Consolidated Financial Report
For the Fiscal Year Ended December 31, 2014 (IFRS)

February 12, 2015

Company Name SKYLARK CO., LTD

Stock Exchange Listing: Tokyo Stock Exchange, 1st Section

Securities Code 3197

URL http://www.skylark.co.jp

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Date of general shareholders' meeting (as planned) March 27, 2015

Dividends payable date (as planned) March 13, 2015

Annual securities report filing date (as planned) March 30, 2015

Supplemental material of annual results Yes

Convening briefing of annual results Yes (for financial analysts and institutional investors)

(Millions of yen; amounts are rounded to the nearest million yen)

1. Consolidated Financial Results for the Fiscal Year Ended December 31, 2014

(1) Consolidated Operating Results

(Percentages represent year-on-year changes)

	Revenue		Operating profit		Income before income taxes		Net income		Net income attributable to owners of the Company		Total comprehensive income	
	(Millions of yen)	(%)	(Millions of yen)	(%)	(Millions of yen)	(%)	(Millions of yen)	(%)	(Millions of yen)	(%)	(Millions of yen)	(%)
Fiscal year ended December 31, 2014	340,002	2.3	21,642	(4.1)	16,767	42.1	9,479	33.6	9,469	33.6	9,559	31.1
Fiscal year ended December 31, 2013	332,484	0.8	22,563	30.1	11,800	38.9	7,097	0.5	7,087	1.2	7,289	1.5

	Basic earnings per share	Diluted earnings per share	Ratio of net income to equity attributable to owners of the Company	Ratio of income before income taxes to total assets	Ratio of operating profit to revenue
	(Yen)	(Yen)	%	%	%
Fiscal year ended December 31, 2014	49.57	49.47	11.3	5.4	6.4
Fiscal year ended December 31, 2013	37.29	37.29	8.5	3.9	6.8

(Reference)

Profit of investments accounted for using the equity method	Fiscal year ended December 31, 2014	- million yen		Fiscal year ended December 31, 2013	- million yen	
EBITDA	Fiscal year ended December 31, 2014	34,787 million yen	(1.8%)	Fiscal year ended December 31, 2013	35,407 million yen	3.9%
Adjusted EBITDA	Fiscal year ended December 31, 2014	42,210 million yen	9.5%	Fiscal year ended December 31, 2013	38,552 million yen	1.4%
Adjusted Net Income	Fiscal year ended December 31, 2014	13,174 million yen	30.3%	Fiscal year ended December 31, 2013	10,112 million yen	35.2%

(Note 1) The Company uses EBITDA, Adjusted EBITDA and Adjusted Net Income as key management targets. Refer to "* Notes for using forecasted information and other matters (3) ~ (5)" below for details.

(Note 2) The Company carried out a 100-for-1 share split of the common stock on August 4, 2014. Accordingly, the basic earnings per share and diluted earnings per share for the fiscal years ended December 31, 2013 and 2014, respectively are calculated assuming the share split came into effect at the beginning of the fiscal year ended December 31, 2013.

(2) Consolidated Financial Position

	Total assets	Total equity	Equity attributable to owners of the Company	Ratio of equity attributable to owners of the Company to total assets	Equity per share attributable to owners of the Company
	(Millions of yen)	(Millions of yen)	(Millions of yen)	(%)	(Yen)
As of December 31, 2014	312,155	93,757	93,691	30.0	482.42
As of December 31, 2013	306,892	73,983	73,932	24.1	388.59

(Note 1) The Company carried out a 100-for-1 share split of the common stock on August 4, 2014. Accordingly, equity per share attributable to owners of the Company for the fiscal years ended December 31, 2013 and 2014, respectively are calculated assuming the share split came into effect at the beginning of the fiscal year ended December 31, 2013.

(3) Consolidated Cash Flows

	Operating activities	Investing activities	Financing activities	Cash and cash equivalents at the end of the year
	(Millions of yen)	(Millions of yen)	(Millions of yen)	(Millions of yen)
Fiscal year ended December 31, 2014	37,147	(11,781)	(15,921)	23,383
Fiscal year ended December 31, 2013	27,016	(9,480)	(15,507)	13,883

2. Dividends

	Dividends per share					Total dividends	Payout ratio (Consolidated)	Ratio of dividends to equity attributable to owners of the Company (Consolidated)
	First quarter	Second quarter	Third quarter	Year-end	Total			
	(Yen)	(Yen)	(Yen)	(Yen)	(Yen)	(Millions of yen)	%	%
Fiscal year ended December 31, 2013	–	–	–	0.00	14,620.75	27,790	392.1	33.2
Fiscal year ended December 31, 2014	–	0.00	–	13.52	–	2,626	27.3	3.1
Fiscal year ending December 31, 2015 (Forecasted)	–	12.00	–	18.00	30.00		41.1	

(Note 1) The Company carried out a 100-for-1 share split of the common stock on August 4, 2014. The effect of the share split has been taken into consideration in calculating dividends per share for the fiscal year ended December 31, 2014 and the fiscal year ending December 31, 2015 (Forecasted). The dividends per share for the fiscal year ended December 31, 2013 are the actual amount paid based on the number of issued shares prior to the share split.

(Note 2) The total dividends for the fiscal year ended December 31, 2013 include a special dividend of 14,620.75 yen per share to distribute surplus funds with an extraordinary record date of June 25, 2013. The dividends for the fiscal years ended December 31, 2013 and 2014 were funded by capital surplus. For further details, refer to “Special dividend to distribute surplus funds” and “The breakdown of dividends paid out from capital surplus” below.

3. Forecasts on the Consolidated Financial Results for the Fiscal Year Ending December 31, 2015 (January 1, 2015 - December 31, 2015)

(Percentages represent year-on-year changes)

	Revenue		Operating profit		Income before income taxes		Net income attributable to owners of the Company		Basic earnings per share
	(Millions of yen)	%	(Millions of yen)	%	(Millions of yen)	%	(Millions of yen)	%	(Yen)
Fiscal year ending December 31, 2015	349,500	2.8	26,600	22.9	23,300	39.0	14,190	49.9	73.07

(Reference)

EBITDA	Fiscal year ending December 31, 2015 (Forecasted)	40,900 million yen	(17.6%)
Adjusted EBITDA	Fiscal year ending December 31, 2015 (Forecasted)	42,800 million yen	(1.4%)
Adjusted Net Income	Fiscal year ending December 31, 2015 (Forecasted)	14,700 million yen	(11.6%)

*** Notes**

(1) Changes in status of significant subsidiaries during the period (changes in specified subsidiaries accompanying changes in scope of consolidation): No
Number of subsidiaries newly consolidated: -
Number of subsidiaries excluded from consolidation: -

(2) Changes in accounting policies and accounting estimates
(i) Changes in accounting policies required by IFRSs: Yes
(ii) Changes in accounting policies other than those in (i): No
(iii) Changes in accounting estimates: No

(3) Number of issued shares (common stock)

(i) Number of issued shares (including treasury stock)	As of December 31, 2014	194,208,700	As of December 31, 2013	190,070,700
(ii) Number of treasury stock	As of December 31, 2014	–	As of December 31, 2013	–
(iii) Number of average issued shares during the period	As of December 31, 2014	191,023,007	As of December 31, 2013	190,070,700

(Note) The Company carried out a 100-for-1 share split of the common stock on August 4, 2014. Accordingly, the numbers of shares are calculated assuming that the share split came into effect at the beginning of the fiscal year ended December 31, 2013.

* Implementation status of audit procedures
This report is not subject to audit procedures required by the Financial Instruments and Exchange Act. The audit procedures for the consolidated financial statements required by the Act have not been completed at the date of this report.

* Notes for using forecasted information and other matters

(1) The Company and its subsidiaries (hereinafter referred to as "the Group") have adopted International Financial Reporting Standards (IFRSs).

(2) The forecasts above are based on information available at the date of this report and certain assumptions deemed to be reasonable. The Company does not provide any assurance as to achievement of these forecasts. In addition, the actual results may vary materially from the forecasts due to various uncertainties. Refer to page 3 of Appendix "1. Analysis of Consolidated Operating Results and Financial Position (1) Analysis of Consolidated Operating Results (ii) Forecasts for the Next Fiscal Year" for further details and disclaimer regarding the use of the forecasts and certain assumptions used in developing them.

(3) EBITDA, Adjusted EBITDA and Adjusted Net Income are calculated using the following formulas:
EBITDA = Income before income taxes + Interest expense + Loss on redemption of borrowings before the repayment date + Other expenses (excluding loss on redemption of borrowings before the repayment date) – Interest income – Other income + Depreciation and amortization + Amortization of long-term prepaid expense + Amortization of long-term prepaid expense (deposit)

Adjusted EBITDA = EBITDA + Loss on disposal of fixed assets + Impairment loss of non-financial assets + Advisory fees in accordance with the BCPL management agreement (*1) + IPO-related expenses

Adjusted Net Income = Net income + Advisory fees in accordance with the BCPL management agreement (*1) + IPO-related expenses + Loss on redemption of borrowings before the repayment date + Tax effects of adjustments

(*1) The BCPL management agreement represents the management agreement between the Company and Bain Capital Partners, LLC.

(4) EBITDA, Adjusted EBITDA and Adjusted Net Income are not measures prescribed in accordance with IFRSs but are financial measures that the Group believes are useful for investors to assess the operating results of our business. These measures exclude the effect of items which we consider not to be indicative of our normal operating results or comparative to our competitors' operating results, such as non-cash or cost items not expected to recur following the listing, including the advisory fees in accordance with the BCPL management agreement and IPO-related expenses.

(5) Our definition of EBITDA, Adjusted EBITDA and Adjusted Net Income may not be comparable to similarly titled measures of other companies in our industry, which may define these or similarly titled measures differently, thereby diminishing their usefulness.

(Reference)

Special dividend to distribute surplus funds

The Company paid a special dividend of 14,620.75 yen per share with an extraordinary record date of June 25, 2013, in order to provide short-term returns to the shareholders.

The dividends paid for the fiscal year ended December 31, 2013, including the special dividend above, are as follows:

	Dividends per share					
	First quarter (March 31)	Extraordinary (June 25)	Second quarter (June 30)	Third quarter (September 30)	Year-end (December 31)	Total
	(Yen)	(Yen)	(Yen)	(Yen)	(Yen)	(Yen)
Fiscal year ended December 31, 2013	–	14,620.75	–	–	0.00	14,620.75

The breakdown of dividends paid out from capital surplus

Out of the dividends paid for the fiscal year ended December 31, 2013, those paid out from capital surplus are as follows:

Effective date	Extraordinary (June 25)	Fiscal year ended December 31, 2013
Dividends per share (Yen)	14,620.75	14,620.75
Total dividends (Millions of yen)	27,790	27,790

(Note) Ratio of decrease in net assets: 0.294

Out of the dividends paid for the fiscal year ended December 31, 2014, those paid out from capital surplus are as follows:

Effective date	Year-end	Fiscal year ended December 31, 2014
Dividends per share (Yen)	13.52	13.52
Total dividends (Millions of yen)	2,626	2,626

(Note) Ratio of decrease in net assets: 0.000

(Appendix)

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1. Analysis of Consolidated Operating Results and Financial Position

(1) Analysis of Consolidated Operating Results

(i) Operating Results for the Current Year

During the fiscal year ended December 31, 2014, the Company has promoted to create restaurants rooted in local communities that enrich the life of each of our customers and provide comfort, with the purpose of fulfilling the Group's vision of “Creating wealth with value to society”.

The Company sets two growth strategies; 1) achieving stable and sustainable growth in sales and 2) improving profit margins through maximizing optimal operations. The progress of those strategies during the fiscal year ended December 31, 2014 is described below.

1) Achieving Stable and Sustainable Growth in Sales

- The Company remodeled the interior and exterior of 332 restaurants, pursuing a modern design that promotes comfort and increases customer traffic.

- The Company converted the brands of 26 restaurants to a different concept in effort to manage its brand offering to respond to the customers’ needs that are driven by changes in local demographics and market conditions.

- The Company aspires to provide products that meet customer satisfaction at competitive prices by offering brands that cater to different customer needs using the Company's vertically integrated platform (Note 1). In particular, the Company provided high quality menu items for high price point customers by proactively incorporating seasonal and/or popular ingredients such as Canadian lobsters and Hiroshima oysters into the menu while providing items at a more attractive price for middle price point customers by promoting *Cheese-IN-Hamburg*, which is best-selling items at *Gusto*, at 399 yen, improving quality of ramen noodles and fried rice, which are best-selling items at *Bamiyan*, and enhancing the promotion of the *Genki 100 bai Anpanman* campaign. In addition, a mobile application was released in order to promote close and personalized communications with customers of the Group’s leading brand, *Gusto*, which has been downloaded approximately 1.5 million times at the end of December 2014.

- The Company achieved 9.9% of sales growth in delivery service compared to the previous year by flexibly responding to the evolving customer needs driven by social factors such as aging society and increasing women in workplace.

- The Company opened 44 new restaurants primarily close to train stations of urban areas (including 17 restaurants of *Gusto*, 4 restaurants of Jonathan’s, 2 restaurants of *Bamiyan*, and 5 restaurants of *Yumean*).

As a result of pursuing improvement of customers’ satisfaction through these measures, total sales for the fiscal year ended December 31, 2014 achieved 102.3% compared to the previous year although consumption tax rate was increased. In addition, sales from existing restaurants in domestic group companies for the three-month periods ended March 31, June 30, September 30, and December 31, 2014 were 100.3%, 104.0%, 100.7% and 102.7%, compared to the same periods in the previous year, respectively.

2) Improving Profit Margins through Maximizing Optimal Operations

- Although the yen is weakening and the market price of ingredients, mainly meat, is increasing, the COGS rate is at the same level (30.1%) compared to the previous year through continual optimization of purchasing, processing, and distribution. In addition, the Company is engaged to integrate West Japan’s merchandise centers (Note 2) in order to further streamline/optimize the supply chain. The Company plans to integrate all of merchandise centers in Japan including East Japan by 2016.

- There were further efforts to promote the operation systems of restaurants and to improve the efficiency of restaurants’ equipments such as adopting new cooking systems and using energy-saving equipment. Also, the Company strived to improve the level of services and improved the customer satisfaction level (Customer Voice Program) of the 5 major brands (Note 3) by 7% in December 2014 compared to that in December 2013. Regarding recruitment of crews, the number of newly recruited crews increased by 8% at 5 major brands compared to the

previous year as a result of more efficient recruiting activities through, e.g. the establishment of the Shinjuku recruiting center and centralizing the recruiting activities, and effectively increasing crews to enhance sales at peak times.

Based on the above, the Company achieved revenue of 340,002 million yen (an increase of 7,518 million yen compared to the previous year), operating profit of 21,642 million yen (a decrease of 921 million yen compared to the previous year), income before income taxes of 16,767 million yen (an increase of 4,967 million yen compared to the previous year), and net income attributable to owners of the Company of 9,469 million yen (an increase of 2,382 million yen compared to the previous year) for the fiscal year ended December 31, 2014.

EBITDA was 34,787 million yen (a decrease of 620 million yen compared to the previous year), Adjusted EBITDA was 42,210 million yen (an increase of 3,658 million yen compared to the previous year) and Adjusted Net Income was 13,174 million yen (an increase of 3,062 million yen compared to the previous year). In addition, the number of restaurants was 3,014 as of the fiscal year ended December 31, 2014 (3,006 as of January 1, 2014).

(Note 1) A vertically integrated platform is the Company's supply chain structure that encompasses all phases starting with product development, procurement of ingredients, production, distribution, and finally the delivery of the food product.
(Note 2) The merchandising center is the Company's manufacturing/picking locations, and currently there are 9 merchandising centers and 1 manufacturing center.
(Note 3) The 5 major brands are *Gusto, Jonathan's, Bamiyan, Steak Gust*o, and *Yumean*.

(ii) Forecasts for the Next Fiscal Year

The Company expects to achieve revenue of 349,500 million yen (an increase of 9,498 million), operating profit of 26,600 million yen (an increase of 4,958 million yen), income before income taxes of 23,300 million yen (an increase of 6,533 million yen), net income attributable to owners of the Company of 14,190 million yen (an increase of 4,721 million yen), EBITDA of 40,900 million yen (an increase of 6,113 million), Adjusted EBITDA of 42,800 million (an increase of 590 million yen) and Adjusted Net Income of 14,700 million yen (an increase of 1,526 million yen).

(2) Analysis of Consolidated Financial Position

(i) Assets, Liabilities and Equity

Analysis of assets, liabilities, and equity as of the fiscal year ended December 31, 2014 is summarized as follows:

Current assets amounted to 38,491 million yen, which was an increase of 2,744 million yen mainly due to increase in cash and cash equivalent and decrease in inventories and other current assets compared to those as of the fiscal year ended December 31, 2013. Non-current assets amounted to 273,664 million yen, which was an increase of 2,519 million yen mainly due to increase in property, plant and equipment compared to those as of the fiscal year ended December 31, 2013.

Total assets amounted to 312,155 million yen, which was an increase of 5,263 million yen compared to those as of the fiscal year ended December 31, 2013.

Current liabilities amounted to 55,441 million yen, which was a decrease of 255 million yen mainly due to decrease in short-term borrowings and increase in other financial liabilities and other current liabilities compared to those as of the fiscal year ended December 31, 2013. Non-current liabilities amounted to 162,957 million yen, which was a decrease of 14,256 million yen due to decrease in long-term borrowings compared to those as of the fiscal year ended December 31, 2013.

Total liabilities amounted to 218,398 million yen, which was a decrease of 14,511 million yen compared to those as of the fiscal year ended December 31, 2013.

Equity amounted to 93,757 million yen, which was an increase of 19,774 million yen compared to that as of the fiscal year ended December 31, 2013 due mainly to increase in capital surplus of 7,836 million yen and retained earnings of 9,469 million yen.

(ii) Cash Flows

Cash and cash equivalents as of the fiscal year ended December 31, 2014 amounted to 23,383 million yen, which was an increase of 9,500 million yen compared to those as of the fiscal year ended December 31, 2013. Conditions and factors for each category of cash flow for the fiscal year ended December 31, 2014 were as follows.

Cash flows from operating activities:

Net cash provided by operating activities was 37,147 million yen (27,016 million yen net cash inflows for the previous year). This was primarily due to income before income taxes of 16,767 million yen and depreciation and amortization of 12,964 million yen.

Cash flows from investing activities:

Net cash used in investing activities was 11,781 million yen (9,480 million yen net cash outflows for the previous year). This was primarily due to payments for acquisition of property, plant and equipment including investments in new, converted and remodeled restaurants of 11,715 million yen.

Cash flows from financing activities:

Net cash used in financing activities was 15,921 million yen (15,507 million yen net cash outflows for the previous year). This was primarily due to repayments of long-term borrowings of 14,700 million yen, lease obligations of 4,194 million yen and proceeds from issuance of common stock of 4,727 million yen.

(3) Fundamental Policy for Distribution of Profit and Dividends for the Current and Next Fiscal Years

We aim to provide stable dividend payments to our shareholders while ensuring that adequate internal reserve is maintained in preparation for future business deployment and investments to further improve corporate value.

Subject to the performance of our business and our capital needs, we aim to make dividend payments going forward twice yearly and maintain a total payout ratio of roughly 40% of our Adjusted Net Income. Under this policy, we have declared dividends of 13.52 yen per share for the fiscal year ended December 31, 2014.

For the fiscal year ending December 31, 2015, an annual-dividend of 30.00 yen per share is planned (including an interim dividend of 12.00 yen per share), assuming achievement of the business forecast as discussed in page 3 of Appendix.

(Note) Adjusted Net Income = Net income + Advisory fees in accordance with the BCPL management agreement (*1) + IPO-related expenses + Loss on redemption of borrowings before the repayment date + + Tax effects of adjustments

(*1) The BCPL management agreement represents a management agreement between the Company and Bain Capital Partners, LLC.

(4) Risks Related to Our Business

Our business, operating results and financial condition could be affected by the factors discussed below. These could materially affect to investors' decisions.

Forward-looking items included herein reflect the Group's judgment as of the fiscal year ended December 31, 2014. The following illustrates specific examples of major business risks, although not all-inclusive, that may be expected when the Group continues to operate its business.

1) Changes in General Economic Climate

We conduct our business almost exclusively in Japan and are thus a downturn in the Japanese economy and the effect of the economic policies of the Japanese government could have a material adverse effect on our business, operating results and financial condition. Our business, operating results and financial condition may be especially affected by a downturn in consumer spending resulting from the increase in the consumption tax rate and an increase in the cost of raw materials, and personnel, rent and utilities expenses.

2) Changes in Market Environment and Competition in Our Industry

The market size of the Japanese foodservice industry has been on a declining trend from approximately 24,780 billion yen

of sales in 1999 to approximately 20,270 billion yen in 2013 (Euromonitor). We have found it difficult to expect significant growth in the future because of the impact of the domestic falling birth rate and the aging population. We are subject to significant competition in our business. We compete primarily with other restaurants, including other casual dining chains, quick service restaurant chains and single-proprietor and family-run restaurants. Competition is further increased to the extent potential customers decide to patronize non-restaurant food options such as convenience stores, coffeehouse chains and supermarkets. We compete based on factors such as price, location, convenience, quality and taste, menu options, attractiveness of physical facilities, comfort, atmosphere, quality of staff, brand recognition and availability of point-based and other consumer rewards programs. As a result of any potential inability to compete, our business, financial condition and operating results could be materially and adversely affected.

Additionally, we expect that we have opportunities for further growth, as the number of the Japanese casual dining restaurant chains is relatively low compared to those of quick service restaurant chains and coffee chain stores. However, the continuation of the expected is not guaranteed.

3) Shifts in Customer Preferences

Sales in the restaurant industry could be materially and adversely affected by customer preferences and trend in food and drink. If we are unable to effectively capture or predict changes in our customers' preferences or to achieve successful outcome on our measures and policies such as converting our restaurant concept to other concept or location-research for new opening restaurants, our business, operating results and financial condition may be adversely affected.

Our core restaurant concept, *Gusto*, has the largest number of restaurants and constitutes a significant portion of our sales and profits. As our largest core restaurant concept, if we are unable to gain support from customers on menu items, prices and quality of our services, our business, operating results and financial condition may be adversely affected.

4) Food-borne Illness Concerns

Food safety is our top priority in our restaurant industry. For example, if our restaurants, merchandizing centers or third-party suppliers and distributors outside of our control had issues on food safety and quality controls resulting in the food-borne illnesses, there are possibilities, for example, our restaurants and merchandizing centers may be suspended voluntarily or involuntarily in accordance with administrative penalty. As a result, operating licenses may be cancelled, brand image of the Group may be tarnished, social credibility may be lost, sales may decrease, additional expenses to address the issue may be incurred and a civil lawsuit against us may be asserted. We have recently experienced food-borne illness issues caused by bacillary dysentery and norovirus in August 2011 and December 2012, respectively. As a result, we received an administrative penalty including business suspension for several days and in addition we temporarily closed our restaurants and merchandizing centers voluntarily.

In addition, instances of food-borne illness, food tampering or food contamination occurring solely at restaurants of competitors may adversely affect our operating results as a result of negative publicity about the foodservice industry generally, lowering of customer's motivation of dine out, disposal of inventory that led to such food-borne illness problem and price escalation as a result of unavailability of affected ingredients.

5) Unavailability and Significant Price Fluctuations of Ingredients and Indirect Materials

Our operating results may be adversely affected if break down of raw material supply chain or significant price fluctuations occur due to factors such as:

- inflation either domestically or internationally;
- outbreaks of disease affecting livestock (such as avian influenza);
- adverse weather or natural disasters;
- energy shortages;
- logistics related failures;
- government imposed restrictions on imports;
- changes in international fishery regulation;
- loss of suppliers or distributors due to bankruptcy, accidents or natural disasters;
- food safety concerns or the pollution of food supplies including by radiation or the fear thereof whether based in fact or not; and

- fluctuations in foreign exchange rates.

6) Labor-related

We employ a relatively high number of part-time and temporary fixed-term employees in both our restaurants and merchandizing centers. Employment regulation and working environment for temporary workers have experienced significant changes. For example, due to partial amendment of the Employee Contract Act in 2013, certain temporary workers have been given the right to request a change to a permanent full-time status and prohibition of unreasonable and discriminative treatments of the working conditions of the temporary employees have been implemented. In addition, employers will also, beginning October 1, 2016, be generally required to provide social insurance for part-time workers working 20 hours or more per week. With such labor regulation and changes in the working environment, we may experience difficulties in hiring sufficient operating crews or may result in significant personnel expenses increase. If we are found by relevant authorities to have violated applicable labor regulations, we may also be subject to business improvement orders or claims from our employees or incur compliance-related expenses or damages, which may have an adverse effect on our business, operating results, financial condition, brand image and social credibility

7) Hiring Sufficient Number of Employees

We employ a relatively high number of part-time and temporary employees in both our restaurants and merchandizing centers. Certain third-party foodservice providers have recently been reported to be experiencing difficulties in securing sufficient staffing and consequently they had to close some restaurants, either temporarily or permanently. We have not experienced such instances, but may experience difficulties in hiring sufficient operating crews in a cost efficient manner, if recruiting environment changes for the worse, for example, through hourly rate and recruiting cost increases and difficulties in hiring sufficient number of employees as a result of increase in demand on domestic labor. These may result in increase in personnel expenses to hire sufficient employees, revision of plans for opening new restaurants, and temporary suspension of operations for certain restaurants. As a result, our business, operating results and financial condition may be adversely affected.

8) Rents

Our head office and almost all of our restaurants are located on rented land or in rented buildings, typically on term leases that are subject to security deposits. Although we conduct regular credit checks of our lessors, our ability to recover deposits made on rental property, which we are entitled to have returned may be hindered by the unexpected bankruptcy or insolvency of our lessors and these situations may affect adversely on our business, financial condition and operating results.

In addition, when it becomes evident that increase in rent as a result of changes in economic conditions or unsuccessful negation for renewal of leasing term upon opening of new restaurants, relocation from existing restaurants due to reasons such as aging buildings, or lease contract renewal at existing restaurants, we may be required to incur certain amount of time and costs to secure new locations or suitable replacement locations, may experience difficulties in opening new restaurants or relocate existing restaurants as originally planned, or may incur increased rent costs, which may have an adverse effect on our business, operating results and financial condition.

9) Adverse Weather Conditions and Seasonal Fluctuation

Demand and sales in the restaurant industry are subject to change as a result of decrease in customer’s motivation of dine out due to unforeseen events, such as poor weather, unusual weather phenomena, natural disasters, catastrophic events or socio-political unrest, or an outbreak of infection such as new strain of influenza, which could have a material adverse effect on our operating results. For example, eastern Japan experienced particularly high snowfall level in February 2014, resulting in decreased operating results for the first quarter of 2014 compared to those for the same period in the previous year.

Historically, customer spending patterns, and therefore sales, for our established restaurants are generally higher in the third quarter of the year, when schools and universities are out of session. Slump in sales during this season could adversely affect in our results of operation for the entire fiscal year. Due to the seasonal nature of our business, sales at a specific point may not be a sufficient indicator for the purpose of analyzing our annual operating results.

10) Mid-term Business Plan

We developed our Mid-Term Business Plan for 2014 to 2016 (“the Plan”). We expect stable and continuous revenue growth to come from:

- conversion of exterior and interior of the restaurants (remodelling);
- understanding customers’ motivations in visiting our restaurants and increase in customer traffic by using communication tools;
- growth in sales in existing restaurants by actively engaging in new areas of businesses such as delivery and take-out services;
- opening of new restaurants in locations such as roadsides, train stations, or in shopping malls, taking into consideration customer demographics; and
- optimizing restaurant portfolio through brand changes.

In addition to revenue growth, we aim to optimize our business operations and enhance growth in profits by:

- continuous effort to optimize procurement, manufacturing and logistics;
- promotion of restaurant operation system; and
- cost reduction efforts.

However, there are certain inherent risks in achieving the above such as the inability to:

- accurately capture customers preferences;
- efficiently reduce costs related to merchandizing centers optimization and logistics operations;
- efficiently manage or control multiple brands;
- identify or secure appropriate locations; and
- hire qualified employees.

We developed our plans based on many assumptions. The Plan goals may not be achieved if the actual results are different from our assumptions. In addition, there are possibilities that our competitiveness may be weakened and adversely affect the group’s operating performance as the result of not appropriately recognizing or analyzing certain underlying issues.

11) Dependence on of Key Management Personnel

We are dependent on the efforts and abilities of certain members of our senior management, particularly our Executive Chairman and our President and Chief Executive Officer. Should either of these members of our senior management decide to terminate their employment with us for business, financial, health, family or any other reasons, any failure to attract personnel sufficiently qualified to replace them may have an adverse effect on our business.

12) Reliance on Information Technology in Our Operations

We rely heavily on information systems across our operations, including purchasing raw materials, logistic systems and management of our restaurant operations such as food-processing.

The failure of these systems to operate effectively, problems with transitioning to upgraded or replacement systems, a material network breach in the security of these systems as a result of a cyber-attack or any other failure to maintain a continuous and secure cyber network, could result in reduce efficiency in our operation, delays in customer service, losing important data, or require significant capital investments to remediate the problem, which may have an effect on our business, operating results, financial condition, brand image and the social credibility.

13) Internal Controls over Financial Reporting

We place the establishment and implementation of our internal controls over financial reporting as one of the most significant issues, and we strive to continuously review and improve our control system. However, material weakness or significant deficiencies may be discovered in our financial reporting. In addition, we cannot be certain that we can always design and implement efficient internal control in the future. Furthermore, since there are inherent limitations in our internal controls, there may be an adverse effect on the reliability of financial reporting as the result of our internal controls over financial reporting not functioning appropriately or as a result of material weakness or significant deficiencies.

14) Substantial Debt, Fluctuations in Interest Rates and Violation of Financial Covenants

We carry substantial debt as we have entered into various loan agreements (syndicated loans) with financial institutions.

Such agreements could have negative consequences as the financial institutions may set limitations to our ability to obtain additional financing. Such limitations may make us more vulnerable to general economic downturns or place us at a competitive disadvantage compared to less-leveraged company.

A portion of our loans are financed based on a floating interest rate. If an interest rate increases, higher interest expenses may have an adverse effect on our operating results.

In addition, a portion of our loan agreements (syndicated loans) is subject to financial covenants. Any failure to comply with the covenants could result in the acceleration of the maturity of our outstanding indebtedness and require us to prepare sufficient fund for repayment immediately, which would have an adverse effect on our financial condition. Our inability to provide such funding may also result in the accelerated repayments of other loans, which could adversely affect our ability to continue as a going concern.

15) Accounting for Impairment

We have diversified brands of restaurants in various locations in Japan. Decreases in profitability of our operation could result in impairment losses of our assets, which may have an adverse effect on our operating results.

As of December 31, 2014, we recognized goodwill of 146,320 million yen in our consolidated statements of financial position. Major break down of goodwill by brand is *Gusto* (75,994 million yen), *Jonathan's* (18,170 million yen) and *Bamiyan* (16,114 million yen), respectively. The decreases in profitability of our business operation could result in impairment losses of goodwill, which may have an adverse effect on our operating results. Goodwill is not amortized.

16) Taxation

The tax deductibility of corporate expenses is subject to review by tax authorities. Recently, the deductibility of certain of our expenses was reversed due to their being considered by the tax authorities to be non-deductible acquisition costs, including a portion of a fee that we previously paid to Bain Capital Partners, LLC. Under our management agreement with Bain Capital Partners, LLC, including revised agreement entered into on July 17,2014 ("the BCPL management agreement", collectively), we are obligated to pay Bain Capital Partners, LLC 2.0 billion yen on the date of the listing and additional 2.0 billion yen on May 29, 2015. We paid the initial 2.0 billion yen on October 9, 2014, the date of the listing. In addition, we recorded this obligation of 4.0 billion yen as an expense for the period ended December 2014. This is a deductible expense for tax purposes. If the tax authorities do not agree with our treatment of this fee, or any other fees or expenses, as expenses for tax purposes, we could be subject to additional tax assessments, plus applicable penalties and interest. These situations may affect adversely on our operating results and financial condition.

17) Fluctuations in Foreign Currency Exchange Rates

We purchase ingredients from vendors in various countries. Although only a part of ingredients are traded in foreign currency at this point, cost or prices of such ingredients are impacted by fluctuations in currency exchange rates, directly or indirectly. We do not use currency forwards to hedge our exposure to foreign exchange rates. As a result, our business, operating results and financial condition may be adversely affected by volatility in the foreign exchange markets.

18) Natural Disasters

We have restaurants and merchandizing centers across the country. If catastrophic events such as large-scale earthquakes, storms, floods, tsunamis, the record-breaking snowfall and the new strains of influenza occur, our facilities, including buildings, machinery and equipments, at our headquarter, restaurants and merchandizing centers may be damaged or inhibit restaurant and merchandizing centers operations, logistics, or employees coming to work, which may have adverse effect on our business, financial operating results and financial condition.

Additionally, such natural disasters may affect our operations at restaurants and merchandizing centers and customers' traffic as they cannot operate/visit due to factors such as;

- limitation or suspension of lifeline utilities such as water, electricity and gas;
- breakdown in the supply chain with damaged roads;

- suspension of delivery operations caused by shortage of gasoline;
- damages on supplier's facilities and storages;
- shortage of energies and materials;
- vacancies of employees; and
- public transportation network failure.

The factors above may have an adverse effect on our business, operating results and financial condition.

Earthquakes in the Tokyo area are of particular risk as our restaurants and merchandizing centers are concentrated in the Tokyo area. Any large-scale earthquake may have an adverse effect on our business, operating results and financial condition.

19) Intellectual Property Rights

We consider the logs of each of our restaurant concepts, such as "*Gusto*", "*Bamiyan*", and "*Yumean*", and trademark on our menu items, such as "*the Gusto's Cheese-IN-Hamburg*" are important tools in our brand image and overall marketing strategy. Although we attempt to acquire intellectual property rights in certain countries and regions in order to protect our rights, there are certain countries and regions for which such property rights are pending acquisition.

Additionally, we may pursue legal actions if we discover unauthorized use of our trademarks. We may not have the ability locate unauthorized use in a timely manner or possibly lose cases whereby our claim for damages are not accepted. These may have an adverse effect on our business, operating results, financial condition, brand image and social credibility.

20) Internet Rumors

In 2013, certain restaurants and convenience stores had to close or temporarily suspend their operation as a result of part-time and temporary employees' improper posting on the Internet. Although such instances have not been identified within our Group, our brand image and social credibility may be damaged through improper use of our trademarks or spread of various rumors such as contamination by foreign objects or complaints, regardless of whether these are factually correct, on the internet. These may have an adverse effect on our business, operating results, financial condition, brand image and social credibility.

Additionally, negative publicity of our competitors may harm the reputations of the restaurant industry overall and consequently our business, operating results, financial condition, brand image and social credibility

21) Leakage of Personal and Confidential Information

We regularly collect personal and confidential information through the administration of such aspects of our business as loyalty programs, our credit card payment records, mobile websites, surveys of customers and delivery operations. A leakage of confidential information may harm our brand image and social credibility and impact our operating results and financial positions negatively as certain corresponding costs may be incurred to address such leakage.

22) Laws and Regulations

Our operations are subject to a number of laws and regulatory regimes, such as the Food Sanitation Act and Labor Standard Act in Japan. When new laws or regulations relating to restaurant operations, such as labeling-related regulations are enacted, or legal or governmental interpretation and application of laws and regulations are amended, our operating results may be affected adversely as certain corresponding expenditures may be necessary to address the regulatory changes. We may be forced by the regulatory authority to suspend our operation if there are instances of non-compliance with these laws and regulations, which may have an adverse effect on our business, operating results, financial condition, brand image and social credibility.

Several third-party establishments in the Japanese food service industry were found to have intentionally mislabeled the origin or contents of certain food items in 2013. This has resulted in strengthening of labeling-related regulations in December 2014 through amendment of the regulations. If we are found to have being associated in similar deceptive labeling practices in the future, or to have otherwise violated labeling-related regulations, our business, operating results, financial condition and reputation may be adversely affected.

23) Litigation and Other Legal Proceedings

Due to the nature of our business, we are subject to the risk of litigation from third parties including customers, vendors, suppliers and employees in connection with claims such as product liability, breach of contract with suppliers, distributors or landlords, personal injury and labor issues in the ordinary course of business. In the event of an adverse judgment or out-of-court settlement, our business, operating results, financial conditions and social credibility may be adversely affected.

24) Relationship with Bain Capital

A fund advised by Bain Capital Group, a global equity firm, has made an investment in our equity and is our principal shareholder as of the fiscal year ended December 31, 2014. Bain Capital Group has sent two directors, Yuji Sugimoto, as a director, and David Gross-Loh, as an outside director.

Upon completion of our initial public offering, Bain Capital Group sold a portion of our shares and the BCPL management agreement was terminated. However, they continue to hold significant number of our shares, which may have an effect on liquidity of our stock and stock price depending on their policies of holding and disposing of its shareholdings. In addition, as Bain Capital Group holds significant numbers of our shares, they may have a significant influence on the resolutions of shareholders meeting, including the election and removal of directors, reorganization such as mergers, capital reductions and amendments to the articles of incorporation.

Furthermore, under the BCPL management agreement, we are obligated to pay Bain Capital Partners, LLC 2.0 billion yen on the date of listing and additional 2.0 billion yen on May 29, 2015. We paid the initial 2.0 billion yen on October 9, 2014, the date of the listing.

Bain Capital Group has different interests from other general shareholders and may not exercise its voting rights or other actions in concurrence with other general shareholders.

Moreover, since the BCPL management agreement was terminated due to our initial public offering, we do not have the ability to receive further advice on our business and operations from Bain Capital Group. We believe that we already have an established management structure and our business can be successfully operated without access to Bain Capital Group. However, our business, operating results and financial positions may be adversely affected if our management structure does not function as expected.

2. Group Companies

The Group consists of the Company and its seven subsidiaries, and primarily engages in restaurant business. In addition to our core restaurant business, we also distribute processed foods and provide support services to our group companies. It was resolved that the Company will commence the proceedings over the dissolution and liquidation of Shanghai Skylark Restaurant & Food Management Co., Ltd., a consolidated subsidiary of the Company, at the meeting of the Board of Directors held on December 30, 2014.

(1) Business Operations of Our Group Companies

"Restaurant business" is the only reportable segment in our consolidated financial statements. Accordingly, the Group has not disclosed reporting segment information. However, on "2. Group Companies", we separately disclose our restaurant business and delivery services as "Restaurant Business", and businesses operated by FLO Japon Co., Ltd., Japan Cargo Co., Ltd. and Skylark D&M Co., Ltd as "Others".

Restaurant Business

1) The Company

Business Activities: Casual dining restaurants known in Japan as "family restaurants", family restaurant businesses and distribute of processed food products

Brands: *Gusto, Bamiyan, Jonathan´s, Steak Gusto, Yumean, Grazie Garden´s, Ohashi Café Gusto, Aiya, Totoyamichi and S Gusto*

Concept and target customers by brands

Brands	Concept	Target customers
Gusto	*Gusto* caters to wide-ranging customers for wide variety of occasions, and provides different styles of cuisine, featuring mainly Western-style cuisine, placing high value at a "value price". *Gusto* provides a wide array of menu items in order to cater all generations.	Wide-range of customers, centered on families with women in the 30's and 40's as well as students, customers dining alone and senior citizens
Jonathan's	*Jonathan's* provides a wide-ranging high-quality menu. *Jonathan's* operates mainly in urban areas targeting women groups and families.	Families with women in the 20's-40's
Bamiyan	*Bamiyan* is a Chinese restaurant which provides authentic Chinese food at affordable prices.	Male customers interested with large portion quantity and families with women in the 30's and 40's
Yumean	*Yumean* is a Japanese restaurant which provides casual, tasty and seasonal Japanese-style food.	Families with women in the 20's-40's
Grazie Garden	*Grazie Garden´*s is an Italian specialty restaurant which provides authentic pasta and pizza at affordable prices.	Families with women in the 30's and 40's
Ohashi Café Gusto	*Ohashi Café Gusto* features items with the ample fresh vegetables, including the salad bar.	Families with health-conscious women in the 20's-40's
Aiya	*Aiya* is a Japanese specialty restaurant which provides great-tasting and authentic Japanese cuisine made from selected ingredients and localities in a warm and welcoming atmosphere.	Senior citizens interested in authentic Japanese cuisine and families with women in the 30's-50's
Steak Gusto	*Steak Gusto* is a specialty restaurant which provides delicious steak and juicy hamburgers, along with the ample salad bar at value prices.	Male customers interested in large portions or quality and families with women in the 30's and 40's

Totoyamichi	*Totoyamichi* is a conveyer belt sushi bar restaurant featuring sushi made with fresh ingredients purchased directly from Tokyo's Tsukiji fish market.	Families and couples with women in the 30's-50's
S Gusto	*S Gusto* is a fast food restaurant which provides hot dishes under the catchphrases of "select", "small", "speed" and "smile."	Customers dining alone, mainly male in the 20's and 30's

2) NILAX Inc.

Business Activities: All-you-can-eat shabu-shabu restaurant business, food-service at commercial facilities and buffet-style restaurants in shopping malls

Brands: *SHABU-YO, Festa Garden, PAPAGANO, GRAND CHINA, GRAND BUFFET* and others

3) Tomato and Associates Corporation

Business Activities: Directly-managed and franchising all-you-can-eat grilled beef restaurants and family restaurants businesses mainly located in western area of Japan

Brands: *Jyu-Jyu- Karubi* and *Tomato & Onion*

4) Taiwan Skylark Co., Ltd.

Business Activities: Restaurant business in Taiwan

Brands: *Skylark, Café Grazie* and *Aiya*

Position of the business: Taiwan Skylark Co., Ltd. operates restaurant businesses in Taiwan through a licensing agreement for the three brands above from the Company. It became one of our affiliated companies in 2004 and subsequently our subsidiary in 2005. It successfully developed dinner restaurants and operates 39 restaurants under the three brands as of December 31, 2014.

5) Shanghai Skylark Restaurant & Food Management Co., Ltd.

Business Activities: Restaurant business in Shanghai, China.

Brands: *Café Grazie*

Position of the business: Shanghai Skylark Restaurant & Food Management Co., Ltd. operates restaurant businesses in Shanghai through a licensing agreement from the Company and Taiwan Skylark Co., Ltd. It operates two restaurants as of December 31, 2014, for the purpose of conducting market research, personnel training, product development, procurement and logistics in advance of further penetrating the Chinese market.

Others

1) FLO Japon Co., Ltd.

Business Activities: Sale of patisseries and delicatessen foods at train stations and commercial facilities

Brands: *FLO Prestige*

Position of the business: FLO Japon Co., Ltd. operates two types of stores mainly located in train stations, shopping centers and other commercial facilities; stores which only sell patisseries such as cakes and tarts, and stores that sell both patisseries and delicatessen foods such as salads and quiches.

2) Japan Cargo Co., Ltd

Business Activities: Distribution operations for the Group including delivery of ingredients and other merchandises from merchandizing centers and food processing plant to our restaurants/stores.

Position of the business: The Group centralizes distribution of ingredients from merchandizing centers to our restaurants

including overall management of ingredients such as proper temperature controls to ensure food safety. Japan Cargo Co., Ltd. has the ability to change the delivery routes in a flexible manner, ensuring the promotion of efficiency in its distribution services.

3) Skylark D&M Co., Ltd.

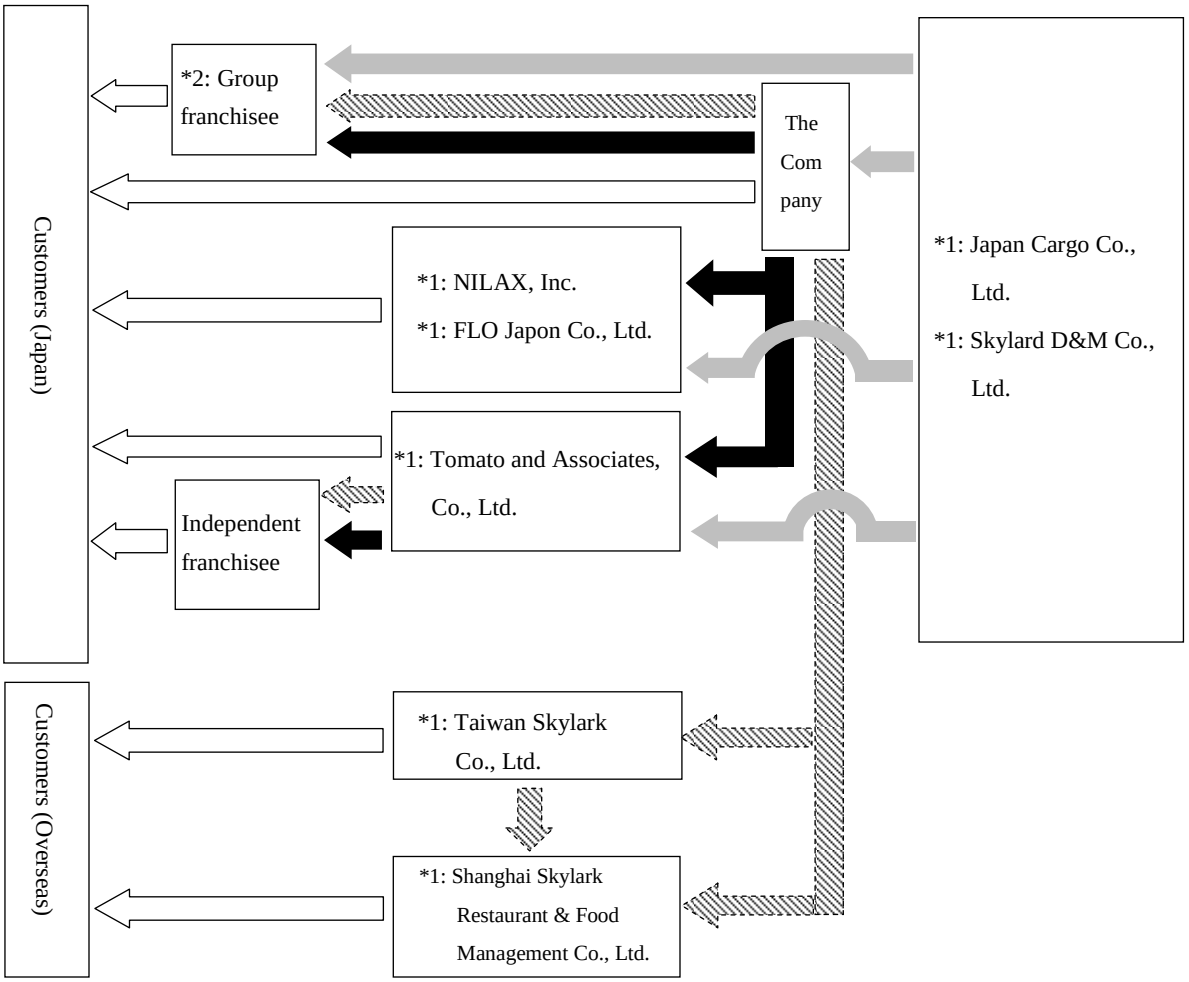
Business Activities: Restaurant cleaning and maintenance services, delivery of merchandise to shops and linen supply

Position of the business: Skylark D&M Co., Ltd. fosters development of specialized human resources with the ability to handle restaurant unique stains and equipment breakdowns in our restaurants to assist in improvement of hygiene management and provide immediate repair services. This consequently plays in an important role in the restaurant management with a goal of providing our customers comfortable places to dine.

(2) Business Activities

Category		Nature of operations	Companies associated with the operation	Restaurants' brands associated with the operation
Restaurant business	Japan	Operation of family and buffet-style restaurants and sale of processed food and other products	Skylark Co., Ltd., NILAX Inc., and Tomato and Associates Co., Ltd (Total of three companies)	*Gusto, Bamiyan, Jonathan´s, Steak Gusto, Yumean, Grazie Garden´s, Ohashi Café Gusto, Aiya, Totoyamichi, S Gusto, SHABU-YO , Festa Garden, PAPAGANO, GRAND CHINA, Grand BUFFET, Jyu-Jyu Karubi, Tomato & Onion, and Others*
	Overseas	Restaurant and other operations	Taiwan Skylark Co., Ltd., and Shanghai Skylark Restaurant & Food Management Co., Ltd. (Total of two companies)	*Skylark, Café Grazie* and *Aiya*
Others	Japan	Sale of processed food products, restaurant cleaning and maintenance services, delivery of merchandise to shops and linen supply	FLO Japon Co., Ltd., Japan Cargo Co., Ltd, and Skylark D&M Co., Ltd. (Total of three companies)	*FLO Prestige*

(3) Chart of Operations



(Note 1) *1: Consolidated subsidiary

*2: Independent franchisee restaurants managed by former employees elected by our job posting system

(Note 2)

Supply indigredients and others

Provide menus

Provide logistics, cleaning, maintenance and other services

License agreement

3. Management Policies

(1) Basic Policy

"Creating wealth with value to society" is our corporate philosophy. Our mission is to offer great-tasting food at affordable prices with good service in our clean restaurants to as many people as possible. We currently welcome approximately 400 million customers annually at approximately 3,000 restaurants in Japan with a range of table service restaurants as our core business, which include Japanese, Western and Chinese cuisines. We aspire to offer restaurants which are appreciated and popular with our customers in each area of operation.

We aim to increase shareholder returns as a result of our developing businesses under these management policies.

(2) Management Target

The Group considers EBITDA, Adjusted EBITDA and Adjusted Net Income as key management targets.

EBITDA, Adjusted EBITDA and Adjusted Net Income are calculated using the following formulas:

EBITDA= Income before income taxes + Interest expense + Loss on redemption of borrowings before the repayment date + Other expenses (excluding loss on redemption of borrowings before the repayment date) – Interest income – Other income + Depreciation and amortization + Amortization of long-term prepaid expense + Amortization of long-term prepaid expense (deposits)

Adjusted EBITDA = EBITDA + Loss on disposal of fixed assets + Impairment loss of non-financial assets + Advisory fees in accordance with the BCPL management agreement (*1) + IPO-related expenses

Adjusted Net Income = Net income + Advisory fees in accordance with the BCPL management agreement (*1) + IPO-related expenses + Loss on redemption of borrowings before the repayment date + Tax effects of adjustments

(*1) The BCPL management agreement represents a management agreement between the Company and Bain Capital Partners, LLC.

(3) Medium- to Long-term Strategies and Issues

"Creating wealth with value to society" is our corporate philosophy. Our mission is to offer great-tasting food at affordable prices with good service in our clean restaurants to as many people as possible. We aspire to offer restaurants which are appreciated and popular with our customers in each area of operation. We aim to respond to customers' needs flexibly, strengthen our organizational structure and improve market competitiveness by focusing on the following measures and policies:

1) Strengthening Profitability of Our Existing Restaurants

The food service industry has now matured and growth is expected to be limited compared to that in the past periods which it achieved remarkable growth. Therefore, we aim to enhance profitability of our existing restaurants as a growth initiative, rather than pursuing past strategies such as opening restaurants in large numbers.

(i) Increase in Customer Traffic

In order to strengthen profitability of our existing restaurants, we recognize that increase in the number of new customers and frequency of existing customers visits as important factors for growth.

Specifically, we will drive the various measures and policies for restaurant operations such as setting outdoor advertising (billboards), optimizing table and seat arrangements, efficient allocation of employees based on analysis of customer traffic, increasing restaurant staffing during peak-time, and monitoring customer satisfaction by introducing the customer survey system, as well as promoting promotion and discount strategy based on sophisticated study of investment recovery rate, introducing new menus and services focusing on target customers and their motivation for visiting, implementing TV publicity (introducing the Group and our merchandise through designing TV programs), and developing new promotion tools such as distribution of discount coupons.

(ii) Menu Innovation and Targeted Marketing Corresponding to Customer Categories

The Company established new marketing division as a part of changes in organizational structure in June 2012. We recruited new employees to strengthen the function, and adopted a marketing technique based on the quantitative and scientific analysis.

The Group develops and promotes signature menu items and core merchandises with high margins based on such analysis, aspires to provide menus suitable for our customers' needs and lifestyles under sophisticated research, and increase customers' motivation and opportunities to visit our restaurants.

To implement our strategy in the menus, we revise the menus and introduce seasonal menus in multiple occasions during the year. We aim to react promptly to shifts in customers' preferences and motivations to visit our restaurants as well as changes in procurement practice of raw materials.

Additionally, the Group is a member store of *T-Point* card which is utilized in various industries. We make the maximum use of a big data and the customer data base and administer targeted promotions aimed at specific categories of our customers or events, as well as provide discounts and promotion on a timely manner to prompt our new and existing customers' visit.

(iii) Pricing Optimization

In order to strengthen profitability at our restaurants, we need to place a right balance between the number of customers and the average check per customer. Accordingly, pricing optimization is important to achieve this right balance.

The Group responds to our customers' demands and preferences by introducing higher-added value, a wide array of pricing and value-priced menus as well as expanded array of side dishes, desserts and alcohol beverages. Simultaneously, we undertake it as one of our measures to increase the average price per check. Meanwhile, we aim to optimize the effect of the number of customers and the price setting by considering the number of customers by merchandise or brands and their price elasticity and studying and capturing the customers' motivations to visit our restaurants.

(iv) Remodeling and Conversions

Remodeling the interior and exterior of our existing restaurants is an effective measure to improve profitability. In the fiscal year ended December 31, 2014, we remodeled 332 restaurants.

We aim to improve visibility of restaurants by changing the exteriors and promote return visits to our restaurants by installing easy-to-use sofa and sanitary accommodations for family with children and women groups. We make remodeling plan, including targeted restaurant and methods, using the result of prior remodeling analysis. We plan to continue remodeling as important measures to increase the sales of existing restaurants.

As our spaces and layouts that promote efficient operation are interchangeable between brands, we can convert restaurants from one concept to another at a relatively low cost in response to changes in customers' preferences and motivations to visit. We will take advantage of such competitive advantage, establish the best suited brand portfolio in each market through flexible restaurant conversions, and make the best effort to increase our profitability.

(v) Expanding Delivery Services

We provided delivery services at over 880 restaurants out of approximately 3,000 restaurants as of December 31, 2014. We believe that delivery services at existing restaurants is one of efficient measures to increase our sales due to the evolving customer needs driven by social factors such as changes in lifestyle including aging society and increase in women in workplace. We aim to enhance the visibility of the delivery services and expand the services, as a way to improve efficiency in restaurant operations.

2) New Restaurant Openings

Although our operating strategy has focused on opening new restaurants at roadside locations, we will also perform analysis such as changes in demographics and consider opening restaurants in urban areas in the future, thus promoting balance between the urban and roadside locations.

For each new restaurant, we will apply a clear opening strategy specific to that restaurant backed by various means such as analyzing competitive environment by municipality, developing opening strategy for each brand, and streamlining internal process and team assignment for new openings. As of the fiscal year ended December 31, 2014, we have concluded that there are opportunities for additional restaurant openings in the future and we plan to open new restaurants with Gusto accounting for roughly half of the openings.

3) Cost Reduction

We expect increases in the cost of raw materials, personnel expenses and utilities expenses due to inflation. The inflationary trend will significantly affect our costs.

Accordingly, we have identified the following cost-saving initiatives:

(i) Procurement

We are the largest restaurant chain with approximately 3,000 restaurants across Japan. We aim to improve our cost competitiveness by centralizing our procurement of raw materials whereby the headquarters will generally purchases raw materials on behalf of all restaurants in order to achieve economies-of-scale through centralized volume purchase.

Additionally, we will continuously revise our menu recipes and evaluate our existing supplier relationship including consideration in adopting modularization and standardization that should ultimately result in additional cost reductions.

(ii) Supply Chain Enhancement

We process and prepare ingredients collectively at merchandising centers and food preparation plant across 10 locations in Japan, and deliver them to our restaurants through our delivery system. By improving these operations, we aim to strengthen the capability of vertical supply chain and reduce total costs.

(iii) Rents

We have built sound relationships with many of facility lessors since starting our businesses in 1970. Assuming continuous sound relationship with them, we attempt to maintain competitive rent costs supported by our valuation by expert and rent negotiation.

(iv) Personnel Expenses

We aim to reduce our personnel expenses through efficient restaurant operation, trainings of employees, improvement in productivity through standardizations and decreasing the number of restaurants providing late night services.

In addition, we will continuously monitor the costs of utilities, costs related to headquarters and marketing expenses.

4) Food Safety

We control qualities and hygiene by setting control standards on all processes including purchasing, processing, distribution and preparation of foods. We perform periodic inspection at our inspection room across our 8 merchandising centers in Japan in order to ensure merchandise quality.

As stated above, we promote the prevention of food-borne illnesses continuously. We mandated our employees to comply with the “Food Safety Guidance” that has been drafted and implemented by taking into consideration all food safety related measures implemented subsequent to 2011 in order to reaffirm our social responsibility as a food provider. Our mission is to strengthen our effort in our food safety to win customer confidence.

4. Consolidated Financial Statements

(1) Consolidated Statements of Financial Position

As of the Fiscal Years Ended December 31, 2013 and 2014 (Unaudited)

(Millions of yen)

	As of the fiscal year ended December 31, 2013	**As of the fiscal year ended December 31, 2014**
Assets		
Current assets		
Cash and cash equivalents	¥ 13,883	**¥ 23,383**
Trade and other receivables	6,617	**7,144**
Other financial assets	110	**94**
Inventories	5,634	**4,108**
Other current assets	9,503	**3,762**
Total current assets	35,747	**38,491**
Non-current assets		
Property, plant and equipment	86,520	**90,498**
Goodwill	146,320	**146,320**
Other intangible assets	2,402	**1,958**
Other financial assets	24,726	**24,194**
Deferred tax assets	10,710	**10,058**
Other non-current assets	467	**636**
Total non-current assets	271,145	**273,664**
Total assets	¥ 306,892	**¥ 312,155**

Consolidated Statements of Financial Position

As of the Fiscal Years Ended December 31, 2013 and 2014 (Unaudited) - Continued

(Millions of yen)

	As of the fiscal year ended December 31, 2013	**As of the fiscal year ended December 31, 2014**
Liabilities and equity		
Liabilities		
Current liabilities		
Short-term borrowings	¥ 14,645	**¥ 9,464**
Trade and other payables	24,469	**23,833**
Other financial liabilities	5,332	**7,200**
Income tax payable	1,992	**2,926**
Provisions	73	**105**
Other current liabilities	9,185	**11,913**
Total current liabilities	55,696	**55,441**
Non-current liabilities		
Long-term borrowings	150,111	**139,883**
Other financial liabilities	14,949	**10,267**
Provisions	11,867	**12,427**
Deferred tax liabilities	—	**2**
Other non-current liabilities	286	**378**
Total non-current liabilities	177,213	**162,957**
Total liabilities	232,909	**218,398**
Equity		
Share capital	100	**2,479**
Capital surplus	59,838	**67,674**
Other components of equity	301	**376**
Retained earnings	13,693	**23,162**
Equity attributable to owners of the Company	73,932	**93,691**
Non-controlling interests	51	**66**
Total equity	73,983	**93,757**
Total liabilities and equity	¥ 306,892	**¥ 312,155**

(2) Consolidated Statements of Income

For the Fiscal Years Ended December 31, 2013 and 2014 (Unaudited)

(Millions of yen)

	For the fiscal year ended December 31, 2013	**For the fiscal year ended December 31, 2014**
Revenue	¥ 332,484	**¥ 340,002**
Cost of sales	(100,242)	**(102,207)**
Gross profit	232,242	**237,795**
Other operating income	317	**673**
Selling, general and administrative expenses	(206,969)	**(209,419)**
Other operating expenses	(3,027)	**(7,407)**
Operating profit	22,563	**21,642**
Interest income	78	**41**
Other income	577	**320**
Interest expense	(7,277)	**(5,181)**
Other expenses	(4,141)	**(55)**
Income before income taxes	11,800	**16,767**
Income taxes	(4,703)	**(7,288)**
Net income	¥ 7,097	**¥ 9,479**
Net income attributable to:		
Owners of the Company	¥ 7,087	**¥ 9,469**
Non-controlling interests	10	**10**
Net income	¥ 7,097	**¥ 9,479**
Earnings per share		
Basic (Yen)	¥ 37.29	**¥ 49.57**
Diluted (Yen)	37.29	**49.47**

(3) Consolidated Statements of Comprehensive Income

For the Fiscal Years Ended December 31, 2013 and 2014 (Unaudited)

(Millions of yen)

	For the fiscal year ended December 31, 2013	**For the fiscal year ended December 31, 2014**
Net income	¥ 7,097	**¥ 9,479**
Other comprehensive income		
Items that may be reclassified to profit or loss		
Exchange differences on translation of foreign operations	192	**80**
Total items that may be reclassified to profit or loss	192	**80**
Other comprehensive income, net of tax	192	**80**
Total comprehensive income	¥ 7,289	**¥ 9,559**
Comprehensive income attributable to:		
Owners of the Company	7,272	**9,544**
Non-controlling interests	17	**15**
Total comprehensive income	¥ 7,289	**¥ 9,559**

(4) Consolidated Statements of Changes in Equity

For the Fiscal Year Ended December 31, 2013 (Unaudited)

(Millions of yen)

	Share capital	Capital surplus	Other components of equity	
			Exchange differences on translation of foreign operations	Total
As of January 1, 2013	¥ 47,518	¥ 39,433	¥ 116	¥ 116
Net income	—	—	—	—
Other comprehensive income, net of tax	—	—	185	185
Total comprehensive income	—	—	185	185
Transfer of share capital to capital surplus	(47,418)	47,418	—	—
Dividends	—	(27,790)	—	—
Equity-settled share-based payments	—	73	—	—
Contribution of management services rendered by owners	—	700	—	—
Other increases	—	4	—	—
Total contributions by and distributions to owners of the Company	(47,418)	20,405	—	—
Total transactions with owners of the Company, etc.	(47,418)	20,405	—	—
As of December 31, 2013	¥ 100	¥ 59,838	¥ 301	¥ 301

	Retained earnings	Equity attributable to owners of the Company	Non-controlling interests	Total equity
As of January 1, 2013	¥ 6,606	¥ 93,673	¥ 34	¥ 93,707
Net income	7,087	7,087	10	7,097
Other comprehensive income, net of tax	—	185	7	192
Total comprehensive income	7,087	7,272	17	7,289
Transfer of share capital to capital surplus	—	—	—	—
Dividends	—	(27,790)	—	(27,790)
Equity-settled share-based payments	—	73	—	73
Contribution of management services rendered by owners	—	700	—	700
Other increases	—	4	—	4
Total contributions by and distributions to owners of the Company	—	(27,013)	—	(27,013)
Total transactions with owners of the Company, etc.	—	(27,013)	—	(27,013)
As of December 31, 2013	¥ 13,693	¥ 73,932	¥ 51	¥ 73,983

Consolidated Statements of Changes in Equity

For the Fiscal Year Ended December 31, 2014 (Unaudited) – Continued

(Millions of yen)

	Share capital	Capital surplus	Other components of equity	
			Exchange differences on translation of foreign operations	Total
As of January 1, 2014	**¥ 100**	**¥ 59,838**	**¥ 301**	**¥ 301**
Net income	—	—	—	—
Other comprehensive income, net of tax	—	—	**75**	**75**
Total comprehensive income	—	—	**75**	**75**
Issuance of common stock	**2,379**	**2,359**	—	—
Equity-settled share-based payments	—	**61**	—	—
Contribution of management services rendered by owners	—	**5,542**	—	—
Other increases/decreases	—	**(126)**	—	—
Total contributions by and distributions to owners of the Company	**2,379**	**7,836**	—	—
Total transactions with owners of the Company, etc.	**2,379**	**7,836**	—	—
As of December 31, 2014	**¥ 2,479**	**¥ 67,674**	**¥ 376**	**¥ 376**

	Retained earnings	Equity attributable to owners of the Company	Non-controlling interests	Total equity
As of January 1, 2014	**¥ 13,693**	**¥ 73,932**	**¥ 51**	**¥ 73,983**
Net income	**9,469**	**9,469**	**10**	**9,479**
Other comprehensive income, net of tax	—	**75**	**5**	**80**
Total comprehensive income	**9,469**	**9,544**	**15**	**9,559**
Issuance of common stock	—	**4,738**	—	**4,738**
Equity-settled share-based payments	—	**61**	—	**61**
Contribution of management services rendered by owners	—	**5,542**	—	**5,542**
Other increases/decreases	—	**(126)**	—	**(126)**
Total contributions by and distributions to owners of the Company	—	**10,215**	—	**10,215**
Total transactions with owners of the Company, etc.	—	**10,215**	—	**10,215**
As of December 31, 2014	**¥ 23,162**	**¥ 93,691**	**¥ 66**	**¥ 93,757**

(5) Consolidated Statements of Cash Flows

For the Fiscal Years Ended December 31, 2013 and 2014 (Unaudited)

(Millions of yen)

	For the fiscal year ended December 31, 2013	**For the fiscal year ended December 31, 2014**
Cash flows from operating activities		
Income before income taxes	¥ 11,800	**¥ 16,767**
Adjustments for:		
Depreciation and amortization	12,701	**12,964**
Loss on impairment of non-financial assets	1,414	**677**
Loss on sale and disposal of fixed assets	925	**768**
Interest income	(78)	**(41)**
Other income	(577)	**(320)**
Interest expense	7,277	**5,181**
Other expenses	4,141	**55**
	37,603	**36,051**
Changes in working capital:		
Increase in trade and other receivables	(321)	**(512)**
Decrease (Increase) in inventories	(505)	**1,530**
Increase (Decrease) in trade and other payables	2,508	**(1,579)**
Other	405	**7,203**
Cash generated from operations	36,690	**42,693**
Interest and dividends received	31	**6**
Interest paid	(6,404)	**(4,940)**
Income taxes paid	(6,391)	**(6,289)**
Income taxes refunded	90	**5,677**
Net cash from operating activities	27,016	**37,147**
Cash flows from investing activities		
Proceeds from withdrawal of time deposits	1,000	**—**
Acquisition of property, plant and equipment	(11,677)	**(11,715)**
Proceeds from sale of property, plant and equipment	395	**3**
Acquisition of intangible assets	(296)	**(323)**
Proceeds from collection of loans	33	**16**
Payment of lease deposits and guarantee deposits	(469)	**(776)**
Proceeds from collection of lease deposits and guarantee deposits	1,547	**1,259**
Other	(13)	**(245)**
Net cash used in investing activities	(9,480)	**(11,781)**
Cash flows from financing activities		
Proceeds from long-term borrowings	166,582	**—**
Repayments of long-term borrowings	(141,972)	**(14,700)**
Proceeds from issuance of common stock	—	**4,727**
Repayments of lease obligations	(3,808)	**(4,194)**
Dividends paid	(27,790)	**—**
Payment for redemption of cumulative redeemable preferred shares	(8,519)	**—**
Payments of commissions related to borrowings	—	**(1,754)**
Net cash used in financing activities	(15,507)	**(15,921)**
Effect of exchange rate on the balance of cash and cash equivalents held in foreign currency	71	**55**
Net increase in cash and cash equivalents	2,100	**9,500**
Cash and cash equivalents at the beginning of the year	11,783	**13,883**
Cash and cash equivalents at the end of the year	¥ 13,883	**¥ 23,383**

(6) Notes on the Going Concern Assumption

No items to report

(7) Significant Matters Identified in Preparing Consolidated Financial Statements

Impact of newly adopted accounting standards

The Group has adopted the following standards and IFRIC interpretation since the fiscal year ended December 31, 2014.

IFRSs	Title	Description of New Standards/Amendments/Transitional Provisions
IFRS 10	Consolidated Financial Statements	New definition and exception to consolidation of investment entity
IFRS 12	Disclosure of Interests in Other Entities	Disclosure requirements on investment entity's interests in subsidiaries excluded from consolidation
IAS 27	Separate Financial Statements	Accounting treatment for investments in separate financial statements of investment entity
IAS 32	Financial Instruments: Presentation	Offsetting financial assets and financial liabilities
IAS 39	Financial Instruments: Recognition and Measurement	Amendment on novation of derivatives and hedge accounting
IFRIC 21	Levies	Accounting for liabilities related to levies

The adoption of the above accounting standards and IFRIC interpretation did not have a significant impact on the consolidated financial statements for the fiscal year ended December 31, 2014.

(8) Notes to Consolidated Financial Statements

(i) Segment Information

The reportable segments of the Group are determined based on the operating segments that are components of the Group for which discrete financial information is available and whose operating results are reviewed regularly by the Board of Directors to make decisions about resources to be allocated to the segments and assess its performance. Operating segments are components of business activities from which the Group may earn revenues and incur expenses, including revenues and expenses relating to transactions with other operating segments.

1) Revenues and Performance of Segments

The restaurant business is the only reportable segment. Accordingly, the Group has not disclosed reportable segment information

2) Geographic Information

The Group's revenue in the consolidated statements of income mainly consists of revenues from domestic sales to external customers. Accordingly, the Group has not disclosed revenue by region or geographic information.

In addition, the carrying amount of non-current assets mainly consists of those attributable to domestic locations. Accordingly, the Group has not disclosed non-current assets by region or geographic information.

3) Information about Major Customers

The Group operates in the consumer industry and has no single external customer (and a group of customers) that accounts for 10% or more of revenue of the Group. Accordingly, the Group has not disclosed major customer information.

(ii) Earnings per Share

	For the fiscal year ended December 31, 2013	**For the fiscal year ended December 31, 2014**
Net income attributable to common stockholders of the Company (Millions of yen)	¥ 7,087	**¥ 9,469**
Net income not attributable to common stockholders of the Company (Millions of yen)	—	**—**
Net income attributable to common stockholders used for calculation of basic earnings per share (Millions of yen)	7,087	**9,469**
Adjustment (Millions of yen)	—	**—**
Net income attributable to common stockholders used for calculation of diluted earnings per share (Millions of yen)	¥ 7,087	**¥ 9,469**
Weighted-average number of shares during the period (Shares)	190,070,700	**191,023,007**
Increase in number of common stock used for calculation of diluted earnings per share (Shares)		
Increased number of common stock by stock options	—	**402,723**
Weighted-average number of common stock used for calculation of diluted earnings per share (Shares)	190,070,700	**191,425,730**
Basic earnings per share (Yen)	¥ 37.29	**¥ 49.57**
Diluted earnings per share (Yen)	37.29	**49.47**

(Note) The Company carried out a 100-for-1 share split of the common stock on August 4, 2014. Accordingly, basic and diluted earnings per share for the fiscal years ended December 31, 2013 and 2014, respectively, are calculated assuming that the share split came into effect at the beginning of the fiscal year ended December 31, 2013.

(iii) Significant Subsequent Events

No items to report