Consolidated Financial Report
For the Three-month Period Ended March 31, 2018 (IFRS)

May 10, 2018

Company Name	SKYLARK CO., LTD	Stock Exchange Listing: Tokyo Stock Exchange, 1st Section
Securities Code	3197	URL: http://www.skylark.co.jp
Representative	Makoto Tani, Chairman, President and Chief Executive Officer	
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Quarterly statement filing date (as planned)		May 10, 2018
Dividend payable date (as planned)		―
Supplemental material of quarterly results		Yes
Convening briefing of quarterly results		―

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

1. Consolidated Financial Results for the Three-month Period Ended March 31, 2018

(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)	(%)
Three-month period ended March 31, 2018	90,105	2.2	5,562	(11.3)	4,454	(12.8)	2,804	(15.5)	2,804	(15.5)	2,011	(42.2)
Three-month period ended March 31, 2017	88,130	1.3	6,271	2.1	5,106	―	3,319	―	3,319	―	3,480	―

	Basic earnings per share	Diluted earnings per share
	(Yen)	(Yen)
Three-month period ended March 31, 2018	14.24	14.21
Three-month period ended March 31, 2017	17.03	16.89

(Reference)

EBITDA	Three-month period ended March 31, 2018	8,998 million yen	(-6.5%)	Three-month period ended March 31, 2017	9,621 million yen	(-0.2%)
Adjusted EBITDA	Three-month period ended March 31, 2018	9,671 million yen	(-4.7%)	Three-month period ended March 31, 2017	10,148 million yen	(-0.9%)
Adjusted net income	Three-month period ended March 31, 2018	3,104 million yen	(-16.8%)	Three-month period ended March 31, 2017	3,730 million yen	(12.4%)

(Note 1) The Company uses EBITDA, adjusted EBITDA and adjusted net income to evaluate the results of our operations. Refer to "* Notes for using forecasted information and other matters (3) ~ (5)" below for details.

(Note 2) Year-on-year changes for the three-month period ended March 31, 2017 are not stated due to retroactive adjustments made in accordance with changes in accounting policies.

(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
	(Millions of yen)	(Millions of yen)	(Millions of yen)	(%)
As of March 31, 2018	323,397	125,084	125,084	38.7
As of December 31, 2017	318,203	127,324	127,324	40.0

2. Dividends

	Dividends per share				
	First quarter	Second quarter	Third quarter	Fourth quarter	Total
	(Yen)	(Yen)	(Yen)	(Yen)	(Yen)
Fiscal year ended December 31, 2017	–	16.00	–	22.00	38.00
Fiscal year ending December 31, 2018	–				
Fiscal year ending December 31, 2018 (Forecasted)		16.00	–	22.00	38.00

(Note) Revision of dividend forecast: None

3. Forecasts on the Consolidated Financial Results for the Year Ending December 31, 2018 (January 1, 2018 - December 31, 2018)

(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, 2018	373,800	4.0	28,700	2.1	26,000	10.6	17,200	10.6	87.34

(Note) Revision of forecasts on the results of operations: None

(Reference)

Adjusted EBITDA Fiscal year ending December 31, 2018 (Forecasted) 44,800 million yen (3.5%)

Adjusted net income Fiscal year ending December 31, 2018 (Forecasted) 17,200 million yen (1.5%)

As retroactive adjustments were made in accordance with changes in accounting policies, year-on-year changes are calculated using the prior year financial results after the retroactive adjustment.

*** Notes**

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

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

(3) Number of issued shares (common stock)

(i) Number of issued shares (including treasury stock)	As of March 31, 2018	197,064,300	As of December 31, 2017	196,922,200
(ii) Number of treasury stock	As of March 31, 2018	−	As of December 31, 2017	−
(iii) Average number of issued shares during the period	Three months ended March 31, 2018	197,006,166	Three months ended March 31, 2017	194,843,833

* The quarterly financial report is not subject to quarterly review procedures by independent auditors.

* Notes for using forecasted information and other matters

(1) The Group has 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 6 of Appendix "1. Qualitative Information on the Consolidated Financial Results for the Three-month Period Ended March 31, 2018 (3) Explanation of the Forward-looking Statements including the Forecasts on the Consolidated Financial Results" 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. Qualitative Information on the Consolidated Financial Results for the Three-month Period Ended March 31, 2018 (1) Qualitative Information on the 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, amount associated with the change in accounting estimates due to qualified listing, and gain and loss from modification of financial liabilities in accordance with the adoption of International Financial Reporting Standard (IFRS) 9 "Financial Instruments" (2014) (including readjustment of the amount of impact from the retroactive application of changes in accounting policies). (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)

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1. Qualitative Information on the Consolidated Financial Results for the Three-month Period Ended March 31, 2018

(1) Qualitative Information on the Consolidated Operating Results

IFRS 9 “Financial Instruments” (2014) has been applied since the three-month period ended March 31, 2018, and the consolidated financial results for the three-month period ended March 31, 2017 has been adjusted in accordance with the retroactive application of IFRS 9 (2014).

The global economic environment is changing dramatically, at a speed that is accelerating. Japan is also reaching a milestone, with its economic environment and demographic and consumer trends all changing, and the conditions surrounding the food service industry are also expected to grow increasingly severe. The consumption tax is due to be raised in 2019, and the food service industry is expected to be outside the scope of the reduced tax rate. While the Tokyo 2020 Olympic and Paralympic Games are expected to bring significant economic effects in that year, the outlook for the market after that is uncertain.
2018 is the first year of the very important period of 2018 to 2020, which will influence growth in the future.
Our management policies in this important year 2018 are as follows.

(i) Stably Achieving Higher Sales and Profits

The basic policy for 2018 and beyond is to achieve higher sales and profits. Our operating margin of about 8% is among the highest in the food service industry. In 2018, we aim to create restaurants that will be appreciated by regional residents by investing in our restaurants and employees while standing firm on our policy of higher sales and profits.

(ii) Improving Customer Satisfaction by Increasing the Operation Quality of Individual Restaurants

We believe that improving the operation quality of our restaurants is the very essence of improving customer satisfaction, which will result in the growth of the Company. To maintain our competitive advantage in the food service industry which is growing increasingly severe, it is essential to increase store productivity using IT. We will completely overhaul the mission-critical systems at our restaurants in the second half of 2018 for the first time in seven years. We will increase customer convenience and the productivity of employees by improving the terminal to receive orders from customers, automating the order and inventory management systems at restaurants and accommodating diversified payment means.

(iii) Improving the Work-Life Balance by Facilitating the Working Environment for Employees

To remain a restaurant supported by customers even in this severe external environment, we will continue to invest in our employees, who are important assets for the Company. We have acquired the *Kurumin* mark certification from the Ministry of Health, Labour and Welfare in 2016 as a company that supports childcare and the *Tomonin* mark certification from the MHLW in 2017 as a company that promotes the simultaneous pursuit of work and nursing care. In addition to the extension of retirement age to 65, the extension of employment age to 70, the expansion of the region-specific employment system, and the shortening of late-night opening hours, all of which we have already implemented, we are promoting the introduction of a store operation video manual. Through these initiatives, we will improve the work-life balance by facilitating the working environment for employees.

As an initiative for the three month period ended March 31, 2018, we worked on measures to achieve sustainable growth at existing restaurants, opened new restaurants, developed new brands and optimized costs.

We implemented the following measures in the effort to achieve sustainable growth at existing restaurants.

・By using the Company's vertically integrated platform (Note 1), we have actively pursued the development of products meeting customer needs that can also be served safely at affordable prices.
First, in response to the consumption trend referred to as “intangible consumption,” we have introduced various products and promotions to offer our customers attractive in-store experiences.
Gusto has successfully introduced a new revival menu from “Skylark“, our popular original family-style brand restaurant chain until its closure in 2009. The new menu “Deluxe Hamburger Patty” is made from 100% pure ground beef and rearranged in a *Gusto* style. *Yumean* and *Aiya* have launched campaigns called “Spring Travel Fair” and “Japanese Black Beef & Kirishima Black Pork Fair”, respectively, and introduced a variety of special menus offering our customers opportunity to taste spring delicacies from all over Japan.
We have been also pursuing the enhancement of the Grand Menu by increasing the menu selections within the main price range of each brand and adding offerings to match customer preferences, with the aim to entice repeat guests

to try different dishes.

・We remodeled (Note 2) our restaurants to provide more comfortable ambiance to our customers by converting dated designs to current styles, modifying table layouts in response to shifts in customer headcount within each guest group, enhancing separation of smoking versus non-smoking sections, and adjusting to banquet and party demands.
The Company has also converted the brands in an effort to respond to changes in customer preferences, local demographics and market conditions in order to further optimize the position of the respective brands.
The Company remodeled 88 restaurants and converted the brands of 8 restaurants to different concepts during the three-month period ended March 31, 2018.

・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. Also, in March 2018, we launched services utilizing an app which can distribute information of special offers from all brand of the entire Skylark group. Now we can offer useful information aligned with customer needs with respect to each brand. We anticipate this effort will drastically improve customer traffic at our various brand restaurants.

・The Company achieved 15.2 % of sales growth in the delivery service business compared to the same period in the previous year by flexibly responding to new customer demands such as aging society and increasing women's participation into the workplace. Delivery service will continue to be a growth driver in 2018, and we will proceed to make investments in order to improve productivity and to shorten delivery time.

In addition, conditions of opening new restaurants and developing new brands are summarized as follows.

・The opening of new restaurants is a core initiative of the mid-term business plan, and during the three-month period ended March 31, 2018, 33 new restaurants were opened according to the plan.
Domestically, the Company opened 1 *Gusto* restaurant, 6 *Syabu-yo* restaurants, 15 *Karayoshi* restaurants, 1 *chawan* restaurant and 4 *MUSASHI NO MORI COFFEE*, etc. by selecting the most suitable brands for locations such as station-front sites in urban areas, roadside locations, and shopping centers. In Taiwan, the Company opened 2 restaurants including 1 *Syabu-yo* restaurant, which is a rapidly growing brand in Japan.

・We are working on developing new brands as a basic strategy in response to "intangible consumption," roadside locations in suburban areas and shopping centers, and limited space surrounding train stations. We have opened 4 *MUSASHI NO MORI COFFEE* locations where customers can relax in a modern and tranquil atmosphere. There are plans to further expand the number of shops in the future.
As a suburban style brand, 20 locations of the *Karayoshi* restaurants, specialized in fried chicken were opened (15 new openings, 5 brand conversion).
Further, we opened 1 *chawan* restaurant in shopping centers. We will also continue to open new restaurants under these brands.

In addition, conditions of cost reduction are summarized as follows.

・In an effort to control costs, the Company continuously optimized purchasing, processing and distribution. In order to further improve our supply chain efficiency, we integrated the delivery to *Syabu-yo* restaurants, which was delivered by its original route, into the delivery routes of existing brands, resulting in reduction of delivery cost in the whole group.
For the three-month period ended March 31, 2018, cost of sales as a percent of sales was 30.5%, which was an increase of 0.3% compared to the previous year due to the strategic sales promotion for high-value menus.
In the future, we will continue with our initiatives to reduce costs, curtail staff workload, expand menu selections without burdening operations, increase factory processed items to stabilize quality, and extend company-operated distribution.

・For general expenses, labor costs increased due to the increases in minimum wages and salaries for our regular employees, which were partially offset by the cross-divisional project to reduce the indirect costs. As a result, the ratio of selling, general and administrative expenses to revenue was 62.7%, which was an increase of 0.4% compared to the same period in the previous year.
As labor costs are expected to remain high due to continuously rising costs and difficulty in staff recruitment, multi-faceted measures are considered necessary. However, we consider that reducing workload at the restaurant site and

creating an employee friendly working environment will lead to improvement in productivity and staff recruitment, ultimately resulting in the mitigation of rising labor costs. We will promote work style reform while considering impact on revenue.

Based on the above, the Company achieved revenue of 90,105 million yen (an increase of 1,975 million yen compared to the same period in the previous year), operating profit of 5,562 million yen (a decrease of 709 million yen compared to the same period in the previous year), income before income taxes of 4,454 million yen (a decrease of 652 million yen compared to the same period in the previous year), and net income attributable to owners of the Company of 2,804 million yen (a decrease of 515 million yen compared to the same period in the previous year) for the three-month period ended March 31, 2018.

EBITDA (Note 3) was 8,998 million yen (a decrease of 623 million yen compared to the same period in the previous year), adjusted EBITDA (Note 4) was 9,671 million yen (a decrease of 477 million yen compared to the same period in the previous year) and adjusted net income (Note 5) was 3,104 million yen (a decrease of 626 million yen compared to the same period in the previous year). In addition, the number of restaurants in operation was 3,173 (3,145 as of January 1, 2018), including 1 restaurant which is unopened for future conversion of the brands, as of March 31, 2018.

(Note 1) A vertically integrated platform is the Company's supply chain structure that encompasses all phases starting with product development, procurement of ingredients, production, distribution, and finally the delivery of the food product.

(Note 2) Remodeling represents remodeling of interior and exterior of restaurants. The Company remodels approximately 300 restaurants annually.

(Note 3) 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 expenses (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 Condensed Interim Consolidated Statements of Income.
- Other financial income is disclosed as "Other income" in the Condensed Interim Consolidated Statements of Income.

(Note 4) 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 5) 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 + gain and loss from modification of financial liabilities in accordance with the adoption of IFRS 9 "Financial Instruments" (2014) (including readjustment of the amount of impact from the retroactive application of changes in accounting policies) + Tax effects of adjustments

(Note 6) 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 7) 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 8) below.

(Note 8) 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.

(2) Qualitative Information on the Consolidated Financial Position

(i) Assets, Liabilities and Equity

Analysis of assets, liabilities, and equity as of March 31, 2018 is summarized as follows:

Current assets amounted to 33,280 million yen, which was an increase of 320 million yen mainly due to an increase in cash and cash equivalents and other current assets compared to the end of the previous fiscal year. Non-current assets amounted to 290,117 million yen, which was an increase of 4,874 million yen mainly due to an increase in property, plant and equipment, other intangible assets and other non-current assets compared to the end of the previous fiscal year.

Total assets amounted to 323,397 million yen, which was an increase of 5,194 million yen compared to the end of the previous fiscal year.

Current liabilities amounted to 61,208 million yen, which was an increase of 6,327 million yen mainly due to an increase in short-term borrowings, trade and other payables and other current liabilities compared to the end of the previous fiscal year. Non-current liabilities amounted to 137,105 million yen, which was an increase of 1,107 million yen mainly due to an increase in long-term borrowings and other financial liabilities compared to the end of the previous fiscal year.

Total liabilities amounted to 198,313 million yen, which was an increase of 7,434 million yen compared to the end of the previous fiscal year.

Equity amounted to 125,084 million yen, which was a decrease of 2,240 million yen mainly due to dividends paid of 4,332 million yen and an increase in net income of 2,804 million yen for the current period.

(ii) Cash Flows

Cash and cash equivalents as of March 31, 2018 amounted to 15,878 million yen, which was an increase of 784 million yen compared to the end of the previous fiscal year. Conditions and factors for each category of cash flow for the three-month period ended March 31, 2018 were as follows.

Cash flows from operating activities:

Net cash provided by operating activities was 9,833 million yen (an increase of 5,348 million yen compared to the same period in the previous year). This was primarily due to a decrease in income before income taxes of 652 million yen, a 1,306 million yen increase in the decrease in working capital etc. and a decrease in payments of income taxes of 4,509 million yen.

Cash flows from investing activities:

Net cash used in investing activities was 4,681 million yen (an increase of 1,153 million yen compared to the same period in the previous year). This was primarily due to an increase of 1,003 million yen in payments for acquisition of property, plant and equipment including investments in new, converted and remodeled restaurants and an increase of 404 million yen in payments for acquisition of intangible assets including the investments in IT. We normally make payments of cash and cash equivalents one or two months after an increase in assets from investing activities.

Cash flows from financing activities:

Net cash used in financing activities was 4,341 million yen (an increase of 646 million yen compared to the same period in the previous year). This was primarily due to a decrease of 5,000 million yen in the proceeds from short-term borrowings, a decrease of 8,000 million yen in the repayment of short-term borrowings, a decrease of 2,000 million yen in the proceeds from long-term borrowings, and an increase of 1,578 million yen in payments of commissions related to

borrowings.

(3) Explanation of the Forward-looking Statements including the Forecasts on the Consolidated Financial Results

Regarding the forecasts on the consolidated financial results of the current fiscal year, EBITDA, adjusted EBITDA and adjusted net income were included as financial measures that the Group considers useful for investors to evaluate the results of our operations, which was announced on February 14, 2018.

The Company has not changed the forecasts on the consolidated financial results for the fiscal year ending December 31, 2018, which was announced on February 14, 2018.

The forecasts are based on information available at the date of this report, and the actual results may vary materially from the forecasts in the future due to various factors.

2. Condensed Interim Consolidated Financial Statements and Notes

(1) Condensed Interim Consolidated Statements of Financial Position

As of December 31, 2017 and March 31, 2018 (Unaudited)

(Millions of yen)

	As of December 31, 2017	**As of March 31, 2018**
Assets		
Current assets		
Cash and cash equivalents	¥ 15,094	**¥ 15,878**
Trade and other receivables	8,691	**8,257**
Other financial assets	340	**332**
Inventories	4,677	**4,492**
Other current assets	4,158	**4,321**
Total current assets	32,960	**33,280**
Non-current assets		
Property, plant and equipment	102,277	**103,334**
Goodwill	146,140	**146,140**
Other intangible assets	3,461	**4,640**
Other financial assets	24,318	**24,358**
Deferred tax assets	7,661	**8,169**
Other non-current assets	1,386	**3,476**
Total non-current assets	285,243	**290,117**
Total assets	¥ 318,203	**¥ 323,397**

(1) Condensed Interim Consolidated Statements of Financial Position－Continued
As of December 31, 2017 and March 31, 2018 (Unaudited)

(Millions of yen)

	As of December 31, 2017	**As of March 31, 2018**
Liabilities and equity		
Liabilities		
Current liabilities		
Short-term borrowings	¥ 10,859	**¥ 13,789**
Trade and other payables	25,264	**27,185**
Other financial liabilities	3,682	**3,628**
Income tax payable	1,904	**1,878**
Provisions	1,325	**1,350**
Other current liabilities	11,847	**13,378**
Total current liabilities	54,881	**61,208**
Non-current liabilities		
Long-term borrowings	115,588	**115,814**
Other financial liabilities	4,777	**5,738**
Provisions	14,820	**14,736**
Other non-current liabilities	813	**817**
Total non-current liabilities	135,998	**137,105**
Total liabilities	190,879	**198,313**
Equity		
Share capital	3,456	**3,503**
Capital surplus	56,470	**56,504**
Other components of equity	(8)	**(801)**
Retained earnings	67,406	**65,878**
Equity attributable to owners of the Company	127,324	**125,084**
Total equity	127,324	**125,084**
Total liabilities and equity	¥ 318,203	**¥ 323,397**

(2) Condensed Interim Consolidated Statements of Income

For the Three-Month Periods Ended March 31, 2017 and 2018 (Unaudited)

(Millions of yen)

	For the three-month period ended March 31, 2017	**For the three-month period ended March 31, 2018**
Revenue	¥ 88,130	**¥ 90,105**
Cost of sales	(26,641)	**(27,476)**
Gross profit	61,489	**62,629**
Other operating income	312	**175**
Selling, general and administrative expenses	(54,886)	**(56,504)**
Other operating expenses	(644)	**(738)**
Operating profit	6,271	**5,562**
Interest income	4	**4**
Other income	—	**—**
Interest expense	(1,156)	**(1,086)**
Other expenses	(13)	**(26)**
Income before income taxes	5,106	**4,454**
Income taxes	(1,787)	**(1,650)**
Net income	¥ 3,319	**¥ 2,804**
Net income attributable to:		
Owners of the Company	¥ 3,319	**¥ 2,804**
Net income	¥ 3,319	**¥ 2,804**
Interim earnings per share		
Basic (Yen)	¥ 17.03	**¥ 14.24**
Diluted (Yen)	16.89	**14.21**

(3) Condensed Interim Consolidated Statements of Comprehensive Income
For the Three-Month Periods Ended March 31, 2017 and 2018 (Unaudited)

(Millions of yen)

	For the three-month period ended March 31, 2017	**For the three-month period ended March 31, 2018**
Net income	¥ 3,319	**¥ 2,804**
Other comprehensive income		
Items that are not reclassified to profit or loss		
Financial assets measured at fair value through other comprehensive income	16	**(22)**
Total items that are not reclassified to profit or loss	16	**(22)**
Items that may be reclassified to profit or loss		
Exchange differences on translation of foreign operations	41	**(73)**
Cash flow hedges	104	**(698)**
Total items that may be reclassified to profit or loss	145	**(771)**
Other comprehensive income, net of tax	161	**(793)**
Total comprehensive income	¥ 3,480	**¥ 2,011**
Comprehensive income attributable to:		
Owners of the Company	¥ 3,480	**¥ 2,011**
Total comprehensive income	¥ 3,480	**¥ 2,011**

SKYLARK CO., LTD and Subsidiaries

(4) Condensed Interim Consolidated Statements of Changes in Equity

For the Three-Month Periods Ended March 31, 2017

(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, 2017	¥ 2,670	¥ 57,920	¥ 46	¥ 273	¥ (878)	¥ (559)
Adjustments due to changes in accounting policies	—	—	—	—	—	—
As of January 1, 2017 (after adjustments)	2,670	57,920	46	273	(878)	(559)
Net income	—	—	—	—	—	—
Other comprehensive income, net of tax	—	—	16	41	104	161
Total comprehensive income	—	—	16	41	104	161
Dividends	—	—	—	—	—	—
Exercise of stock options	6	4	—	—	—	—
Share-based payments	—	10	—	—	—	—
Transfer from other components of equity to retained earnings	—	—	—	—	—	—
Total contributions by and distributions to owners of the Company	6	14	—	—	—	—
Total transactions with owners of the Company	6	14	—	—	—	—
As of March 31, 2017	¥ 2,676	¥ 57,934	¥ 62	¥ 314	¥ (774)	¥ (398)

	Retained earnings	Equity attributable to owners of the Company	Total equity
As of January 1, 2017	¥ 54,167	¥ 114,198	¥ 114,198
Adjustments due to changes in accounting policies	3,292	3,292	3,292
As of January 1, 2017 (after adjustments)	57,459	117,490	117,490
Net income	3,319	3,319	3,319
Other comprehensive income, net of tax	—	161	161
Total comprehensive income	3,319	3,480	3,480
Dividends	(4,481)	(4,481)	(4,481)
Exercise of stock options	—	10	10
Share-based payments	—	10	10
Transfer from other components of equity to retained earnings	—	—	—
Total contributions by and distributions to owners of the Company	(4,481)	(4,461)	(4,461)
Total transactions with owners of the Company	(4,481)	(4,461)	(4,461)
As of March 31, 2017	¥ 56,297	¥ 116,509	¥ 116,509

(4) Condensed Interim Consolidated Statements of Changes in Equity – Continued
For the Three-Month Periods Ended March 31, 2018 (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, 2018	**¥ 3,456**	**¥ 56,470**	**¥ 109**	**¥ 367**	**¥ (484)**	**¥ (8)**
Net income	—	—	—	—	—	—
Other comprehensive income, net of tax	—	—	**(22)**	**(73)**	**(698)**	**(793)**
Total comprehensive income	—	—	**(22)**	**(73)**	**(698)**	**(793)**
Dividends	—	—	—	—	—	—
Exercise of stock options	**47**	**33**	—	—	—	—
Share-based payments	—	**1**	—	—	—	—
Transfer from other components of equity to retained earnings	—	—	—	—	—	—
Total contributions by and distributions to owners of the Company	**47**	**34**	—	—	—	—
Total transactions with owners of the Company	**47**	**34**	—	—	—	—
As of March 31, 2018	**¥ 3,503**	**¥ 56,504**	**¥ 87**	**¥ 294**	**¥ (1,182)**	**¥ (801)**

	Retained earnings	Equity attributable to owners of the Company	Total equity
As of January 1, 2018	**¥ 67,406**	**¥ 127,324**	**¥ 127,324**
Net income	**2,804**	**2,804**	**2,804**
Other comprehensive income, net of tax	—	**(793)**	**(793)**
Total comprehensive income	**2,804**	**2,011**	**2,011**
Dividends	**(4,332)**	**(4,332)**	**(4,332)**
Exercise of stock options	—	**80**	**80**
Share-based payments	—	**1**	**1**
Transfer from other components of equity to retained earnings	—	—	—
Total contributions by and distributions to owners of the Company	**(4,332)**	**(4,251)**	**(4,251)**
Total transactions with owners of the Company	**(4,332)**	**(4,251)**	**(4,251)**
As of March 31, 2018	**¥ 65,878**	**¥ 125,084**	**¥ 125,084**

(5) Condensed Interim Consolidated Statements of Cash Flows
For the Three-Month Periods Ended March 31, 2017 and 2018 (Unaudited)

(Millions of yen)

	For the three-month period ended March 31, 2017	**For the three-month period ended March 31, 2018**
Cash flows from operating activities		
Income before income taxes	¥ 5,106	**¥ 4,454**
Adjustments for:		
Depreciation and amortization	3,287	**3,364**
Loss on impairment of non-financial assets	297	**491**
Gain or loss on sale and disposal of fixed assets	220	**181**
Interest income	(4)	**(4)**
Other income	—	**—**
Interest expense	1,156	**1,086**
Other expenses	13	**26**
	10,075	**9,598**
Changes in working capital, etc.:		
Decrease in trade and other receivables	1,111	**406**
Decrease in inventories	1,021	**182**
Increase (Decrease) in trade and other payables	(1,603)	**782**
Other	617	**1,082**
Cash generated from operations	11,221	**12,050**
Interest and dividends received	1	**0**
Interest paid	(371)	**(360)**
Income taxes paid	(6,366)	**(1,857)**
Net cash from operating activities	4,485	**9,833**
Cash flows from investing activities		
Payments into time deposits	(275)	**(278)**
Proceeds from withdrawals of time deposits	—	**278**
Acquisition of property, plant and equipment	(2,774)	**(3,777)**
Proceeds from sale of property, plant and equipment	2	**0**
Acquisition of intangible assets	(293)	**(697)**
Proceeds from collection of loans	1	**—**
Payments of lease deposits and guarantee deposits	(302)	**(235)**
Proceeds from collection of lease deposits and guarantee deposits	220	**133**
Other	(107)	**(105)**
Net cash used in investing activities	(3,528)	**(4,681)**
Cash flows from financing activities		
Proceeds from short-term borrowings	12,000	**7,000**
Repayments of short-term borrowings	(12,000)	**(4,000)**
Proceeds from long-term borrowings	7,000	**5,000**
Repayments of long-term borrowings	(5,000)	**(5,500)**
Proceeds from exercise of stock options	10	**80**
Repayments of lease obligations	(727)	**(630)**
Dividends paid	(4,409)	**(4,144)**
Payments of commissions related to borrowings	(569)	**(2,147)**
Net cash used in financing activities	(3,695)	**(4,341)**
Effect of exchange rate on the balance of cash and cash equivalents held in foreign currency	19	**(27)**
Net decrease (Increase) in cash and cash equivalents	(2,719)	**784**
Cash and cash equivalents at the beginning of the period	16,222	**15,094**
Cash and cash equivalents at the end of the period	¥ 13,503	**¥ 15,878**

(6) Notes on the Going Concern Assumption

No items to report

(7) Notes to Condensed Interim Consolidated Financial Statements

(i) Changes in Accounting Policies

Newly-adopted accounting standards and amendments

The significant accounting policies adopted for the condensed interim consolidated financial statements are the same as those for the consolidated financial statements for the fiscal year ended December 31, 2017, except for the following standards, which have been newly adopted.

The Group calculates income taxes for the three-month period ended March 31, 2018 based on the estimated average annual effective tax rate.

The Group has adopted the following standards from the current three-month period ended March 31, 2018.

IFRSs	Title	Description of New Standards/Amendments/Transitional Provisions
IFRS 2	Share-based Payment	・Amendments related to classification and measurement of share-based payment transactions
IFRS 9 (2014)	Financial Instruments	・Impairment of financial instruments
IFRS 15	Revenue from Contracts with Customers	・Amendments related to revenue recognition
IAS 40	Investment Property	・Clarification of the accounting treatment for transfer to, or from, investment properties
IFRIC 22	Foreign Currency Transactions and Advance Consideration	・Clarification for determining foreign exchange rate to be used at initial recognition of assets, expenses and revenue denominated in foreign currency

Adoption of IFRS 9 “Financial Instruments” (2014)

The Group retroactively has adopted the accounting policies below in accordance with the adoption of IFRS 9 (2014).

1) Impairment of financial assets

For financial assets measured at amortized cost, the Group recognizes a loss allowance against expected credit losses on such financial assets. At each reporting date, financial assets are assessed whether there has been a significant increase in credit risk of the financial asset since initial recognition. If the credit risk on financial assets has not increased significantly since initial recognition, a loss allowance is measured at an amount equal to 12-months of expected credit losses. On the other hand, if the credit risk on financial assets has increased significantly since initial recognition, a loss allowance is measured at an amount equal to the lifetime expected credit losses. However, a loss allowance for trade and other receivables is always measured at an amount equal to the lifetime expected credit losses. Expected credit losses on financial assets are assessed based on objective evidence which reflects changes in credit information and past due information of receivables. An impairment loss is recognized in profit or loss for the amount of expected credit losses needed to adjust the loss allowance at the reporting date to the required amount. If any event resulting in a decrease of impairment losses occurs after the recognition of impairment losses, an impairment gain is recognized through profit or loss. The carrying amounts after impairment losses presented on the consolidated financial statements are the maximum exposure for the Group’s credit risk without considering the appraised value of the related collateral.

This change had no material impact on the consolidated financial statements for the fiscal year ended December 31, 2017 and the condensed interim consolidated financial statements for the three-month period ended March 31, 2017.

2) Accounting for modifications of financial liabilities that do not result in derecognition

If the modification or exchange of financial liabilities do not result in derecognition (i.e. not substantial), then such modifications are recognized in profit or loss.

As a result of reflecting the cumulative effect of prior periods related to this change in the opening balance of equity for the fiscal year ended December 31, 2017, retained earnings at the beginning of previous fiscal year increased by 3,292 million yen in comparison to the results prior to the retroactive adjustment. In addition, in the consolidated financial statements as of the fiscal year ended December 31, 2017, deferred tax assets, short-term borrowings and long-term borrowings decreased by 862 million yen, 98 million yen and 2,679 million yen, respectively and retained

earnings increased by 1,915 million yen. In the condensed interim consolidated statements of income for the three-month period ended March 31, 2017, interest expense increased by 520 million yen, income before income taxes and net income decreased by 520 million yen and 402 million yen, respectively and as the impact on interim earnings per share, basic earnings per share and diluted earnings per share decreased by 2.07 yen and 2.05 yen, respectively.

Adoption of IFRS 15 “Revenue from Contracts with Customers”
As a transitional measure upon the adoption of IFRS 15, the Group has adopted the method to recognize the cumulative effect of applying this standard at the date of initial application.

In accordance with the adoption of IFRS 15, revenue is required based on the following five-step model/

Step 1: Identify the contract with a customer
Step 2: Identify the performance obligations in the contract
Step 3: Determine the transaction price
Step 4: Allocate the transaction price to the performance obligations in the contract
Step 5: Recognize revenue when the entity satisfies a performance obligation

The Group’s core business is table service restaurants which include Japanese, Western and Chinese cuisines. We believe that a customer obtains control and the performance obligations are satisfied at the time of provision of table service and revenue is therefore recognized upon provision of the table service. Revenue is measured at the consideration promised in the contract with a customer, less discounts and other items.

As a result of identifying the performance obligations in the contract with a customer based on the above five-step model, revenue previously accounted for as other operating income is accounted for as revenue when the customer no longer has the possibility of exercising rights on the non-exercising portion of complimentary tickets sold by the Group.

As a result of this change in accounting policies, revenue and other operating income on condensed interim consolidated statements of income for the three-month period ended March 31, 2018 were increased by 10 million yen and decreased by 10 million yen, respectively, compared to the application of the previous accounting standards. This change had no impact on operating profit and net income.

Except for the above, the adoption of these standards had no material impact on the condensed interim consolidated financial statements.

(ii) 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 identifies the Restaurant Segment as the only reportable segment to be disclosed. Accordingly, the Group has not disclosed reportable segment information.

(iii) Interim Earnings per Share

(Millions of yen, except per share amounts)

	For the three-month period ended March 31, 2017	**For the three-month period ended March 31, 2018**
Net income attributable to common shareholders of the Company	¥ 3,319	**¥ 2,804**
Net income not attributable to common shareholders of the Company	—	**—**
Net income attributable to common shareholders used for calculation of basic interim earnings per share	3,319	**2,804**
Adjustment	—	**—**
Net income attributable to common shareholders used for calculation of diluted interim earnings per share	¥ 3,319	**¥ 2,804**
Weighted-average number of common shares during the period (Share)	194,843,833	**197,006,166**
Increase in number of common shares used for calculation of diluted interim earnings per share (Share)		
Increased number of common shares by stock options	1,646,821	**329,013**
Weighted-average number of common shares used for calculation of diluted interim earnings per share (Share)	196,490,654	**197,335,179**
Basic interim earnings per share (Yen)	¥ 17.03	**¥ 14.24**
Diluted interim earnings per share (Yen)	16.89	**14.21**

(vi) Significant Subsequent Events

No items to report.