Consolidated Financial Report
For the Fiscal Year Ended December 31, 2016 (IFRS)

February 9, 2017

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 30, 2017

Dividends payable date (as planned) March 16, 2017

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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, 2016

(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, 2016	354,513	1.0	31,249	12.4	28,952	17.1	18,216	20.5	18,213	20.5	18,345	30.8
Fiscal year ended December 31, 2015	351,146	3.3	27,806	28.5	24,717	47.4	15,120	59.5	15,109	59.6	14,030	46.8

	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, 2016	93.57	92.80	16.8	9.1	8.8
Fiscal year ended December 31, 2015	77.79	76.98	15.3	7.9	7.9

(Reference) Profit of investments accounted for using the equity method	Fiscal year ended December 31, 2016	- million yen		Fiscal year ended December 31, 2015	- million yen	
EBITDA	Fiscal year ended December 31, 2016	45,997 million yen	(11.1%)	Fiscal year ended December 31, 2015	41,418 million yen	(19.1%)
Adjusted EBITDA	Fiscal year ended December 31, 2016	47,890 million yen	(6.8%)	Fiscal year ended December 31, 2015	44,826 million yen	(6.2%)
Adjusted net income	Fiscal year ended December 31, 2016	18,216 million yen	(13.5%)	Fiscal year ended December 31, 2015	16,045 million yen	(21.8%)

(Note) 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.

(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, 2016	318,317	114,198	114,198	35.9	586.13
As of December 31, 2015	314,864	103,287	103,212	32.8	531.04

(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, 2016	36,029	(16,662)	(21,344)	16,222
Fiscal year ended December 31, 2015	32,842	(18,275)	(19,650)	18,245

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, 2015	–	11.80	–	21.20	33.00	6,412	42.4	6.5
Fiscal year ended December 31, 2016	–	15.00	–	23.00	38.00	7,401	40.6	6.8
Fiscal year ending December 31, 2017 (Forecasted)	–	16.00	–	24.00	40.00		40.6	

3. Forecasts on the Consolidated Financial Results for the Fiscal Year Ending December 31, 2017 (January 1, 2017 - December 31, 2017)

(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, 2017	365,000	3.0	32,800	5.0	30,000	3.6	19,200	5.4	98.55

(Reference)

Adjusted EBITDA	Fiscal year ending December 31, 2017 (Forecasted)	49,000 million yen	(2.3%)
Adjusted net income	Fiscal year ending December 31, 2017 (Forecasted)	19,200 million yen	(5.4%)

*** Notes**

(1) Changes in status of significant subsidiaries during the period (changes in specified subsidiaries accompanying changes in scope of consolidation): Yes
Number of subsidiaries newly consolidated: -
Number of subsidiaries excluded from consolidation: 1; Shanghai Skylark Restaurant & Food Management Co., Ltd.

(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, 2016	194,834,000	As of December 31, 2015	194,356,300
(ii) Number of treasury stock	As of December 31, 2016	–	As of December 31, 2015	–
(iii) Number of average issued shares during the period	Fiscal year ended December 31, 2016	194,659,498	Fiscal year ended December 31, 2015	194,232,860

* 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 5 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) Refer to page 2 of Appendix "1. Analysis of Consolidated Operating Results and Financial Position (1) Analysis of Consolidated Operating Results" for the details of EBITDA, adjusted EBITDA and adjusted net income.

(4) EBITDA, adjusted EBITDA and adjusted net income are not measures prescribed in accordance with IFRS 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 the results of our normal operations or comparable 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, IPO and public offering-related expenses, loss on redemption of borrowings before the repayment date and gain and loss from associated hedge transactions and amount associated with the change in accounting estimates due to qualified listing. (The BCPL management agreement was terminated upon the Company's listing in accordance with the amendment to the agreement dated July 17, 2014.)

(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.

(Appendix)

1. Analysis of Consolidated Operating Results and Financial Position 2
   (1) Analysis of Consolidated Operating Results 2
   (2) Analysis of Consolidated Financial Position 5
   (3) Fundamental Policy for Distribution of Profit and Dividends for the Current and Next Fiscal Years 6
   (4) Risks Related to Our Business 7
2. Group Companies 13
3. Management Policies 17
   (1) Basic Policy 17
   (2) Management Target 17
   (3) Medium- to Long-term Strategies and Issues 17
4. Basic Policy Regarding Selection of Accounting Standards 22
5. Consolidated Financial Statements 23
   (1) Consolidated Statements of Financial Position 23
   (2) Consolidated Statements of Income 24
   (3) Consolidated Statements of Comprehensive Income 25
   (4) Consolidated Statements of Changes in Equity 26
   (5) Consolidated Statements of Cash Flows 28
   (6) Notes on the Going Concern Assumption 29
   (7) Significant Matters Identified in Preparing Consolidated Financial Statements 29
   (8) Notes to Consolidated Financial Statements 29
      (i) Segment Information 29
      (ii) Earnings per Share 30
      (iii) Significant Subsequent Events 30

1. Analysis of Consolidated Operating Results and Financial Position

(1) Analysis of Consolidated Operating Results

(i) Operating Results for the Current Year

The Company has promoted the creation of 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 richness of life with value to society".

In 2016, the Company announced the mid-term business plan for the three-year period from 2016 to 2018 ("the Plan"), which aimed to achieve an increase in annual growth rates in sales of 2.0~3.0%, adjusted EBITDA of 6~10%, and adjusted net income of mid 10%. The main two strategies were 1) growth by utilizing and expanding existing platforms (strengthening profitability of our existing restaurants, opening new restaurants and optimizing costs) and 2) development of new growth drivers (operating business overseas and M&A).

Based on the Plan, we are positioned to develop and expand the family restaurants business under unstable economic conditions to improve corporate value.

As an initiative in 2016, we worked on measures to achieve sustainable growth at existing restaurants, opened new restaurants and developed new business to achieve future growth.

We achieved to continuously raise the average ticket price by proactively incorporating seasonal and highly popular ingredients into menus for high price point customers in the effort to achieve sustainable growth at existing restaurants. In addition, we implemented the following measures to increase customer traffic.

We remodeled our restaurants (Note 1) to provide more comfortable atmosphere to our customers by converting out-of-dated designs to modern designs that reflect the current trend, modifying table layouts in response to change of the number of people in each customer group, and further enhancing the separation of smoking and non-smoking sections in our restaurants. The Company converted the brands to a different concept and optimized them in an effort to respond to the customers' needs that are driven by changes in local demographics and market conditions.

We implemented "Customer Voice Program" (Note 2) to gather feedback and requests from our customers and have worked on improving service quality at our restaurants. In addition, we are continuously working on improving store operations and productivity. For instance, we introduced a store management system using tablet terminals, which accelerate employee's proficiency by understanding the operations visually.

Also, we have implemented highly successful measures by utilizing digital tools, such as offering mobile apps, and analyzing our big data for menu development, creation of a sales promotion plan and planning opening of new restaurants.

Based on these efforts, the average ticket price and the customer traffic at existing restaurants are in an upward trend, and the customer traffic in the whole group has recovered to 100% in the 4th quarter of 2016 in comparison to the previous year.

We continuously implement measures to reduce costs and expenses.

In order to further improve our supply chain efficiency, we reevaluated the production plan of our merchandising center and have changed the delivery system from a delivery by brand to a delivery by area (Note 3) system which resulted in reduction of delivery cost per restaurant.

For general expenses, we launched a cross-divisional project to reduce indirect costs and achieved significant reduction in general expenses by utilizing knowledge and experiences obtained from the cost reduction projects.

In addition, we proactively opened new restaurants and developed new business models.

In Japan, we opened new restaurants mainly in areas near train stations and in shopping malls taking into consideration of expected high customer traffic. We proactively opened *Syabu-yo* restaurants of which the business model has stabilized and

entered the growth phase, in addition to low priced, all-purpose *Gusto* restaurants.

In Taiwan, we opened new restaurants such as *Syabu-yo*, which are rapidly growing in Japan, as well as the existing business operations.

In addition, we are promoting new businesses as a next growth strategy, including *chawan*, which corresponds to the customer's need at shopping malls, café style *MUSASHI NO MORI COFFEE*, and *Tonkara-tei* and *Katsukyu*, which provides Tonkatsu (Pork-cutlet) menu. This portfolio of new brands carters to wide-ranging customer needs in areas near train stations, shopping malls and roadsides.

The progress of those strategies during the fiscal year ended December 31, 2016 is described below.

- The Company remodeled the interior and exterior (Note 1) of 316 restaurants, pursuing a modern design that promotes comfort and increases customer traffic.

- The Company converted the brands of 84 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.

- We have provided 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 4).

  In our *Gusto* restaurants, we expanded the variety of menu items to meet a wide-range of customers' needs, including improvement of the lunch menu such as daily special and Japanese style meal set and enhancing the low-carb menu with vegetables to respond to customers' health awareness. We also provide more value added meals and large portion meals, and increased options for 399 yen dishes.

  On the other hand, in our specialty brand restaurants, we provide a more specialized menu. *Jonathan's* provides a premium menu using rare ingredients and ingredients directly from the farm. *Bamiyan* successfully promotes typical Chinese food which can be found anywhere in a local town and is familiar to customers, by having Ramen festivals.

- The Company achieved 6.4% of sales growth in the delivery service compared to the previous year by flexibly responding to the evolving customer needs driven from social factors such as aging society and increasing women in the workplace.

- The Company opened 49 new restaurants primarily in shopping malls and near train stations of urban areas (including 12 *Gusto* restaurants, 8 *Syabu-yo* restaurants, 7 *chawan* restaurants and 7 restaurants in Taiwan).

As a result of pursuing the improvement of customers' satisfaction through these measures, total sales for the fiscal year ended December 31, 2016 were up 101.0% compared to the previous year. In addition, sales from existing restaurants in domestic group companies for the fiscal year ended December 31, 2016 were up 99.9%, and those for the three-month periods ended March 31, June 30, September 30, and December 31, 2016 were up 99.8%, 98.4%, 98.9% and 102.4%, respectively, compared to the same periods in the previous year.

- The Company continuously optimized purchasing, processing and distribution. As a result, cost of sales as a percent of sales amounted to 30.0%, which is a decrease of 0.3% compared to the previous year.

- Labor costs increased due to the increase in minimum wages and salaries for our regular employees, which are partially offset by productivity improvement and reduction of indirect costs. As a result, the ratio of selling and administrative expenses against revenue decreased by 0.4% to 60.7%.

Based on the above, the Company achieved revenue of 354,513 million yen (an increase of 3,367 million yen compared to the previous year), operating profit of 31,249 million yen (an increase of 3,443 million yen compared to the previous year), income before income taxes of 28,952 million yen (an increase of 4,235 million yen compared to the previous year), and net income attributable to owners of the Company of 18,213 million yen (an increase of 3,104 million yen compared to the

previous year) for the fiscal year ended December 31, 2016.

Adjusted EBITDA was 47,890 million yen (an increase of 3,064 million yen compared to the previous year) and adjusted net income was 18,216 million yen (an increase of 2,171 million yen compared to the previous year). In addition, the number of restaurants was 3,068 as of the fiscal year ended December 31, 2016 (3,036 as of January 1, 2016).

The Company's operating results for 2016 have been favorable in comparison to the current mid-term plan. Although annual sales growth in 2016 is 1.0%, because the customer traffic at existing restaurants has recovered and opening new restaurants has been accelerating, the estimated three year average growth rate of sales from 2016 to 2018 is expected to exceed the average growth rate of the current mid-term plan (2.0% to 3.0%). Annual growth rates in adjusted EBITDA, adjusted net income and adjusted ROE are 6.8%, 13.5%, and 16.8%, respectively, which meet the target of the current mid-term plan.

(Note 1) Remodeling represents remodeling of interior and exterior of restaurants. The Company remodels approximately 300 restaurants annually.

(Note 2) Customer Voice Program is a customer survey. All responses are addressed with sincerity from the headquarters to each restaurant, and are utilized to develop and improve our services.

(Note 3) We changed the delivery method of ingredients to our restaurants from delivery by brand to delivery by area which results in the concurrent delivery of ingredients to our multiple brand restaurants located within the same area.

(Note 4) 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 5) EBITDA = Income before income taxes + Interest Expense + Loss on redemption of borrowings before the repayment date and gain and loss from associated hedge transactions + Other financial expense (excluding loss on redemption of borrowings before the repayment date and gain and loss from associated hedge transactions) – Interest income – Other financial income + Depreciation and amortization + Amortization of long-term prepaid expense + Amortization of long-term prepaid expense (deposit)

- Other financial expenses are disclosed as "Other expenses" in the Consolidated Statements of Income.
- Other financial income is the amount of "Other income" in the Consolidated Statements of Income from which gain on lapse of statute of limitation of other payables is deducted. During the period from the 3rd term to the 5th term, the amount of "Other income" in the Consolidated Statements of Income equals the amount of other financial income.

(Note 6) Adjusted EBITDA = EBITDA + Loss on disposal of fixed assets + Impairment loss of non-financial assets － Reversal of impairment loss of non-financial assets + Advisory fees in accordance with the BCPL management agreement (including periodic payments) + IPO and public offering-related expenses (including special bonus for initial public offering) + Amount associated with the change in accounting estimates due to qualified listing

(Note 7) Adjusted net income = Net income + Advisory fees in accordance with the BCPL management agreement (including periodic payments) + IPO and public offering-related expenses (including special bonus for initial public offering) + Loss on redemption of borrowings before the repayment date and gain and loss from associated hedge transactions + Amount associated with the change in accounting estimates due to qualified listing + Tax effects of adjustments

(Note 8) The BCPL management agreement represents the management agreement between the Company and Bain Capital Partners LLC. (The agreement was terminated upon the Company's listing in accordance with the amendment to the agreement dated July 17, 2014.)

(Note 9) IPO and public offering-related expenses are one-time expenses incurred at the time of IPO and public offering of the Company's share such as advisory fee and cost associated with purchase of mementoes, etc., which do not include the amount associated with the change in accounting estimates due to qualified listing as noted at (Note 10) below.

(Note 10) As a result of qualified listing (i.e. it refers to an event under which more than 50% of the Company's voting rights are offered to the public or sold for cash consideration following the submission of the registration statement required under the applicable Securities Act or the listing of the Company's stock at the security exchange in Japan), (1) all or a part of equity-settled share-based payments (the first, second and third stock option tranches) (collectively referred to as "SO") granted to the Company's directors and employees ("executives") became exercisable, (2) all or a part of cash-settled share option plans ("Stock Appreciation Right" or "SAR") under the Cash-Settled Stock Appreciation Right Agreement ("SAR agreement") which had been entered into between the Company and the

Company's executives became exercisable, and (3) the Company incurred an obligation to pay certain monetary consideration ("DC") as determined in the Deferred Compensation Agreement ("DC agreement") to a counterparty of the DC agreement, which had been entered into between the Company and the Company's certain executives. Satisfaction of the terms and conditions of qualified listing has significant impact on accounting estimates used for SO, SAR and DC. Since the Company's share has satisfied the terms and conditions of qualified listing, it resulted in change in accounting estimates used for the accounting treatments. "Amount associated with the change in accounting estimates due to qualified listing" refers to the amount of the effect on the estimates used for the accounting treatments associated with the change in estimating the vesting period and the number of rights to be forfeited relevant to SO, SAR and DC.

(ii) Forecasts for the Next Fiscal Year

The Company expects to achieve revenue of 365,000 million yen (an increase of 10,487 million yen), operating profit of 32,800 million yen (an increase of 1,551 million yen), income before income taxes of 30,000 million yen (an increase of 1,048 million yen), net income attributable to owners of the Company of 19,200 million yen (an increase of 987 million yen), Adjusted EBITDA of 49,000 million yen (an increase of 1,110 million yen) and adjusted net income of 19,200 million yen (an increase of 984 million yen).

Since the Company expects to achieve the current mid-term plan for the three year period from 2016 to 2018 much faster than it was planned, the Company has updated the current mid-term plan and developed a new mid-term plan for the three year period from 2017 to 2019. The new mid-term plan aims to achieve an increase in annual growth rates in sales of 3.0~4.0%, operating profit of 6%~8%, adjusted EBITDA of 6%~10%, adjusted net income of approximately 10%, and adjusted ROE of mid 10%.

(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, 2016 is summarized as follows:

Current assets amounted to 38,997 million yen, which was an increase of 2,949 million yen mainly due to decrease in cash and cash equivalents and increase in other current assets compared to those as of the fiscal year ended December 31, 2015. Non-current assets amounted to 279,320 million yen, which was an increase of 504 million yen mainly due to increase in property, plant and equipment and decrease in deferred tax assets compared to those as of the fiscal year ended December 31, 2015.

Total assets amounted to 318,317 million yen, which was an increase of 3,453 million yen compared to those as of the fiscal year ended December 31, 2015.

Current liabilities amounted to 61,716 million yen, which was an increase of 3,525 million yen mainly due to increase in other current liabilities and decrease in other financial liabilities compared to those as of the fiscal year ended December 31, 2015. Non-current liabilities amounted to 142,403 million yen, which was a decrease of 10,983 million yen mainly due to decrease in long-term borrowings and other financial liabilities compared to those as of the fiscal year ended December 31, 2015.

Total liabilities amounted to 204,119 million yen, which was a decrease of 7,458 million yen compared to those as of the fiscal year ended December 31, 2015.

Equity amounted to 114,198 million yen, which was an increase of 10,911 million yen compared to the end of the previous fiscal year. This was primarily due to a net effect of net income of 18,216 million yen and dividends payments of 7,040 million yen.

(ii) Cash Flows

Cash and cash equivalents as of the fiscal year ended December 31, 2016 amounted to 16,222 million yen, which was a decrease of 2,023 million yen compared to those as of the fiscal year ended December 31, 2015. Conditions and factors for each category of cash flow for the fiscal year ended December 31, 2016 were as follows.

Cash flows from operating activities:
Net cash provided by operating activities was 36,029 million yen (an increase of 3,187 million yen compared to the previous year). This was primarily due to an increase in income before income taxes of 4,235 million, a 3,880 million yen increase in the decrease in working capital etc., a decrease in interest payments of 700 million yen, and an increase in payments of income taxes of 5,278 million yen.

Cash flows from investing activities:
Net cash used in investing activities was 16,662 million yen (a decrease of 1,613 million yen compared to the previous year). This was primarily due to a decrease of 1,726 million yen in payments for acquisition of property, plant and equipment including investments in new, converted and remodeled restaurants and a decrease of 45 million yen in payments for intangible assets including investments in IT. We normally make payments of cash and cash equivalents one or two months after an increase in assets from investigating activities.

Cash flows from financing activities:
Net cash used in financing activities was 21,344 million (an increase of 1,694 million yen compared to the previous year). This was primarily due to an increase of dividends paid of 2,109 million yen.

(Reference) Indexes Related to Cash Flows

	Fiscal Year Ended December 31, 2012	Fiscal Year Ended December 31, 2013	Fiscal Year Ended December 31, 2014	Fiscal Year Ended December 31, 2015	**Fiscal Year Ended December 31, 2016**
Ratio of equity attributable to owners of the Company to total assets (%)	30.8	24.1	30.0	32.8	**35.9**
Ratio of equity attributable to owners of the Company to total assets based on a fair value basis (%)	―	―	75.2	96.8	**94.5**
Net leverage ratio (multiple)	3.6	4.2	3.3	2.9	**2.6**
Interest coverage ratio (multiple)	5.2	4.2	7.5	14.3	**22.5**

(Note) Ratio of equity attributable to owners of the Company to total assets: Equity attributable to owners of the Company / Total assets
Ratio of equity attributable to owners of the Company to total assets based on a fair value basis: Total market value of the Company's shares / Total assets
Net leverage ratio: Net interest-bearing liabilities / Adjusted EBITDA
Interest coverage ratio: Cash flows from operating activities / Interest paid
* Each measure is calculated using financial figures on a consolidation basis (IFRSs).
* Total market value of the Company's shares is calculated using share price at the end of the period multiplied by the number of issued shares at the end of the period (after deducting treasury stock).
* Net interest-bearing liabilities are calculated by subtracting cash and deposits from the interest-bearing liabilities.
* The amounts of cash flows from operating activities and interest paid are obtained from "Cash flows from operating activities" and "Interest paid" on the consolidated statements of cash flows.

(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 23.00 yen per share for the fiscal year ended December 31, 2016.

For the fiscal year ending December 31, 2017, an annual-dividend of 40.00 yen per share is planned (including an interim

dividend of 16.00 yen per share), assuming achievement of the business forecast as discussed in page 4 of Appendix.

(Note) Adjusted net income = Net income + Advisory fees in accordance with the BCPL management agreement (*) (including periodic payments) + IPO and public offering-related expenses (including special bonus for initial public offering)
+ Loss on redemption of borrowings before the repayment date and gain and loss from associated hedge transactions + Amount associated with the change in accounting estimates due to qualified listing + Tax effects of adjustments
(*) The BCPL management agreement represents the management agreement between the Company and Bain Capital Partners LLC. (The agreement was terminated upon the Company's listing in accordance with the amendment to the agreement dated July 17, 2014.)

(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, 2016. 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 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 foodservice industry in Japan shrank from 29,070.2 billion yen in 1997 to 22,828.2 billion yen in 2011, but it has been on an upward trend since then to 25,181.6 billion yen in 2015. (Source: Japan Foodservice Association "Estimated market size of Japanese foodservice industry")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, quality and taste, menu options, location, attractiveness of physical facilities, comfort, atmosphere, quality of staff, brand recognition, availability of point-based and other consumer rewards programs, and tax treatments. 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.

In particular, 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

Ensuring food safety is our top priority in our restaurant industry. For example, if our restaurants, merchandizing centers or third-party suppliers and distributors 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;
- fluctuations in foreign exchange rates; and
- increase in a tax 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 Labor Contracts 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, 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) Inclement Weather Conditions and Other Factors

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. Our operating results are affected by changes in demands caused by inclement weather conditions and other factors.

10) Mid-term Business Plan

We developed our Mid-Term Business Plan for 2017 to 2019 ("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 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 due to program bugs, computer viruses, cyber-attacks 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 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 companies.

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 and cash position. 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, 2016, we recognized goodwill of 146,171 million yen in our consolidated statements of financial position. Major break down of goodwill by brand is *Gusto* (76,167 million yen), *Jonathan's* (18,120 million yen) and *Bamiyan* (15,638 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 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. The BCPL management agreement was terminated upon Company's listing.), we paid Bain Capital Partners, LLC 2.0 billion yen on the date of the listing and additional 2.0 billion yen on May 29, 2015. In addition, we recorded this obligation of 4.0 billion yen as an expense for the period ended December 2014. We recognized the entire payment of 4.0 billion yen as an expense for accounting purposes and a deductible expense for tax purposes for the fiscal year ended December 31, 2014. 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 in Tokyo area may have an adverse effect on our business, operating results and financial condition.

19) Intellectual Property Rights

We consider the logo 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 to 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, 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. Such instances have not been identified within our Group. However, if such instances will be incurred in the future or various rumors such as improper use of our trademarks and complaints about contamination by foreign objects will be spread, regardless of whether these are factually correct, on the Internet, our business, operating results, financial condition, brand image and social credibility may be adversely affected.

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 mobile websites, surveys of customers, delivery operations, loyalty programs, and our credit card payment records. 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 Food Sanitation Act and Labor Standards 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, reputation and social credibility 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, reputation 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, 2016. Bain Capital Group has sent three directors, Yuji Sugimoto, as a director, David Gross-Loh and Atsushi Yokoyama, as outside directors.

Upon completion of our initial public offering and also in June 2015, Bain Capital Group sold a portion of our shares, and the BCPL management agreement was terminated on the initial public offering. However, it still continuously holds a 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.

25) Establishment of Holding Company Structure

A holding company structure was established effective January 1, 2016 to enhance our operational management competitiveness. As a result, we are now able to focus on integrated management of the overall group such as direct management of our group company operations. Majority of our income will consist of management fees and dividends from the group companies. Accordingly, any mismanagement of the group company operations may have an adverse effect on the Group’s effective and efficient operations. In addition, if the group companies are not able to pay us management fees or dividends due to changes in their operational performance or restrictions by laws and regulations such as Companies Act imposed on the amount of dividends which the group companies are authorized to pay, our financial position and operating results may be affected.

2. Group Companies

The Group consists of the Company (a holding company) and its seven subsidiaries (as of December 31, 2016), 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. In order to reorganize our operations to the holding company structure by means of a share split of the Company's common stock, at the board of directors meeting held on September 17, 2015, we resolved to establish Skylark Restaurants Co., Ltd. (formerly Skylark Preparatory Corporation Co., Ltd.) and to transfer a portion of the business rights and obligations of the Company's restaurant business to it through an absorption-type company split, effective January 1, 2016. In accordance with this resolution, Skylark Restaurants Co., Ltd. ultimately succeeded the restaurant business on January 1, 2016.

The liquidation process of Shanghai Skylark Restaurant & Food Management Co., Ltd., which had been a consolidated subsidiary of the Company, was completed on September 7, 2016, and it is excluded from consolidation.

(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) Skylark Restaurants Co., Ltd.

Business Activities: Operation of casual dining restaurants known in Japan as "family restaurants" and sale of processed food products

Brands: *Gusto, Jonathan´s, Bamiyan, Yumean, Steak Gusto, Grazie Gardens, Aiya, Totoyamichi, S Gusto, chawan, Tonkara-tei* and others

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 to 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 and 30'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
Grazie Gardens	*Grazie Gardens* is an Italian specialty restaurant which provides authentic pasta and pizza at affordable prices.	Families with women in the 30's and 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 to 50'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 to 50's

Brands	Concept	Target customers
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, buffet-style restaurants in shopping malls, café business, food-service at commercial facilities and food courts business
Brands: *Syabu-yo, Grand Buffet, Festa Garden, Papageno, Grand China, MUSASHI NO MORI COFFEE* and others

3) Tomato and Associates Co., Ltd.
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, Aiya, Syabu-yo* and others
Position of the Business: Taiwan Skylark Co., Ltd. operates restaurant businesses in Taiwan through a licensing agreement for the above brands 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 47 restaurants as of December 31, 2016.

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 and 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.

(Note) The Company mainly provides services and leases restaurant facilities to its subsidiaries. In addition, the Company operates 22 family restaurants.

(2) Business Activities

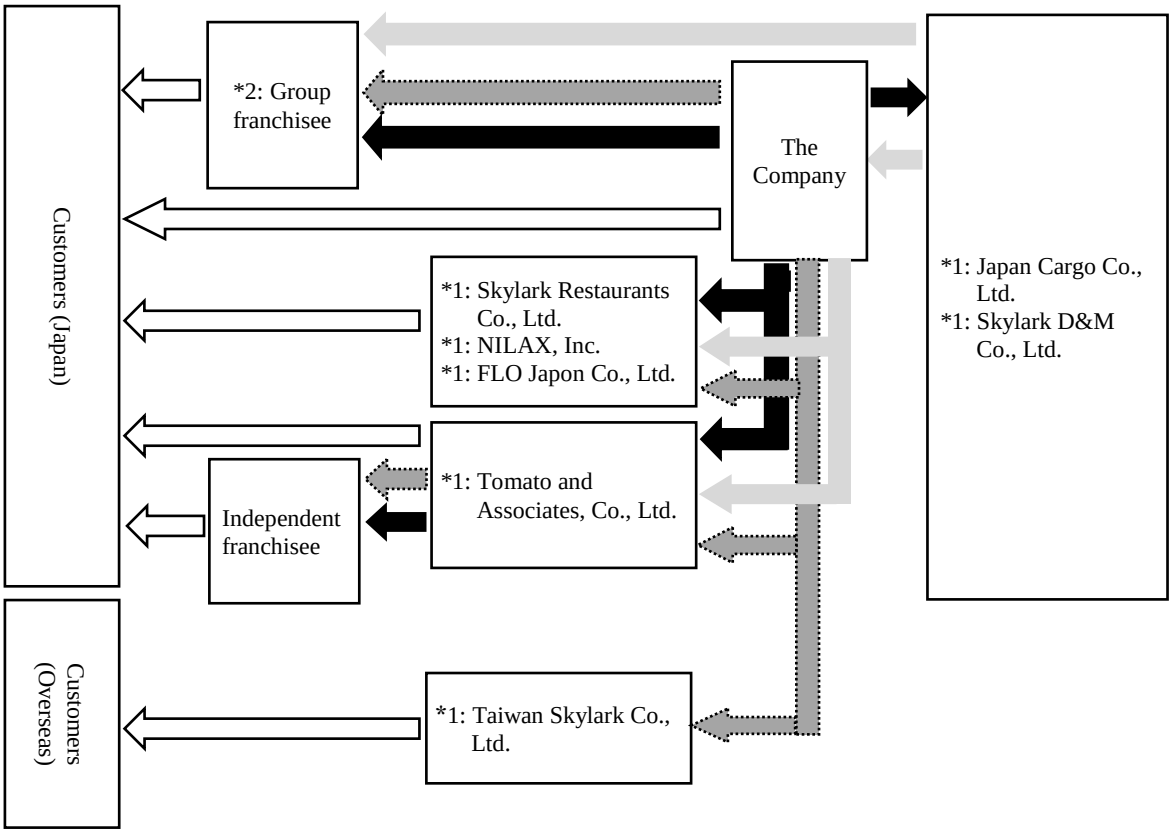
Category		Nature of operations	Companies associated with the operation	Restaurants' brands associated with the operation
Restaurant business	Japan	Operation of family and buffet-style restaurants and sale of processed food and other products	Skylark Restaurants Co., Ltd. (Note 1), NILAX Inc., and Tomato and Associates Co., Ltd. (Total of three companies)	*Gusto, Jonathan´s, Bamiyan, Yumean, Steak Gusto, Grazie Gardens, Aiya, Totoyamichi, S Gusto, chawan, Tonkara-tei, Syabu-yo, Grand Buffet, Festa Garden, Papageno, Grand China, MUSASHI NO MORI COFFEE, Jyu-Jyu Karubi, Tomato & Onion*, and others
	Overseas	Restaurant and other operations	Taiwan Skylark Co., Ltd. (Total of one company)	*Skylark, Café Grazie, Aiya, Syabu-yo* and others
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*

(Note 1) In order to reorganize our operations to the holding company structure by means of a share split of the Company's common stock, at the board of directors meeting held on September 17, 2015, we resolved to establish Skylark Restaurants Co., Ltd. (formerly Skylark Preparatory Corporation Co., Ltd.) and to transfer a portion of the business rights and obligations of the Company's restaurant business to it through an absorption-type company split, effective January 1, 2016. In accordance with this resolution, Skylark Restaurants Co., Ltd. ultimately succeeded the restaurant business on January 1, 2016.

(Note 2) The Company mainly provides services and leases restaurant facilities to its subsidiaries. In addition, the Company operates 22 family restaurants.

(Note 3) The liquidation process of Shanghai Skylark Restaurant & Food Management Co., Ltd. was completed on September 7, 2016, and it is excluded from consolidation.

(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 ingredients and others

Provide menus

Provide logistics, cleaning, maintenance and other services

License agreement and trademark license agreement

(Note 3) The Company mainly provides services and leases restaurant facilities to its subsidiaries. In addition, the Company operates 22 family restaurants.

(Note 4) In order to reorganize our operations to the holding company structure by means of a share split of the Company's common stock, at the board of directors meeting held on September 17, 2015, we resolved to establish Skylark Restaurants Co., Ltd. (formerly Skylark Preparatory Corporation Co., Ltd.) and to transfer a portion of the business rights and obligations of the Company's restaurant business to it through an absorption-type company split, effective January 1, 2016. In accordance with this resolution, Skylark Restaurants Co., Ltd. ultimately succeeded the restaurant business on January 1, 2016.

3. Management Policies

(1) Basic Policy

"Creating richness of life 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 and gain and loss from associated hedge transactions + Other financial expense (excluding loss on redemption of borrowings before the repayment date and gain and loss from associated hedge transactions) – Interest income – Other financial income + Depreciation and amortization + Amortization of long-term prepaid expense + Amortization of long-term prepaid expense (deposit)

- Other financial expenses are disclosed as "Other expenses" in the Consolidated Statements of Income.
- Other financial income is the amount of "Other income" in the Consolidated Statements of Income from which gain on lapse of statute of limitation of other payables is deducted. During the period from the 3rd term to the 5th term, the amount of "Other income" in the Consolidated Statements of Income equals the amount of other financial income.

Adjusted EBITDA = EBITDA + Loss on disposal of fixed assets + Impairment loss of non-financial assets – Reversal of impairment loss of non-financial assets + Advisory fees in accordance with the BCPL management agreement (*) (including periodic payments) + IPO and public offering-related expenses (including special bonus for initial public offering) + Amount associated with the change in accounting estimates due to qualified listing

Adjusted net income = Net income + Advisory fees in accordance with the BCPL management agreement (*) (including periodic payments) + IPO and public offering-related expenses (including special bonus for initial public offering) + Loss on redemption of borrowings before the repayment date and gain and loss from associated hedge transactions + Amount associated with the change in accounting estimates due to qualified listing + Tax effects of adjustments

(*) The BCPL management agreement represents the management agreement between the Company and Bain Capital Partners LLC. (The agreement was terminated upon the Company's listing in accordance with the amendment to the agreement dated July 17, 2014.)

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

"Creating richness of life 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) Our Strength and Management Style

As the largest table service restaurant chain in Japan, we believe that we have the following resilient business foundations:

- Access to the Group's variety of industry-leading brand portfolios.
- Leading player in the restaurant industry with rights to popular restaurant locations.
- Vertical integrated platform which encompasses all phases including product development, ingredient procurement, production, distribution and delivery of the food products through our in-house network complemented by economies of scale and ability to respond swiftly to the changing market environment.

- Ability to utilize superior analytical capability for use in reaching sound business judgments.
- Ownership of advanced digital marketing capability
- Experienced management team with a proven track record and superior restaurant staff with high retention rate.

Because of the resilient business foundation, the Group has following strength over our competitors:

(i) Diverse brands and offer menus at affordable prices.
We operate diverse brands in low price range which is our major segment with strong branding in the area of Japanese, Western, Chinese and Italian cuisines. With affordable prices, we have obtained support from a wide range of customers representing a majority of Japanese consumers.

(ii) Swift adjustments to strategies in response to changes in market conditions and implementation of highly successful measures
The Group has successfully realized strong profit by capturing changes in market conditions and consumer needs and implementing strategies in response to such changes in a timely manner.

Under a deflationary environment during 2010 to 2013, we reorganized our restaurant locations and brand portfolio. Under an inflationary environment during 2014 to 2015, we have proactively developed and introduced menu items with higher prices which resulted in increased average ticket price and increase in overall sales.

Many of our Group's new strategies including new branding have higher rate of success because these are based on the existing operational foundation.

2) Changes in External Business Environment surrounding the Group
The Group believes that among various changes in the external environment, the following seven trends will have a direct effect on our operational results.

(i) Slowdown in Total Demand
Despite the decline in population, the size of the market volume should remain consistent due to increase in dining related expenditures per person until around 2020. In addition, for the family-style restaurants, there is a presence of large markets for breakfast, café, and alcohol.

(ii) Migration of Market to Urban Areas
Individuals seeking convenience will continue to migrate to urban areas. In addition, government and local municipalities will encourage individuals to relocate to the urban areas for the purpose of reducing the cost of maintaining the infrastructure. Accordingly, the flow of people will shift to the urban areas and the importance of the roadside locations in the urban area will continue to increase

(iii) Increase in Singles, Promotion of Women in the Workplace, and the Elders
The percentage of singles and double-income families, which spend relatively higher dining related expenditures, should continue to increase. In addition, the elders have disposable income have enjoyed dining out and are expected to continue to dine out proactively in the future to satisfy their desire to communicate with others and save time for cooking.

(iv) Maturity of Food Preference
Consumer food preference will continue to mature and the percentage of customers seeking specific restaurant category should increase. Accordingly, the need for specialty restaurants which serve high quality foods at relatively affordable prices should increase.

(v) Polarization in Consumption
While there are specific numbers of high price point customers who see dining out as a luxury, budget minded consumers who are constrained by decline in real wages continues to seek family-style restaurants that provide value at low prices.

(vi) Increase in Inflation

Wholesale price index is expected rise continuously due to increase in demand in the emerging markets and changes in exchange rates. Furthermore, the cost for maintaining and recruiting human resources will continue to increase due to a general decline in the working age population, increase in the number of job opportunities as the result of economic recovery and expanded coverage in social insurance.

(vii) Competition between Fast Food Restaurants and Convenience Stores

Fast food restaurants and convenience stores are now in direct competition as the convenience stores have seen success in penetrating the fast food restaurant shares by not only offering low prices but also offering quality food particularly for those consuming in small groups.

We believe that changes in the business environment is our opportunity to grow, and will aim to achieve further growth in the future by implementing immediate and appropriate measures against changes in external business environment as discussed above.

3) Strategy for Growth of the Company

As discussed above, the Group will also aim to achieve further growth by implementing the following strategies.

(i) Growth by utilizing existing operational base (strengthening profitability of our existing restaurants, opening new restaurants and optimizing costs)

(ii) Growth by expanding the scope of applying the operational base (operating business in overseas and M&A)

4) Strengthening Profitability of Our Existing Restaurants

The food services industry has now matured and growth is expected to be limited. Therefore, the Group has worked to enhance the profitability of our existing restaurants as a growth initiative, rather than pursuing past strategies such as opening restaurants in large numbers. We do not expect our strategy to change significantly in the future. Historically, until 2015, we strategized to develop and increase higher price range menu items in order to increase the average ticket price, we now believe that the most important factor to realize further growth in the future is our ability to increase the customer base.

We also believe that we are able to further increase the average ticket price at specialty-style brands which are not multipurpose-style restaurants but restaurants where customers visit for specific dining purposes.

Based on above, we will implement each of following strategies and plans.

(i) Increase in the number of customers by strengthening core menus

- Capturing the expanding needs of our new customers
- Product development through the eyes of procurement and promotion

(ii) Increase in the number of customers by promoting value

- Issuance of discount coupons by target customer base
- Implementation of sales promotion taking advantage of multi-brand, such as coupons which can be used in different restaurant brands of the Group

(iii) Increase in the average ticket price by providing value

- Expansion of promotional campaigns through the use of premium ingredients
- Enhance concurrent sales of drink bar and side menu items

(iv) Acceleration of remodeling of restaurants in correspondence with changes in demand

- Remodeling the interior and exterior of existing restaurants in correspondence to changes in the trend of customer base

- Separation of smoking and non-smoking areas
- Enhancing to set up outdoor advertising (signs) to entice customers to our group restaurants

(v) Implementing brand conversions in correspondence with the change in market trends
- Converting brands to correspond to changes in customer preferences and competitive environment
- Converting specialty brands which may result in short term success in correspondence to maturity of food preferences

(vi) Further advancement of restaurant operation
- Increase in the number of customer turnover at peak hours through improvement of operational efficiency

(vii) Capturing the peripheral market (breakfast, café, alcohol)
- Proactively capturing demands such as breakfast, café and alcohol

(viii) Expansion of delivery and take-out services
- Shortening delivery time to customers by improving menu and operational efficiency at restaurants
- Enhancing sales promotion by utilizing mobile apps
- Developing new services for the elders and double-income families
- Expansion of restaurants which provide delivery services

5) Opening New Restaurants

We have focused on opening new restaurants in urban areas and shopping malls in the last few years, and multiple brands of restaurants have been developed such as *Syabu-yo* of which its business model has stabilized, suburban café style *MUSASHI NO MORI COFFEE,* and *Tonkara-tei* and *Katsukyu* which provide Tonkatsu (Pork-cutlet) menu. From now on we will proactively open new restaurants to achieve a balance over the number of restaurants in urban areas and roadside locations in suburban areas.

By analyzing the competitive environment in each domestic region, we will formulate a new plan that can make full use of the features of each brand, streamline the internal processes related to opening new restaurants and open new restaurants swiftly with a high rate of success.

6) Cost Reduction

Labor costs are expected to increase due to higher minimum wages and expansion of social security coverage. The expenses which are considered to be susceptible to inflation may have significant impact on our cost environment.

We have identified the following cost-saving initiatives:

(i) Procurement

We are the largest table service restaurant chain in Japan 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.

We also aim to reduce costs by taking a fresh look at procurement and production in developing new menu items. We will capture the trends in price of ingredient on a regular basis and develop our menus by utilizing high quality but inexpensive ingredients.

(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. We will also implement delivery by area across brands and review frequency of delivery of our products at room temperatures.

In the merchandizing centers, we will enhance our ability to control working hours in response to changes in demand and also implement certain measures to reduce costs such as reducing material wastes generated in the production process.

(iii) 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. Procurement department will establish a scheme to support cost reduction on a company-wide basis and set the defined numerical targets for all departments.

7) Growth by Expanding the Operational Base

(i) Business expansion in Taiwan

The restaurant industry in Taiwan has been continuously growing and continues to be a very attractive market for us. The Group will aim to improve profitability of our existing restaurants in Taiwan by utilizing the know-how obtained from our growth. We have introduced a successful restaurant in Japan, *Syabu-yo* and realised sound operational results. We continue to expand it in Taiwan by opening new restaurants and converting the brand.

(ii) Proactive pursuit for M&A opportunities

We will continue to pursuit for M&A opportunities with companies which have certain assets or know-how to enhance our strength or similarities with operational base of the Group that will result in synergy.

8) Food Safety

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

As stated above, we will continue to promote the prevention of food-borne illnesses and ensure a thorough implementation. We mandated our employees to comply with the “Food Safety Guidance” that has been amended 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. Basic Policy Regarding Selection of Accounting Standards

The Group has adopted the International Financial Reporting Standards (IFRSs) effective from the fiscal year ended December 31, 2013 to improve effective usage for stakeholders such as domestic and foreign shareholders, investors and trading partners.

5. Consolidated Financial Statements

(1) Consolidated Statements of Financial Position

As of the Fiscal Years Ended December 31, 2015 and 2016 (Unaudited)

(Millions of yen)

	As of the fiscal year ended December 31, 2015	**As of the fiscal year ended December 31, 2016**
Assets		
Current assets		
Cash and cash equivalents	¥ 18,245	**¥ 16,222**
Trade and other receivables	7,399	**7,885**
Other financial assets	95	**73**
Inventories	6,290	**6,465**
Other current assets	4,019	**8,352**
Total current assets	36,048	**38,997**
Non-current assets		
Property, plant and equipment	95,450	**96,692**
Goodwill	146,205	**146,171**
Other intangible assets	2,370	**2,503**
Other financial assets	23,992	**23,618**
Deferred tax assets	10,008	**9,415**
Other non-current assets	791	**921**
Total non-current assets	278,816	**279,320**
Total assets	¥ 314,864	**¥ 318,317**
Liabilities and equity		
Liabilities		
Current liabilities		
Short-term borrowings	¥ 9,960	**¥ 10,458**
Trade and other payables	23,213	**23,426**
Other financial liabilities	6,153	**3,796**
Income tax payable	6,363	**6,317**
Provisions	236	**235**
Other current liabilities	12,266	**17,484**
Total current liabilities	58,191	**61,716**
Non-current liabilities		
Long-term borrowings	130,739	**121,349**
Other financial liabilities	7,742	**6,165**
Provisions	13,789	**14,250**
Other non-current liabilities	1,116	**639**
Total non-current liabilities	153,386	**142,403**
Total liabilities	211,577	**204,119**
Equity		
Share capital	2,529	**2,670**
Capital surplus	62,961	**57,920**
Other components of equity	(717)	**(559)**
Retained earnings	38,439	**54,167**
Equity attributable to owners of the Company	103,212	**114,198**
Non-controlling interests	75	**—**
Total equity	103,287	**114,198**
Total liabilities and equity	¥ 314,864	**¥ 318,317**

(2) Consolidated Statements of Income

For the Fiscal Years Ended December 31, 2015 and 2016 (Unaudited)

(Millions of yen)

	For the fiscal year ended December 31, 2015	**For the fiscal year ended December 31, 2016**
Revenue	¥ 351,146	**¥ 354,513**
Cost of sales	(106,471)	**(106,458)**
Gross profit	244,675	**248,055**
Other operating income	410	**672**
Selling, general and administrative expenses	(214,693)	**(215,219)**
Other operating expenses	(2,586)	**(2,259)**
Operating profit	27,806	**31,249**
Interest income	33	**21**
Other income	376	**454**
Interest expense	(3,458)	**(2,749)**
Other expenses	(40)	**(23)**
Income before income taxes	24,717	**28,952**
Income taxes	(9,597)	**(10,736)**
Net income	¥ 15,120	**¥ 18,216**
Net income attributable to:		
Owners of the Company	¥ 15,109	**¥ 18,213**
Non-controlling interests	11	**3**
Net income	¥ 15,120	**¥ 18,216**
Earnings per share		
Basic (Yen)	¥ 77.79	**¥ 93.57**
Diluted (Yen)	76.98	**92.80**

(3) Consolidated Statements of Comprehensive Income

For the Fiscal Years Ended December 31, 2015 and 2016 (Unaudited)

(Millions of yen)

	For the fiscal year ended December 31, 2015	**For the fiscal year ended December 31, 2016**
Net income	¥ 15,120	**¥ 18,216**
Other comprehensive income		
Items that are not reclassified to profit or loss		
Financial assets measured at fair value through other comprehensive income	10	**44**
Remeasurements of the net defined benefit liability (asset)	—	**(18)**
Total items that are not reclassified to profit or loss	10	**26**
Items that may be reclassified to profit or loss		
Exchange differences on translation of foreign operations	(63)	**(56)**
Cash flow hedges	(1,037)	**159**
Total items that may be reclassified to profit or loss	(1,100)	**103**
Other comprehensive income, net of tax	(1,090)	**129**
Total comprehensive income	¥ 14,030	**¥ 18,345**
Comprehensive income attributable to:		
Owners of the Company	14,021	**18,346**
Non-controlling interests	9	**(1)**
Total comprehensive income	¥ 14,030	**¥ 18,345**

(4) Consolidated Statements of Changes in Equity

For the Fiscal Year Ended December 31, 2015 (Unaudited)

(Millions of yen)

	Share capital	Capital surplus	Other components of equity			
			Financial assets measured at fair value through other comprehensive income	Exchange differences on translation of foreign operations	Cash flow hedges	Total
As of January 1, 2015	¥ 2,479	¥ 67,674	¥ —	¥ 376	¥ —	¥ 376
Adjustments due to changes in accounting policies	—	—	—	—	—	—
As of January 1, 2015 (after adjustments)	¥ 2,479	¥ 67,674	¥ —	¥ 376	¥ —	¥ 376
Net income	—	—	—	—	—	—
Other comprehensive income, net of tax	—	—	10	(61)	(1,037)	(1,088)
Total comprehensive income	—	—	10	(61)	(1,037)	(1,088)
Dividends	—	(4,918)	—	—	—	—
Exercise of stock options	50	35	—	—	—	—
Share-based payments	—	170	—	—	—	—
Reclassification from other components of equity to retained earnings	—	—	(5)	—	—	(5)
Total contributions by and distributions to owners of the Company	50	(4,713)	(5)	—	—	(5)
Total transactions with owners of the Company, etc.	50	(4,713)	(5)	—	—	(5)
As of December 31, 2015	¥ 2,529	¥ 62,961	¥ 5	¥ 315	¥ (1,037)	¥ (717)

	Retained earnings	Equity attributable to owners of the Company	Non-controlling interests	Total equity
As of January 1, 2015	¥ 23,162	¥ 93,691	¥ 66	¥ 93,757
Adjustments due to changes in accounting policies	163	163	—	163
As of January 1, 2015 (after adjustments)	¥ 23,325	¥ 93,854	¥ 66	¥ 93,920
Net income	15,109	15,109	11	15,120
Other comprehensive income, net of tax	—	(1,088)	(2)	(1,090)
Total comprehensive income	15,109	14,021	9	14,030
Dividends	—	(4,918)	—	(4,918)
Exercise of stock options	—	85	—	85
Share-based payments	—	170	—	170
Reclassification from other components of equity to retained earnings	5	—	—	—
Total contributions by and distributions to owners of the Company	5	(4,663)	—	(4,663)
Total transactions with owners of the Company, etc.	5	(4,663)	—	(4,663)
As of December 31, 2015	¥ 38,439	¥ 103,212	¥ 75	¥ 103,287

Consolidated Statements of Changes in Equity
For the Fiscal Year Ended December 31, 2016 (Unaudited) －Continued

(Millions of yen)

	Share capital	Capital surplus	Other components of equity				
			Financial assets measured at fair value through other comprehensive income	Remeasure-ments of the net defined benefit liability (asset)	Exchange differences on translation of foreign operations	Cash flow hedges	Total
As of January 1, 2016	**¥ 2,529**	**¥ 62,961**	**¥ 5**	**¥ －**	**¥ 315**	**¥ (1,037)**	**¥ (717)**
Net income	－	－	－	－	－	－	－
Other comprehensive income, net of tax	－	－	**44**	**(18)**	**(52)**	**159**	**133**
Total comprehensive income	－	－	**44**	**(18)**	**(52)**	**159**	**133**
Dividends	－	**(4,570)**	－	－	－	－	－
Exercise of stock options	**141**	**97**	－	－	－	－	－
Share-based payments	－	**33**	－	－	－	－	－
Reclassification from other components of equity to retained earnings	－	－	**(3)**	**18**	－	－	**15**
Total contributions by and distributions to owners of the Company	**141**	**(4,440)**	**(3)**	**18**	－	－	**15**
Acquisition of non-controlling interests without a change in control	－	**(601)**	－	－	**10**	－	**10**
Total change in ownership interests in subsidiaries	－	**(601)**	－	－	**10**	－	**10**
Total transactions with owners of the Company, etc.	**141**	**(5,041)**	**(3)**	**18**	**10**	－	**25**
As of December 31, 2016	**¥ 2,670**	**¥ 57,920**	**¥ 46**	**¥ －**	**¥ 273**	**¥ (878)**	**¥ (559)**

	Retained earnings	Equity attributable to owners of the Company	Non-controlling interests	Total equity
As of January 1, 2016	**¥ 38,439**	**¥ 103,212**	**¥ 75**	**¥ 103,287**
Net income	**18,213**	**18,213**	**3**	**18,216**
Other comprehensive income, net of tax	－	**133**	**(4)**	**129**
Total comprehensive income	**18,213**	**18,346**	**(1)**	**18,345**
Dividends	**(2,470)**	**(7,040)**	－	**(7,040)**
Exercise of stock options	－	**238**	－	**238**
Share-based payments	－	**33**	－	**33**
Reclassification from other components of equity to retained earnings	**(15)**	－	－	－
Total contributions by and distributions to owners of the Company	**(2,485)**	**(6,769)**	－	**(6,769)**
Acquisition of non-controlling interests without a change in control	－	**(591)**	**(74)**	**(665)**
Total change in ownership interests in subsidiaries	－	**(591)**	**(74)**	**(665)**
Total transactions with owners of the Company, etc.	**(2,485)**	**(7,360)**	**(74)**	**(7,434)**
As of December 31, 2016	**¥ 54,167**	**¥ 114,198**	**¥ －**	**¥ 114,198**

(5) Consolidated Statements of Cash Flows

For the Fiscal Years Ended December 31, 2015 and 2016 (Unaudited) (Millions of yen)

	For the fiscal year ended December 31, 2015	**For the fiscal year ended December 31, 2016**
Cash flows from operating activities		
Income before income taxes	¥ 24,717	**¥ 28,952**
Adjustments for:		
Depreciation and amortization	13,600	**13,984**
Loss on impairment of non-financial assets	649	**949**
Loss on sale and disposal of fixed assets	1,276	**976**
Interest income	(33)	**(21)**
Other income	(376)	**(454)**
Interest expense	3,458	**2,749**
Other expenses	40	**23**
	43,331	**47,158**
Changes in working capital:		
Increase in trade and other receivables	(247)	**(497)**
Decrease (Increase) in inventories	(2,184)	**(175)**
Decrease in trade and other payables	(81)	**866**
Other	(426)	**748**
Cash generated from operations	40,393	**48,100**
Interest and dividends received	7	**4**
Interest paid	(2,301)	**(1,601)**
Income taxes paid	(5,258)	**(10,536)**
Income taxes refunded	1	**62**
Net cash from operating activities	32,842	**36,029**
Cash flows from investing activities		
Payments into time deposits	—	**(194)**
Proceeds from withdrawals of time deposits	—	**194**
Acquisition of property, plant and equipment	(17,188)	**(15,462)**
Proceeds from sale of property, plant and equipment	5	**—**
Acquisition of intangible assets	(1,104)	**(1,059)**
Payment of loans	—	**(2)**
Proceeds from collection of loans	4	**5**
Payment of lease deposits and guarantee deposits	(779)	**(723)**
Proceeds from collection of lease deposits and guarantee deposits	1,177	**867**
Other	(390)	**(288)**
Net cash used in investing activities	(18,275)	**(16,662)**
Cash flows from financing activities		
Proceeds from short-term borrowings	—	**9,500**
Repayments of short-term borrowings	—	**(9,500)**
Repayments of long-term borrowings	(9,500)	**(10,000)**
Proceeds from exercise of stock options	85	**238**
Repayments of lease obligations	(4,262)	**(3,852)**
Dividends paid	(4,924)	**(7,033)**
Payments for cancellation of interest rate swaps	(717)	**—**
Payments for charges associated with borrowings	(332)	**(24)**
Payments for acquisition of interests in subsidiaries	—	**(665)**
Other	—	**(8)**
Net cash used in financing activities	(19,650)	**(21,344)**
Effect of exchange rate on the balance of cash and cash equivalents held in foreign currency	(55)	**(46)**
Net increase in cash and cash equivalents	(5,138)	**(2,023)**
Cash and cash equivalents at the beginning of the year	23,383	**18,245**
Cash and cash equivalents at the end of the year	¥ 18,245	**¥ 16,222**

(6) Notes on the Going Concern Assumption

No items to report

(7) Significant Matters Identified in Preparing Consolidated Financial Statements

Changes in accounting policies

Newly adopted accounting standards

Annual improvements of International Financial Reporting Standard ("IFRS") 5, Non-current Assets Held for Sale and Discontinued Operations; IFRS 7, Financial Instruments: Disclosures; International Accounting Standard ("IAS") 19, Employee Benefits; IAS 34, Interim Financial Reporting are effective for the fiscal year beginning on or after January 1, 2016. The Company has adopted them since the fiscal year ended December 31, 2016.

The Group has adopted the following standards since the fiscal year ended December 31, 2016.

IFRSs	Title	Description of New Standards/Amendments/Transitional Provisions
IFRS10	Consolidated Financial Statements	・ Amendments on exception to consolidation of investment entity
IFRS11	Joint Arrangements	・ Amendments on accounting treatments for the acquisition of an interest in a joint operation that constitutes a business
IFRS12	Disclosure of Interest in Other Entities	・ Amendments on exception to consolidation of investment entity
IAS1	Presentation of Financial Statements	・ Amendments related to presentation and disclosure of financial statements
IAS16	Property, Plant and Equipment	・ Clarification of the use of revenue-based methods to calculate the depreciation of property, plant and equipment
IAS28	Investments in Associates and Joint Ventures	・Amendments related to exception to consolidation of investment entity
IAS38	Intangible Assets	・Clarification of the use of revenue-based methods to calculate the amortization of intangible asset

The adoption of the above standards had no material impact on the consolidated financial statements for the fiscal year ended December 31, 2016.

(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.

The Group's business segment includes *Gusto*, *Jonathan's, Bamiyan, Steak Gusto, Yumean* and others. These are aggregated in the "Restaurant Business". The gross profit ratio of each business segment in the restaurant business is at the similar level, and it shares the similar economic characteristics. In addition, each business segment in the restaurant segment has similarities in procurement, production, cooking, and distribution methods to each restaurant as the "table service" restaurant business which targets consumers.

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, 2015	**For the fiscal year ended December 31, 2016**
Net income attributable to common stockholders of the Company (Millions of yen)	¥ 15,109	**¥ 18,213**
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)	15,109	**18,213**
Adjustment (Millions of yen)	—	—
Net income attributable to common stockholders used for calculation of diluted earnings per share (Millions of yen)	¥ 15,109	**¥ 18,213**
Weighted-average number of shares during the period (Shares)	194,232,860	**194,659,498**
Increase in number of common stock used for calculation of diluted earnings per share (Shares)		
Increased number of common stock by stock options	2,029,703	**1,609,255**
Weighted-average number of common stock used for calculation of diluted earnings per share (Shares)	196,262,563	**196,268,753**
Basic earnings per share (Yen)	¥ 77.79	**¥ 93.57**
Diluted earnings per share (Yen)	76.98	**92.80**

(iii) Significant Subsequent Events
No items to report