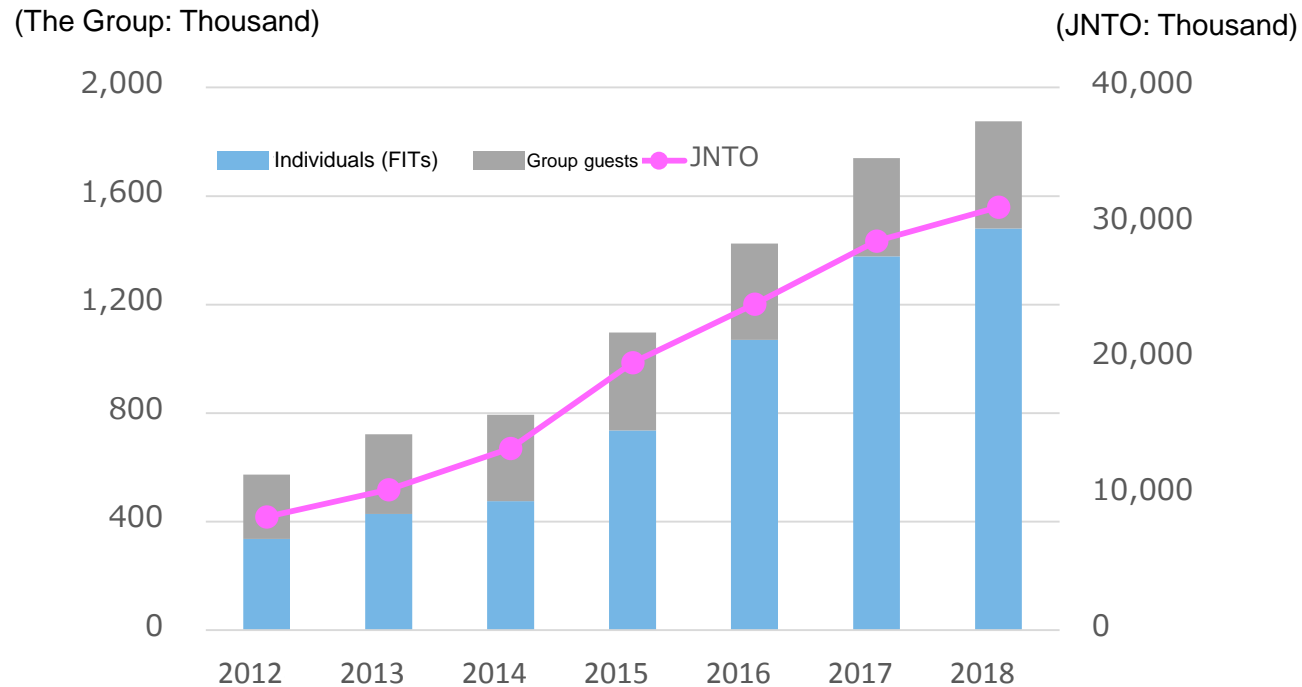
Accommodation Business	Sales per room	Occupancy rate
	YoY	YoY
Hotel Chinzanso Tokyo	+1.1%	+1.5%

Wedding and Banquet Business	Wedding		Banquet	
	Sales per user	Users	Sales per user	Users
	YoY	YoY	YoY	YoY
Hotel Chinzanso Tokyo	+1.1%	(0.9)%	(1.9)%	+4.2%
Taiko-en	+0.5%	+0.1%	+1.0%	+1.7%

Status of Inbound Guests and Measures

Strengthened Measures to Attract Wealthy Class and High Unit-Price Individual Guests (FIT)

◆ Trends in total inbound guests of the Group ◆



- Strengthened measures to attract FITs since 2014. FIT increased by 7.5% YoY.
- Number of guests totaled 1.875 million in 2018, a 7.7% increase YoY, and ratio of inbound guests was approximately 45% of the entire Group.

- Hold business-matching meetings and events targeting wealthy class in the Chinese market, and enhance attraction of high unit-price FITs.
- Cultivate sales channels in Europe, the U.S. and Australia by means such as utilizing network of a partner, Preferred Hotels & Resorts (Hotel Chinzanso Tokyo), and participating in business-matching meetings in Europe.
- Continually publish information via Facebook and Instagram targeting Southeast Asia and Taipei, and launch and operate WeChat Official Account starting in July.
- The WHG Business Group improved convenience by using AI chatbots. Inbound members with member's cards grew to roughly 100 thousand.
- Join Regional Revitalization and Inbound Tourism Council, aiming to vitalize regions by attracting inbound guests.
- Plan to open local subsidiary branches in Guangzhou, following Shanghai in April 2019, as a base for attracting wealthy class from Southern Chinese areas including Hong Kong, Shenzhen, and Guangzhou.

New Initiatives Responding to Diversifying Needs

Glamping Facilities

[Fujino Kirameki Fuji Gotemba]

- Opened on April 27, 2018.
- 20 independent cabins with views of Mount Fuji.
- Experience feeling of being at one with nature in a comfortable hotel-like space.



[Nordisk Village Goto Islands]

- Opened on September 27, 2018.
- Located on Fukue Island of the Goto Islands in Nagasaki Prefecture, ideally situated as a base for trips to “Hidden Christian Sites in the Nagasaki Region,” which are listed as a UNESCO World Heritage site.
- Partnership with Danish outdoor equipment brand Nordisk.



Restaurant Supporting Halal Dining

[Japanese restaurant ORIGAMI Asakusa]

- Opened on July 25, 2018.
- Serves genuine Japanese cuisine using Halal certified ingredients enabling Muslim travelers visiting Japan to enjoy dining with peace of mind.
- The restaurant is equipped with a Wudu (place to wash hands and feet) facilities and a prayer room.



Accommodation Facility Combining the Features of a Traditional Inn and Pilgrims' Stays

[Hakujukan, Shinzen-no-yado, Eihei-ji Temple]

- Scheduled to open on July 26, 2019.
- The facility has 18 Japanese and western-style guest rooms, and the restaurant offers Buddhist vegetarian cuisine prepared under the supervision of Eihei-ji Temple.
- A full-time Zen Concierge supports a wide range of experience.



Return to Shareholders

Dividend Policy

The Company's basic policy is to pay dividends according to business results, taking into account the amount of return to its shareholders, further reinforcement of the corporate structure and the accumulation of internal reserves to be utilized for further development of business operations.

Status of dividends

Fiscal	2014	2015	2016	2017	2018	2019 (Forecast)
Dividend	4 yen	4 yen	4 yen	40 yen (*)	40 yen	40 yen

- Implemented a share consolidation at a ratio of 10 shares to 1 share, effective July 1, 2017