Skylark Group

Integrated Report 2016

For the Year Ended December 31, 2016



Get to know Skylark

Swiftly Perceive Changes in Living

"Responsiveness"

It was our founders who popularized the term "Family Restaurant" in Japan.
After opening the first Skylark restaurant—inspired by a well-established coffee shop in the United States—Skylark has repeatedly carried out new initiatives adapting to the lifestyles and needs of customers, who change with the times. This approach has not changed.
In anticipation of the times, Skylark will continue to develop its business to meet customer needs.

Global Trends

1970s

Increasing **motorization** in Japan



1980s

Increasing demand for casual dining

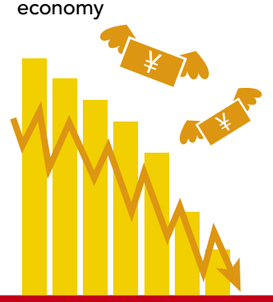
due to the trend toward nuclear families, the increase in single-person households, and rising living standards



1990s

Increasing popularity of lower priced restaurants

due to the collapse of the bubble economy



2000s

Increasing demand for home-meal replacement

as more women enter the workforce



2010s

Increasing concern for **food safety and security**



Diversification of preferences

including preferences for the authentic, experiential consumption, and health-consciousness



Skylark Trends

1970

First Skylark restaurant opened roadside

Inspired by a well-established coffee shop in the United States, the first Skylark restaurant opened in Fuchu City, Tokyo.



1977

Established commissaries in anticipation of growth

To promote the standardization necessary for chain operation, we established the Commissary System to take charge of processing, distribution, and inventory management of food ingredients at one location.



1992

First affordably priced Gusto restaurant opened

In response to a decline in customers caused by economic change, Skylark developed Gusto, a new low-priced format.

Installed drink bar and waiter call system

Gusto was the first in the industry to introduce drink bars and waiter call systems that are now commonly found in family restaurants. We have prioritized the offering of low priced and great-tasting food to customers. Taking the initiative over our competitors, we have adopted new service formats and become the industry leader.

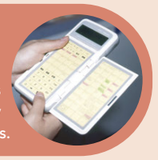




TOPICS 1981~

Introduced point-of-sale (POS) system and first handheld order entry system

The restaurant industry has actively introduced information technology, Skylark was an early adopter and the first in the industry to begin using a handheld order entry system. We have improved the efficiency of our operations by utilizing these systems.



1998

Gusto introduces home delivery service

With the aging of society, and women's social advancement, the need for home meal replacement is increasing. As of April 2017, we had developed home delivery service at about 900 restaurants to support the eating habits of our customers.



2015

Developing specialty brands tailored to your needs

Amid ongoing diversification, evolving consumer preferences and segmentation of consumption, customers' food needs are also changing. In response to these changes, we are developing a variety of specialty restaurants.





2007

Introduced a low allergen menu and healthy menu, combined with transparent communication of the latest allergy information

We developed a menu to respond to the increase in people with food allergies and the health-conscious. We have developed our restaurant menus in such a way that many customers can enjoy eating out. Moreover, since 2008, we have set up a system for disclosing the latest allergy information for the menus we offer.



Get to know Skylark

Skylark's distinctive robust

"Foundational Strength"

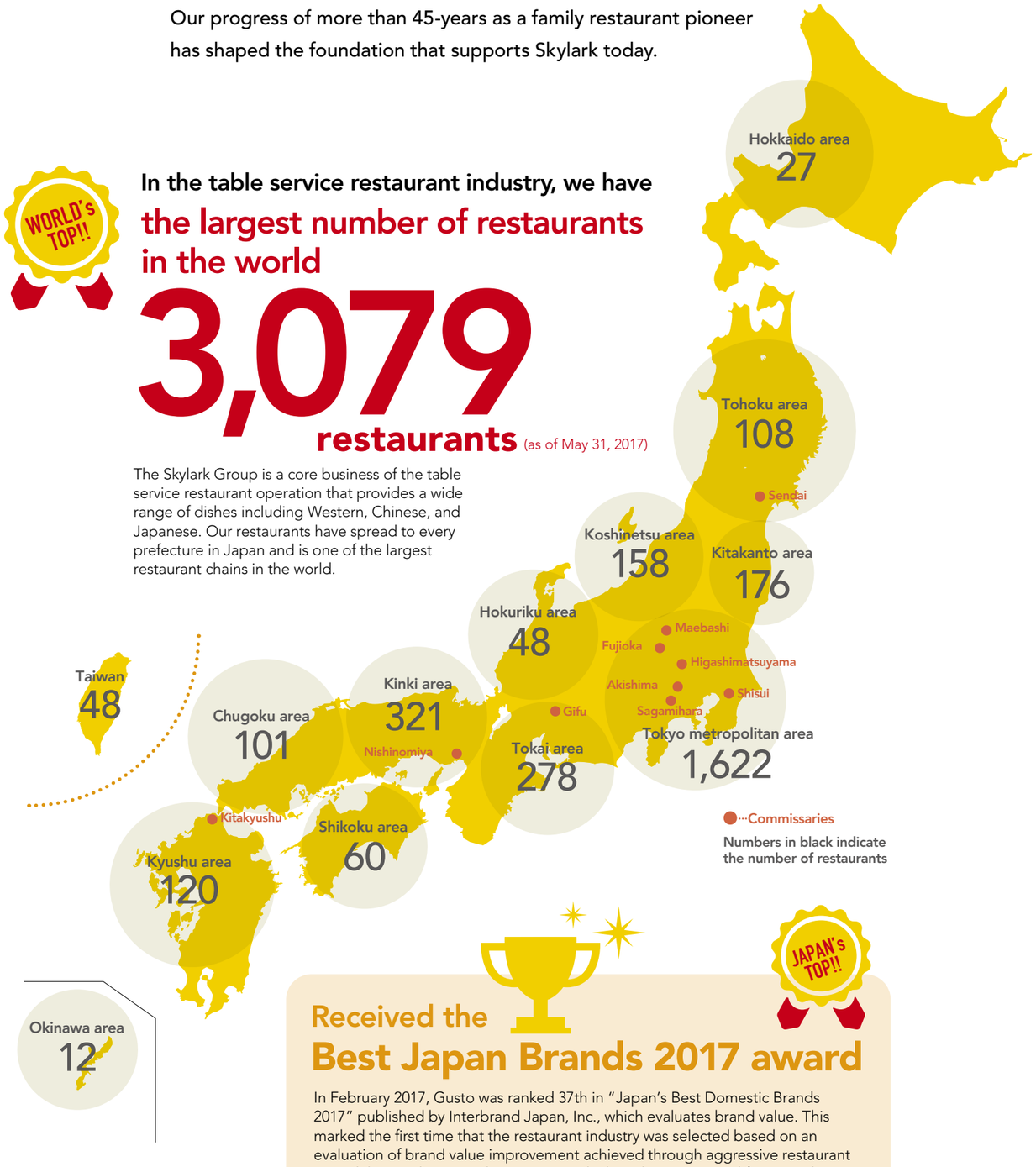
Our progress of more than 45-years as a family restaurant pioneer has shaped the foundation that supports Skylark today.

WORLD'S TOP!!

In the table service restaurant industry, we have
the largest number of restaurants in the world

3,079
restaurants (as of May 31, 2017)

The Skylark Group is a core business of the table service restaurant operation that provides a wide range of dishes including Western, Chinese, and Japanese. Our restaurants have spread to every prefecture in Japan and is one of the largest restaurant chains in the world.



Received the
Best Japan Brands 2017 award

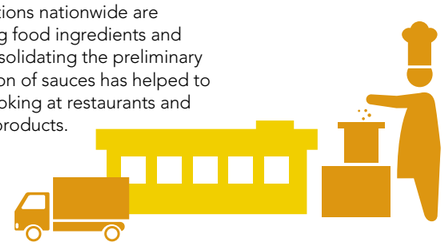
JAPAN'S TOP!!

In February 2017, Gusto was ranked 37th in "Japan's Best Domestic Brands 2017" published by Interbrand Japan, Inc., which evaluates brand value. This marked the first time that the restaurant industry was selected based on an evaluation of brand value improvement achieved through aggressive restaurant remodeling and menu enhancements, which we have practiced for several years.

Delivering fresh food ingredients daily to restaurants
Commissaries

10
locations

Commissaries at 10 locations nationwide are responsible for managing food ingredients and primary processing. Consolidating the preliminary processes and preparation of sauces has helped to reduce the burden of cooking at restaurants and provides higher-quality products.



High retention rate and highly capable Employees

Skylark is working to retain competent employees with its improved educational and staff award systems. Due to the foundational strength of Skylark, our staff effectively manage menu revisions, format changes, and new store openings that support Skylark's growth aspirations.



100
thousand people

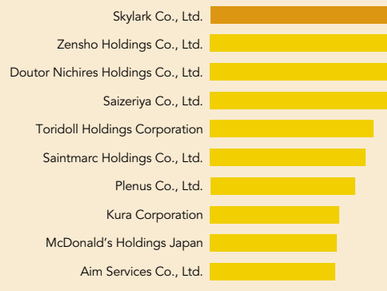
Multiple brands
that meet a wide range of needs

More than 20
brands

Starting with our mainstay brand "Gusto," we have developed a wide range of brands that transcend the boundaries of food. In addition to formats where different kinds of dishes can be enjoyed, we have recently developed specialty formats including cafés and Japanese cuisine.



JAPAN'S TOP!!



2016 Ordinary Income*
Industry No.1

The Skylark Group is ranked second in the industry in total sales and first in ordinary income in Japan. Higher profitability owing to effective cost optimization is one of the Group's features.

* As Skylark applies international accounting standards, it uses pretax profit.

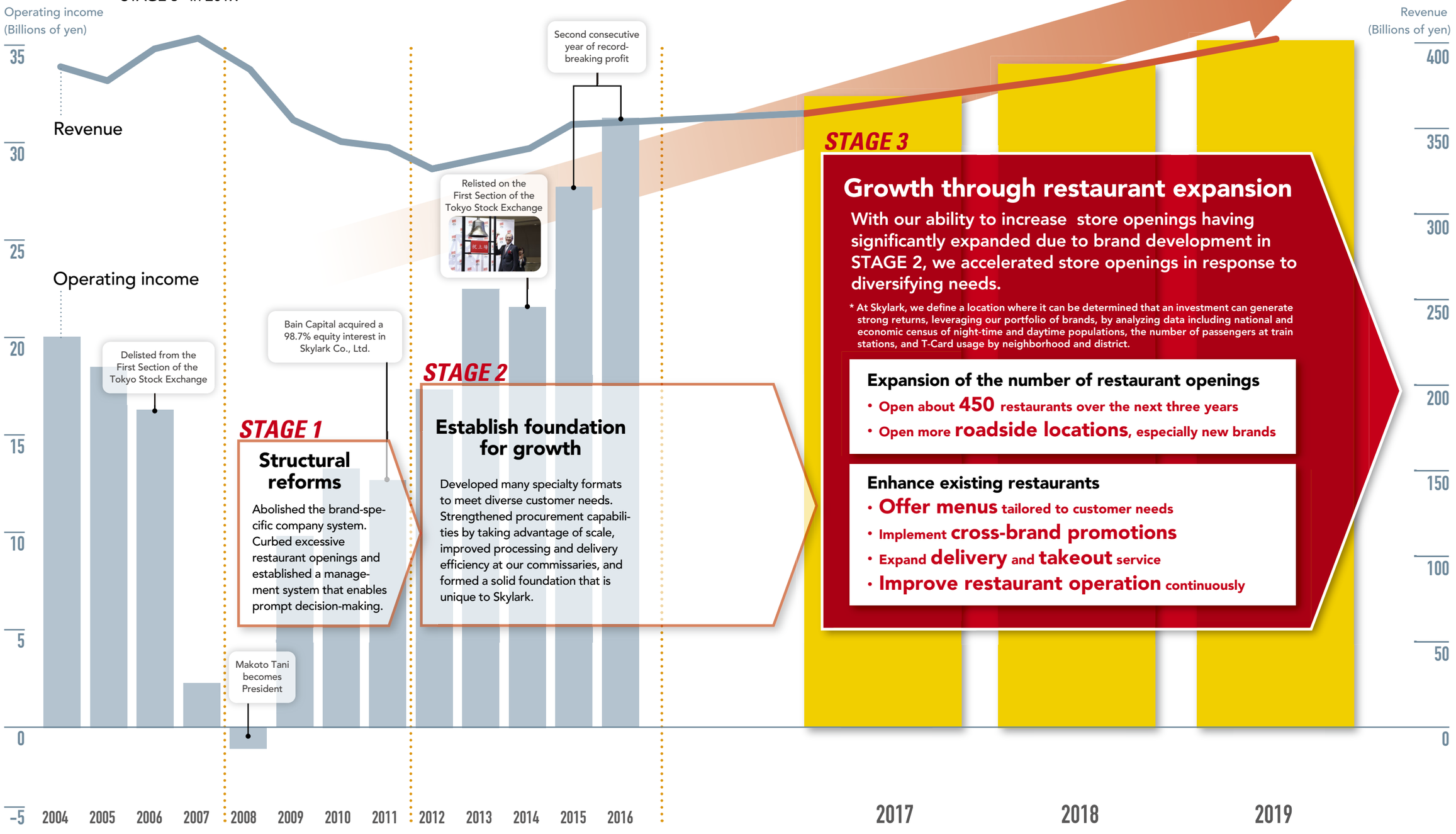
Source: Prepared by Skylark based on Nikkei MJ's "43rd (FY2016) Japan Food Service Industry Survey"

Get to know Skylark

Aiming for another leap forward

to a “New Stage”

For about nine years since 2008, Skylark has been working on a range of reforms. Based on the strength developed during this time, Skylark entered “STAGE 3” in 2017.

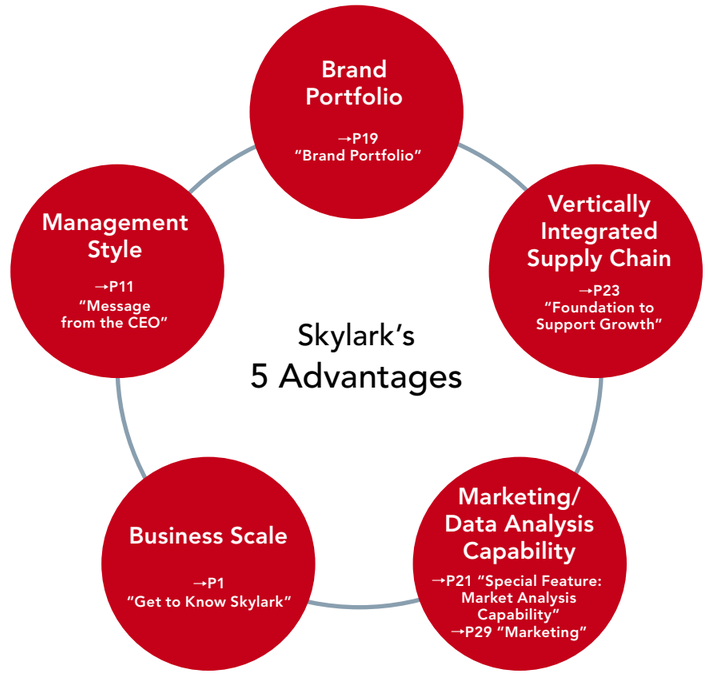




Our Corporate Philosophy

Creating Richness with Value to Society

Offering great-tasting food
at affordable prices with good service in our clean restaurants
to as many people as possible



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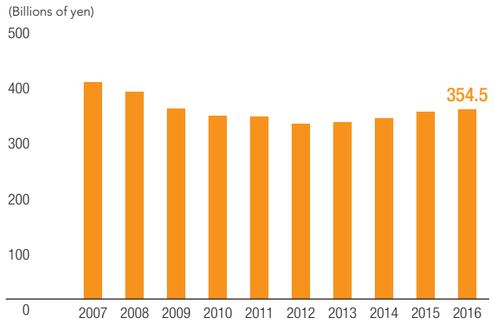
This report has been published to communicate financial and non-financial information to shareholders, investors and stakeholders, as well as initiatives to raise corporate value over the medium to long term with the aim of inviting further dialogue.

The editing of this report was performed by referencing the International Integrated Reporting Framework published by the International Integrated Reporting Council (IIRC). The Skylark Group has adopted International Financial Reporting Standards (hereafter, "IFRS") and the content of this report is based on IFRS, unless otherwise noted.

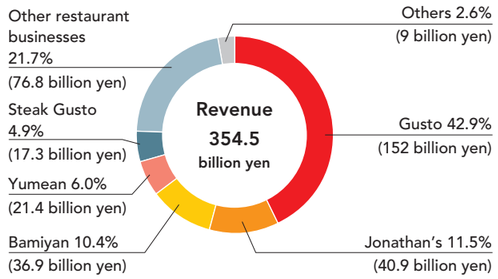
Based on its corporate philosophy of Creating Richness with Value to Society, the Company will continue to engage in dialogue with stakeholders through the enhancement and proactive use of its integrated report, and create business value.

Financial[1] and Non-Financial Highlights

Consolidated Revenue[2]

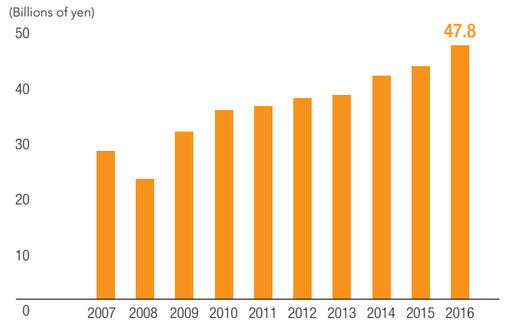


Ratio of Sales by Brand

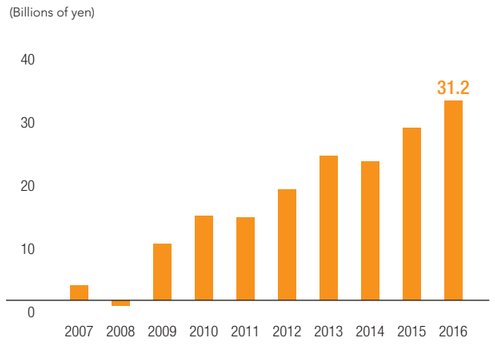


The year ended December 31, 2016 had a major impact on changes in the external environment and consumption trends, but major revisions adapted to market needs that were made to the menus of our mainstay brands proved successful and sales steadily increased from the second half. In addition to our existing store strategy, consolidated revenue increased 1% year on year due to brand conversion to newly developed specialty restaurants and aggressive opening of new restaurants in front of train stations and shopping centers.

Adjusted EBITDA[3]

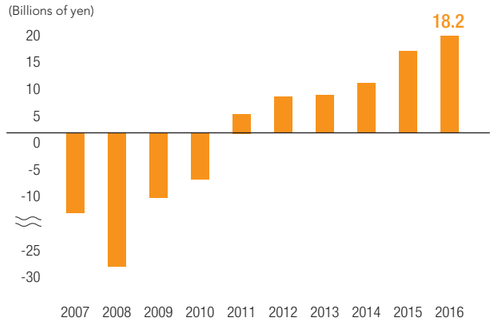


Consolidated Operating Profit



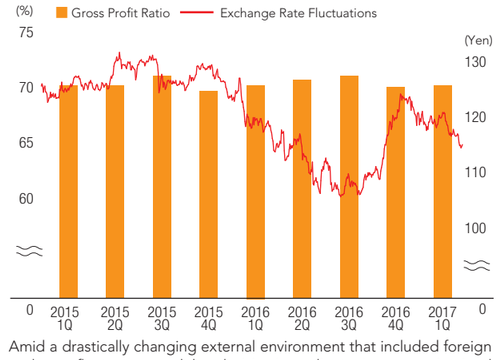
In the year ended December 31, 2016, continuous cost reductions and cost optimization to counteract inflationary effects such as personnel expenses, and selling, general and administrative expenses, in addition to sales growth, resulted in a ¥3.0 billion (6.8%) year-on-year increase in adjusted EBITDA. Consolidated operating income climbed ¥3.4 billion (12.4%).

Net Income



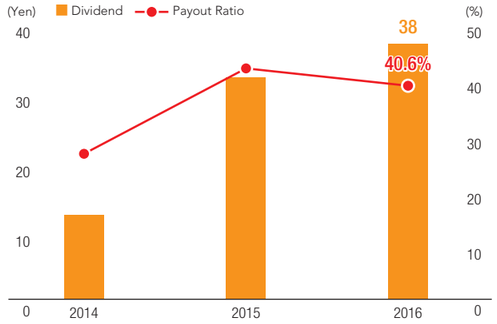
Due to higher revenue and cost optimization, net income increased ¥2.1 billion (13.5%) year on year, setting a record for the second year in a row.

Gross Profit Ratio and Exchange Rate Fluctuations



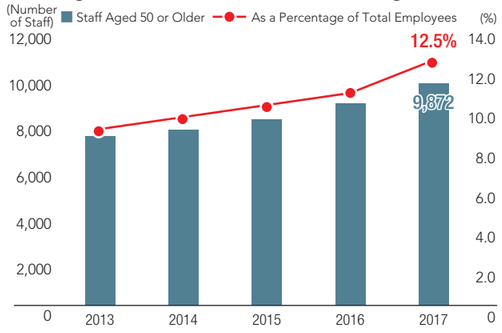
Amid a drastically changing external environment that included foreign exchange fluctuations and sharply rising ingredient prices, we maintained the gross profit ratio at around 70% throughout the year by controlling the menu mix, sales promotions, and optimizing the supply chain.

Dividend per Share[4], Payout Ratio



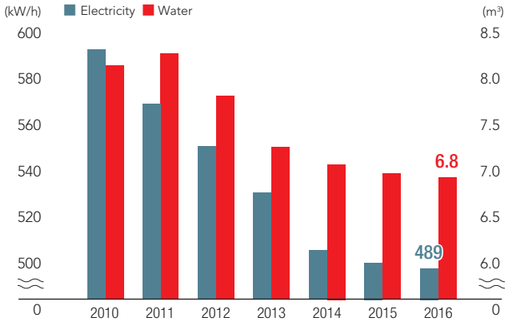
Based on favorable performance, the dividend per share for the year ended December 31, 2016 increased by ¥5 over last year's dividend of ¥33. The dividend payout ratio remained stable, surpassing our target of 40%.

Staff Aged 50 or Older and their Percentage



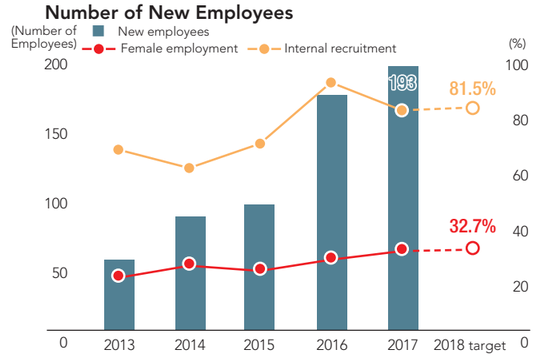
Staff members aged 50 or older currently account for about 10,000 of our total staff of 100,000. As Japan's demographics change, we are working to create an environment for the participation of many active seniors.

Electricity and Water Usage per Restaurant[5]



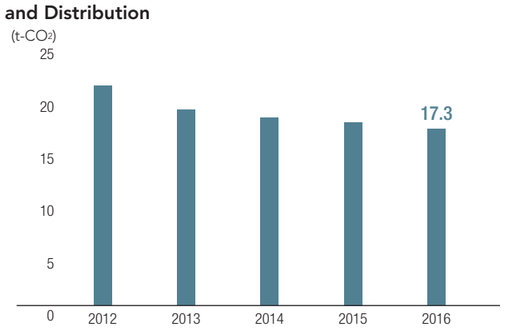
In addition to the introduction of LEDs at restaurants and energy management backed by employee-wide efforts, the maintenance of equipment and installation of the latest energy-saving equipment has been performed by Group companies . As a result, during the seven-year period from 2007, both electricity and water usage per restaurant have been reduced by about 15%.

Number of New Employees



To expand the number of restaurant openings from the year ending December 31, 2017, we are aggressively hiring manager candidates and internally recruiting highly capable human resources with staff experience. Furthermore, year after year we have increased the employment ratio of women by promoting workstyle reforms, such as in the personnel system, which accommodates diverse workstyles, and reduced late-night service.

CO_2 Emissions per Restaurant in Manufacturing and Distribution



The Skylark Group has a vertically integrated supply chain and manages energy at its restaurants, as well as in production and distribution at its commissaries. With the number of restaurants increasing, total CO_2 emissions in production and distribution have been reduced by about 20% per restaurant over the last five years.

Notes: 1.Up to 2011, prepared based on Japanese generally accepted accounting principles (J-GAAP). From 2012, prepared based on International Financial Reporting Standards (IFRS). 2.Sales do not include consumption tax. 3.Adjusted EBITDA = EBITDA + Loss on disposal of fixed assets + 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. (Supplementary) EBITDA based on J-GAAP = Operating profit + Depreciation + Amortization of goodwill + Amortization of long-term prepaid expense + Amortization of long-term prepaid expense (deposit) + interest on asset retirement obligations

4.The Company carried out a 100-for-1 share split of its common stock on August 4, 2014. Equity per share attributable to owners of the Company and basic earnings per share are calculated using the number of issued and outstanding shares after the share split assuming the share split came into effect at the beginning of 2012. 5.Figures are per restaurant excluding the Group company restaurants of NILAX Inc., FLO JAPON, and Tomato and Associates Co., Ltd.



Makoto Tani
Skylark
President and
Chief Executive Officer

Leveraging our diverse brand portfolio, we will pursue new growth with a focus on store expansion

Achieved record-breaking profit and ventured into a further growth stage

In the 2000s, Skylark overcame the greatest crisis it had ever experienced since its founding and was thereby transformed into a restaurant business group with a stronger business foundation. With the restaurant market remaining sluggish due to continuing deflation and stagnant personal consumption, Skylark has developed a structure that is capable of achieving consistent and stable profit.

Results in 2016, on a consolidated basis, were revenue increased 1% to ¥354.5 billion and operating income climbed 12.4% to ¥31.2 billion, achieving double-digit growth, breaking the previous Company record.

Having assumed the position of CEO in August 2008, to solve the problems that had piled up, I worked on structural reforms to stop the outflow of cash by closing unprofitable stores, brand conversion, and other measures as "STAGE 1." From 2012 and after, I focused on laying the foundation for future growth by strengthening existing stores, developing new formats, and other measures as "STAGE 2."

Company performance followed a steady course to recovery and the setting of record profits in 2016 was no doubt the result of all Group employees working together to implement these drastic business structural reforms. Based on these achievements and reform results, we positioned 2017 as "STAGE 3" in which we will promote a new growth strategy centered on expanding the number of restaurants.

Closed unprofitable restaurants, converted formats, and implemented drastic business reforms

During the three-year period from 2017 through 2019, Skylark plans to open about 450 new restaurants, which is three times more than it opened over the last three years. I'm convinced that the biggest reason that we shifted to an aggressive strategy to increase the number of restaurants was to build a business foundation to swiftly and precisely respond to changes in customer lifestyles and in markets through the business structural reforms we have taken so far.

In "STAGE 1" of reforms started in the second half of 2008, we closed about 400 unprofitable restaurants in about a year and a half while implementing brand conversion tailored to market changes at 400 restaurants. At that time, personal consumption cooled down due to the global financial crisis in September 2008, but fortunately we had two brands with growth potential, Gusto, which has had increasing customer support due to its reasonable prices, and the newly developed Steak Gusto. In addition to converting unprofitable and poorly performing restaurants to these brands,

Consider employees and push through reforms

we reallocated the personnel of restaurants that closed by increasing sales at existing restaurants and achieved profitability without having to reduce staff.

In "STAGE 1," we pushed through drastic internal organizational reforms. At the time, the Company imposed a brand-based business structure including Skylark, Gusto, and Bamiyan. At a time when the restaurant market had been steadily expanding, we increased sales with an aggressive restaurant opening strategy. However, in today's low-growth era, cannibalization of internal brands over limited markets is a major adverse effect. Therefore, we transformed our internal organization into a functional organization and tried to avoid cannibalization by developing an optimal Companywide and regional restaurant opening strategy and with sales promotion that transcends the brand framework. We also pursued cost reductions and optimization of human resources by integrating the development, sales, human resources and general affairs divisions, which until now had been dispersed, into one.

Build diversified brand portfolio that responds to the need for personalization and segmentation

Next, in "STAGE 2," we set out to enhance existing stores first. In this, we were especially committed to the effective utilization of data. Combining the T-Card and POS (point-of-sale information management) data, we could accurately understand what kind of customers are coming to our restaurants, their frequency, what they are ordering and what the average spend is per customer. Based on this detailed analysis of consumer trends, we have redesigned our restaurants including menu development and interior remodeling, offered sales promotions, and subsequently increased sales at existing restaurants and enhanced profitability.

At the same time, we started to develop new formats because social conditions and people's lifestyles have drastically changed. Given that, we thought that quickly responding to customer needs was of the utmost importance. In fact, I went to each of the Group's restaurants by myself, and while talking to managers and staff and studying the restaurants' interiors, I experienced for myself the greater-than-expected changes in the food needs of customers and understood how they spend their time in restaurants.

Customer needs are found in the restaurant

For example, in the restaurant market, while preference for low-price is well established, the number of people who will pay a little more for a menu with one's favorite dishes or a menu with unique and popular items is increasing. To meticulously meet customer needs that are becoming increasingly customized and personalized , the all-purpose format, which has been Skylark's mainstay, by itself has limitations. It is necessary to develop an even greater variety of formats that are more unique and highly specialized.

The format that we enhanced from that point of view was the specialized format, which includes the shabu shabu restaurant Syabuyo, the yakiniku restaurant Jyu-Jyu Karubi, and the Japanese food and café fusion restaurant Chawan. Targeting customers who want to eat inexpensively, but have a limited time, such as company employees and drivers, we developed Yumean Shokudo and Tonkaratei, a new format of specialty restaurants with a low average ticket price. In the United States, such restaurants are called "fast casual" and are currently the fastest-growing category.

Centered on segments such as women, senior citizens, and families, the need for intangible and experiential consumption*, which emphasizes not only good food, but having an enjoyable time in a restaurant and a cozy comfortable space, is growing. For example, in the past, family restaurants were mainly where customers enjoyed eating with their families, but recently they have become venues for girls-only gatherings and places for senior citizens to gather and socialize to talk with friends about their hobbies, and more and more customers are going there to enjoy themselves in a variety of ways. Additionally, the number of customers who spend their private time eating out in restaurants is increasing.

To meet these intangible and experiential consumption needs, we developed MUSASHI NO MORI COFFEE to provide a relaxing and comfortable space surrounded by greenery. The above-mentioned Syabuyo, which places a premium on fresh vegetables and safe and secure meat, is another example of a format developed from the standpoint of intangible and experiential consumption.

With the development of these new formats, Skylark's brand portfolio offers a rich lineup that can meet diverse customer needs, and based on our research and analysis, the room for store openings has expanded to reach 2,300 locations. As "STAGE 3," we will open new restaurants that are the optimal brand tailored to the market characteristics of each region and customer needs, taking full advantage of this multi-brand structure. As for the location of these new restaurants, we plan to focus on opening new brands along roadsides as well as in front of train stations and in shopping centers.

*Intangible and experiential consumption refers to consumer pursuit of intangible factors such as a better quality of life and interesting experiences as opposed to the pursuit of material possessions.

Leveraging an efficient supply chain and economies of scale, all brands provide greater value than their price

To facilitate the new multi-brand store openings, the supply chain, including the commissaries and distribution system, has been rebuilt into a system that addresses the move to multiple brands. Therefore, in line with its shift to a function-based organization implemented in the "STAGE 1," Skylark has pursued reforms at ten commissaries nationwide. Traditionally, under a financially independent business structure, each commissary was essentially a mechanism for producing ingredients for a specific brand only, but this was changed to a system that produces ingredients for multiple brands while flexibly rearranging the production line in a single commissary. Likewise, we changed distribution from the traditional brand-specific delivery system, to an area-specific delivery system that transcends the brand framework. As a result, it was possible for one delivery truck to efficiently visit multiple restaurant brands near each other and major distribution cost reduction benefits were obtained.

At Skylark, we provide "menus worth more than their prices" across all brands by utilizing our efficient supply chain and low-cost procurement capability that leverages our nearly 3,000 restaurants nationwide. This supply chain and our economies of scale should be a major advantage, not only to our family restaurants, but in developing more specialty brands in the future.

Making our business foundation a driving force for growth

In this way, growth through an increase in restaurant openings, positioned as "STAGE 3," is a strategy that is backed by a brand portfolio capable of meeting diverse customer needs as well as a powerful and flexible business foundation that supports multi-brand restaurant development. I am confident that it will be the driving force for new growth at Skylark.

Proactively pursuing "workstyle reforms," we support both a work-life balance and growth strategy

The securing of human resources is an important issue for actualizing this new growth strategy. At Skylark, which has developed businesses based on table service for many years, there are many actively working management-level personnel with extensive table service skills and knowhow. However, to aggressively expand new restaurant openings, we must secure a greater number of competent employees who will be future manager candidates, as well as staff who are service minded. Therefore, we have taken steps to enhance employee and staff recruitment while improving employee satisfaction and retention rate through "workstyle reforms."

As one way to address this, we have significantly reduced late-night work hours at restaurants to alleviate the burden on employees. We are also promoting more opportunities for education and self-development by introducing more flexible workstyles and e-learning. The promotion of diversity is another important theme. Not only are we focusing on appointing female managers, we are also employing senior citizens by extending the retirement age to 65 and introducing a reemployment system that allows applicants to continue working until the age of 70. We are also devoted to improving employee health and have been certified by the Health and Productivity Management Organization (White 500) and have received the Kurumin mark as an excellent company that supports child rearing. We will create an environment where it is easier for employees to work, promote a work-life balance, and achieve our growth strategy.

Achieve increase in store openings through workstyle reforms

Continue "Creating Richness with Value to Society" in the restaurant industry

Since opening Japan's first family restaurant (first Skylark) in 1970, we have been striving to "Create Richness with Value to Society," which is also our corporate philosophy, with the mission of "Offering great-tasting food at affordable prices with good service in our clean restaurants to as many people as possible." After nearly half a century, restaurants including family restaurants have become indispensable for people to have a good time with their families and friends and to lead a rich life. Since the Great East Japan Earthquake, the social function of the restaurant industry has grown in importance as we rediscover the value of the bond between people.

As a pioneer in the restaurant industry, Skylark will strive to develop new brands with value and aggressively open attractive new restaurants that bring a smile to every customer's face. Thank you for your continued support and cooperation.

Special Feature

Skylark Takes on the Challenge of "Expanding the Number of New Restaurant Openings"

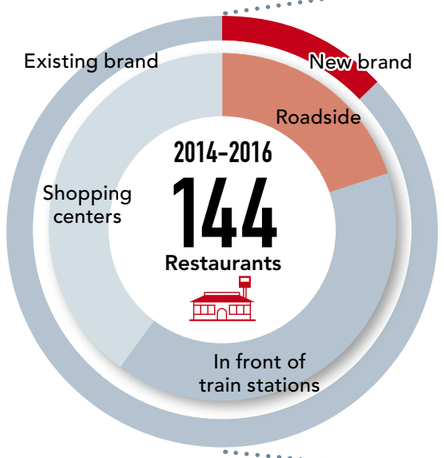
Based on its foundational strength that is reinforced in stages 1 and 2, Skylark will take on the challenge of dramatically expanding the number of new restaurant openings from 2017 to 2019. From the outline of the plan and the foundational strength that supports it, the two forces that will drive restaurant openings are introduced.

Expand the number of restaurant openings three times faster →P.17

Expand the room for restaurant openings		Support optimal restaurant openings
Brand Portfolio →P.19	×	**Market Analysis Capability** →P.21



Three-times Faster than the Last Three Years
Expand the Number of New Restaurant Openings

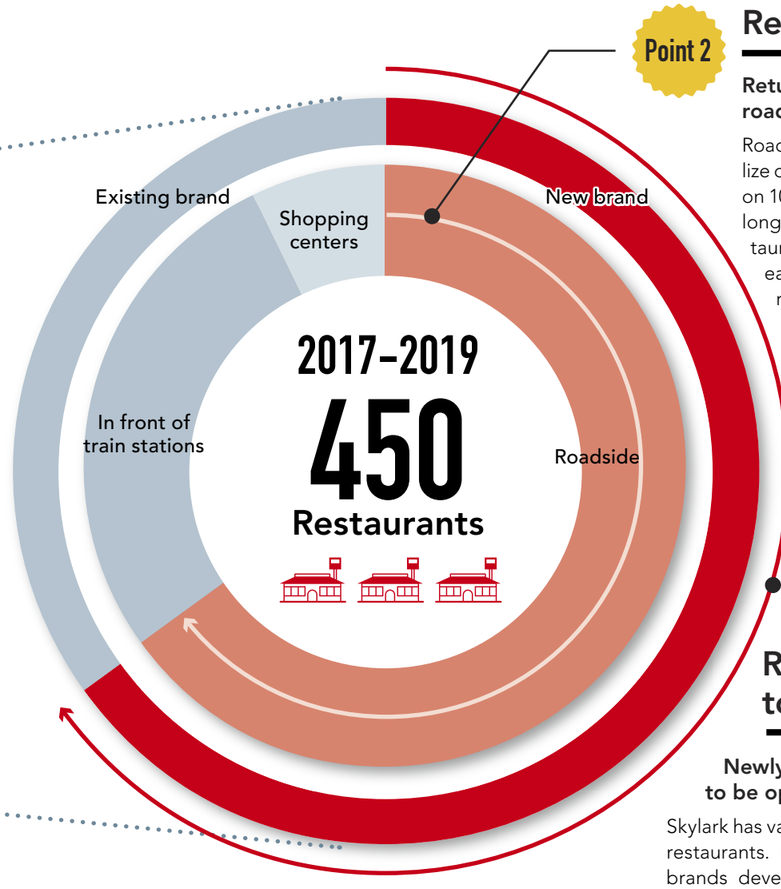


Point 1

Expand the Number of New Restaurant Openings

Open 450 new restaurants leveraging multiple brands

We will accelerate the pace of restaurant openings, which totaled 144 over the last three years. Our plan is to open around 450 new restaurants nationwide, 100 in 2017, 150 in 2018, and 200 in 2019, which is three times more than the past three years. Leveraging its multiple brands, a Skylark strength, we will open a variety of restaurants of multiple brands with different formats in the same region in marketable areas.



Point 2

Restaurant Location

Returning our focus to roadside restaurants

Roadsides, which can effectively utilize our distribution network centered on 10 nationwide commissaries, have long been considered excellent restaurant locations by Skylark. With each brand's earnings base reinforced by the benefits of scale, we have decided to refocus. In addition to restaurants in front of train stations, which had been expanding until last year, we plan to accelerate restaurant openings at shopping centers, especially our chawan brand.

Point 3

Restaurant Brands to be Opened

Newly developed specialty brand to be opened according to location

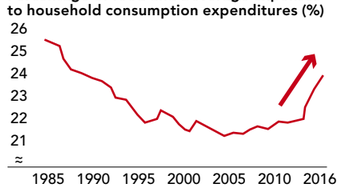
Skylark has various new brands besides family restaurants. Leveraging numerous specialty brands developed up to Stage 2, such as Syabuyo, where you can enjoy all-you-can-eat shabu-shabu with family and friends, and MUSASHI NO MORI COFFEE, where you feel like you're in a resort, we will expand openings according to location.

Thus far, the Group has increased its profit margins and achieved record-breaking profits amid flat sales thanks to business structural reforms and rigorous cost optimization. Now that the business foundation has been laid, it is essential that we expand the volume of sales by opening new restaurants for additional growth. In a favorable environment marked by a rising Engel's coefficient and increased spending on dining out by young people, we will increase business profitability by aggressively opening new restaurants tailored to each area's needs.

DATA Domestic restaurant market conditions support expansion of the number of restaurants

Customers seeking food quality and a better dining experience have increased and the percentage of spending on food has grown

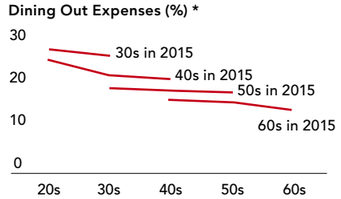
Percentage of food and beverage expenses to household consumption expenditures (%)



Source: Nihon Keizai Shimbun Inc. (February 17, 2017)

The young generation spends more on restaurant dining and therefore expenses for dining out are expected to increase overall

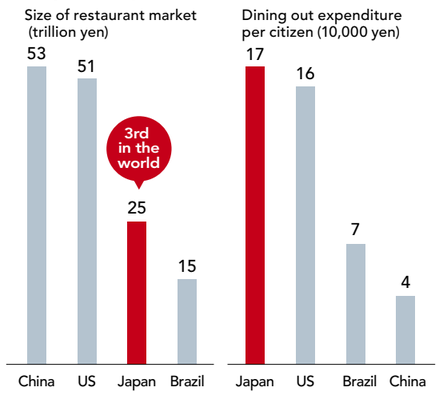
Dining Out Expenses (%) *



* Calculated as follows: General dining out for a working household of two or more people ÷ food expenses

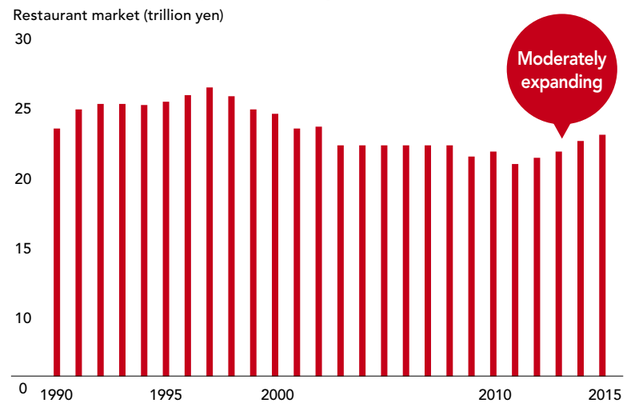
Source: Prepared by Skylark based on the Family Income and Expenditure Survey (Statistics Bureau, Ministry of Internal Affairs and Communications)

Japan is the country with the highest individual daily food expenditure



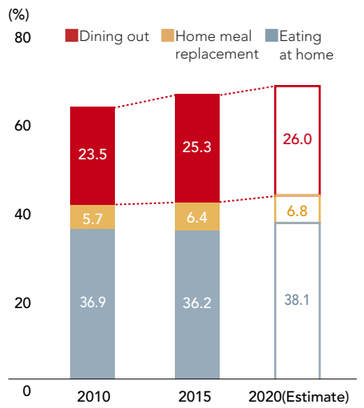
Source: Prepared by Skylark based on Euromonitor etc.

Domestic restaurant market has been declining since its peak, but has moderately expanded recently



Source: Japan Food Service Association

Market size expected to expand



Source: Prepared by Skylark based on materials from the Mizuho Bank Ltd. Industry Research Department

Restaurant opening support capability 1

Brand Portfolio

Expands Room for Restaurant Openings



Haruyoshi Sakita
Managing Director
of Marketing Division

Diverse brands that hold the key to expanding new restaurant openings.
Having brands that meet various needs leads to expansion of locations where restaurants can be opened.

The Skylark Group has developed diverse brands that cover the low- and mid-price range in multiple categories including Japanese, Western, Chinese, and Italian cuisines, supporting a wide range of customers that make up the majority of domestic consumers. With this diversity of brands, we can now appropriately allocate brands to match the distinctive characteristics of the locations where new stores are opened.

Because the external environment and consumer needs are constantly changing, detecting and understanding those changes and quickly developing brands to match the market is essential. From 2015 to 2016, we developed brands that are highly specialized and expanded our brand portfolio to include MUSASHI NO MORI COFFEE, Yumean Shokudo, and Tonkaratei.

To further enhance format development, we established a specialty format development team in the Marketing Division in 2016. Today, consumer values are shifting from “material consumption,” which emphasizes the value of material ownership, to “intangible consumption,” which values special times and experiences. We will accurately monitor this new demand and meet customer needs that are diversifying and segmenting.

NEW!! New Brands that Meet Customer Needs

Create together with your family
A buffet-style restaurant specializing in shabu-shabu that offers exceptional value where you can freely choose your favorite meat, vegetables, broth, and dipping sauce.

A specialty restaurant that is a cut above
A specialty restaurant where you can enjoy a varied and high-quality menu including pork, beef, and prawn cutlet in a comfortable and stylish setting.

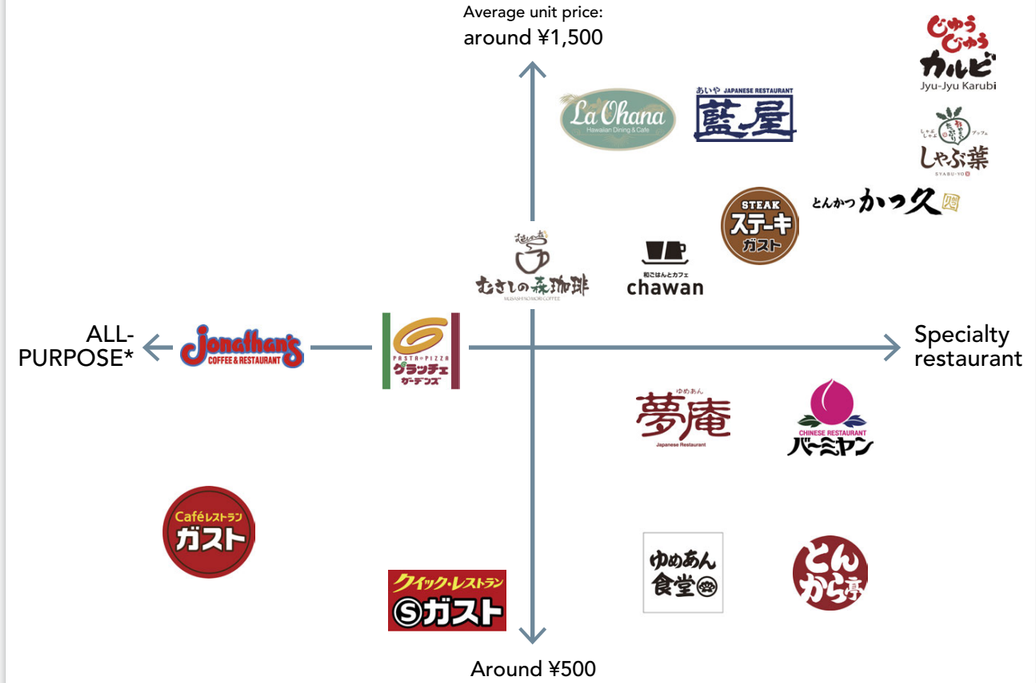
An exceptional resort-like experience
A café designed in the image of a high mountain resort that provides a space where you can relax amid different designs and atmospheres in each area, and have coffee, specially made pancakes, and other items.

Grab a quick bite on the way home or on the way out
Developed to meet the need for restaurants in front of train stations and in urban areas under the concept of everyday Japanese food that can be enjoyed in a casual atmosphere. Enjoy Japanese noodles (udon), lunch specials, and a drink menu.

Expansion of restaurants mainly in shopping centers
A restaurant with a casual atmosphere and a nutritionally balanced menu to meet the needs of women who want to eat tasty and healthy food at a leisurely pace.

Experience high-quality Hawaiian resort dining in Japan
“La” is Hawaiian for “sun,” and “ohana” is Hawaiian for “family” or “bond.” The restaurant offers community dining where customers can enjoy Hawaiian food and drink.

A brand portfolio that fulfills a variety of needs



* A generic term for a business category that offers a comprehensive menu of Japanese, Western, and Chinese cuisines in response to a variety of motives including period of time and purpose.

TOPICS

Community café that is popular with the whole community

Since opening its first shop in Yokohama City’s Minami-ku in March 2015, MUSASHI NO MORI COFFEE has been popular with customers and has greatly exceeded expectations. In June 2016, the Toyama Kyodo restaurant was opened in Toyama Prefecture, the first restaurant outside the Tokyo metropolitan area, giving us roughly 10 shops centered in the Kanto area. The brand concept is “All day living – in a comfortable leisurely space –”. In a spacious shop interior that makes you feel that you are in a coffee shop in a high mountain resort furnished with comfortable sofas, chairs and magazine racks. Here you can enjoy a menu rich in variety such as hand-drip brewed specialty coffee and special pancakes that can only be had at MUSASHI NO MORI COFFEE cafés. As a community café where you can leisurely spend your time as you like, in the morning, afternoon or night, by yourself, or with your family or a group, it aims for wide popular community support.


MUSASHI NO MORI COFFEE

Restaurant opening support capability 2

Market Analysis Capability

that Supports Optimal Restaurant Openings



Shigeto Kadowaki
Managing Director
of Store Development Division

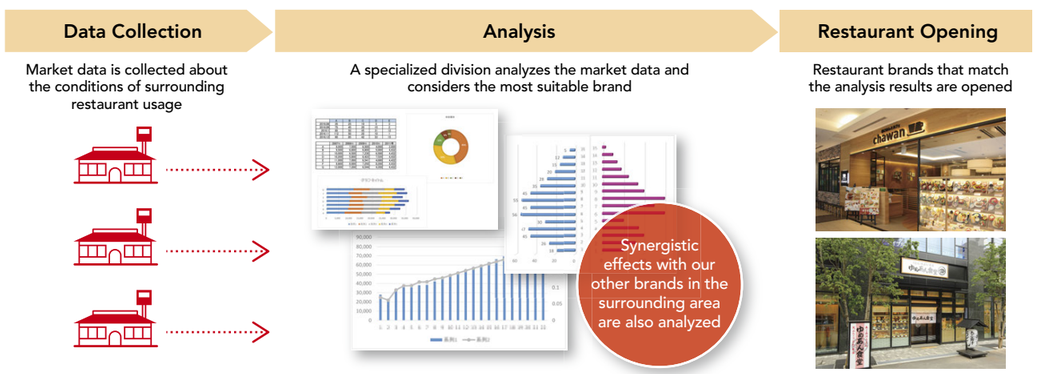
Detailed market analysis is essential when opening a restaurant. Selecting the most appropriate brand and building the restaurant based on data leads to a successful opening.

The Restaurant Development Division is responsible for restaurant remodeling, brand conversion, as well as securing land and buildings, brand selection, and restaurant design. We have significantly reinforced staff in preparation for the rapid expansion of the number of restaurants. About 50 staff are continuing to search nationwide, from Hokkaido to Okinawa, for candidate locations and properties for new restaurants.

When opening a new restaurant, it is important to decide comprehensively based on a variety of factors such as location, floor space, market conditions of the area, and the effect on existing Group restaurants in the neighboring area, and then select the most suitable brand. What most differentiates Skylark from its competitors is its ability to select the most suitable brand that can be expected to reliably generate revenue from among its many brands within the location parameters, such as a Japanese brand in areas where there is an over concentration of Western-style restaurants.

Underpinning this is Skylark's ability to analyze markets and customers. Immediately after developing a new brand, we verify it with a trial restaurant that has undergone brand conversion from an existing restaurant, leading to the development of an optimal brand through the collection of "living data."

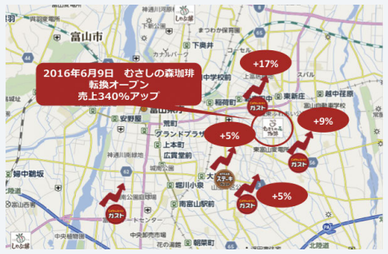
Meanwhile, we are researching customer segment assumptions based market data from surrounding areas and on big data collected from existing restaurants. By combining this data with each brand's data, we consider the most suitable brand. In addition, by analyzing such factors as the average number of people who come to use the restaurant at one time (for example, do individuals or groups of two or three people most frequently enter the restaurant at one time) and what are its peak hours, we decide the restaurant's design, such as the proportion of individual seating versus booth seating, and the amount of space to devote to the smoking section. This helps us create restaurants that rank high in customer satisfaction.



COLUMN

Utilizing Data from Market Analysis, we Seek to Expand Area Revenue

In the growth of existing restaurants as well as new restaurants, we are executing policies and measures that leverage market data.



Verify the status of all restaurants in the area and consider measures to improve the entire area's profitability

Brand Conversion

Brand conversion that seeks optimal placement in the Group's restaurant areas tailored to local needs

The brands developed by the Skylark Group have a basic restaurant structure that is common within the Group, so it is possible to convert restaurants to other brands according to local needs and other factors. Because Skylark owns diverse brands, it can strategically select the appropriate brand at each location according to market changes, and the range of those selections is also expanding due to recent new brand development.

The distinctive feature of the Skylark Group's brand conversion lies in "optimal area placement" that reduces competition within the Group and maximizes the market's potential by reviewing the placement of Group restaurants within an area, and not one restaurant alone. In 2016, 84 restaurants were converted. This generated a high investment effect because conversions were based on detailed analysis. For example, MUSASHI NO MORI COFFEE, which was converted and opened in Toyama Prefecture in 2016, saw a sales increase effect of about 340% compared to before the conversion, and surrounding area sales increased 7.6%.

Remodeling

Increase Customer Traffic through Remodeling (renovating restaurant interiors and exteriors) 316 restaurants remodeled in 2016

In accordance with market changes, such as the increase in the senior citizen and women customer segments, Skylark is aggressively remodeling (renovating restaurant interiors and exteriors) so that it can provide customers with a comfortable space. We have remodeled at a pace of about 300 restaurants annually since 2013, focusing on revamping designs tailored to concept by, for example, constructing separate smoking and non-smoking sections to accommodate increasing demand and improving the table ratio to accommodate changes in customer segments. In 2016, 316 restaurants were remodeled and Gusto achieved an almost 4% sales increase than before remodeling. In recent years, we began working on layouts that ensure private spaces to meet various needs, such as for rising banquet and larger party demand.



Before remodeling
Family seating is most common



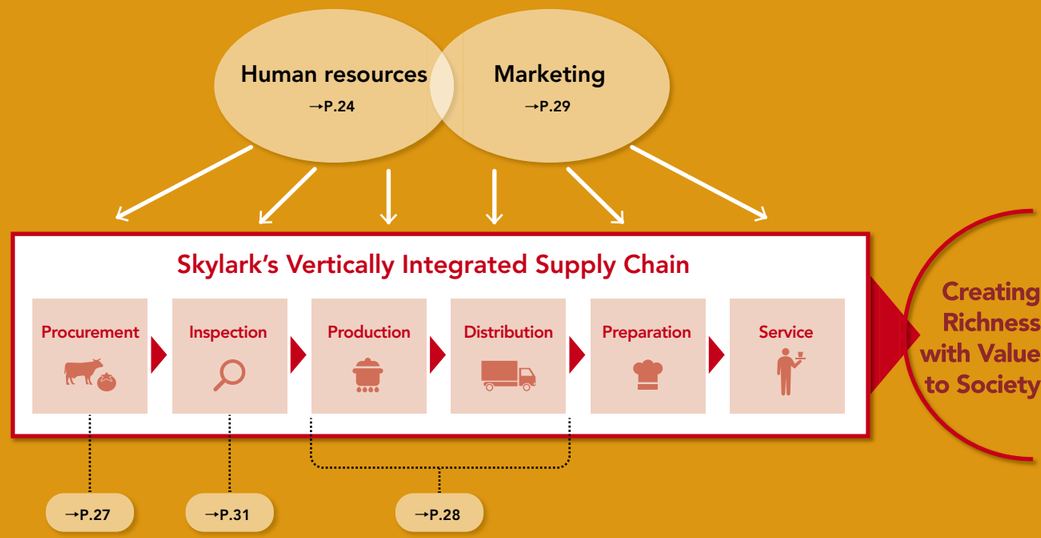
After remodeling
Changed to a seating arrangement that assumes customers will visit in small groups in a café-like atmosphere.






Foundation to Support Growth

Skylark's strength is its vertically integrated supply chain that it operates consistently from procurement to delivery. Our human resource and marketing capability also supports this.








Foundational strength 1

Human Resources

"People" Hold the Key to the Success of our Restaurant Opening Strategy

Over the next three years, Skylark plans to open about 450 restaurants nationwide, approximately three times that of the last three years. Securing human resources is therefore an urgent task. To achieve this restaurant opening plan, we need to hire about 100 more people than we now do each year. Naturally, the "quality" of human resources is important, and because we are committed to our hiring standards that require "hospitality-minded people," we will actively promote full-time employees from our staff.

To retain personnel who can provide high-quality service, we significantly reduced night time work in 2017. Although sales may decline, we expect profit margins can be secured by increasing the turnover rate during peak hours and improving service quality by transferring veteran staff, who had worked night shifts, to work lunch and dinner time. The acquisition and retaining of high-quality human resources will lead to the success of our plan to expand the number of restaurants.



Minoru Kanaya
Managing Director of Human Capital Management Division

Initiatives to Procure Human Resources

Strengthening Staff Recruitment and Employee Promotion

To secure competent human resources, Skylark is actively promoting staff to full-time employee status. To communicate the appeal of working at Skylark with the aim of having them become full-time employees, we have held staff-only dinner parties and seminars for job seekers, and expanded the number of restaurants where interviews are set by the call center (instead of by managers) to all restaurants to reduce the burden on managers in hiring of staff.

We are also considering the introduction of a staff support system to assist with work at multiple restaurants, a registered staff system to promote flexible workstyles, and a new system that involves headquarters' support in the hiring of foreign nationals and in initial training.

Promoting Various Workstyles to Accommodate Lifestyle

To secure diverse human resources, we have upgraded our system that permits workstyles that accommodate individual lifestyle. For example, our "modified working hour system," which allows the combining of work shifts of 4, 6, 8, 10, and 12 hours, enables free workstyles to accommodate busy- and off-periods of work. Meanwhile, we have taken steps to curb transfers and moves, which are a heavy burden on employees, and reduced employee moves by 30% year on year in 2017.

TOPICS

Holding Job Search Startup Seminars

At Skylark, we held Job Search Startup Seminars in January and February of this year to assist approximately 5,000 part-time staff, who work at Group companies and commissaries, in their job searching activities. At this seminar, we held lectures on how to effectively sell yourself at job interviews, provided free aptitude tests to determine eligibility for admission to exams, and feedback. We also held information exchange dinner parties where attendees can freely talk with staff associates of nearby restaurants, senior employees, and personnel managers.

Foundational strength 1

Human Resources

Promoting Work-Life Balance to Encourage Employee Retention

We seek the Group's further growth through the promotion of workstyle reforms and a workplace environment where employees are physically and mentally healthy and can work energetically.

Reducing Late-Night Work

In December 2016, we decided to shorten late-night working hours with the goal of enhancing the work-life balance of employees by reducing those hours where the burden to labor management is high. Targeting 70% of our restaurants that are open late at night between the hours of 2:00 am and 5:00 am, in sequential order, from January to April 2017, we reduced their hours by having them close at 2:00 am and open at 7:00 am.

The market environment has also changed, and the number of late-night customers has been declining for the last few years. In 2012, we re-examined restaurants with very long operating hours, and in 2013, conducted routine reviews, which led to reducing the operating hours of about 600 restaurants by an average of two hours. Although sales decreased in 2017 due to a major reduction in hours, we have improved service by transferring employees on late-night shifts to work during other hours such as morning, lunch, tea and dinner time, and increased the number of customers.



Improved service in other time slots by reducing late-night operation

Promoting the Health and Productivity Management Project

In 2016, Skylark established the health and productivity management project with the goal of promoting employee health and improving the workplace environment, and we conduct a wide range of initiatives on an ongoing basis.

Promoting Health Check-Ups

Skylark urges staff and supervisors to ensure that they receive health check-ups that are essential for the prevention and early detection of disease.

Prohibit Smoking Campaign

Since 2014, we have been conducting a campaign to prohibit smoking with the goal of reducing the smoking rate throughout the Company. In addition to providing support tools such as nicotine patches and nicotine gum to those who wish to use them, beginning in 2017, we are offering a two-month online support program to help them quit, and long-term four-month email support thereafter free of charge.

TOPICS

Obtaining External Certification in Labor Environment

Health and Productivity Management Organization Recognition Program (White 500)

Believing that employee health is our number one priority, Skylark is committed to promoting good health under executive management's leadership, to the mental and physical health management of employees, and to creating a comfortable workplace environment. In recognition of this effort, in February 2017 we were certified by the Health and Productivity Management Organization Recognition Program (White 500) as an excellent company that practices health and productivity management in cooperation with insurers.

The Health and Productivity Management Organization Recognition Program was established by the Ministry of Economy, Trade and Industry together with Nippon Kenko Kaigi (comprised of leaders of the business community, medical-related organizations, and local governments) in 2016. "White 500" is a name that refers to major certified companies in the corporate sector. A total 235 companies were selected in the first certification.

健康経営優良法人
Health and productivity
ホワイト500

Kurumin Mark

Promoting the acquisition of consecutive holidays, childcare leave for men, reduced working hours for childcare, the Skylark Group received the Kurumin mark from the Ministry of Health, Labour and Welfare of Japan in February 2016 in recognition of its support for child rearing based on the Act on Advancement of Measures to Support Raising Next-Generation Children.

BMI Improvement

Skylark is promoting public awareness about BMI, which is said to have a significant causal relationship with lifestyle diseases, and efforts to improve BMI figures. In addition to offering courses by nationally registered dieticians for those who require improved BMI figures, we are making a video digest of the course available for online view.

Introducing Health Management App

In July 2016, we introduced KenCoM, a health management app. The app is an information management tool that can provide individual information based on health check-up results and can help raise awareness about disease after health check-up.

Continuation of Welcome Program

As the Skylark Group grows, the active participation of staff familiar with restaurant operations is essential. It is important to enhance education after joining the company so that staff will become regular employees in the future. We have established a unique training system where managers and trainers provide adequate training so that staff who have just joined the restaurant can quickly get accustomed to their work, feel job satisfaction, and continue working without leaving. Instituted in 2012, the Welcome Program introduced an orientation to help eliminate employees' sense of isolation that is felt after first joining a company. We created a training manual that covers the basics of work to avoid an education and training deficiency, and established a three-day training period after joining the company. Today, 5 years after its introduction, training is conducted to impart a proper understanding so that the instruction provided by managers and trainers is uniform.

Introduction of iPads

Beginning from 2014, we introduced tablet PCs at Jonathans with the goal of promoting staff training and streamlining restaurant operations, and conducted trials on incorporating digital terminals. After verifying their effectiveness, we introduced iPads at all Gusto restaurants in March 2016. In March 2017, iPads were introduced into all restaurant brands and used during work and training.

Not only did the iPads make it easy to search the formerly paper-based manual, we can now browse the latest version of the manual online. Since the complicated work of updating the manual is no longer required, work has become more efficient.



Introduction of the iPad has made consistency in training possible

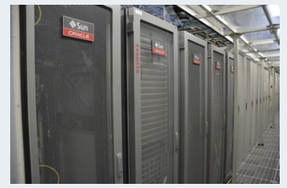
TOPICS

Streamlining Restaurant Operations with IT

In addition to procuring and retaining human resources, we have focused on reducing restaurant workload through the introduction of IT including restaurant work terminals, POS registers, and order entry systems, and we are providing higher quality service to customers.

So far, we have reduced the burden of inspection of automatic change machines, worked on restaurants' output of work schedules by improving the restaurant operation system, and established automatic setting of legal holidays for staff.

In 2015, we initiated a project to move to a new system infrastructure, comprised of a restaurant system supporting core restaurant tasks, such as order entry and attendance management, and a system linking to that, constructed at the new data center (DC), and to revamp restaurant databases. In June 2016, we integrated our system, which bad been dispersed in four locations throughout Japan, into one location and started full-scale operation. Shifting to a new system infrastructure that utilizes the latest databases, machines, and servers, increased the restaurant system's processing performance by 300% to 400%. Operational efficiency also increased, for example, the time required to transmit massive amounts of master data to restaurants was reduced from 11 hours to 1.5 hours.



We plan to migrate all internal business systems to the new data center at the end of 2019.

Foundational strength 2

Procurement



Minoru Himeno
Managing Director of
Supply Chain Purchasing Division

Avoiding the Risk of Stable Procurement, We Pursue Cost Reduction based on Win-Win Relationships

Although the greatest mission of the Supply Chain Purchasing Division is "stable procurement," with foreign currency exchange fluctuations, abnormal climate, international conflicts, countries' policies, and other factors, the risks increase year after year. To avoid these risks, it is important to secure as many suppliers as possible, and at the same time, build an information network that can constantly access the latest information.

"Cost reduction" is also a key mission. By establishing an education system for buyers and training them to break free from fixed ideas, buyers can work with suppliers to find the best way to reduce costs while maintaining a win-win relationship. The "cost optimization project," which depends on cooperation with menu development, production, restaurant management, and other divisions, has made yearly improvements since launching in 2012, and has achieved optimal procurement taking full advantage of the Group's benefits of scale.

Initiatives to Procure High-Quality Ingredients and Raw Materials at Optimal Cost

Avoiding Currency Exchange Risks by Procuring from 20 Countries Around the World

With the significant currency exchange rate fluctuations of recent years, the avoidance of foreign exchange risk is extremely important. At Skylark, procurement managers visit producers all over the world and collect information. At present, we minimize currency exchange fluctuation risks by procuring various ingredients from roughly 20 countries while striving to provide a stable supply of safe and secure ingredients.



Increasing Cost Reductions with Procurement that Leverages Benefits of Scale

Leveraging the benefits of the Group's scale of almost 3,000 restaurants, we procure carefully selected high-quality ingredients from around the world at optimal cost. Collaboration with the procurement and other divisions allows us to make larger purchases by deploying ingredients purchased in bulk in the menus of various brands, which leads to a lower purchasing price. For ingredients with sharply rising market prices, we are working to prevent the loss of value provided to customers by leveraging our network of producers around the world, and reviewing changes in production areas, as well as contract terms and amounts.

Focus on Developing Competent Buyers

Competent buyers hold the key to "optimal procurement." Capable buyers always require a swift and flexible response, such as switching from production areas where prices are expected to rise sharply, to other production areas, selecting the supplier countries according to the currency exchange rate conditions of each country, and searching for new ingredients by approaching new supplier countries. In addition to on-the-job training (OJT), we have focused on nurturing competent buyers through a systematic educational training system that includes "new buyer training" and "problem solving training."

Foundational strength 3

Production/Distribution



Toshiaki Aihara
Managing Director of
Supply Chain Production Division

We will Build Optimal Production and Distribution Lines to Lay the Foundation for New Restaurant Expansion.

The mission of the Production Division is to "Deliver safe and secure ingredients to restaurants at a precise time." Commissaries play a particularly important role as the foundation for future new restaurant expansion.

Our strong production and distribution network centered on commissaries enabled us to build a system for the smooth delivery of ingredients to each Group restaurant from the time they open.

Commissaries not only work to ensure food safety and security, but to also raise productivity through constant improvement to eliminate work waste, for example, by reducing the distance that workers must walk and streamlining work procedures. To expand the number of new restaurants, we are also focused on training and retaining human resources who will be responsible for running optimal production lines.

Initiatives to Promptly Deliver Safe and Secure Ingredients

Ingredient Management and Initial Processing at Commissaries

Providing Stable Quality at All Restaurants

At our 10 nationwide commissaries, we have reduced the burden of cooking on restaurants by consolidating the work of food preparation, including the cutting of ingredients and preparation of our unique sauces, which has led to the stable supply of high-quality cuisine. We are also working on rigorous quality control by conducting a total of 130,000 bacterial tests per year.

Using Human and Automated Processes for Different Purposes

Initial processing at commissaries is performed neither entirely by automation nor human hand, but assessing the good points of each, tasks are separated to efficiently provide safe and secure ingredients.





Vegetables are checked by hand to ensure the absence of bugs and insects.

Making the Required Amount for that Day

The commissaries do not carry surplus stock, but produce orders submitted by restaurants the night before and deliver them in fresh condition every day to the restaurants. Because we make what we need for that day on that day, we can control storage costs.

Delivery of Ingredients, Processed Foods, and Supplies All Together

Everything from ingredients such as meat and vegetables and processed foods such as fried potatoes, to supplies such as the wet hand napkins used by customers are collected at commissaries, where they are inspected and shipped to restaurants.

Optimizing Distribution by Shifting to "Delivery by Area"

Skylark has pursued the optimization of distribution as a cost reduction measure. Under the catchphrase "area optimization," we have shifted from a traditional brand-based delivery route to an area-based delivery system. In the Kansai and Kanto areas, we have already created an efficient system that delivers multiple brands along an optimum route. In 2016, we also shifted deliveries to Syabuyo, which is managed by a Group company that continues to expand the number of its restaurants, to this area-based delivery.

Foundational strength 4

Marketing

Using Big Data Analysis in Management

VOICE

Data Analysis that Precisely Tracks Consumption Trends Enables Rapid Decision-Making



Satoshi Imasawa
Insight Strategy Group Director

Consumer lifestyles and preferences are constantly changing and we have entered an age where corporate growth is decided by how rapidly and precisely companies can respond to that change. Therefore, in 2012, we hired specialists in analytical work and launched the Insight Strategy Group comprised of staff with extensive field experience. Currently, we have seven analytical staff who conduct daily analysis of trends such as sales, number of customers, average ticket price, number of menu sales, and time spent in restaurant. Management's decision-making process, which is based on this data analysis, is considered our strength. Linking a variety of data including point-of-sales (POS) and T-Card which tracks customer attributes, as well as the coupon usage history of mobile apps, enables the analysis of menus by gender, age, and visit frequency, and the measurement of promotion effects. Furthermore, we are working to improve the accuracy of menu development by conducting Web surveys prior to menu sales and questionnaire surveys after menu revision.

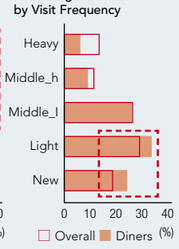


Analyzing orders for Tender Lean Beef Steak by gender, age, and visit frequency reveals that this menu helps gain new customers compared to all other items.

Percentage of Diners by Gender and Age



Percentage of Diners by Visit Frequency



Menu Marketing Strategy Based on Market Environment

The menu development group does everything from menu planning to trial production and commercialization. Analyzing detailed consumption trends utilizing big data allowed us to develop menus that swiftly responded to changing customer needs. For example, from around the autumn of 2015, the tendency of price-sensitive consumers to economize appeared prominently in the data, and based on that, in February 2016 of the following year, Gusto made major revisions to its lunch menu by offering moderate prices. Further, in June, by expanding the grill menu for the youth and family segments, who consume less, and introducing a menu to meet the growing interest in health-conscious eating, we attempted a major overhaul to change 80% of the menu. Since the autumn of 2016, we have seen the steady results of these changes.

In response to the recent growing need for "intangible consumption," which emphasizes having enjoyable experiences through food, Gusto introduced the Beef Cut Steak, a style of dining whereby customers cook and eat the meat by themselves, which has won support, especially from the family segment. At Bamiyan, we analyzed consumer needs and re-examined the restaurant's positioning from that of "authentic Chinese" to a "neighborhood Chinese restaurant" and have provided experiential menus and improved quality with popular Chinese dishes. In this way, we have quickly responded to lifestyles and preferences that change with the times, as well as to personal consumption, and we will propose optimal menus for those times.



In addition to responding to health-conscious consumers and developing a low-carbohydrate menu, we introduced Beef Cut Steak, which you cook and eat by yourself.



Bamiyan's popular "Three Big Ramen Festival" was held in the autumn of 2016. Bamiyan also offers course menus for banquets.

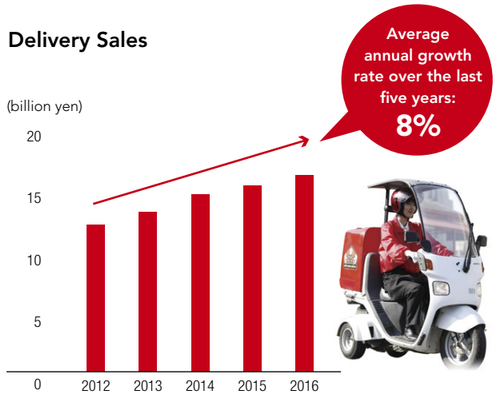


Female employees are actively involved in Skylark's menu development. Detailed planning that includes women's perspectives is the secret to creating hit products.

Enhancing Delivery and Takeout Service to Accommodate Home Meal Replacement Market

As of April 30, 2017, the Skylark Group operated delivery service at nearly 900 restaurants and sales increased roughly 6.4% year on year. The delivery market is expanding due to the women's social advancement and the aging of society, and the sales growth rate for 2012 to 2015 is expected to be about 8% per year. We are introducing on a trial basis cross-brand delivery to deliver multiple brands within the same area and working to streamline operations. In addition, takeout demand is rising and the Christmas Takeout Roast Chicken that Gusto offered in December 2016 recorded more sales than expected and led to gaining of a new customer segment.

Delivery Sales



Developing Effective Sales Promotions

Skylark has developed optimal sales promotions to accommodate a wide range of customer segments. Among them is the digital promotion, which has gained strength in recent years. In 2014, we introduced the official mobile app for Gusto customers, and Bamiyan and Jonathan introduced apps the following year. Gusto app downloads have already exceeded 10 million. Designed to promote customer visits that increase cost-effectiveness through one-to-one marketing, such as the timely dissemination of information and specific coupons tailored to each customer. In the future, we are planning to develop a cross-brand app that integrates Skylark Group brands. We also seek to gain reciprocal customer effects within the Group and develop highly profitable promotions.





We will promote cross-brand apps and coupons so that more customers can enjoy a variety of Skylark restaurants

Safety and Security Initiatives

Skylark's Inspection System

Bacteriological Testing Days	365 Days
Criteria	Approx. 170 Sets
Samples for Testing	No. 1 in the Industry

To deliver safe and secure food, we have established criteria concerning quality and sanitary management for a wide range of potential risks in every process from ingredient procurement to processing, distribution and delivery, and have set a basic policy of conducting rigorous management.

At commissaries, which are responsible for the initial processing and distribution of food ingredients, cameras have been installed that monitor and supervise 24 hours a day to ensure that workers, when entering the production line, have washed their hands after using the bathroom. We have also taken measures to prevent the entry of viruses into commissaries by declaring and recording the health status of employees as well as those they live with. In addition, we have created our own sanitary management system in accordance with Hazard Analysis and Critical Control Point (HACCP) and have also set quality standards for the safe manufacturing of products.

The quality control group, which manages food safety, inspects everything, whether company product or purchased item, at the Company inspection center before it is introduced. Only food that has passed strict internal inspection standards is delivered to our restaurants nationwide. Even food that has passed inspection once undergoes routine sampling inspection at sanitary inspection centers at eight locations nationwide where safety is confirmed. In bacteria testing, inspection items and standard values are determined for each item, and when the inspection results exceed the standard value, measures are promptly taken to prohibit their use or introduction is terminated. In cooperation with operation audits, we rigorously conduct detailed checks and guidance on more than 50 items related to hygiene such as ingredient management and cleanup. Moreover, we conduct unannounced inspections at commissaries every month and verify their sanitary management conditions. We also concentrate on employee education. We test some 130,000 samples a year, the largest amount in the restaurant industry.

Establishment of Traceability System

We have disclosed the area of production of meat and fish and seafood for the Japanese food category, our main raw material, based on "Guidelines for Place of Origin Display for Eating Out." Furthermore, we have established a traceability system that manages production information and lot numbers of our products, making all data available upon shipment, thus providing traceability in case of a problem with quality.

Initiatives to Prevent Norovirus

Skylark is taking rigorous measures to prevent norovirus and its spread. Employees thoroughly wash their hands using a meticulous disinfection method as specified in our manual, and wash their hands twice for 100 seconds with soap and liquid disinfectant before work and after using the bathroom.

All restaurants are equipped with multiple sets of kits for cleaning up vomit, with the disposal procedure outlined in a manual. Places touched by the general public, including doorknobs, water faucets, toilet seats and their periphery, are chemically disinfected at regular intervals each day.

Moreover, we perform a norovirus test entirely at the Company's expense and only allow employees to come to work after receiving a confirmed negative result of a highly sensitive test. To shorten the time for a negative result to appear, we are working on joint verification with a specialized institution with the aim of improving the economic losses of the restaurant industry.

Environmental and Social Initiatives

Reducing Waste and Recycling Kitchen Refuse

Waste including refuse generated everyday by restaurants and commissaries nationwide is outsourced to external contractors and recycled. The largest commissary, the Higashimatsuyama facility, uses its own recycling equipment to produce fertilizer from refuse. We are also working to reuse waste cooking oil.

Accepting Teachers for Training

In response to a request from the Board of Education of Fuchu City, Tokyo, the Skylark Group has conducted training for elementary and junior high school teachers. The objective of the training is to help teachers gain wide-ranging insight through experiences outside the classroom and learn the behavior and responses as working adults that can be put to use in their professional duties. In 2016, we accepted 33 teachers as 11 restaurants.

Kumamoto Earthquake Emergency Support and Fund-Raising Activities

When a large-scale disaster strikes in Japan or abroad, we leverage our nationwide network of restaurants to conduct fund-raising activities.

After the Kumamoto Earthquake struck in April 2016, we launched emergency countermeasure meetings. In cooperation with Kumamoto Prefecture and Mashiki Town, boxed lunches were prepared at the Gusto Kamisuizenji restaurant and the Gusto Kengun restaurant, whose kitchens were available to use, and delivered to the disaster-stricken areas from April 19 to 26. From April 27 to May 1, the Kitakyushu commissary was used to produce and deliver the boxed lunches.

Fund-raising results

Itoigawa City large-scale disaster emergency fund:	201,596 yen (Dec.2015 - Jan.2016)
Kumamoto Earthquake emergency fund:	15,709,151 yen (Apr.- May 2016)
Nepal Earthquake emergency fund:	5,737,114 yen (May 2015)

Peoples' HOPE Japan

Peoples' HOPE Japan (PHJ) is an international non-governmental organization (NGO) that provides support for education on health and medical care to promote the self-sufficiency of people in developing countries in Asia. Its main focus is ongoing support for maternal and child healthcare education. It conducts ongoing educational support activities, mainly in the field of maternal and child health in Southeast Asia. The Skylark Group supports PHJ's activities to reduce maternal mortality rate and to educate local people about health and hygiene.

Contribution to Non-Profit Organization "Action with Lao Children"

This international organization has been active in working to improve educational conditions for Laotian children. Donations are used to publish study aids on folklore and literature and picture books about the environment for distribution to poor children. Some of the coffee sold in the Skylark Group's restaurants is a blend using coffee beans from Laos. For every kilogram of beans the Group purchases, it donates ¥1 to the non-profit organization "Action with Lao Children."

Cooperation with the Japan Little League Sponsorship Program

The Japan Little League Baseball Association offers children an opportunity to build a healthy body and spirit in a manner accepted worldwide through the team sport of baseball, which is deeply rooted in Japanese culture. Since September 2015, the Skylark Group has been supporting the growth of children through cooperation with this Association's sponsorship program.



Atsushi Nishijo
Independent Outside Director

PROFILE
Mr. Nishijo entered Sumitomo Corporation in 1965. After serving in positions including Director and Executive Vice President of Sumitomo Corporation and Chairman and Representative Director of Sumisho Computer Systems Corporation (currently SCSK Corporation), he became an Independent Outside Director of the Company in 2014, and currently holds this post. He is also a Director of Brother Industries, Ltd.

Yukihiro Wada
Independent Outside Director

PROFILE
Mr. Wada entered Dai-Ichi Kangyo Bank, Ltd. (currently Mizuho Bank, Ltd.) in 1992. His work experience includes the Research and Planning Section of the Minister's Secretariat, Ministry of Finance, McKinsey & Company Japan, and Director, General Manager of Corporate Planning Division of Aiful Co., Ltd., Managing Partner for the Japan business at Kurt Salmon, and President and CEO of Interbrand Japan, Inc. He currently serves as Head of Analysis of the Strategic Planning and Sales Development Division at Google Japan Inc. In 2016, he became an Independent Outside Director of the Company, and currently holds this post.

Strengthen Brand Power and Human Resource Skills to Become a More Competitive Food Service Group

Business Strategy supported by Careful Scientific Data Analysis

—Tell me your experience serving as an Independent Outside Director at Skylark.

Nishijo: I have been involved in the management of a trading company, including the management of a U.S. company and an IT-related company of the Group. I have also made management decisions on establishing of new companies, mergers and acquisitions, and corporate dissolutions in Japan and overseas. Leveraging this business management experience and knowhow, I thought I could contribute to Skylark's management and therefore accepted its offer to become an Independent Outside Director. I also wanted to understand how Skylark manages its nationwide chain of more than 3,000 restaurants, the largest in the industry, and its staff of 100,000 workers.

Wada: I started working as a management consultant at a financial institution, I also managed an investment fund, a retail group, and a branding company. I am now in charge of business strategy at Google Japan Inc. I was offered the position of Independent Outside Director to leverage my experience in corporate strategy planning. The restaurant industry has many opportunities in which to further develop itself since it is very broad; it includes food menus, supply chain, restaurants operations, customer service and marketing. I think there is opportunity for improving the business by formulating and implementing a comprehensive strategy.

—What is your impression of Skylark's management and business operation?

Wada: Skylark has expert data analysts and discussions proceed based on carefully analyzed data. Even the retail industry consults marketing data, but there aren't many cases of business strategies being formulated based on such a scientific approach, so I was honestly surprised.

Nishijo: On that point, I'm also impressed. I think that's because management is fully aware of the importance of making objective and rational decisions. However, data is not necessarily the entire picture, I think management is rightly shifting its focus to human aspects that cannot be quantified, such as management's vision and decisions based on worksite visits.

Board of Directors' meeting participants vigorously exchange views and engage in hardball discussions without mutual back-scratching or feigned harmony

—What is your assessment of Skylark's governance?

Nishijo: At Board of Directors' meetings, vigorous discussions are held by internal executive officers, outside directors and corporate auditors. Even at today's meeting, an extraordinary number of views were exchanged, but agenda items were sent back as it was determined they had not yet been fully discussed.

Wada: At Skylark, there is no behind-the-scenes maneuvering. Our board meetings are very open and honest and generate "healthy conflict" for the betterment of the company. We proactively share our views and often there are disagreements which result in very constructive discussions. There is absolutely no need to try and read between the

lines and refrain from speaking every time there is a serious debate.

Nishijo: There is no behind-the-scenes maneuvering, in terms of transparency to outside officers, I think they do a very good job, including with pre-briefings. As a part of this, we visited the central kitchen in the Kanto area, the other day we observed operational management, which draws on the Toyota Production System's kaizen (improvement). We gained a deeper understanding not only of the documents and data, but of the business by seeing the actual worksite, which is useful for Board of Directors' discussions.

Wada: It's also an opportunity for outside officers to exchange information and views, such as by holding the "Independent Officer Liaison Meeting" for independent outside directors and outside corporate auditors, which leads to active participation of outside directors in discussions.

—What do you think about your role as Independent Outside Directors?

Nishijo: As Independent Outside Directors, our most important role is to strictly monitor and



supervise the soundness of Skylark's management, that is, whether management decisions and business execution are highly transparent and not arbitrary. Utilizing our accumulated business management experience in Japan and overseas, we check overall management, and if there are any concerns, we do not hesitate to point them out or ask clarifying questions.

Wada: In addition to ensuring this soundness, I hope to contribute to Skylark's management from the standpoint of corporate value by leveraging my experience of working in various industries. We are trying to identify and advise on each of the items on the Board of Directors' meeting agenda while noticing whether discussions consider the goal of raising corporate value.

Recognizing changes in food trends enabled Skylark to aggressively open 450 restaurants across various brands over a 3-year period

—What is your opinion about the strategy to expand the number of restaurants?

Wada: Although Skylark has the largest domestic restaurant chain, because Japan's restaurant industry is marked by rivalry between powerful competitors, there is still much room for market share growth.

Nishijo: According to survey results, there are about 2,300 potential new restaurant locations. Therefore, the plan to open about 450 new restaurants over the next three years is a rather sound strategy.

Wada: In accelerating store openings, it is important to introduce the most suitable brand for each location without being forced to take a specific brand.

Nishijo: In that sense, having a wide range of brands, from family restaurants to various specialty stores, is a tremendous advantage for Skylark. We can choose a suitable brand that matches the areas' distinctive characteristics and convert existing brands to brands with greater growth potential according to changes in the times and environment. There are only a few companies in the industry that can do this.

Wada: Naturally, because the food culture changes with the times, we must continue to develop new brands. Recently, "experience-based consumption" and "consumption based on intangible qualities," in other words looking "at what kind of restaurant, and with whom and how did the customer enjoy their food," and not merely the taste of the food itself, is beginning to attract attention. We must continue to aggressively develop new brands that reflect this trend.

Nishijo: NILAX Inc. is responsible for incubating new brands at the Skylark Group. In the past, we have generated new businesses, one after another, targeting various restaurant fields, it's been very interesting.

Wada: I think the company is taking a lot of time to prepare, but when seen from the outside, one gets the impression that things are moving very quickly and that we are aggressive risk-takers.

To secure human resources to support our restaurant opening strategy, we will create a more lively work environment

—What are Skylark's future challenges and expectations?

Wada: Each of Skylark's brands has its own worldview and I think the quality of everything, from menu composition and restaurant creation, to operation is very high. However, under present conditions, I don't feel that individual brands and



the parent operation are well connected in customers' minds. In the future, by effectively showcasing our brand value as the Skylark Group, we should become an even more competitive restaurant group.

Nishijo: I think in the future Skylark should place a premium on human resources.
With intense changes in the human resource market, to realize our growth strategy, which is focused on restaurant expansion, we must further increase the number of people who desire to work at Skylark. For that reason alone, we need to continue to strengthen our efforts, such as revolutionizing how we work, and achieve a work environment where employees can work vigorously.

Wada: I feel the same way. We cannot provide the best service to customers unless we have a workplace where employees and staff can feel that they are happy to work there. I want to continue to aggressively invest in human resources and further raise corporate value.

—Thank you for taking the time to talk with me today.

Corporate Governance

Basic Approach to Corporate Governance

Under its corporate philosophy of "Creating Richness with Value to Society," the Skylark Group operates approximately 3,000 outlets, mainly table service restaurants, patronized by a cumulative total of approximately 400 million customers annually. The Group's mission is to contribute to society by offering great-tasting food at affordable prices with good service in its clean restaurants to as many people as possible. Skylark Co., Ltd. (the "Company") considers continuously enhancing its corporate value by contributing to society through this food-related business to be its most important management task. The Company aims to operate a corporate group trusted not only by its customers, but by all of its stakeholders, including its shareholders, business partners, local communities and employees.

To achieve these objectives, the Company has enacted the Skylark Group Charter of Corporate Behavior and shares it among all executives and employees, observes laws and international rules and their spirit, and strives to behave with a social conscience. The Company also works to enhance corporate governance by implementing various initiatives to ensure management soundness, effectiveness and transparency.

Basic Corporate Governance Policy

(1) Respect the rights of shareholders and ensure equality.

(2) Consider the interests of stakeholders, including shareholders, and cooperate appropriately with them.

(3) Appropriately disclose Company information and ensure transparency.

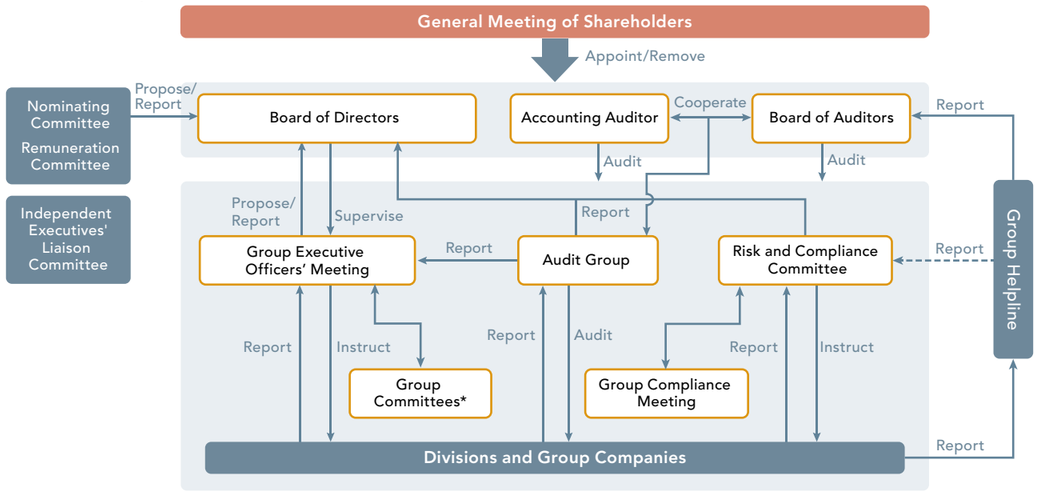
(4) Ensure the effectiveness of supervisory functions for business execution through the Board of Directors.

(5) Conduct constructive dialogue with shareholders under an investment policy that matches their medium- to long-term interests.

Main Initiatives to Strengthen Corporate Governance

July 2014	Appointed 1 Independent Outside Director and 2 Outside Auditors
October 2014	Listed on the First Section of the Tokyo Stock Exchange
2014 – 2015	Conducted workshops for all executives about preventing insider trading and dealing with the Corporate Governance Code (4 workshops)
January 2016	Transitioned to a holding company structure
March 2016	Increased the number of independent outside directors to 2, and turned more than half of directors into outside directors
April 2016	• Two directors who form the majority of each of the voluntary Remuneration Committee and Nominating Committee members (three directors each) shall be Independent Outside Directors. • Established the Independent Executives' Liaison Committee, • Established Internal Helpline externally
May 2016	Formulated Basic Corporate Governance Policy
March 2017	Increased the number of outside auditors with expertise in finance and accounting by one, and turned the Board of Auditors into a four-member structure (of which three are outside auditors)

Overview of Corporate Governance Structure



* Group committees are the Personnel and System Committee and the Policy and Investment Committee.

Overview of Corporate Governance Structure

Board of Directors

The Company's Board of Directors consists of eight directors, four of whom are outside directors. This composition was decided in consideration of diversity and a balance among the knowledge, experience and capabilities of Board of Directors as a whole necessary for the ongoing growth and medium- to long-term enhancement of corporate value of the Skylark Group. As the Company's highest decision-making body for management and execution of business, the Board of Directors meets at least once a month in principle, and meetings are attended by auditors as well as directors.

Board of Directors Meetings in 2016:	**Held 13 times**

Effectiveness and Assessment of the Entire Board of Directors

At Skylark, to devote more time to strategic discussions at the Board of Directors, materials are distributed in advance and needed information is provided to directors, and agenda items are re- duced so that important matters can be sufficiently discussed.

In addition, the Independent Executives' Liaison Committee, which is made up of independent outside directors and outside auditors, is convened on a regular basis and exchanges views from an independent and objective standpoint on the effectiveness of the Board of Directors.

We will review management methods to increase the effectiveness of the entire Board of Directors and will consider disclosing the analysis and assessment of its effectiveness and a summary of those results.

Group Executive Officers' Meeting

To promptly and flexibly carry out planning and execution of Company-wide management policies and strategies, the Company has established the Group Executive Officers' Meeting, composed of the President and CEO and all executive officers, which is held once a week in principle. Based on the above objective, the Group Executive Officers' Meeting conducts adequate reporting, examination and discussion of important matters related to the entire Skylark Group.

In addition, Group Committees composed of members determined by the Group Executive Officers' Meeting (the Personnel and System Committee and the Policy and Investment Committee) meet once a month to report on, examine and discuss important matters, the personnel system, policy and other matters related to the entire Skylark Group.

Group Executive Officers' Meetings in 2016:	**Held 43 times**

Audit by Auditors and Other Audit Functions

The Board of Auditors, which is composed of four auditors, three of whom are outside auditors, meets once a month in principle to supervise and provide a check on management and business execution. Based on auditing policies, plans and standards determined by the Board of Auditors, auditors attend Board of Directors Meetings and other important meetings. At the same time, they ascertain the state of the Company by examining business conditions and other methods to audit that business activities are being conducted in conformance with laws, internal regulations and other rules. In addition, auditors cooperate with the Audit Group and the accounting auditor through regular discussions and other means to ensure an efficient and effective auditing system.

The Audit Group, which is an internal audit organization, has been established as a division under the direct control of the President and CEO to ensure its organizational independence. Based on internal rules and annual plans, it conducts operating audits of the head office, factories and restaurants to identify problem areas, suggest improvements and issue citations, among other activities.

Accounting audits are conducted by Deloitte Touche Tohmatsu LLC, which was selected at the General Meeting of Shareholders.

Board of Auditors Meetings in 2016:	**Held 16 times**

Other Committees

The Company's Risk and Compliance Committee, which is composed of the President and CEO and all executive officers, meets at least once a year to deliberate on important matters related to the Skylark Group's compliance and to determine basic policies.

After such determination by the Risk and Compliance Committee, the Group Compliance Committee, which is composed of compliance officers selected from each Group company, meets at least once every six months. It confirms and reports on matters including the status of compliance promotion in each Group company, measures to prevent violations, and investigations and remedial actions in the event a violation occurs.

In addition, the Skylark Group has established the Skylark Group Helpline [contact for whistle-blowers], a contact point to an external specialty company, for the early detection, correction and prevention of

recurrence of violations of laws, internal regulations or other rules. The Skylark Group Helpline accepts internal reports from all executives and regular employees of the Skylark Group in Japan and operates in accordance with internal rules, including reporting to the directors and auditors on the status of its operations.

Risk and Compliance Committee Meetings in 2016:	**Held 5times**

Outside Directors and Outside Auditors

For prompt management decisions, the number of internal directors is kept small, and the Company has appointed four outside directors and three outside auditors with high levels of experience and knowledge of management to strengthen the function of business execution oversight.

The Company has notified the Tokyo Stock Exchange that two of its outside directors are independent executives.

The Company has created a system for fair deliberation by accepting opinions from two independent outside directors from an independent and objective standpoint as members of the Nominating Committee and the Remuneration Committee, which are the advisory committees for nomination and remuneration.

Composition of Directors and Auditors (as of April 2017)

	Total	Nominating Committee	Remuneration Committee	Independent Executives' Liaison Committee
Internal Directors	4	1 (Chairperson)	1 (Chairperson)	-
Outside Directors	2	-	-	-
Independent Outside Directors	2	2	2	2 (of which one is Chairperson)
Full-time Auditors	1	-	-	-
Outside Auditors	3	-	-	3

Support System for Outside Directors and Outside Auditors

The General Affairs Group of the Company is primarily responsible for the support of Outside Auditors and Outside Directors, providing them with report materials and prior explanations of agenda items for the Board of Directors Meeting. In addition, the Company holds meetings of the Independent Executives' Liaison Committee, which is composed of the independent outside directors and outside auditors, exchanges information based on an independent and objective standpoint, and provides information from the Company in order to encourage discussion at the Board of Directors meeting.

2016 Independent Executives' Liaison Committee - Implementation Status

	Schedule	
1st	May	Visited Higashimatsuyama commissary, held meeting to discuss and exchange views
2nd	July	Visited restaurants (Tonkara-tei, Syabu-yo), held meeting to discuss and exchange views
3rd	October	Visited restaurants (EX BLUE, Katsukyu), held meeting to discuss and exchange views
4th	December	Held meeting to exchange information with top management





Discussion meeting and visit to commissary (photo on right: Inspecting the food recycling system)

Appointment of Executive Management and Nomination of Candidates for Directors and Auditors

Policy on Appointment of Executive Management and Nomination of Candidates for Directors and Auditors

To respond to the rapidly changing restaurant market, we nominate directors and auditors with diverse knowledge and capability, regardless of whether they are from inside or outside the Company.

For internal director candidates, after considering the balance between their knowledge and experience in family restaurant management, financial strategy, and marketing strategy, we nominate those who can contribute to society through the restaurant business and demonstrate leadership to continuously raise corporate value.

For outside director candidates, we appoint those who have extensive management experience in various companies including in the restaurant industry.

For auditor candidates, we appoint people who can properly audit directors' execution of business based on their knowledge of corporate management and their knowledge and experience in accounting, finance, law, and risk management.

Procedures for the Appointment of Executive Management and Nomination of Director and Auditor Candidates

When nominating director and auditor candidates, the Nominating Committee deliberates from the standpoint of maximizing the corporate value of the Skylark Group and makes a proposal to the Board of Directors.

Training Policy for Directors and Auditors

The Company provides the necessary training and information so that directors and auditors can properly fulfill their roles and responsibilities. As a part of that, at least once a year, we hold lectures and training by experts in law, corporate governance and other subjects for directors and auditors. So far, we have conducted workshops on branding and the prevention of insider trading.

Board Members' Remuneration

Remuneration Policy

The Company's policy for remuneration and other compensations for directors is designed to contribute to the continuous improvement of operating results/corporate value and the sharing of value with shareholders.

The remuneration system consists broadly of basic compensation, a year-end bonus and an incentive program, and is operated so that each director's performance and capabilities are reflected.

Year-end bonuses are determined in consideration of the Skylark Group's operating results and the results of each director's assigned duties, using net income, EBITDA and other indicators. The incentive program has been established to function as a healthy incentive for continuing growth by setting compensation and Company stock-based remuneration linked to medium- to long-term operating results.

Decision Process

The Board of Directors determines remuneration and other compensation for directors based on proposals from the Remuneration Committee, which is an advisory organization of the said Board.

From its independent and objective standpoint, the Remuneration Committee decides on individual proposals for basic remuneration based on individual performance and capabilities, within the remuneration amount limits resolved at the General Meeting of Shareholders and pursuant to the Remuneration Regulations for Board Members and the remuneration system for board members.

The Committee also decides on individual proposals for year-end bonuses considering the Skylark Group's operating results and the results of each director's assigned duties.

Dialogue with Investors

The Company has a basic policy for its investor relations (IR) activities of fair, timely and appropriate disclosure of Company information to its shareholders, investors and other stakeholders.

To increase management transparency and maximize corporate value through communication with shareholders and investors, the Company has established a dedicated IR department and strives for dialogue with its investors on management strategies and operating results of the Company. The Company works to actively communicate and to disclose information in the management's own words by holding presentation meetings for analysts and institutional investors after the announcement of interim and year-end results, and by conducting conference calls at the end of the first and third quarters. The Company also discloses English-language materials for foreign investors simultaneously with its Japanese-language materials. In 2016, the management and IR Department conducted a total of 323 individual meetings with Japanese and foreign investors.

Responding to Shareholders and Individual Investors

The Company has established a system of special benefits for shareholders and individual investors offered twice yearly in accordance with the number of shares held. Also, the Company works to promote individual investor understanding of the Company by operating an IR site for them. In addition, the Company views the General Meeting of Shareholders as a forum for communication and strives for dialogue with its shareholders.

The Company will strive to earn the understanding and continued support of its shareholders and individual investors by enhancing the future appeal of investing in its shares.

Reasons for Appointment of Directors and Auditors

Name	Reason for Appointment	Attendance at the Board of Directors Meeting (Attendance at the Board of Auditors Meeting) in 2016
Ralph Alvarez Director	The Company has appointed him Director to fully leverage his outstanding management skills developed in the global restaurant business and his extensive experience in global operations in the development of the Group's domestic and international business.	11/13
Makoto Tani Director	After gaining sales experience at restaurants since joining the Company in 1977, he has held posts including General Manager of the Business Division and President and Chief Executive Officer of NILAX Inc., and has served as President and Chief Executive Officer (current position) since 2008. He has been appointed Director for his extensive business experience in the Group and insight regarding overall management, business management, and supervision and operation of family restaurants, in addition to being familiar with consumer marketing in the restaurant market.	13/13
Atsushi Kitamura Director	The Company has appointed him Director to leverage his experience gained in the Finance Division since joining the Company in 2013 in various financial strategies including the listing of shares on the stock exchange, his practical experience in financial affairs from a global perspective in a foreign-affiliated company, and his extensive experience as a director at a company in another industry.	- (Assumed the position of director in 2017)
Yuji Sugimoto Director	The Company has appointed him Director based on his extensive experience as a corporate manager in various enterprises including in the restaurant industry, as well as achievements in investment and business support for numerous Japanese enterprises, and to leverage his wealth of experience and broad knowledge concerning corporate growth developed through his global experience in the Company's management.	12/13
David Gross-Loh Outside Director	The Company has appointed him an Outside Director to draw on his extensive experience as a corporate manager in various enterprises, including in the restaurant industry, for the benefit of the Company's management, and to provide objective and far-sighted advice and supervision regarding production, distribution systems, sales, promotion and other matters that utilize the Company's infrastructure.	12/13
Atsushi Nishijo Independent Outside Director	The Company has appointed him an Outside Director to draw on his experience during employment at a trading company and his deep insight as a corporate manager, for the benefit of the Company's management, and to provide objective and far-sighted advice and supervision that contribute to the benefit of the Company's stakeholders.	12/13
Atsushi Yokoyama Outside Director	The Company has appointed him an Outside Director to draw on his experience as a corporate manager in the restaurant industry and his extensive experience and broad insight in the media industry, including Internet and cable television for the benefit of the Company's management, and to provide objective and far-sighted advice and supervision regarding production, distribution systems, sales, promotion and other matters that utilize the Company's infrastructure.	13/13
Yukihiro Wada Independent Outside Director	The Company has appointed him an Outside Director to draw on his extensive experience and deep insight regarding formulation and implementation of strategies for a broad range of topics, including branding activities and sophistication of marketing as well as organizational reform in wide-ranging industries and fields, for the benefit of the Company's management, and to provide objective and far-sighted advice and supervision regarding the Company's branding and promotion strategies. Further, Mr. Wada worked at Dai-Ichi Kangyo Bank, Ltd. from April 1992 to Mary 1999. Mizuho Bank, Ltd., a major partner financial institution of Skylark, is a bank that resulted from the merger of three banks, Daiichi Kangyo Bank, Ltd., Industrial Bank of Japan, Limited, and Fuji Bank, Limited, in April 2002. However, since Skylark's major partner financial institution at the time of the merger was Fuji Bank, Limited, and the aforementioned three-bank merger took place three years after he retired from Dai-Ichi Kangyo Bank, Ltd., he never worked at a major partner financial institution of Skylark, which should not impact his qualification as an Independent Director of the Company.	10/10
Makoto Suzuki Auditor	He has been appointed Auditor based on his extensive business experience at Skylark Co., Ltd. since joining the Company in 1979, including experience operating restaurants and as a General Manager, Manager of the President's Office, and Manager of the Internal Audit Office, and his knowledge of Company management.	13/13 (16/16)
Fumio Tahara Outside Auditor	The Company has appointed him Outside Auditor based on his extensive experience and knowledge from the Ministry of Agriculture, Forestry and Fisheries, the Fisheries Agency, and industry associations that are deemed necessary for the growth of the Company.	13/13 (16/16)
Mitsuhiro Nagata Outside Auditor	The Company has appointed him Outside Auditor to leverage his operational experience at a financial institution, as well as his extensive experience and broad insight as an attorney, and has determined that he will appropriately audit the Company's management.	10/10 (11/11)
Tatsuya Aoyagi Outside Auditor	The Company has appointed him Outside Auditor to leverage his extensive experience as a certified public accountant and certified tax accountant and his knowledge of accounting and finance, and has determined that he will appropriately audit the Company's management.	- (Assumed the position of Outside Auditor in 2017)

Risk Management System

Basic Approach

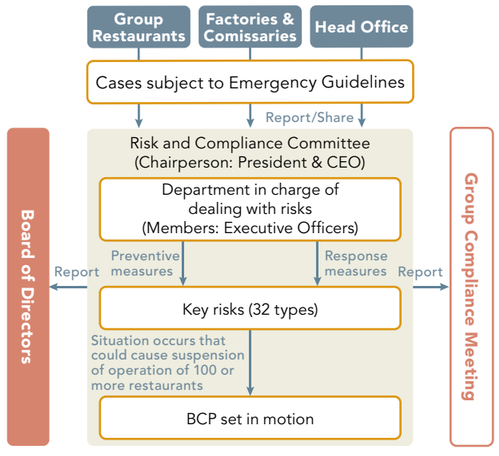
The Company has enacted Risk Management Regulations to preserve corporate value and has defined the process for dealing with risk. In its risk management, the Company takes a comprehensive view of a wide range of risks and identifies the key risks to address, thereby preventing risks from materializing. If a risk materializes, the Company works to minimize and contain the damage by responding swiftly and appropriately. The Company also evaluates the results of the response and declares the process complete only after confirming that remedial measures are in place to prevent a recurrence.

Risk Management Structure

The Risk and Compliance Committee, which is chaired by the President and CEO and is composed of all executive officers, is responsible for risk management for the Group as a whole. The Risk and Compliance Committee conducted an integrated investigation of various risks and identified 32 key risks (as of December 2016) to be addressed, taking into account their potential impact and other factors. For each of the key risks, the committee establishes supervisory divisions and conducts preventive and response measures. Since the potential impact of risks constantly fluctuates with changes in the external environment, key risks are reviewed at least once a year.

The Risk and Compliance Committee met five times in 2016 and conducted reviews of emergencies that occurred in the Group. In November, the committee also reviewed key risks to be addressed. In addition, information on details of the deliberations of the Risk Compliance Committee has been provided to outside board members as part of efforts to ensure the transparency of the risk management structure.

Risk Management Structure Diagram



Response to Emergencies [BCP]

Among the key risks to be addressed, for important matters related to the continued existence of the Company, such as natural disasters, infectious diseases and food accidents, the Company has defined the issues it must make a concerted effort to address to defend itself as Emergency Guidelines within the Emergency Handling Regulations. The Company has also established an Emergency Chain of Contact and thoroughly implemented it internally to quickly share reports on emergencies among management and related internal divisions.

In addition, the Company has established Business Continuity Plan Regulations, which consists of five basic policies: (1) put human life first; (2) prevent secondary disasters; (3) cooperate with local communities and government offices under a "five-in-one" structure that coordinates closely among the various departments in charge of sales, products, production, purchasing and business infrastructure; (4) delegate authority in accordance with the nature of the emergency; and (5) review the response after emergency conditions have ended to prevent a recurrence. We have clarified the details of the Skylark Group's response system and initial response in an emergency and the order of priority of operations. The business continuity plan (BCP) is set in motion by situations that can be expected to suspend operations at 100 or more Skylark Group restaurants due to an emergency specified in the Emergency Guidelines.

For food accidents, a major risk, we provide guidance on hygiene that assumes all risks from raw materials to processing, transportation and supply. To ensure customer safety, we conduct more than 130,000 unannounced bacteriological tests annually at inspection centers in eight locations throughout Japan.

Activities in 2016

After becoming a holding company in January 2016, we enhanced our Group-wide risk management structure by developing information sharing channels and measures for emergency situations in the Group Companies.

Based on our Emergency Handling Regulations, we responded in an appropriate manner to the Kumamoto earthquake that occurred in April by establishing an emergency headquarters, as well as resuming business at restaurants, and delivering boxed lunches to evacuation centers.

Board Members and Executive Officers



Board Members: Back row standing from left, Yukihiro Wada, Atsushi Nishijo, David Gross-Loh, and Atsushi Yokoyama. Front row sitting from left, Tatsuya Aoyagi, Fumio Tahara, Atsushi Kitamura, Makoto Tani, Ralph Alvarez, Yuji Sugimoto, Makoto Suzuki, and Mitsuhiro Nagata

Directors



Ralph Alvarez
Chairman of the Board of Directors

[Career Summary]

Dec.	1977	Entered Burger King Corporation
Nov.	1990	Wendy's International, Inc.
May	1994	McDonald's Corporation
Jan.	2003	COO of McDonald's USA, LLC
Jan.	2004	President of McDonald's USA, LLC
Jan.	2005	President of McDonald's North America
Aug.	2006	President and COO of McDonald's Corporation
Feb.	2009	Director of Eli Lilly and Company (to present)
Aug.	2010	Director of Lowe's Companies, Inc. (to present)
May	2012	Lead Independent Director of Dunkin Brands Group Inc. (to present)
Jan.	2013	Chairman of the Board of Directors of former Skylark 3*
Aug.	2013	Director of Realogy Holdings Corp. (to present)
Jul.	2014	Chairman of the Board of Directors of the Company (to present)



Makoto Tani
President and Chief Executive Officer

[Career Summary]

Apr.	1977	Entered former Skylark 1*
Dec.	1987	Director and General Manager of Sales Division of NILAX Inc.
Jan.	2000	President and Chief Executive Officer of NILAX Inc.
Jan.	2007	President and Chief Executive Officer of NILAX Inc. and Executive Officer in charge of HD Business Strategy Group No. 1 of former Skylark 1*
Oct.	2007	Managing Executive Officer and General Manager of No. 2 Sales Division of former Skylark 2*
Aug.	2008	President and Chief Executive Officer of former Skylark 2*
Sep.	2008	President and Chief Executive Officer and General Manager of Corporate Planning Division of former Skylark 2*
Feb.	2011	President and Chief Executive Officer and General Manager of Merchandise Division of former Skylark 2*
Jun.	2012	President and Chief Executive Officer of former Skylark 3
Jul.	2014	President and Chief Executive Officer of the Company (to present)

* **Former Skylark 1:** Sankei Seika Co., Ltd. changed its trade name to "Skylark Co., Ltd." in October 1974.
Former Skylark 2: SNC Investment Co., Ltd. absorbed and merged with former Skylark 1 and changed its trade name to "Skylark Co., Ltd." on July 1, 2007.
Former Skylark 3: K.K. BCJ Holdings 6 absorbed and merged with former Skylark 2 and changed its trade name to "Skylark Co., Ltd." on June 1, 2012.
The current Company absorbed and merged with former Skylark 3 and changed its trade name to "Skylark Co., Ltd." on July 1, 2014.

Atsushi Kitamura Director and Executive Officer/ Managing Director of Finance Division

[Career Summary]
Entered Procter & Gamble Far East, Inc. (currently Procter & Gamble Japan) in 1995. After serving as Finance & Accounting Associate Director of P&G and Senior Managing Director and General Manager of the Management Division of TNT Express Worldwide (Japan) Inc., he entered Skylark in 2013. He assumed the post of Executive Officer of Skylark in 2016. He took up his current position in 2017.

Yuji Sugimoto Director

[Career Summary]
Entered Mitsubishi Corporation in 1992. In 2006, he became a Managing Director of Bain Capital Asia, LLC, where he is currently Japan Representative. After serving in positions including Director of Domino's Pizza Japan, Inc., he became an Outside Director of the Company in 2011 and has served in that position since 2014.

David Gross-Loh Outside Director

[Career Summary]
Entered NEC Corporation in 1992. In 2008, he became a Managing Director of Bain Capital Asia, LLC. After serving in positions including Director of BELLSYSTEM24, Inc., he became an Outside Director of the Company in 2012. He currently holds this post.

Atsushi Nishijo Independent Outside Director

[Career Summary]
Entered Sumitomo Corporation in 1965. After serving in positions including Director and Executive Vice President of Sumitomo Corporation and Chairman and Representative Director of Sumisho Computer Systems Corporation (currently SCSK Corporation), he assumed a post of Outside Director of the Company in 2014. He currently holds this post. He is also a Director of Brother Industries, Ltd.

Atsushi Yokoyama Outside Director

[Career Summary]
Entered The Mitsubishi Trust and Banking Corporation in 1992. In 2008, he transferred to Bain Capital Asia, LLC, where he became a Managing Director in 2015. He became an Outside Director of the Company in 2015 and currently serves in this post.

Yukihiro Wada Independent Outside Director

[Career Summary]
Entered Dai-Ichi Kangyo Bank, Ltd. (currently Mizuho Bank, Ltd.) in 1992. His work experience includes the Research and Planning Section of the Minister's Secretariat, Ministry of Finance, McKinsey & Company Japan, and Director, General Manager of Corporate Planning Division of Alpen Co., Ltd., Managing Partner for the Japan business at Kurt Salmon, and President and CEO of Interbrand Japan, Inc. He currently serves as Head of Analysis of the Strategic Planning and Sales Development Division at Google Japan Inc. In 2016, he became an Independent Outside Director of the Company, and currently holds this post.



Executive Officers: From left, Sumio Matsumoto, Minoru Himeno, Haruyoshi Sakita, Minoru Kanaya, Toshiaki Aihara, and Shigeto Kadowaki

Auditors

Makoto Suzuki Auditor

[Career Summary]
Entered the Company in 1979. After serving in positions including General Manager of Kitakanto No. 2 Sales Department, Manager of President's Office and Manager of Internal Audit Office, he became full-time Auditor in 2011 and currently serves in this post.

Fumio Tahara Outside Auditor

[Career Summary]
Entered the Ministry of Agriculture and Forestry (currently the Ministry of Agriculture, Forestry and Fisheries) in 1972, and held the posts of Director-General of the Minister's Secretariat and Director-General of the Fisheries Agency. He became an Outside Auditor of the Company in 2014 and currently holds this post. He is also a part-time Advisor at Yanmar Co., Ltd. and Kyokuyo Co., Ltd.

Mitsuhiro Nagata Outside Auditor

[Career Summary]
Entered Saitama Bank (currently Resona Bank, Limited) in 1981. Thereafter, held the positions of General Manager of the Corporate Finance Division of Goldman, Sachs & Co. and Managing Director at Union Bank of Switzerland, UBS Securities Japan Co., Ltd. and Merrill Lynch Securities Co., Ltd. (currently Merrill Lynch Japan Securities Co., Ltd.). He currently serves as Representative Lawyer at Yoyogi Uehara Law Office, Outside Director of JIP CAPITAL INC. and Outside Audit & Supervisory Board Member of EduLab, Inc. and Outside Director of KH Neochem Co., Ltd. He became an Outside Director of the Company in 2016 and currently serves in this post.

Tatsuya Aoyagi Outside Auditor

[Career Summary]
Entered Deloitte Touche Tohmatsu LLC in 1993. Subsequently served as Director of Share Generate Co., Ltd, Outside Corporate Auditor of AmLead Co., Ltd., and Outside Corporate Auditor of BT Holdings,Inc. (currently Primagest Inc.). He currently serves as Director of Heartworth Partners, Inc. and Outside Director of mixi, Inc. He has served as Outside Corporate Auditor of the Company since 2017.

Executive Officers

Minoru Kanaya Managing Executive Officer

Managing Director of Corporate Support Division and Managing Director of Human Capital Management Division

[Career Summary]
Entered Nomura Securities Co., Ltd. in 1981 where he was employed for 25 years in accounting, IT, planning and other departments and served as an Executive Officer of the former Nomura Principal Finance Co., Ltd. After entering the Company in 2010, he strengthened the Administration Division as its General Manager. He took up his current post in 2017.

Haruyoshi Sakita Executive Officer

Managing Director of Marketing Division

[Career Summary]
Entered FOR YOU, INC. in 1999. After serving as Representative Director of FOR YOU, INC., he entered the Company in 2004. He served as Director of Skylark LesPros Co., Ltd., Representative Director of Tomato and Associates Co., Ltd., and Representative Director of NILAX Inc. He concurrently served as Executive Officer of the Company and President & CEO of Skylark Restaurants Co., Ltd. from 2015. He took up his current post in 2017.

Toshiaki Aihara Executive Officer

Managing Director of Supply Chain Production Division

[Career Summary]
Entered the Company in 1978. After serving as General Manager of the Sales Division of Bamiyan Company, Representative of Gusto Company, and General Manager of the Product Division and General Manager of the Construction Division of the Company. He took up his current post in 2012.

Minoru Himeno Executive Officer

Managing Director of Supply Chain Purchasing Division

[Career Summary]
Entered the Company in 1977. After serving as General Manager of the Sales Division's 4th Business Division, he served as Representative of Bamiyan Company. Subsequently served as General Manager of the Compliance Division and President and Representative Director of NILAX Inc. He took up his current post in 2011.

Shigeto Kadowaki Executive Officer

Managing Director of Store Development Division

[Career Summary]
Entered Mitsui Fudosan Co., Ltd. in 1985, where he was employed for 20 years in planning, development, operation, and leasing of commercial facilities including outlet malls. Subsequently involved in global store development of UNIQLO and other stores as an Executive Officer of Fast Retailing Co., Ltd. He took up current post after entering the Company in 2013.

Sumio Matsumoto Executive Officer
(President & CEO of Skylark Restaurants. Co., Ltd.)

[Career Summary]
Entered the Company in 1992. After serving as Sales Manager in charge of Bamiyan Company, he assumed the post of General Manager in charge of all brands including Gusto in 2013. He took up this post in 2015.

Financial Section

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Assumption of Office

My name is Atsushi Kitamura and I assumed the office of Director and Executive Officer and CFO from March of this year.

In the fiscal year ended December 31, 2016, the Company was able to maintain its performance largely as planned. We achieved existing store growth through remodeling aimed at improving the store environment, brand conversion to meet customer needs, and menu enhancement. At the same time, we developed new business formats that will become pillars for future growth. We made additional refinements to our vertically integrated supply chain, a Company strength, pursued cost optimization, and expanded the room for future new store openings.

From this fiscal year, Skylark will enter a new growth stage and accelerate new restaurant openings while continuing to enhance existing restaurants. We will establish a solid financial structure to support that and make our business easier to visualize to enable more speedy management decision-making. We will also work to continuously raise corporate value; therefore, we ask for your continued support.



Atsushi Kitamura
Director and Executive Officer /
Managing Director of Finance Division

Analysis of Consolidated Operating Results

The Company has promoted to create restaurants rooted in local communities that enrich the life of each of our customers and provide comfort, with the purpose of fulfilling the Group's vision of "Creating richness of life with value to society". 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).

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

- The Company remodeled the interior and exterior 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.

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 theprevious 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).

Analysis of Consolidated Financial Position

Assets, liabilities and equity at the year ended December 31, 2016 are 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.

• Analysis of capital resources and liquidity

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.

Business and Other Risks

The main factors concerning the Groups business activities, operating results and financial condition which could potentially pose as a risk materially affecting investors' decisions are discussed below.

Forward-looking items included herein reflect the Group's judgment as of the fiscal year ended December 31, 2015. 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
(2) Changes in Market Environment and Competition in Our Industry
(3) Shifts in Customer Preferences
(4) Food-borne Illness Concerns
(5) Unavailability and Significant Price Fluctuations of Ingredients and Indirect Materials
(6) Labor-related
(7) Hiring Sufficient Number of Employees
(8) Rents
(9) Inclement Weather Conditions and Other Factors
(10) Mid-term Business Plan
(11) Dependence on Key Management Personnel
(12) Reliance on Information Technology in Our Operations
(13) Internal Controls over Financial Reporting
(14) Substantial Debt and Violation of Financial Covenants
(15) Accounting for Impairment
(16) Taxation
(17) Fluctuations in Foreign Currency Exchange Rates
(18) Natural Disasters
(19) Intellectual Property Rights
(20) Internet Rumors
(21) Leakage of Personal and Confidential Information
(22) Laws and Regulations
(23) Litigation and Other Legal Proceedings
(24) Relationship with Bain Capital Group
(25) Establishment of Holding Company Structure

Condensed Interim Consolidated Statements of Financial Position–Continued

Consolidated Statements of Financial Position

(Millions of yen)

	As of December 31, 2015	As of 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**

Consolidated Statements of Income

(Millions of yen)

	For the year ended December 31, 2015	For the 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**

Consolidated Statements of Comprehensive Income

(Millions of yen)

	For the year ended December 31, 2015	For the 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**

Consolidated Statements of Changes in Equity

(Millions of yen)

	Share capital	Capital surplus	Other components of equity: Financial assets measured at fair value through other comprehensive income	Other components of equity: Remeasure-ments of the net defined benefit liability (asset)	Other components of equity: Exchange differences on translation of foreign operations	Other components of equity: Cash flow hedges	Other components of equity: 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	–	–	–	–	–
Transfer 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	50	△4,713	△5	–	–	–	△5
As of December 31, 2015	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	–	–	–	–	–
Transfer 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 March 31, 2016	**2,670**	**57,920**	**46**	**–**	**273**	**△878**	**△559**

(Millions of yen)

	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 policie	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
Transfer from other component 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	5	△4,663	–	△4,663
As of December 31, 2015	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
Transfer from other component of equity to retained earningsTotal	△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	△2,485	△7,360	△74	△7,434
As of December 31, 2016	**54,167**	**114,198**	**–**	**114,198**

Consolidated Statements of Cash Flows

(Millions of yen)

	For the year ended December 31, 2015	For the 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, etc.:		
Increase in trade and other receivables	△247	**△497**
Increase in inventories	△2,184	**△175**
(Decrease) Increase in trade and other payables	△81	**866**
Other	△426	**748**
Cash generated from operations	40,393	**48,100**
Interests 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 withdrawal 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**
Payments of loans	–	**△2**
Proceeds from collection of loans	4	**5**
Payments 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**
Payment for cancellation of interest rate swaps	△717	**–**
Payments of commissions related to borrowings	△332	**△24**
Payments for acquisition of interests in subsidiaries from non-controlling interests	–	**△665**
Other	–	**△8**
Net cash used in financing activities	△19,650	**△21,344**
Effects of exchange rate changes on the balance of cash and cash equivalents held in foreign currency	△55	**△46**
Net increase (decrease) 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**

Company Information/Shareholder Data

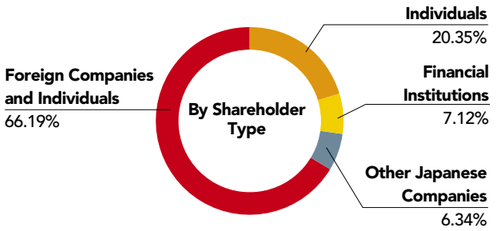
Basic Information

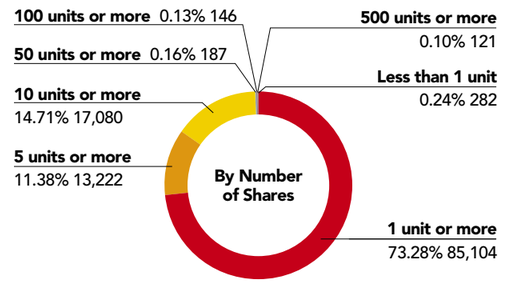
Company Name	Skylark Co., Ltd.
Founded	April 4, 1962
Representative	Makoto Tani President and Chief Executive Officer
Capital	¥2,670 million
Number of Employees (As of March 31, 2017)	Full-time: 5,951 (Non-consolidated: 686) Part-time: 94,551
Business Activities	Food services and related business
Number of Restaurants and Shops (As of May 31,2017)	Skylark Group (Japan): 3,031 Skylark Group (Japan and overseas): 3,079
Commissaries	Sendai Commissary, Fujioka Commissary, Higashimatsuyama Commissary, Shisui Commissary, Akishima Commissary, Sagamihara Commissary, Gifu Commissary, Nishinomiya Commissary, Kitakyushu Commissary, Maebashi Factory

Shareholder Data (As of December 31, 2016)

Common Stock	
Authorized	600,000,000 shares
Issued	194,834,000 shares
Number of Shareholders	116,142

Composition of Shareholders





WEB Website

The Skylark Group website features various information related to investor relations and other matters.

Skylark Group Website
http://www.skylark.co.jp/company_e/

Investor Relations Website
http://ir.skylark.co.jp/english/





This integrated report is for general disclosure of the corporate information of the Skylark Group and has not been prepared or published for solicitation of investment or similar act of any sort whether in Japan or overseas.

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