Skylark Group

Integrated Report 2017

For the Year Ended
December 31, 2017



The Richness and Value Skylark Creates

Inspired by an American-style coffee shop, the original Skylark restaurant was opened in 1970, in Fuchu City, Tokyo. Now, nearly 50 years later, what is it that we can provide to customers and to society? Having taken a hard look at what Skylark should be striving to achieve, we are getting off to a new start.

Our Corporate Philosophy

Creating Richness with Value to Society

Mission

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



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Regarding the Publication of Integrated Report 2017

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.

For Customers

We provide safe, delicious products to as many people as possible.

We currently welcome approximately 400 million customers annually at approximately 3,200 restaurants with a wide range of over 20 brands.

Ever since we opened the first Skylark, also Japan's first family restaurant, in 1970, we have been striving to "creating richness with value to society" and striving to fulfill our mission of "offering great-tasting food at affordable prices with good service in our clean restaurants to as many people as possible." Now, nearing the end of our fifth decade in business, family and other types of restaurants have become more than just a place to get a meal; they are places to pass the time enjoyably with family or friends and now an indispensable part of a rich life. That role in society has taken on even greater meaning, especially with renewed appreciation for the importance of personal connections in the aftermath of the Great East Japan Earthquake. As a restaurant industry pioneer, Skylark will continue to rise to the challenge of creating new value.



For Employees

We provide rewarding work and comfortable work environments.

We aim to be a place where our approximate 100,000 employees across Japan can work with vitality.

Approximately 100,000 people, ranging in age from 15 to 70, work at Skylark. Our business is to impress customers by contributing to society through food. Because the essence of that work is embodied in individual employees, our obligation is to create environments where employees can work in comfort. This is not only in consideration of employees' work lives but also to help enrich the family or private sides of employees' lives. To enhance work-life balance, we are moving forward with the introduction of systems for increasing operational efficiency, systems enabling workstyles that accommodate individual lifestyles and other measures that enhance flexibility in how work is accomplished.









For Local Communities and the Environment

We lower our environmental impact while making daily life more convenient.

We strive to save energy in production, distribution, and store operations.

It is exactly because of our closeness to the lives of our customers that we aim to add convenience to their daily lives and do so through operations that are conscious of local community and environmental needs. In 1998, for example, we became Japan's first family restaurant to offer a delivery service. Now a regular part of our operations at approximately 1,000 stores throughout Japan, that service responds to the needs of customers who need a meal but cannot go out for one. In serving local communities, we have also helped to feed people and raise funds in times of disaster; contributed funds to support the activities of NGOs/NPOs, mainly in Asia; and supported Little League baseball in Japan. Thinking of the environment, we have launched initiatives to recycle food waste and reduce energy usage in our stores, efforts that have won recognition from the City of Yokohama, which named us a winner in the 25th Yokohama Climate Change Policy Awards in June 2018. We recognize the importance of operations and activities conscious of local community and environmental needs and will continue to pursue them going forward.





Message from the CEO

Aiming for steady growth in revenue and earnings by improving restaurant operation quality and further enhancing customer satisfaction



Makoto Tani
Chairman, President and Chief Executive Officer

Independent of Investment Funds and Headed into a New Stage of Management

For Skylark, 2017 was a major turning point. Since we conducted an MBO with Nomura Principal Finance and delisted our stock in June 2006, we have been working on management reconstruction. In 2011, we began to pursue further reforms with funding from Bain Capital. However, in November 2017, Bain Capital sold off all of its holding in the Company, marking the end of the support from the fund shareholder that had continued for 11 years. Though this has not resulted in any major changes in the short term, we are enthusiastic about making the most of the know-how we have acquired and the earnings platform we have built to generate sustainable growth and enhance our corporate value.

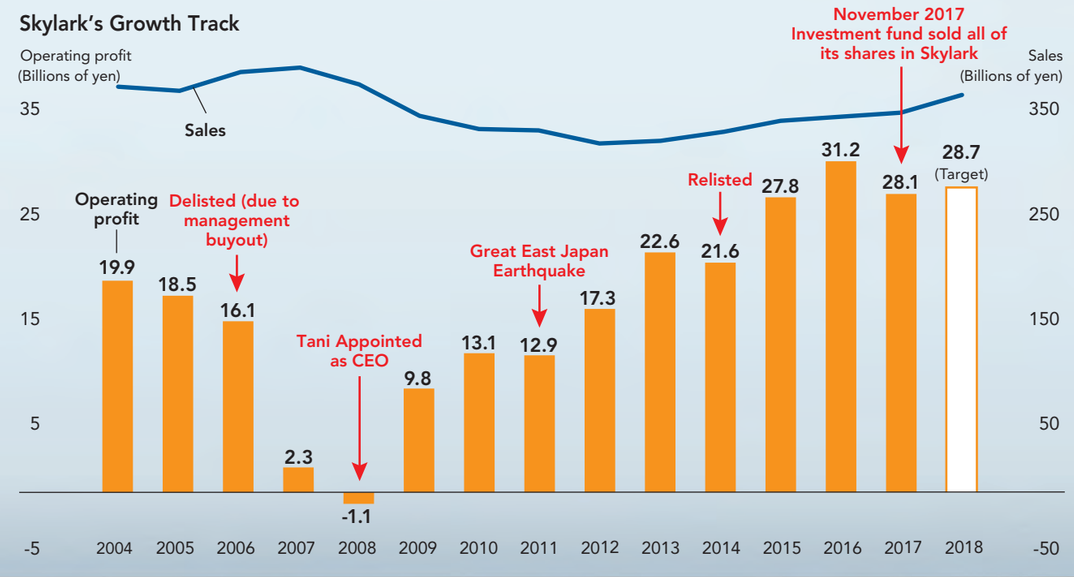
Accelerated Existing Store Enhancement from the Fourth Quarter Based on Our Reassessment of the Business Environment

In 2017, the new restaurant openings, remodeling, and other store development plans we announced at the beginning of the year went forward basically as intended. In addition, we embarked on reforms of existing stores ahead of schedule and undertook other initiatives, as well, to enhance future growth. For the year, we recorded revenue of ¥359.4 billion, up 1.4% compared to the prior year, operating income of ¥28.1 billion, down 10.1%. Lower earnings resulted primarily from an increase in personnel expenses, a higher reserve for enhanced shareholder benefits, and a fourth-quarter decline in sales.

Third-quarter revenue and operating income performed steadily, despite higher outlays for personnel and other expenses. In the fourth quarter, however, a major typhoon and other unfavorable weather events, plus our decision to begin to take measures to improve restaurant operations, in view of the increasingly severe market environment, resulted in a temporary dip in revenue and earnings.

In order to improve restaurant operations, we changed the frequency of menu revisions, reduced types of dinnerware, and scaled back sales promotion activities through measures such as reducing the numbers and types of coupons we distributed. Fourth-quarter existing-store sales fell compared to

Skylark's Growth Track



the prior year, but we believe that lightening the workload for store staff was important for boosting employee tenure and skill mastery, and, ultimately, enhancing customer satisfaction.

Improving Customer Satisfaction by Increasing the Operation Quality of Each and Every Restaurant

Our reason for accelerating existing store enhancement is a notable increase in the severity of environments in the restaurant industry. As is widely known, Japan is set to raise its consumption tax in 2019 and it is expected that expenses for eating out will not be exempted. While positive economic impacts can be expected from the 2020 Tokyo Olympic and Paralympic Games, how Japan's economy will fare following that event is very uncertain. Looking still further into the future, Japan's baby boomers will steadily begin to join the ranks of the latter-stage elderly. There is also the fact that about two-thirds of Japanese have experienced an exceptionally long deflationary period and they do not envision consuming more, even if their incomes rise.

With that as a backdrop, it would seem certain that the restaurant industry will experience increasingly heated competition. Competitors include convenience stores, which are mounting attacks via takeout (which more restaurants are offering) and eat-in services (in which customers eat their purchases within the store); increasingly popular home meal replacement (eating of commercially

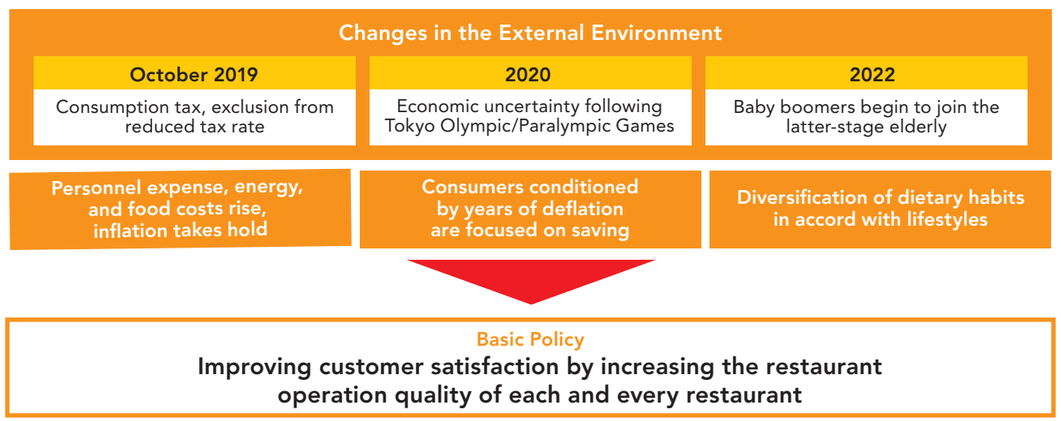


prepared meals at home) and delivery options; and fast food restaurants, which are making a comeback. We believe it is not an overstatement to say that the 2020s will be a period that will separate the strong from the weak.

To grow sustainably under such trying conditions, our first priority must be to focus on the quality we can offer as table service restaurants. Customers who have lived for so long under deflationary conditions are extremely sensitive to the value provided by restaurants. Offering products and services that match changing market conditions and customer needs, and doing so in a timely manner, at reasonable prices, and in clean stores can be seen as the starting point of what a restaurant company should be able to do. Whether a company can maintain or enhance competitive advantage and grow over the medium-to-long term now turns on factors such as the speed and efficiency with which customers are shown to their table, the way in which orders are received, the sincerity of staff smiles, and other such elements of quality.

Given the above, we have seized upon 2018, as a new stage our development, and made "improving customer satisfaction by increasing the restaurant operation quality of each and every restaurant" one of our basic policies. Through measures aimed, for example, at further improving the environments and productivity of our stores, and enhancing customer convenience, we will spare no effort in increasing store operation quality and customer satisfaction from multiple perspectives.

Basic Policies



Strengthening Investments in Restaurants and Employees to Achieve Steady Increases in Sales and Profits

Amid extremely difficult market conditions, implementing the basic policies mentioned earlier will be no easy task. I, however, am confident that Skylark can. There are four reasons for this. The first is the overwhelming scale represented by our approximate 3,200 stores throughout Japan. The second is our brand portfolio, which, with Japanese, western, Chinese, and other offerings is able to meet a broad range of needs. The third is our vertically integrated platform featuring ten commissary kitchens located across the country and our own distribution network. And the fourth is our workforce of around 100,000 table service staff trained within a uniform human resources system. To make the most of these management resources, and further solidify our competitive advantage, we aim to increase our investments in restaurants and human resources going forward.

Skylark's Strengths



More specifically, in the second half of 2018, we will update the main computer system for our stores for the first time in seven years. This update will improve the terminals employees use to take orders, automate ingredient orders and operation of the inventory system, and allow us to accept a greater range of payment types to enhance customer convenience while boosting store productivity. Time gained through productivity improvements will be used to improve store operation quality by, for example, spending more time with customers and strengthening services in other ways as well, and further enhancing food quality and serving speed.

In addition to information systems, we will also progress repairs and maintenance on restaurants, update dinnerware, enhance employee training, and make other types of investments that make our restaurants more comfortable and convenient, and help to increase employee tenure and skill levels.

Until recently, we had spent many years cutting costs and improving operational efficiency under the management of an investment fund. That work has paid off with steadily rising profitability and an operating margin of 8%, which is among the very highest in the restaurant industry. Nevertheless, considering the difficult conditions facing the industry, it is clear that growth cannot be expected if we focus only on the profit margin. Going forward, therefore, we will shift our management approach to one that seeks steady growth in revenue and earnings through proactive, strategic growth investment.

Pursuing a Delivery Service and Digital Marketing based on Market Trends and Technical Innovation

In addition to the investments to enhance restaurant quality mentioned above, we are also pouring significant effort into strengthening sales promotion

activities in ways that respond to the latest market trends and technical innovation.

One example is strengthening our delivery service. Demand for delivery services has been growing at an accelerating rate. Our plan is to draw on our operation of multiple brands — one of our strengths — to build a joint delivery system that would, for example, serve Gusto, Bamiyan, and Yumean stores located in the same area. Having tested this concept in three areas with several tens of stores, we found that each store realized on average a 15%-30% increase in delivery sales. Next on the agenda is to apply a delivery instruction model using the latest IT to roll out a functionally enhanced delivery service throughout Japan.

On another front, we introduced the Skylark Apps in March 2018 and began conducting cross-brand promotions. In launching this new apps, we integrated apps previously introduced by Gusto, Jonathan's, and Bamiyan. Doing this enables effective sales promotions across brand boundaries. The new apps analyze and classify customer lifestyle needs based on usage histories from store POS data and customer segment data from T-POINT cards and automatically distributes recommendations, coupons, and other information to individual customers. In our next initiative in this area, we will build an advanced promotion system that uses weather, smartphone location, and other types of data to provide customers with optimized information and will generate even more revenue opportunities.

In addition to these efforts to strengthen sales promotion for existing stores, we are also planning ongoing new store openings to support steady increases in revenue. Strictly limiting the placement of these new stores to locations enabling rapid investment recovery, we are planning to establish around 100 stores in 2018. Overseas, our stores in Taiwan, where we added six locations in 2017 to bring the total to 52, are turning in solid performances. A flood of requests for new stores have been received from local developers, but our stance remains to undertake expansion based on sound, careful judgment. Outside of Taiwan, we are studying expansion possibilities in Southeast Asia, North America, and other locations.

Strict Financial Controls with Room for Securing Growth Investment Capital

Here, I would like to explain the financial base that has supported the growth strategies I have been discussing. During the time we were under the management of Bain Capital, an investment fund, Skylark significantly increased its interest-bearing debt on two occasions. As a result, there were concerns that the stability of our finances had been diminished to the extent that there might be significant goodwill impairment risk.

Today, however, we have robust cash flow generation capacity, and an operating margin and ROE that are among the highest in the industry. And with a net leverage ratio — interest-bearing debt as a multiple of the earnings power of our core business — at 2.8, our cost of funds for borrowings is at an interest rate lower than the yield for returns to our shareholders. Consequently, we believe our net borrowings are at a sound level.

Drawing on our cash flow generation capacity, we will steadily pay down borrowings from the period under management by Bain Capital. At the same time, we will also take advantage of the low-interest-rate environment to undertake refinancing, new borrowings, and other capital procurement measures to secure growth investment capital for strengthening existing stores and accelerating new store openings. Over half of our long-term borrowings are LBO loans from the time Bain Capital became a shareholder, and we are managing to keep annual principal and interest payments well within our means. Goodwill, which is recorded in the asset section of our balance sheet, is prorated to each brand and that revenue in each brand remains firm, and we believe the risk of significant impairment is extremely low.

Making ESG a Fundamental Management Concern and Creating Comfortable Work Environments for All

As we strive to expand earnings, Skylark, for its own sustainable, ongoing existence, must be able to respond to the expectations of its various stakeholders and the demands of society. We, therefore, have made responding to ESG (environment, social, governance) issues a fundamental Group management concern, and we are strengthening ESG-conscious initiatives in our business activities. For example, the energy-saving and resource-recycling measures we have implemented at our stores and commissary kitchens, and in our distribution and all other aspects of our business activities, benefit the environment. The local contributions we make via our approximate 3,200 stores across the nation, and the efforts we are pouring into ensuring that our employees — residents of their communities — have favorable work-life balances, are good for society. So, too, are our policies for allowing employees to extend their work lives, expanding local-area-only hiring, shortening late-night operating hours, and creating video versions of restaurant operation manuals, all of which are aimed at creating comfortable work environments for all.

As for corporate governance, even with changes in our board membership, three of the eight members are outside directors, and two of these meet the criteria to be considered independent. The Board of Directors, therefore, remains highly capable of performing the management oversight function. The Board of Directors includes members who have broad business experience outside the company. Frank discussions between these auditors and outside directors having similarly diverse backgrounds contributes to open, fair management decision making.

Continuing to Provide the Value Customers Want by Practicing Our Corporate Philosophy, "Creating Richness with Value to Society"

As I have mentioned, Japan's restaurant industry is about to enter a period that will distinguish the strong from the weak. Nevertheless, regardless of how challenging the market conditions are, there is no doubt that restaurants and companies that offer food and services customers value will grow. Looking at the opposite scenario, in which market conditions take a turn for the better, stores and companies that cannot offer food and services customers want will find it impossible to catch the updraft. What is most important for us is to continue offering value beyond customer expectations; in other words, practicing our corporate philosophy, "Creating richness with value to society."

To add greater energy to the practice of our corporate philosophy, we have formulated a set of values to accompany our corporate mission and vision. These values can be thought of as a code of conduct setting forth beliefs, from five perspectives, that all of our employees should take to heart. Based on these guidelines, our entire group will continue to work as one to achieve medium-to-long term growth by creating even better stores and offering food and services that satisfy customers. We are off to a new start and urge you to expect much from us.

To Practice Our Corporate Philosophy

Mission	Offering great-tasting food at affordable prices with good service in our clean restaurants to as many people as possible	
Vision	Achieving continuous growth by exceeding customer expectations at all stores Everything is for the smiles of guests	
Values	**1. Customers**	Customers' smiles are our work motivation.
	2. Front-line first	Always act based on knowledge of who, what, where, and why.
	3. Work environments, work motivation	Cooperate with others to create a positive work environment.
	4. Enhancement of knowledge and skills	Have pride in our work, and strive every day to enhance our knowledge and skills.
	5. Goal achievement	Have a sense of urgency in continuously striving to make stores better.

Strategies for Future Growth

Pursuing Even Greater Customer and Employee Satisfaction and Growth As a Business, through Greater Investment in Restaurants, Employees, and IT

Business Environment

Growth Opportunities

- Lifestyle diversification
- Home meal replacement market expansion
- More women working outside the home
- Domestic economic upturn
- Consumer interest in healthy choices
- Economic growth and diversification of food preferences in Asia

Risks

- Consumption tax hike
- Aging population
- Rising personnel, energy, and ingredient costs
- Consumer's persistent saving consciousness
- Shrinking working-age population
- Growing interest in food safety

Advancing Strategies for Sustainable Growth Under these Conditions

Enhancement of Existing Stores

Creating Stores that Customers Will Love Even More, and Achieving Growth for Every Store by Improving the Quality of Each and Every Restaurants

Operational Improvement

Using IT for Greater Operational Efficiency in Stores

We are increasing our use of IT to enhance operation efficiency and achieve higher quality store by store. In the second half of 2018, we will completely renew the main computer system for our restaurants. With the new system, customer orders will be received using the improved terminals, orders will be filled more rapidly, and payments will be streamlined through our ability to accept a wider range of payment methods, including e-money. The new system will result in greater customer convenience and employee productivity.

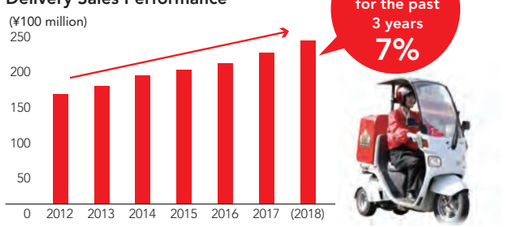


Enhanced Delivery

Multi-brand Nationwide Development of Our Delivery Business to Serve Growing Demand

With Japan's population aging and more and more women working outside the home, the market for delivery services is growing by leaps and bounds. The Skylark Group is responding to this demand by building an efficient delivery model that will enhance revenue. For our entry into this market, which will be through our Japanese restaurant brands, we are testing a system in which multiple brands within the same area will share the same delivery system. Based on expectations that this market will continue to grow, we are planning to take further steps to create a system that satisfies customers and contributes to our performance.

Delivery Sales Performance



Brand Conversions and Remodeling

Striving To Grow Each Brand Steadily in Line with Customer Needs

We update store environments flexibly and rapidly in response to changes in lifestyles. We convert restaurants to different brands based on changes in local communties, and propose new store layouts to accommodate particular needs. In 2017, we remodeled many of our Japanese restaurants to accommodate a growing demand for semi-private spaces for small groups. With their ability to offer these spaces, remodeled restaurants recorded higher sales.

Prior to remodeling



Space is mostly open

After remodeling

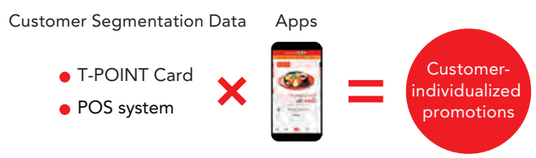


Addition of semi-private spaces allows customers to enjoy meals with family or friends in a cozy environment

Promotion

Strengthening Promotion through One-to-One Marketing

Using the Skylark Apps and other tools for cross-brand promotion within the Group, we are actively promoting reciprocal customer transfer to encourage customers to visit multiple Skylark brand restaurants. In addition, with the introduction of one-to-one marketing drawing on big data gathered through T-POINT Cards and POS systems, we will deliver coupons optimized for benefits and timing to individual customers and undertake other types promotions with heightened cost effectiveness.



New Store Openings

Steadily Growing Individual Brands through New Store Openings Reflecting Local Market Characteristics

New Store Openings

Plans for Approximately 100 Store Openings in 2018

In 2017, we opened 97 new stores exactly as planned. Drawing on our ability to open new stores anywhere in Japan, we see possibilities not only in front of train stations, in busy shopping districts, and in shopping centers but also in roadside locations and regional hub cities. In 2018, we are planning to open another 100 or so stores accommodating regional characteristics.

New Brands

Full-scale Development of Specialty Brands and Entry into Experiential Restaurants

In 2017, we poured significant efforts into developing Karayoshi deep-fried chicken and other types of specialty brands. At the same time, we also began opening La Ohana, a new brand of experiential, entertainment-oriented Hawaiian restaurants. Going forward, we will continue to develop new restaurant brands in line with market conditions.

Overseas Business Development

Adding Stores in Taiwan and Exploring Other Markets

With the foundation for our domestic business taking shape, we are turning our attention to overseas business development opportunities. We are planning to open even more stores in Taiwan, where we already have over 50 locations and are enjoying good results. And we have dispatched employees to locations in Southeast Asia and the U.S. to research markets for possible business development.



* As of June 30, 2018

To fulfill the vital role of dining infrastructure, while growing sustainably, together with society

What issues should Skylark address to grow sustainably, even amid the increasingly difficult business environment in the restaurant industry? To answer that question, managing directors, each in charge of a key business division, discuss Skylark's strengths and the value it should be providing, and matters such as measures required to support future growth.



How do you see the market environment in the restaurant industry, and what kind of value can Skylark provide within that environment?

Kanaya: Despite some variation depending on scale and business format, Japan's restaurant industry as a whole is seeing an ongoing decline in the overall number of restaurants. Adding to problems such as a lack of successors to take over operations and a shortage of human resources, many believe that rising prices for ingredients and difficulties in hiring will persist. As business conditions become increasingly severe, I'm thinking we'll probably see a growing trend toward oligopoly in the family restaurant business, just like what we've seen in the beef bowl and other segments.

Aihara: One of the factors behind that industry reorganization and trend toward oligopoly is the falling birthrate paired with an aging population.

Kanaya: Societal aging and a declining population are certainly major risk factors for the restaurant industry going forward, but even under such circumstances, the restaurant industry has continued to grow—even though only slightly—since 2011.

Sakita: The Engel's coefficient has also been on the rise. Even with a falling birthrate, aging population, and stagnation in overall personal consumption, it would seem that the kind of lifestyle in which people enjoy eating out as a small luxury has taken hold.

Katayama: Diversification of lifestyles and dining needs is another recent and significant environmental change. The food retailing industry and the home meal replacement sector—prepared foods customers can purchase and eat at home—are competitors for the restaurant industry. Convenience stores, in particular, are experimenting with a variety of moves to meet new needs. They are, for example, enhancing their selections of prepared dishes for the home meal replacement market and creating spaces within their stores where customers can eat what they've purchased.

Sakita: I'm often asked by reporters and industry people what we are going to do to compete with convenience stores. But our stores don't suffer sales downturns when a new convenience store opens nearby. I think that's because what people want from a family restaurant is different from what they want from convenience stores.

Kanaya: For example, even among restaurants, the needs of Gusto customers differ from those of Musashino Mori Coffee customers, so cannibalization is nearly nonexistent.

Sakita: And the difference is even greater when it comes to customers of family restaurants and customers of convenience stores. Do families get together for a monthly meal at a convenience store? Probably not. Providing a venue for that sort of family gathering is an important role that restaurant chains like ours fulfill. It's not just the food—if we can provide solid offerings of value that only sit-down restaurants can offer, we should be able to fully exercise that advantage going forward.

Kanaya: It is said that the U.S. industry provides a picture of what the Japanese industry will look like, in general, five or ten years down the road. Compared to the U.S., the rate for eating out is still low in Japan, so I think there's no question that the rate in Japan will rise. It seems to me reasonable to believe that the restaurant industry will continue to grow for the foreseeable future, even after accounting for the declining population.

Katayama: Being on the receiving end of that eating-out demand, restaurant chains will have a huge role to play.

Sakita: I'm often asked why Skylark opens restaurants even in regional areas with populations that are already far along the aging curve. But regional areas have their own unique type of eating-out demand. So as long as we manage our restaurants in ways that respond to customer needs in each location, there's plenty of room for success. For instance, it's possible to deliver purchases to customers who now find it difficult to come to a restaurant, and menus can be tailored to the health needs of seniors as a way to differentiate. Of course, achieving sufficient profitability is difficult compared to stores in major urban areas with high populations, and there may very well be chains that pull out. We intend, however, to make the most of our infrastructure to be the last restaurant remaining. That stance is consistent with Skylark values and is a social responsibility of an industry-leading restaurant chain.

What are Skylark's competitive strengths, and what kind of value can be provided by drawing on those strengths?

Aihara: One of Skylark's greatest strengths is its flexibility to adapt to changing times and market conditions, and change its brand portfolio. Isn't it true that a business model that develops various types of new brands, and adapts to changing lifestyles and regional characteristics in opening new stores and in brand conversions is a tremendous advantage only we enjoy?

Katayama: It's exactly because we have a wide range of brands that we are able to switch to one

Executive Officer Roundtable

that will have the greatest growth prospects.

Aihara: That we can respond as circumstances demand is one of the things that makes us special. It's the very quality that enabled us to decide to temporarily close our mainstay Bamiyan and Yumean stores in regional areas.

Kanaya: A very meaningful example of that is the complete restructuring that included the closing of all Skylark restaurants—the brand on which our company was founded. Bringing to an end the restaurants bearing the same name as the company was a decision that required a tremendous amount of courage. But, considering what the Skylark Group ought to be, it was the right choice. After all, isn't discerning how customer needs change with the times, and flexibly offering the brands, menu items, and services customers want a critical strength for a restaurant company and something that is extremely valuable to customers?

Aihara: Playing a crucial role in the development of a broad range of brands throughout Japan are the ten commissary kitchens located across the country and our in-house distribution network. Being able to make and distribute foods for all of our brands on an area-by-area basis every day is a strength of immense value.

Katayama: That's why we can open new stores from Hokkaido to Kyushu and Okinawa, regardless of the brands.

Kanaya: That we can open stores in regional cities and establish dominance in an area by opening multiple stores is also because of this robust food preparation and distribution infrastructure.



Sakita: Having been involved in the development of new brands and opening of stores, I got a very real sense of why Skylark's brand development success ratio is so high. Ordinarily, when a new brand is developed, efforts to open multiple stores do not go well. Skylark can achieve profitability early on because it can draw on commissary kitchens and distribution points located throughout the country, and take advantage of economies of scale in procurement. This kind of overwhelming power simply can't be replicated by other companies.

Aihara: The economies of scale that come with the operation of 3,200 stores throughout the country are large, aren't they!

Sakita: With that much procurement power, we can purchase goods from the very beginning, when we have only one store, at prices based on the premise that we will open multiple stores.

Katayama: Being in charge of purchasing, I see the major advantage of having our commissary kitchens. We don't have to purchase processed products; we can buy raw ingredients, so whether it's fruits and vegetables, or meats, we can buy at lower prices.

Sakita: Skylark is developing brands across a wide array of categories, not only Japanese, Western, and Chinese. Regardless of the category, though, we must offer cost performance that exceeds that of our competition. Offering great-tasting food at affordable prices, as stated in our corporate mission, goes to the very roots of who we are and is the greatest value we can provide.

Taking a different perspective, what are Skylark's weaknesses, and what risks does it face? How will these weaknesses and risks be addressed?

Katayama: A little while ago, the topic of economies of scale came up as a strength. In procuring ingredients, the size of your operation can also lead to increased risk. It isn't easy to reliably supply foods to over 3,200 stores nationwide. The vegetables, meat, and fish we use as ingredients are subject to significant price movements due to changes in the weather, currency exchange rate fluctuations, international circumstances, and other factors, and there are many cases in which it becomes difficult to obtain certain ingredients. Ongoing procurement of the same ingredients under the same terms is becoming difficult. In response, we are, for example, revising standards for the items we purchase to increase the number of suppliers we can use, and working with the Supply Chain Production Division to devise alternative menus that could be used when it is impossible to procure enough of the ingredients needed for the regular menu.

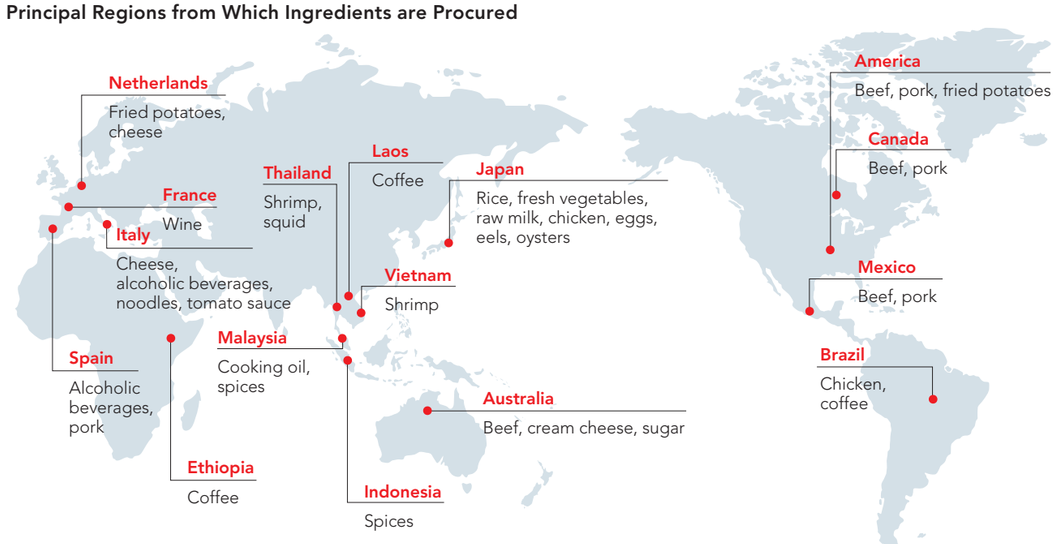
Sakita: It certainly is a difficult mission to reliably supply over 3,200 stores. There are times when harvests are down due to bad weather, and other cases in which there are no readily available solutions. But if we can't procure enough of a particular ingredient for all of our stores across the country, we can use locally available items, develop menus that highlight local characteristics, and use this situation as an opportunity to differentiate ourselves from our competition.

Kanaya: Looking at a different matter, as a pioneer of restaurant chains in Japan, we were among the first to develop multiple stores. And that is the reason why, when you look at stores across the country, you notice that quite a few are beginning to show their age. That, too, could be called a risk.

Sakita: In response to that risk, we are embarking on investments in stores and store facility maintenance and repairs, new dinnerware, introduction of IT tools, and other updates and improvements beginning this year. Ensuring that our stores offer customers clean, comfortable environments, of course, is one of our goals. However, we also want to apply the latest IT to lighten the burden of store staff, further enhance customer service, and, ultimately, enhance the value of our stores as sit-down restaurants.

Aihara: The very fact that we are a part of the restaurant industry means that we must conduct our business always bearing in mind risks concerning food safety and security. That's why the commissary kitchens exercise quality management not only for the foods we prepare in-house but for

Principal Regions from Which Ingredients are Procured



all ingredients used at stores. They test by sampling all of the ingredients and processed items procured from domestic and foreign suppliers. Under this system, stores are provided only with items for which safety and quality have been confirmed.

Katayama: When the Supply Chain Purchasing Division selects suppliers of ingredients, it always performs detailed checks of the candidates' plant quality management and sanitation management systems. This is true not only for domestic plants but overseas plants, as well. In the area of food safety, there are HACCP and various other standards, and the safety criteria used by Skylark are more than adequate to meet all of them.

Aihara: Of late, terms such as ESG investing and ESG management are used quite often by the media, and this is an indication of the great amount of interest stakeholders have come to take in the social values of companies. Food safety and security, in particular, is a social responsibility that all restaurant businesses absolutely must meet. That this is also the most fundamental value being offered means that we must continue to enhance, and spare no effort in ensuring, our sanitation and quality management are top notch.

Katayama: What customers expect of Skylark are clean, comfortable stores; great-tasting food at affordable prices, a smiling staff sincere about providing service; and, of course, as the starting point for all of this, safe, secure food. In addition, we must also reduce waiting times to the extent possible, provide swift service that includes serving hot dishes



while they're hot, and cold dishes while they're cold. Getting this kind of basic quality right time after time is important for meeting customer expectations.

Sakita: As expressed in our corporate vision, we do what we do, so we can see our customers smile. As a restaurant company, our only path forward is to steadily and thoroughly pursue basic quality.

What kinds of initiatives are needed for Skylark to continue to grow sustainably?

Sakita: I think we have to be very good in discerning markets set to grow and take advantage of every opportunity to grow. Delivery and takeout are businesses existing stores are working to build and the growth has been extremely fast. With the aging population, more women participating in society outside the home, and various other environmental changes underway, I have no doubt that these two businesses will continue to grow at an accelerating rate.

Katayama: If other companies pile into the delivery business, we have various brands in addition to Gusto. We should be able to differentiate ourselves if we link our different brands within a single area and make it possible to offer a broader menu selection.

Aihara: We can exercise Skylark's strengths even within the area of delivery services.

Sakita: When it comes to delivery, the only person to have direct contact with the customer is the driver. Compared to the environment of a sit-down restaurant, there are limited opportunities to provide customer service. Nevertheless, for busy people and people who find it difficult to get out, the delivery of prepared meals to their homes is tremendously valuable and a form of hospitality. In our delivery business, we will offer exceptional quality just as we do in our restaurants. The swift delivery of great-tasting food at affordable prices is a form of quality we are particularly well-suited for providing.

Kanaya: Going forward, providing customers with valuable services—not only delivery but other types, as well—means that human resources will become increasingly important. Skylark, therefore, has made enhancing employee work-life balance a part of our basic policies for 2018. Our aim is to help individual employees fully exercise their capabilities, and we are now making a full-scale effort to move forward with measures such as advancing work reforms and improving work environments. The introduction of video manuals to help store staff effectively master store operations is another example. These manuals can be accessed by individual employees on their smartphones anytime, anyplace. That facilitates learning for employees and frees up time for managers and experienced employees who would otherwise be acting as instructors.

Aihara: Reducing late-night operating hours is something else we undertook because we want to make life easier for employees, but it also allows us to concentrate precious human resources on times when customer numbers are at their greatest, so we can provide even better service.

Kanaya: That's right. I would also like to add that, beginning this year, we are enhancing employee benefits by, for example, enhancing internal purchase options, and expanding menu choices, for employees. If employees sense stability and fulfillment in their lives, and more choose to stay with us over the long term, that should translate into a more highly skilled workforce that is capable of delivering even greater service. Work-life balance will remain one of our highest priorities going forward.

Katayama: Recently, we've heard many complaints, from a broad range of industries, including ours, that there are not enough workers and that hiring has become too difficult.

Kanaya: Yes, I understand that is a difficult problem. At Skylark, though, our name recognition has helped and, at the moment, we are seeing job applicants and hiring people at rates greater than those for last year. Looking ahead, we will have to find ways to make even more of our strengths to attract outstanding people.

Sakita: Many people have experienced a meal at



Gusto, Jonathan's, Bamiyan, or our other stores. So even people who have never worked in a restaurant before know what kind of business we are and can feel confident about working here. That goes for their families, as well. In addition, Skylark Group restaurants are located throughout the country, so, for employees who may have to move, we offer the benefit of being able to work at a store near their new home.

Kanaya: In the restaurant industry, customers and employees are two sides of the same coin. Many of our employees have likely come to our stores as customers, before they worked for us or in their off hours, or will come as customers after they retire. Therefore, if our stores present a good image, that will be beneficial for hiring, and if we can attract outstanding people, that will help to enhance our services. Creating work environments that are comfortable for employees is something that should promote this kind of virtuous cycle.

Sakita: As the birthrate continues to fall, the population continues to age, and women's participation in society grows, the role played by the restaurant industry will likely expand. Skylark, as an industry leader; as infrastructure for providing safe, secure food; and as a place for people to work, will strive to be an organization even greater numbers of people will want to support.



Value Creation Platform

Skylark's strengths lie in our vertically integrated supply chain, which allows us to handle everything from procurement through service delivery in-house, and in our human resources, brand portfolio, and data-driven marketing, all of which help to make vertical integration possible.

Creating Richness with Value to Society

Vertically Integrated Supply Chain →P27

Procurement → Inspection → Production → Distribution → Preparation → Service

- Human Resources →P24
- Brand Portfolio →P29
- Data-driven Marketing →P29

Human Resources



Hiring and Developing Human Resources Capable of Delivering High Added Value

Providing customers with delicious meals requires human resources capable of providing high-quality service. At Skylark we place a premium on the quality of human resources and seek, in particular, to hire people with a keen sense of hospitality. We are succeeding in fulfilling our hiring goals for both people just starting their careers and experienced people looking for new opportunities. To sustain our growth going forward, we will continue to actively hire outstanding people. Hiring, however, is only the first step. Offering the new value the Skylark Group should be creating requires that highly capable people stay with us over the long run. Toward that end, therefore, we are also proactively taking steps to maximize staffing tenure and enhance training efficiency.

Minoru Kanaya
Corporate Director and Managing Officer, Managing Director,
Corporate Support Division and Human Capital Management Division

Actively Rehiring Former Full- and Part-time Employees

Skylark has established a website dedicated to encouraging former full- and part-time employees to rejoin us. When employees who have had to leave us, for various reasons, would like to come back, they often have concerns regarding issues such as the amount of time they have been gone, their age, compensation, and job location. To alleviate such worries, the dedicated website features articles and Q&A exchanges focusing on other people who have had the same concerns. With this information outreach and our policy of recruiting former employees for full-time positions regardless of their previous status (full- or part-time) or years of experience, the number of former employees we are rehiring is rising year by year.



Dedicated website for former Skylark employees

Proactively Securing Human Resources

The Skylark Group takes proactive steps to secure outstanding human resources. To encourage part-timers to become full-time employees, for example, we hold dinners for those considering a transition to full-time status, and conduct "startup seminars" for part-timers ready to apply for a full-time position. Through these and other initiatives, we aim to communicate the benefits of working at Skylark and inspire part-timers to join us as full-time employees. To facilitate the hiring of part-timers, we use our call center to coordinate interview schedules at all of our stores. Looking to the future, we are planning to strengthen systems that make it easier for part-timers to work at multiple stores. We will also enhance headquarters assistance in hiring non-Japanese and conducting initial training.



"Start-up seminar" for part-time employees ready to apply for a full-time position

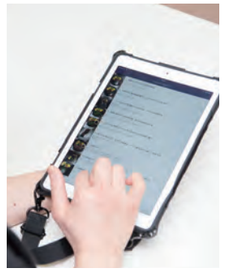
Stratified Training Program

Welcome Program

Part-time staff who have mastered store operations are a critical factor for the ongoing growth of the Skylark Group. Taking a long-term view, we have developed our Welcome Program to quickly help new part-timers get up to speed on store operations, develop a sense that their efforts are worthwhile, and feel that they would like to stay with us over the long term. The Welcome Program, which is also intended to encourage part-timers to become full-time employees, features proprietary content and is conducted by store managers and trainers beginning immediately after a new part-timer arrives.

iPad-based Training

The Skylark Group has adopted iPads to promote efficiency in training and store operations for all of our brands. These devices give employees easy access to information such as updated manuals incorporating video content, while on the job or in training.

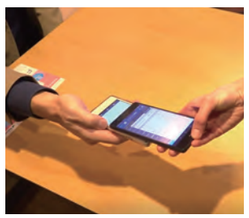


Work-Style Reforms

Using the Latest Store Management Systems for Greater Operational Efficiency

At Skylark, we believe that providing employees with work environments that enhance work-life balance leads to greater store quality and customer satisfaction, and, ultimately, helps us grow as a business.

As one step in creating comfortable work environments, we are using IT to improve operational efficiency and store productivity. Following up on our February 2018 introduction of video-based training tools, we introduced an IT system to reduce the amount of time needed for stores to send reports to our headquarters. In use since June, this system has streamlined store communications with our headquarters and boosted store work efficiency. In the second half of 2018, we will begin to update the main computer systems for our stores. These updates will improve the way orders are received from customers, automate inventory ordering and management, enable us to accept electronic money and other nontraditional forms of payment, and perform other operations that lighten the burden on employees.





New store system planned for introduction beginning in the second half of 2018

Promoting Work-Life Balance

•Continuously Reducing Late-Night Operations

Late-night operations impose a significant labor management burden. To reduce this burden and improve work-life balance for employees, we are continuously scaling back our late-night operations. In 2017, we reduced operating hours at approximately 520 stores.

•Smoking Cessation Activities

Since 2014, one of our group-wide objectives has been to reduce the percentage of our employees who smoke. Toward that end, we provide smoking cessation aids such as nicotine patches and gum, and have established an online program to help employees stop smoking.

•Regular Physical Examinations

Regular physical examinations are crucial for preventing disease and diagnosing diseases early on. We, therefore, remind employees directly, and indirectly through their supervisors, to go for a checkup when it is their turn to do so.

•BMI Improvement

To help employees improve their BMI, we offer classes led by registered dieticians and provide employees with access to intranet-based video summaries of class content.

•Health Management App

In July 2016, we began to use the KenCoM health-management app. With KenCoM, employees can receive personalized health information based on their physical examination results and take advantage of other information management tools useful for answering health-related questions.

Creating work environments where anyone can work with peace of mind

Providing customers with high-quality services that genuinely please requires work environments where full- and part-time employees can work with enthusiasm and without negative impacts on their physical or mental health. At Skylark, we are moving forward with initiatives aimed at allowing employees to work with passion in ways compatible with their individual lifestyles.

Relevant Sustainable Development Goals (SDGs)

We believe our initiatives to ensure good work environments for our employees contribute to the achievement of two SDGs. Keeping the 2030 goals in mind, we are already undertaking initiatives in areas where immediate action is possible.

Encouraging Employees to Take Childcare and Nursing Care Leave

The Skylark Group encourages employees to take consecutive days off, urges male employees to take childcare leave, and makes it possible for employees to work shorter hours to make more time for childcare. In recognition of our pursuit of these and other such policies, and their support for the Act on Advancement of Measures to Support Raising Next-Generation Children, the Minister of Health, Labour and Welfare granted us the right to use the Kurumin mark in February 2016.

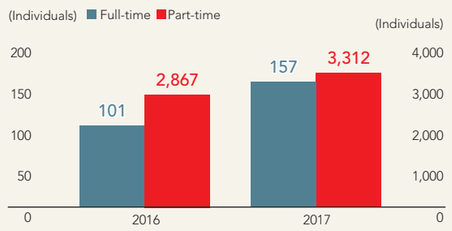
In addition, the Skylark Group striving to create work environments that enable employees to meet both work- and care-related responsibilities, is committed to reducing the number of employees who feel pressured to give up their jobs, so that they can provide nursing care. To publicly disclose what we are doing to create work environments that allow employees to meet both work- and care-related responsibilities, we have provided both a general employer action plan and our initiatives for supporting employees with nursing-care responsibilities to the Work-Family Life Balance Support Square, a project commissioned by the Ministry of Health, Labour and Welfare. As a result, we have gained the right to use the Tomonin mark, which signifies our proactive stance on these issues.

In addition to the family care and nursing care leave, and work-hour adjustment measures stipulated in the Family Care and Child Care Leave Act, we have also instituted our own policies for allowing employees to use expired annual paid leave and take shortened units of leave to provide nursing care. Our aim in taking these steps is to create work environments that are accommodative and attractive for employees over the long term and that relieve employees of the pressure to quit their jobs to care for family members.

Creating Work Environments Comfortable for Older Employees

The Skylark Group has extended the mandatory retirement age to 65 for both full- and part-time employees. At the same time, we have created a rehiring system that allows employees to continue working for us from age 65 to 70. Given changes in population dynamics and our expectation that older employees will make up a growing percentage of our total workforce, we are taking steps to create work environments that can flexibly adapt to diverse work styles.

Full- and part-time employees over age 60 as a percent of the Skylark Group's workforce



Helping Stay-at-Home Wives and Husbands Join Our Staff

We have recently established a job concierge within the Skylark recruitment center. The purpose of this service is to answer the questions and allay the concerns of stay-at-home wives and husbands who are raising children and have refrained from working.

Recruitment center staff respond to inquiries via phone or internet, and provide information on stores that may meet the employment needs of callers. They also encourage callers to ask questions they may not want to ask during an interview, and respond to all manner of other concerns callers may have about working at Skylark.

Supply Chain

Skylark's strength is a vertically integrated supply chain encompassing everything from procurement through service delivery. This system enables us to develop stores that meet market demand throughout Japan.

Procurement

Leveraging economies of scale and our network, our procurement operations are both efficient and reliable



Taking advantage of the economies of scale afforded by the Skylark Group's approximate 3200 stores, our buyers visit producers throughout the world to obtain ingredients that meet exacting quality standards and are available at optimal prices.

With suppliers located in 40 countries across the globe, we are able to make decisions regarding geographic origin, contract periods and amounts, and other matters to minimize foreign exchange effects and the impacts of market price spikes to provide customers with consistently high quality.

The top priorities of our procurement operations are to maintain stable supplies and control costs. To ensure that our buyers are able to leverage economies of scale to purchase ingredients at the best prices, we established a buyer training program and, in 2012, launched a cost optimization project. With collaboration by our procurement staff and people from our production and menu development departments, this project is achieving cost improvements year by year.

Inspection

Providing safe, reliable products through our proprietary HACCP-compatible sanitation management systems

Bacteriological Testing Days **365**

To serve our stores, which are open 365 days a year, we conduct tests every day at our eight testing labs located across Japan. In addition to routine operations, these labs are able to respond to urgent situations as needed.

Criteria **Approx. 170** testing standards

We have created a strict internal testing system with standards more exacting than those of the Japanese government to confirm the safety of food ingredients we use on a daily basis.

Test Coverage **No. 1 in the Industry**

In addition to testing of our own products and products we purchase, we also conduct spot tests on an ad hoc basis, even during store sanitation inspections, to confirm that food management and sanitation practices are being properly implemented.

Placing our highest priority on food safety and security, we have established quality and safety standards for foreseeable risks in every process from procurement through preparation, distribution, and delivery. Our basic policy is to exercise strict management of food safety and quality in all of these processes.

In our commissary kitchens, which perform initial processing and distribution functions, we take precautions to prevent viruses and bacteria from entering the facility. These include strict monitoring of the health of workers and enforcement of a handwashing regime, and the requirement that employees who live with others report the health condition of those people. In addition, we have established our own sanitation management systems. This system complies with international HACCP (Hazard Analysis and Critical Control Points) standards, and we have established our own testing standards, which are stricter than those of the Japanese government, as an added measure to ensure safety.

For meat, fish, and shellfish, we disclose places of origin, in accordance with guidelines established by the Japanese government for the restaurant industry. And we use lot numbers to manage production information for products we make in-house. Our systems, which allow us to know everything about a product at the time it is shipped, provide for thorough traceability up through shipment and enable us to efficiently address any problems that may arise.

Production

Reliably high quality based on food management and initial processing at our ten commissary kitchens located across Japan



Our ten commissary kitchens, located across Japan, centralize tasks such as the cutting of ingredients and preparation of proprietary sauces. In doing so, they simplify cooking at individual stores and enable the reliable provision of high-quality products. In addition, the commissary kitchens help to minimize store-level inventories by preparing only what each individual store orders by the night before. Ordering and preparing on a daily basis also contributes to lower storage costs.

The commissary kitchens use a combination of machines and humans, entrusting each with the tasks they are best suited for. Making these distinctions in detail has given us a system that is able to flexibly respond to seasonal menu changes, openings of new types of restaurants, and development of new menu items. It also enables us to open multiple types of restaurants in any particular location.

Distribution

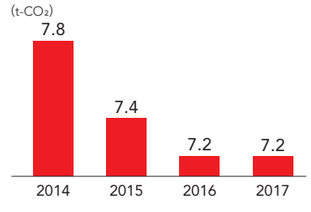
Transitioning to area-based delivery system to optimize distribution and reduce CO_2 emissions associated with the daily delivery of fresh food to individual stores



Products prepared at our commissary kitchens are delivered fresh and at appropriate temperatures to stores on a daily basis.

To reduce costs, we began in 2014 to optimize our distribution systems. What that has meant is transitioning from the past brand-based delivery approach to one that is area-specific, and building an efficient distribution system optimized to serve multiple stores of different brands. Optimizing distribution in this way has allowed us to greatly reduce the number of trucks we use and the distances they travel. At the same time, it has benefited the global environment by, for example, reducing CO_2 emissions on a per-store basis over the four years we have used the new system.

Per-Store CO_2 Emissions from Distribution



Preparation and Service

Providing reliably high quality through nationally standardized operations

Service Standardization

The Skylark Group emphasizes operational standardization, so that we can offer the same high quality and service at all of our stores throughout Japan. Creating efficient operations with uniform time and food management standards for preparation and service delivery has eliminated deviations in value provided and enabled us to provide customers with reliably high quality. In addition, uniform hygiene standards and an HR system that is the same across the Group results in consistently excellent service even after a restaurant genre is changed or employees are transferred.



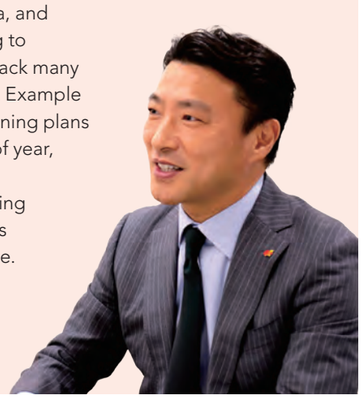
Employee Training

From the time they join us, all Skylark Group employees undergo training aimed at having them develop a deep understanding of safety and hygiene, our code of conduct, and other aspects of what it means to be part of the Skylark family.



Skills and Resources to Respond to Customer Needs

In a time of diversifying personal values, reliable strategies backed by data, and human resources who excel in execution are indispensable for responding to wide-ranging customer needs. Skylark has an extensive database going back many years and numerous marketing specialists capable of using that database. Example applications include identifying optimal brands and developing store opening plans for specific locations, changing menus depending on the season or time of year, and distributing coupons that would gain a strong market response. Strengthening our business in Japan is a given; we are, however, also looking forward to using these resources for purposes such as researching markets outside Japan as we continue to rise to the challenge of creating new value.



Yukihiro Wada
Corporate Director and Managing Officer
Managing Director of the Marketing Division

Diversified Brand Portfolio as the Key to Store Development Matching Customer Segments and Regional Characteristics

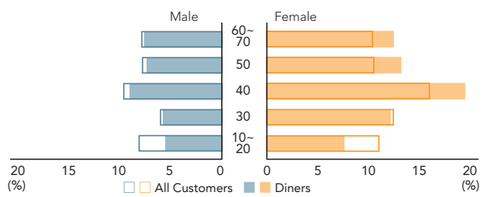
The Skylark Group encompasses Japanese, Western, Chinese, Italian, and other restaurant genres in the low-to-moderate price range. Appropriately locating restaurants to meet regional characteristics has enabled us to reach the point where we now operate approximately 3,200 stores across Japan. Responding to constantly changing customer needs requires exquisite sensitivity to those changes and the ability to swiftly open stores that match market needs. In response to customer needs, which have continued to diversify and fragment in recent years, and to appeal to various customer motivations, we have focused on opening both restaurants with a wide variety of offerings and restaurants focusing on particular themes.



Big Data Marketing

By linking POS (point of sale) data on 400 million customers annually, T-Card data on customer attributes, coupon usage histories from mobile apps, and other data, we are able to analyze menu selections and measure promotion effectiveness by gender, age, and store visit frequency and times. Our rapid management decision-making process backed by data analysis providing detailed information on consumption trends is a key strength of the Skylark Group.

Menu A Customer Breakdown by Gender and Age



Menu selection analyses by customer number, gender, and age are used for menu development.

Menu Marketing Strategies Applying Data Analysis to Maximize Stores Sales

Detailed consumption trend analysis based on big data is steadily improving the precision of our menu marketing strategy. In 2017, for example, season-appropriate menus, sales promotion campaigns, and coupons, all targeting young families, who are coming to our restaurants in growing numbers during extended holidays and school summer vacation, helped to maximize sales. Through big-data analysis, we are also able to determine that more and more customers are wanting to have alcoholic beverages served in restaurants. Responding to this finding by expanding our menu of small dishes to go with alcoholic beverages and by enhancing our banquet menus enabled us to increase our sales per customer.



Women play an important role in menu development. Detailed data-driven planning has been instrumental in creating hit menu items.

Apps-based digital promotions and enhanced delivery and take-out services responding to the growing home meal replacement market

In conducting promotions optimized for our wide customer base, we have, in recent years, been devoting significant attention to digital promotions. Through digital promotions conducted via apps and designed to appeal to individual users, and by improving our systems for delivery and takeout, which are enjoying rising demand, we are aiming to maximize sales on a per-store basis.

Cross-Brand Apps

In March 2018, we released the Skylark Apps covering all the Skylark Group's restaurant brands. Using the app to conduct 1-to-1 marketing—for example, by disseminating timely information and distributing coupons optimized for customer preferences—we are striving to increase customer store visits in a more cost-effective manner. And we believe that providing customers with information they can use to their benefit at particular restaurant brands meeting their occasional needs, and distributing coupons for Skylark restaurant brands other than those a customer is already using can result in a dramatic increase in customer circulation among Skylark Group brands.



Strengthening Delivery and Take-Out Services

As Japan's population ages and more and more women participate in activities outside the home, demand for delivery is growing. Approximately 1,000 Skylark Group stores offer delivery services, and for the years 2015 through 2017, delivery sales grew at an average annual rate of 7%. For 2018, delivery sales are expected to grow by 11%. To promote efficient growth of these sales, we are experimenting with initiatives such as a joint delivery system shared by multiple restaurant brands in the same geographic area. Regarding take-out services, we have constructed a more convenient website to increase orders and are succeeding in developing new customer segments through initiatives such as sales of roast chicken during the Christmas season.



Delivery of delicious roast chicken during the Christmas season



Atsushi Kitamura
Corporate Director and Managing Officer
Managing Director of the Finance Division

We are pursuing financial measures to support new growth strategies. Implementation of financial controls to support increasing corporate value is a key issue going forward.

During the current fiscal year (ending December 31, 2018), Skylark, in line with the basic policy of improving customer satisfaction by increasing the operation quality of each and every restaurant, is investing in stores and employees. Even with goodwill and borrowings remaining on our books from the time we were receiving support from fund-based shareholders, we are looking to the future with plans to achieve ongoing increases in corporate value. We are planning to generate these increases by applying our industry-leading earnings capability and balancing investments, debt repayments, and returns to shareholders in accordance with appropriate financial measures. Our target for adjusted ROE is the middle of the 10%-19% range. For 2017, our adjusted ROE came to about 14%, which was among the best performances in the industry.

Goodwill

Included in non-current assets of 286.1 billion yen is goodwill of 146.1 billion yen. This goodwill arose when the Skylark Group was acquired by Bain Capital. It is apportioned to Gusto, Bamiyan, Jonathan's, and other Skylark Group main brands. As required under International Financial Reporting Standards (IFRS), goodwill is examined for impairment by periodically calculating the profitability and future cash flows for each main brand.

After performing this examination, it has been determined that each of the main brands is solidly profitable and generating strong cash flows. At this time, therefore, we believe the risk of a significant goodwill impairment is extremely low.

Outstanding Borrowings

As of December 31, 2017, borrowings amounted to approximately 129.2 billion yen. A leveraged buyout (LBO) loan related to Bain Capital's 2011 investment in the Skylark Group accounts for over half of this figure. While the Skylark Group's strong cash flows will serve as a base for steadily repaying the LBO loan, new borrowings will be used as needed to secure capital for long-term investments aimed at accelerating new store openings and creating stores that are even more attractive.

Concerning the LBO loan payment due in June 2019, we have already entered into a new syndicated loan agreement and an interest rate swap for an amount approximating the LBO loan balance as of February 2018. These measures were undertaken to take advantage of the current low-interest environment to extend the term of the loan and gain a low, fixed interest rate. Our net leverage ratio—net interest-bearing debt (= borrowings, less cash and deposits) divided by EBITDA—at 2.8x, is at a sound level in light of cash flows.

Returns to Shareholders

The Skylark Group aims to make total dividend payments equal to 40% of adjusted net income. With a payout ratio of approximately 2.6%, we envision paying an annual dividend of 38 yen per share. As for the coupons we distributed as special benefits for shareholders, at a payout ratio of about 4.1%, we have no plans to change this program.

Director Roundtable (Held in May 2018)

The start of a new phase for Skylark is a prime opportunity to accelerate medium-to-long term growth.

With the end of investment fund control, Skylark now has new leadership. Four directors, all from different backgrounds, discuss issues and their expectations going forward.



Reformed under investment fund control, Skylark management is heading into a new stage.

— In November 2017, Bain Capital divested all of its Skylark shares, ending approximately 11 years of investment funds control. What issues do you see for the Company, and what are your expectations for it, as it moves forward under new leadership?

Nishijo: I haven't felt any major changes since Bain Capital (hereinafter "Bain") divested its shares, but, given that Nomura Principal Finance was the lead shareholder before Bain, one could say that the Company has entered a new stage independent of any particular fund. With Bain, the Company had access to a global organization, and exceptional information gathering and analysis capabilities. Achieving sustained growth without those resources, it goes without saying, will require even stronger governance than what we've had in the past.

Wada: I agree. From Bain, we gained a lot of understanding of matters such as how to prepare materials for more effective board discussions, and how to use and manage committees. I think this will be useful in strengthening governance going forward.

Yokoyama: Bain's exit has also shaken up the shareholder breakdown. We've gone from, in some sense, a transitional state with an investment fund as the leading shareholder, to a more stable shareholder breakdown dominated by over 420,000 individual investors whom we also consider customers. Now independent of any investment fund, we have to decide by ourselves what to emphasize to what stakeholders as we go about managing the Company. We'll also have to be very strict with ourselves in order to continuously enhance our corporate value. I think we'll face some big challenges, but these will be great opportunities to accelerate our growth strategies by keeping our feet on the ground and discussing what we should do to achieve medium-to-long term growth.

Tahara: As Mr. Yokoyama says, for a company operating restaurants—an archetypal B-to-C business—many shareholders are also customers. Taking care of our relationship with these shareholder/customers, who are key stakeholders, means being very careful about governance going forward. As outside directors, it is especially important for us to proactively express our opinions and requests to those with executive authority to help ensure that Skylark's stores, services, management direction, and so forth have the support of individual customers and shareholders. Now that the Company has transitioned to a new, more independent status, our responsibilities as outside directors have taken on even greater weight.



Promoting open, constructive discussion based on thorough sharing of information

— I heard it mentioned that even more should be done to strengthen governance going forward. What are your opinions about the current state of the board's operations?

Wada: Well, to begin with, as a premise for discussions, we all recognize that people have



different opinions, so we all feel free to say what we want to say, without posturing. Also, plenty of the information we need for discussions is provided to us ahead of time, so I think our discussions are very much on point and productive.

Yokoyama: Prior to a board meeting, the topics to be addressed, background information, quantitative data, and so forth are organized in ways that are easy to grasp and that make the information useful for thorough discussions.

Tahara: In addition, the Independent Executives' Liaison Committee started two years ago to share information with outside officers is playing a very useful role. It has taken us on a tour of the Higashi Matsuyama commissary kitchen, shown us new stores, and done other things that have helped us outsiders better understand the leading edge of the restaurant business. And it has done so with great organization and attention to detail.

Yokoyama: Something I might add about the atmosphere within board meetings is that there is a sincere intent to listen to the opinions of outside officers; there is an attitude of wanting to make discussions as constructive as possible. There aren't any prolonged discussions that cover matters only insiders understand and that outside officers find difficult to join in.

Nishijo: That may be the case because even among the directors who are insiders, there are several who have worked at places other than Skylark's head office. Maybe the experience of having worked at Group companies and other places naturally leads to the kind of flexibility that allows one to actively accept diverse perspectives and opinions.



Strengthening investments in people and systems to enhance mid-to-long-term brand value

— Somebody expressed the view that Skylark's management has entered a new stage. What are your views on the new strategy of strengthening investment in stores and employees?

Yokoyama: Skylark enjoys economies of scale, an integrated supply chain, and other fundamentals that allow it to stably turn a profit. Looking to the future, the ability to reinvest those profits for future growth is a huge strength. For restaurants—table restaurants, in particular—customer satisfaction is greatly affected by elements such as store atmosphere, quality of



customer service, and so forth, in addition to food and prices. I understand the strategy of strengthening investment in stores and in employees to be one of investing in ways that balance those elements.

Nishijo: What I'm most interested in concerning the strategy is investment in human resources. For restaurants, securing human resources is a huge management issue. To retain outstanding human resources, it is necessary to make work places even more satisfying for store employees. If employees aren't satisfied, it's impossible to provide customers with good service. In that sense, I am very much a supporter of the new strategy of strengthening investment in human resources.

Tahara: I also believe that people are the most important management resource for the restaurant industry. There are some who are concerned that earnings are being pressured by personnel expenses rising in response to the shortage of people in recent years. But I think that —for the sake of its long-term future—a company should actively invest in human resources and take the position that people are important. Among the Group's employees, of which there are approximately 100,000 throughout the country, there are probably people who come to our restaurants as customers, even after they no longer work here. Enhancing employee satisfaction and building a reputation that Skylark values its people should certainly lead to increases in brand value.

Yokoyama: Turning to investments in stores, I'm particularly interested in IT. Using the latest IT to make restaurant operations more efficient and improve labor productivity can increase satisfaction among both customers and employees. Of course, if personal service is going to be replaced by IT, it will be necessary to create new service models that don't upset customers and produce even greater customer satisfaction. I think that will be a tough challenge, but, as the industry leader, shouldn't we be a pioneer in using cutting-edge technology?

Wada: I think you're right. This is true for investing in people, as well, but taking the lead in applying new technology will also contribute to greater brand value. For example, if we can offer a new user experience, such as the one currently being planned to use smartphone location data to provide zero-wait time takeout service, there will, of course, be revenue contributions. But there will also certainly be an impression of the restaurant as cutting edge, and an elevation of our brand image. It's exactly that kind of thing that makes the time three or five years into IT investments really exciting. I'm expecting a lot.



To continue supporting society as food infrastructure

— What are the issues the Company faces in achieving sustainable growth going forward? What are you expecting of the Company in that regard?

Yokoyama: Looking at diversity, I think the Company should accelerate its promotion of women's participation. The restaurant industry will remain indispensable as a part of daily life, probably forever, however the times change. It should play a major role in society, in terms of both consumption and employment. Considering that the industry is so important as infrastructure for daily life and that a large percentage of customers are women, women should be filling more management positions in stores, of course, but also at the head office.

Nishijo: I concur. There are many outstanding women in front-line management positions, so I would like to see the Company promote skill development and career advancement for these people and move them into important positions. The Company has been pouring a lot of effort into making work environments more comfortable—for example, by revising operating hours and limiting hiring to local residents—so I have high expectations.

Tahara: If I were to raise an issue, given that we're in the restaurant industry, I suppose it would be how to eliminate food safety risk. Compliance with the Food Sanitation Act and other laws and regulations is a given; going beyond that to exercise painstaking risk management—for instance, by voluntarily strengthening food safety measures or ensuring rapid, appropriate responses to quality problems—is critical. I've been told that there are plans to adopt digital picking and other automation technologies at commissary kitchens. For moves such as this, it is very important to anticipate problems and develop responses ahead of time, instead of responding only once something goes wrong.

Yokoyama: Something else is that for the restaurant industry to grow sustainably, there must be an appreciation that it has to co-exist and prosper together with agricultural producers and other suppliers. It appears the Company is already working with an agricultural corporation to produce some new plant varieties on a test basis. I would like to see it expand this kind of collaboration and help to invigorate Japanese agriculture.

Tahara: Something that's gotten a lot of attention lately are the UN Development Programme's SDGs, 17 Sustainable Development Goals including ones addressing food and agriculture, gender equality, etc. Skylark is strengthening its initiatives for those goals related to its business and should probably pursue social sustainability from a medium-to-long term perspective.

Wada: Skylark's corporate philosophy is "creating richness with value to society." Given that, doesn't practicing that philosophy mean that the root of sustainability for the Company is building and maintaining food infrastructure that allows people to eat safe, delicious food in any city in Japan? I say that because delivery and takeout services are beneficial for working women and because comfortable restaurants where families can spend time together are an absolute necessity for a prosperous society.

— Thank you for sharing your precious time with us today.

Independent Executives' Liaison Committee Report

Skylark has established the Independent Executives' Liaison Committee for its outside directors and outside auditors. Through committee activities, participants visit Company facilities and engage in discussions among themselves. Management information shared via the committee is also used for discussions in meetings of the Board of Directors.

Visits to Commissary Kitchens and Distribution Facilities

In the sixth meeting of the Independent Executives' Liaison Committee, participants visited facilities that would enhance their understanding of Skylark's unique vertically integrated supply chain covering everything from procurement through service delivery.

(1) Testing for microorganisms at a commissary kitchen inspection center
(2) Entire production process at a commissary kitchen
(3) Picking of products to load onto roll box pallets for transportation to stores, loading of trucks
(4) Distribution subsidiary's distribution facility, distribution system
(5) Delivery of roll box pallets to stores, transfer of products to refrigerator





Discussions Among Outside Officers

The outside officers shared information on matters concerning distribution reforms unifying the commissary kitchens and distribution subsidiary. Examples included moving forward with distribution optimization by shifting from brand-based to area-based distribution, and expansion of business formats covered in individual areas. The outside officers discussed these matters based on their own experiences and on specific examples.

Through their discussion, the outside officers gained a concrete sense of the fact that Skylark's vertically integrated supply chain enables the delivery of food to every corner of Japan and is critical in supporting store operations and the store opening strategy.





Fumio Tahara
Independent Outside Director

Expectations of the Independent Executives' Liaison Committee

Before the formation of the Independent Executives' Liaison Committee, Board of Directors meetings did not go beyond discussions of business performance. Actually visiting restaurants and commissary kitchens has enabled more specific discussions of performance in particular business formats, hiring of store staff, compensation issues, and other matters. The committee has provided outside officers with more opportunities for dialogue among themselves and this has helped us to better understand what each of us is thinking. Looking ahead, I would like to visit more facilities, talk with more area managers, and engage in other activities to learn more about what front-line employees are thinking, so that this input can be reflected in Board meetings to deepen discussions from a medium-to-long term perspective.

Independent Executives' Liaison Committee Meetings Held in 2017

	Meeting Time	Activities
5th	June	Inspection of new stores (chawan, Yumean Dining, Tonkaratei, Syabu-yo), discussion
6th	September	Inspection of the Sagamihara Commissarry Kitchen, inspection of Japan Cargo Co., Ltd. (distribution subsidiary handling mainly Skylark Group distribution needs) office, discussion
7th	December	Discussion with Skylark Group top managers

Corporate Governance (as of July 1, 2018)

The Board of Directors and Board of Auditors both have memberships in which outside members who are independent and possess expert knowledge in certain fields comprise majorities. In considering the opinions of outside officers in making critical management decisions in both of these bodies, as well as in the Nomination Committee and Remuneration Committee, we have added a third-party perspective to the oversight function of the Skylark Group and created a system that contributes to medium-to-long term increases in corporate value. To help ensure that this system functions as intended, we have established the Independent Executives' Liaison Committee to provide the members, outside directors and outside auditors, with information to further their understanding of the Skylark Group and with a venue for actively discussing matters among themselves.

…Inside …Outside …Independent[1]

Ensuring Objectivity and Transparency in Nomination and Remuneration Processes

The Nomination Committee and Remuneration Committee have been established as advisory bodies to the Board of Directors. Independent outside directors fill two of the three membership positions for each committee. This ensures high degrees of objectivity and transparency in the critical decision-making processes for nominating officers and determining remuneration.

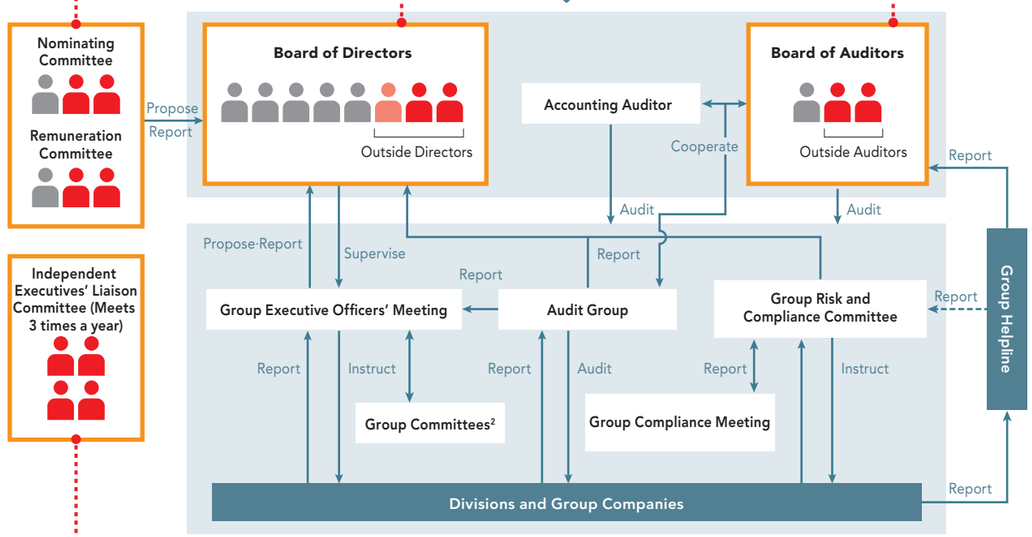
Board of Directors Structured for Highly Independent Management Oversight

Skylark has informed the Tokyo Stock Exchange that among its eight directors, three are outside directors, and two of these are independent outside directors. By structuring our board in this way, we have realized a management oversight function characterized by a high degree of independence.

Audit System Drawing on Expert Knowledge

Among the three members of the Board of Audit, two are outside auditors meeting the criteria to be considered independent. One of these independent outside auditors is an attorney and the other is a certified tax accountant.

The independent outside auditors draw on their expertise in the law, accounting, and taxation to conduct audits characterized by a high degree of independence.



Independent Executives' Liaison Committee Enhancing Board of Directors Performance

The Independent Executives' Liaison Committee was established to provide outside directors and outside auditors with opportunities to further their understanding of Skylark's business by, for example, arranging inspections of stores and commissary kitchens. Another purpose of the committee is to provide the members, all of whom are outside directors and outside auditors, with opportunities, in the form of regular meetings, to discuss and share information on business strategy and other matters.

1. "Independent" means that the officer meets independence criteria; not that the officer has been reported to a stock exchange via an Independent Directors/Auditors Notification.
2. Group committees are the Personnel and System Committee and the Policy and Investment Committee.

Basic Ideas on Corporate Governance

The Skylark Group believes its most important management priority is to achieve continuous increases in corporate value by contributing to society through food-related businesses. Our aim is to be a corporate group that is trusted by customers, shareholders, suppliers, local communities, employees, and all other stakeholders.

Toward that end, the Skylark Group has developed the Skylark Group Charter of Corporate Behavior. Shared among all of our employees, the charter serves as a basis for promoting compliance with laws, international rules, and their spirit, as well as abiding by social norms. Our efforts to enhance corporate governance also include various initiatives for ensuring soundness, efficiency, and transparency in management.

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 for Strengthening 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	Added as an outside auditor an individual with knowledge of finance and accounting

Overview of Corporate Governance Structure

Board of Directors

The Company's Board of Directors consists of eight directors, three 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 2017:	**Held 14 times**

Evaluation and Overall Effectiveness of the Board of Directors

To maximize the amount of time devoted to strategy discussions in Board of Directors meetings, we take various management steps, such as providing directors with information ahead of time and focusing meeting agendas on critical matters. We also work to enhance the effectiveness of board meetings by providing outside directors with opportunities—such as sample meals and video explanations of production processes for new menu offerings—to further their understanding of our business.

Outside directors and outside auditors are also members of the Independent Executives' Liaison Committee. Comprising the entirety of the committee membership, the outside directors and outside auditors come together for regular meetings during which they discuss board effectiveness from their independent, objective perspectives.

We will continue to conduct intiatives for enhancing board effectiveness going forward, and will proceed with a concrete consideration of proposals for analyzing and evaluating board effectiveness, and disclosing a summary of results, for the fiscal year under review.

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 Chairman, President and CEO and all executive officers, which is held every other 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 2017	**Held 43 times**

Audit by Auditors and Other Audit Functions

The Board of Auditors, which is composed of three auditors, two 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 2017:	**Held 14 times**

Other Committees

The Group 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 Group 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 2017:	**Held 4 times**

Conditions with Regard to Outside Directors and Outside Auditors

To strengthen the management oversight function, outsiders with high levels of management experience and knowledge have been appointed to serve on the Board of Directors, where outsiders comprise three of eight members, and on the Board of Auditors, where they comprise two of three members.

Of the three outside directors, we have notified the Tokyo Stock Exchange that two are independent directors. The two independent outside directors serve on the Nominating Committee and Remuneration Committee—advisory bodies to the Board of Directors—where their independent, objective opinions ensure fair discussions.

→ See P38 for information on the composition of the Board of Directors and Board of Auditors

Rationale for Nominating Outside Directors

Name	Nomination Rationale
Atsushi Nishijo	Given his experience at a trading company and his deep insight as a manager, we believe Mr. Nishijo will be able to take an objective, long-term perspective in providing advice and exercising management oversight for the benefit of stakeholders.
Atsushi Yokoyama	Based on his wealth of experience and insight regarding the restaurant and media industries, we believe Mr. Yokoyama will be able to provide advice and exercise management oversight concerning production and distribution employing internal infrastructure, and sales, advertising, and other matters, as well.
Fumio Tahara	Based on his wealth of experience and insight concerning the Japanese Ministry of Agriculture, Forestry and Fisheries and industry organizations, we believe Mr. Tahara will be able to take an objective, long-term perspective in providing advice and exercising management oversight regarding Skylark's business strategies.

→ See P37 for information on Independent Executives' Liaison Committee meetings.

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.

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 experience in various companies and organizations including ones associated with 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.

In addition, once a year we have an attorney lead a seminar that addresses Japan's Corporate Governance Code, and the latest developments in corporate governance and the legal and regulatory environment, for the Chairman, President, and Chief Executive Officer and directors with responsibilities for administrative matters.

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.

Category		Total Remuneration by Type (Million yen)					Eligible Officers (Individuals)
	Total Remuneration (Million yen)	Basic remuneration	Stock options (Note 3)	Bonus (Note 4)	Retirement bonus	Other (Notes 5, 6)	
Directors (Excluding outside directors) (Notes 1, 2)	465	150	15	2	-	298	3
Auditors (Excluding outside auditors) (Notes 1, 2)	14	14	-	-	-	-	1
Outside officers	42	42	-	-	-	-	6

(Note 1) The amount of director remuneration is based on the amount recorded as an expense (includes amounts expensed based on estimates for accounting purposes. Same applies below.) for the fiscal year under review, regardless of whether payment was made during the fiscal year under review. Amounts recorded for the fiscal year under review, therefore, may differ from amounts actually paid.
(Note 2) As of the end of the fiscal year under review, there were six directors and four auditors. Among the eight directors and four auditors (including two directors who resigned during the fiscal year under review) appointed during the fiscal year under review, two directors were serving in their positions without remuneration.
(Note 3) The amount shown for "Stock Options" is the amount recorded as an expense for the fiscal year under review for stock options granted to two directors.
(Note 4) The amount shown for "Bonus" is the difference between the amount recorded for bonus-related expenses for the previous fiscal year and actual bonus payments.
(Note 5) Skylark has entered into Cash-Settled Appreciation Right Agreements (Referred to as "SAR agreements" in "(1) Corporate Governance" below) with three directors. As used here, a cash-settled appreciation right is the right to receive a certain amount of cash linked to the fair market price of the Company's shares in the event that certain conditions, such as a public offering or secondary distribution for money, are met in regard to shares representing over half of voting rights. Of the amount shown for "Other," ¥238 million was recorded as an expense for the fiscal year under review mainly for amounts related to remuneration the Company is obligated to pay based on SAR agreements.
(Note 6) Skylark has entered into a Deferred Compensation Agreement (Referred to as the "new DC agreement" in "(1) Corporate Governace" below) with one director. This agreement gives the director the right to receive a certain amount of money according to a schedule established in the agreement. Of the amount shown for "Other," ¥60 million was recorded as an expense for the fiscal year under review for remuneration the Company is obligated to pay based on the new DC agreement.

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 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 2017, management and the IR Department conducted a total of 280 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.

Risk Management

Basic Approach

The Company has enacted Group 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.

Important Business Risks and Control Measures

Food-Related Accidents

To avoid not only food poisoning due to bacterial or viral contamination but also accidents due to contamination by foreign objects and allergic reactions, we have established quality and hygiene management standards, which we strictly follow as a matter of basic policy to address foreseeable risks for all stages from food procurement to processing, distribution, and serving.

Strict Enforcement of Handwashing and Health Management For Commissary Kitchen Employees

To help eliminate the possibility that viruses or bacteria could be brought into our commissary kitchens on the hands of employees, we require that employees practice a 100-second handwashing routine. Handwashing is monitored 24 hours a day and employees are regularly reminded to practice the routine correctly.

Strict Internal Inspections and Regular Spot Tests by Quality Management Groups

We design processes to enable the provision of safe products and confirm that each of these processes is being properly performed. Our eight internal testing labs use spot test results to monitor conditions with regard to ingredients, commissary kitchen processing, and restaurant operations, and provide guidance as needed.

Strict Norovirus Prevention and Control Measures

Toilets and kitchens, which are in frequent use, are disinfected regularly, on a daily basis. In addition, employees are tested for the presence of norovirus at work premises and are permitted to engage in work only if the results of highly sensitive tests confirm that they are free of norovirus.

Labor Management

With diversification in types of employment and conditions facing employees having changed significantly, keeping outstanding people over the long term means that employment terms must be continuously adjusted. Skylark, therefore, strives to enhance its labor management system, create comfortable work environments, and take other steps to provide attractive working conditions that enable all of our employees to work in good health and good spirits.

Initiatives for Strengthening the Labor Management System

To strengthen the labor management system, members of top management attend every labor meeting to better understand employees' concerns and help ensure that the labor management system is properly improved. In addition, we have created a system for acting on the reviews and improvement suggestions regularly submitted by the labor union.

Stratified training is conducted on an ongoing basis to elevate employees' skills and increase their job satisfaction, and leads to lower turnover and better work environments.

Promoting Days Off to Improve Work-Life Balance

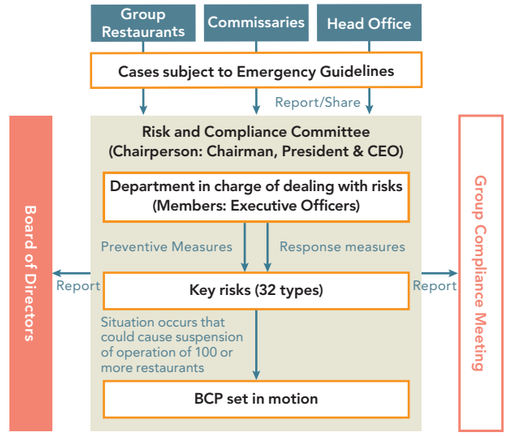
To enhance work-life balance, we have increased the number of annual days off to 117 from 108. At the same time, we have extended the number of consecutive days off, encouraging employees to take to seven per half year from five. And the number of employees taking days off is rising year by year. To help improve working conditions, we reduced late-night operating hours at approximately 520 stores in 2017. Our aim in taking measures such as these is to create work environments that encourage people to stay with us over the long term.

Risk Management Structure

The Group Risk and Compliance Committee, which is chaired by the Chairman, President and CEO and is composed of all executive officers, is responsible for risk management for the Group as a whole. The Group Risk and Compliance Committee conducted an integrated investigation of various risks and identified 32 key risks (as of December 2017) 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.

In 2017, meetings of the Group Risk and Compliance Committee were convened four times to review circumstances surrounding internal emergencies. Details of these discussions were shared with outside officers to ensure transparency in our 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 as Emergency Guidelines within the Group 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.

The Group Business Continuity Plan Regulations have been established to define the Group's emergency response system, and clarify details concerning initial responses and prioritization of business operations.

Five Basic Policies of the Group Business Continuity Plan Regulations

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;
5. Review the response after emergency conditions have ended to prevent a recurrence

Skylark Group Helpline

The Skylark Group Helpline has been established to encourage employees to take notice of the early signs of potential food-related accidents, labor problems, and other types of key risks, so that they can be addressed early on. This system has been set up to receive reports from inside and outside the Company.

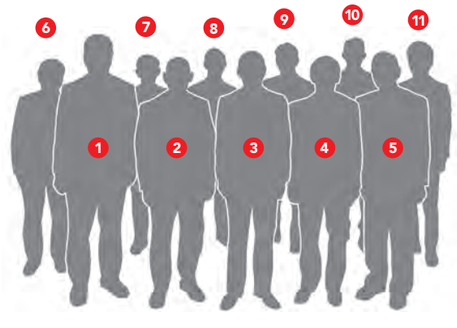
To make it easier for individuals to report their concerns, report reception has been delegated to an external company specializing in this work. To date, reports have been received from both employees and people working for suppliers. Reports and consultations received so far have concerned various matters and have helped to prevent problems and improve operations.

To ensure that reports to the helpline are investigated and acted upon, the helpline system provides information on report contents directly to the auditors. Regarding the resolution of matters reported to the helpline, summaries of reported matters and their resolution are regularly shared with the directors and auditors, after the protection of the reporting individuals is ensured, and the Group Risk Compliance Committee is provided with an annual report on helpline matters. Sharing helpline-related information in these ways is intended to enhance system transparency.

Board Members and Executive Officers

(as of July 1, 2018)





1. Haruyoshi Sakita
2. Atsushi Kitamura
3. Makoto Tani
4. Minoru Kanaya
5. Atsushi Nishijo
6. Mitsuhiro Nagata
7. Fumio Tahara
8. Atsushi Yokoyama
9. Yukihiro Wada
10. Makoto Suzuki
11. Tatsuya Aoyanagi

Makoto Tani

Chairman, 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
Sep. 2008	President and Chief Executive Officer and General Manager of Corporate Planning Division of former Skylark
Feb. 2011	President and Chief Executive Officer and General Manager of Merchandise Division of former Skylark
Jun. 2012	President and Chief Executive Officer of former Skylark 3*
Jul. 2014	President and Chief Executive Officer of the Company
April 2018	Chairman, 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.

Board of Directors meetings attended (2017)
14 of 14

Minoru Kanaya

Managing Corporate Director and Managing Officer / Managing Director of Corporate Support Division and 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 also served as Managing Director of Human Resources Headquarters from 2015, and appointed Managing Executive Officer in 2017. He took up his current post in March 2018.

Board of Directors meetings attended (2017)
Became a Director in 2018

Atsushi Kitamura

Corporate Director and Managing 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 in 2016, and Corporate Director in 2017. He took up his current position in 2018.

Board of Directors meetings attended (2017)
14 of 14

Yukihiro Wada

Corporate Director and Managing Officer Managing Director of Marketing Division

[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, Director and Head of Corporate Division of Alpen Co., Ltd., Director at Advantage Partners, Managing Partner & Japan Country Manager at Kurt Salmon, and President and CEO of Interbrand Japan Co., Ltd., Head of Industry Strategy and Chief Analytics Officer at Google Japan Inc., and President and CEO of Shaddy Co., Ltd. In 2016, he became an Independent Outside Director of the Company, and currently holds this post since July 2018.

Board of Directors meetings attended (2017)
14 of 14

Haruyoshi Sakita

Corporate Director and Executive Officer President of Skylark Restaurants Co., Ltd.

[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. Then, he concurrently has served as Executive Officer of the Company and President & CEO of Skylark Restaurants Co., Ltd. since 2015. He assumed the post of Managing Director of Marketing Division of the Company in 2017. Then he has served in current position since March, 2018.

Board of Directors meetings attended (2017)
Became a Director in 2018

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.

Board of Directors meetings attended (2017)
14 of 14

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 currently serves as Representative Director of The PMA Group, Inc. and Outside Director of D.A. Consortium Holdings. He became an Outside Director of the Company in 2015 and currently serves in this post.

Board of Directors meetings attended (2017)
14 of 14

Fumio Tahara

Outside Director

[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

Board of Directors meetings attended (2017)
Became a Director in 2018

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 a full-time Auditor in 2011 and currently serves in this post.

Board of Directors and Board of Auditors meetings attended (2017)
14 of 14 14 of 14

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.

Board of Directors and Board of Auditors meetings attended (2017)
14 of 14 14 of 14

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.

Board of Directors and Board of Auditors meetings attended (2017)
10 of 10 11 of 11

Toshiaki Aihara

Executive Officer / Managing Director of the 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.

Nobuyuki Katayama

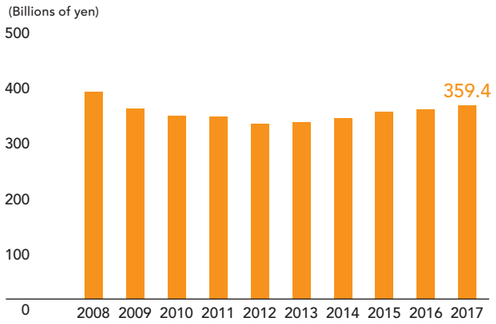
Executive Officer / Managing Director of Supply Chain Purchasing Division

[Career Summary]

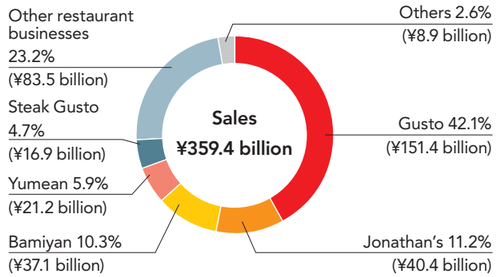
Entered Jonas Co., Ltd. in 1982 (Formerly Jonathan's Co., Ltd. Merged with the Company in January 2012.) Served as Division Manager, Manager of Akishima Distribution Center, and in other positions. Joined the Company in 2004 and, after serving as General Manager and Deputy Managing Director of the Supply Chain Purchasing Division, took up his current post in October 2017.

Financial[1] & Non-financial Highlights

Consolidated Net Sales[2]

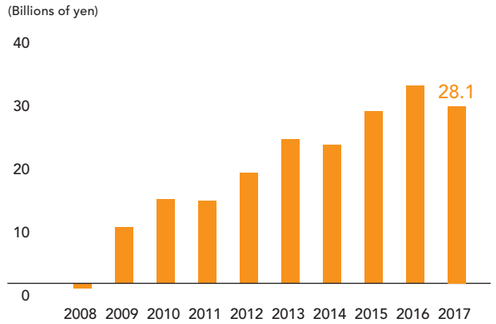


Ratio of Sales by Brand

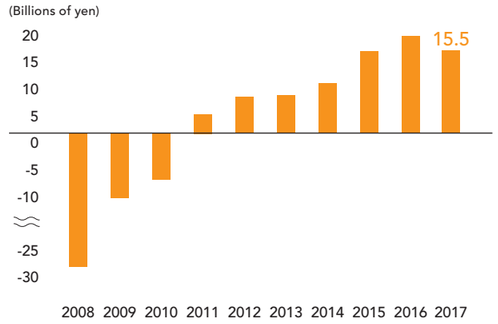


The fiscal year ended December 31, 2017 was a year in which external environment and consumption trends posed significant challenges. Nevertheless, with store remodelings and menu changes focused on meeting customer needs, sales moved steadily higher. Adding to these existing-store strategies, the store opening strategy we began to accelerate in 2017 – one that draws on our diversified brand portfolio – has proven successful. Consolidated revenue for the year was up 1.4% compared to the previous fiscal year.

Operating Profit

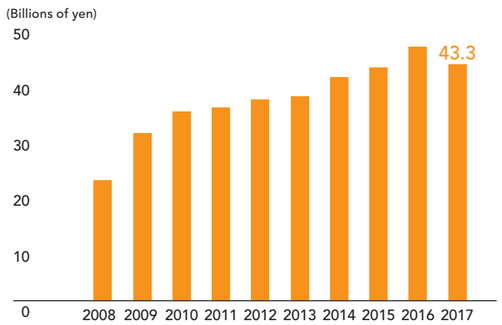


Net Income



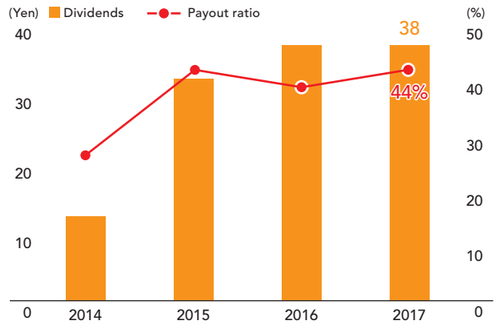
During the fiscal year ended December 31, 2017, we focused on increasing revenues, achieving continuous cost reductions, and optimizing costs. Our efforts, however, did not result in higher operating profit or net income compared to the previous year. The primary reasons for this included a reduction in coupon distribution as reforms of existing stores were advanced in the fourth quarter, higher personnel costs for part-timers, and an increase in the provision for shareholder benefit program. The profit margin, however, remained among the best in the industry.

Adjusted EBITDA[3]



As described earlier, earnings did not surpass the previous fiscal year's result, but were still at a comparable level.

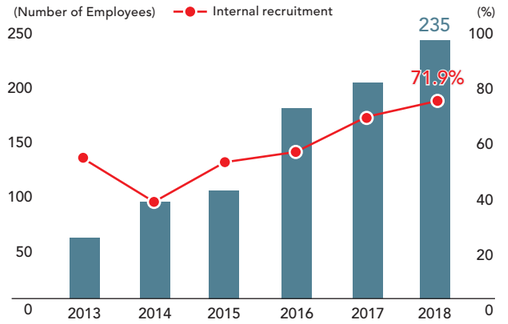
Dividend per Share[4], Payout Ratio



Based on the Group's strong performance, the per-share dividend for the fiscal year ended December 31, 2017 was maintained at 38 yen. The dividend payout ratio remained stable, at a level exceeding the targeted 40%.

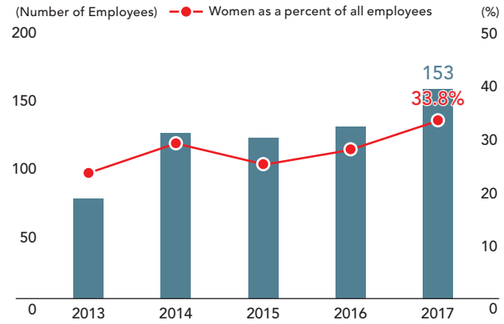
Notes: 1. Up to 2011, prepared based on Japanese generally accepted accounting principles (J-GAAP). From 2012, prepared based on International Financial Reporting Standards (IFRS). 2. Sales do not include consumption tax. 3. Adjusted EBITDA = EBITDA + Loss on disposal of fixed assets + Impairment loss 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.

Hiring of New Graduates



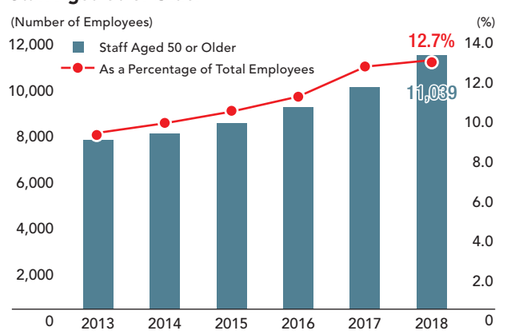
With the accelerated store openings we embarked upon in 2017, we have begun to actively search for management candidates. In our search, we are also considering outstanding, experienced part-time employees. Internal recruiting seminars we hold for eligible part-timers, even those who have not expressed an interest in becoming full-time employees, are becoming more popular by the year and are helping to expand our internal recruitment efforts.

Hiring of Women



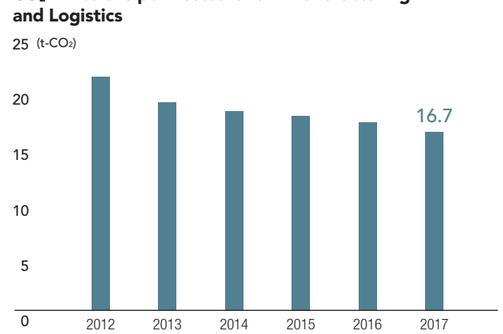
Guarantees that employees will not be transferred to distant locations and other human resource policies aimed at accommodating diverse work styles and reduction of late-night operating hours and other measures for improving working conditions are helping us to hire more women as a percent of total hires. Fulfilling the conditions set by Japan's Ministry of Health, Labour and Welfare for displaying the Kurumin mark, which shows that we are a company with policies that support employees with children, and Tomonin mark, which indicates that we have policies supporting employees with work- and care-related responsibilities, has contributed to our efforts to create work environments that are friendly to women.

Staff Aged 50 or Older



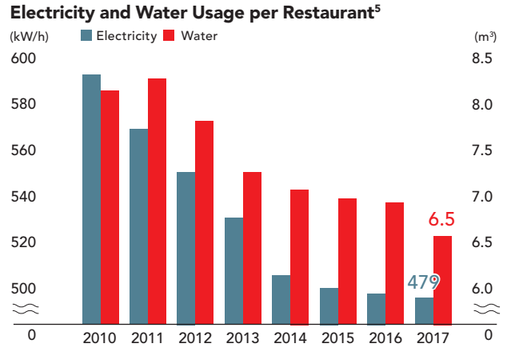
Staff members aged 50 or older make up a growing percentage of our total workforce of approximately 100,000 people. In light of demographic changes and the large number of seniors who remain active participants in society, we have extended the age for mandatory retirement to 65 and have implemented a rehiring system that allows employees to continue working until age 70. These measures are part of our efforts to create work environments accommodating people who want to extend their working lives.

CO_2 Emissions per Restaurant in Manufacturing and Logistics



To help reduce CO_2 emissions, the Skylark Group manages energy consumption at stores, has concentrated some food preparation tasks in commissary kitchens, and has implemented measures for managing energy used in distribution. The vertically integrated supply chain we have developed while expanding the number of stores we operate has lowered our per-store CO_2 emissions associated with production and distribution by over 20% over the most recent six years.

Electricity and Water Usage per Restaurant[5]



The Skylark Group is adopting the use of LED lighting fixtures and has gotten employees to embrace energy- and water-saving measures, redoubled efforts to ensure that building fixtures are in proper working order, and installed the latest energy-saving equipment. During the eight years beginning with 2010, we reduced our per-store consumption of electricity and water by approximately 20%.

5. Figures are per restaurant excluding the Group company restaurants of NILAX Inc., FLO JAPON, Tomato and Associates Co., Ltd. and Taiwan Skylark Co., Ltd.

Company Information/Shareholder Data

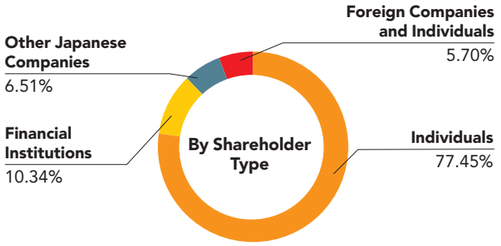
Basic Information

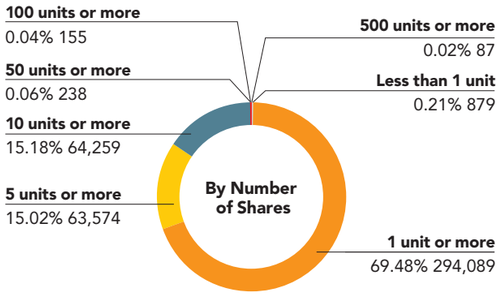
Company Name	Skylark Holdings Co., Ltd.
Founded	April 4, 1962
Representative	Makoto Tani Chairman, President and Chief Executive Officer
Capital	¥2,663 million
Number of Employees (As of March 31, 2018)	Full-time: 6,153 (Non-consolidated: 567) Part-time: 97,977
Business Activities	Food services and related business
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 June 30, 2018)

Common Stock Authorized	600,000,000 shares
Issued shares	197,083,700
Number of Shareholders	423,281

Composition of Shareholders





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.

Any plan, estimate, projection, forecast or other forward-looking information in this integrated report represents no more than the judgement or opinion of the Company at the time of its preparation, and the Company's actual business results, financial position or other results may differ materially from the content contained in or surmised from this integrated report for reasons including, but not limited to, changes in economic conditions, shifts in customer preferences, changes in the market environment and competition with other companies, fluctuations in foreign currency exchange, and difficulties in procurement or sudden increases in prices of ingredients or indirect materials.

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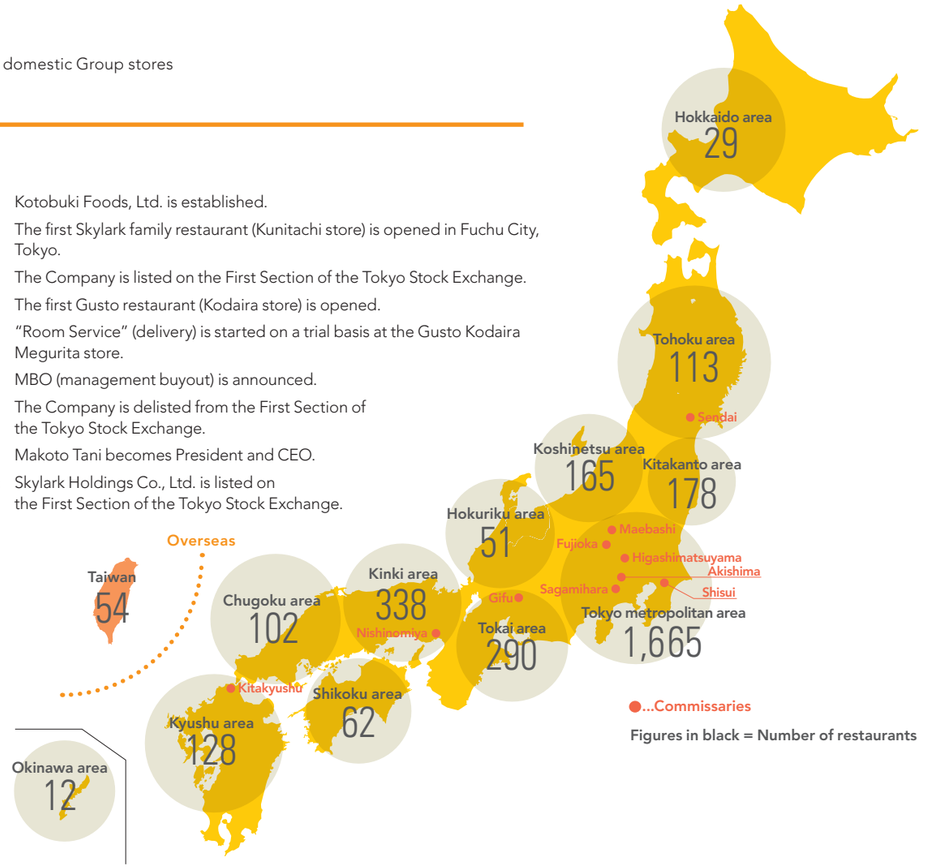
Number of Stores (as of June 30, 2018)

3,187

* Including 3,133 domestic Group stores

History

April 1962:	Kotobuki Foods, Ltd. is established.
July 1970:	The first Skylark family restaurant (Kunitachi store) is opened in Fuchu City, Tokyo.
June 1984:	The Company is listed on the First Section of the Tokyo Stock Exchange.
March 1992:	The first Gusto restaurant (Kodaira store) is opened.
June 1998:	"Room Service" (delivery) is started on a trial basis at the Gusto Kodaira Megurita store.
June 2006:	MBO (management buyout) is announced.
September 2006:	The Company is delisted from the First Section of the Tokyo Stock Exchange.
August 2008:	Makoto Tani becomes President and CEO.
October 2014:	Skylark Holdings Co., Ltd. is listed on the First Section of the Tokyo Stock Exchange.



Western

Café レストラン ガスト

Jonathan's COFFEE & RESTAURANT

Specialty Restaurants

Chinese: バーミヤン, ばーみやん厨

Quick Service Restaurants: クイックレストラン ガスト

Steak: STEAK ステーキガスト

Pork Cutlets, Deep-fried Chicken: とんかつ かつ久, とんから亭, 鶏から揚げ専門店 から好し

Syabu-Syabu: しゃぶ葉

Japanese: 夢庵, 藍屋, いろどり和菜 みわみ, ゆめあん食堂

Italian: グラッチェガーデンズ

Sushi: 魚屋路

Japanese café: 和風カフェ chawan, むさしの森珈琲

Hawaiian: La Chana

Yakiniku: じゅうじゅうカルビ Jyu-Jyu Karubi

Hamburger Steak: Variety Dining House TOMATO & ONION

Confectioner and Deli: FLO

Buffet: GRAND BUFFET, PARADISE PARAGENO, Blue EX, Festa Garden, Buffet Forest

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https://www.skylark.co.jp/company_e/









