Consolidated Financial Report
For the Fiscal Year Ended December 31, 2017 (IFRS)

February 14, 2018

Company Name	SKYLARK CO., LTD	Stock Exchange Listing: Tokyo Stock Exchange, 1st Section
Securities Code	3197	URL http://www.skylark.co.jp
Representative	Makoto Tani, President and Chief Executive Officer	
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Date of general shareholders' meeting (as planned)	March 29, 2018
Dividends payable date (as planned)	March 15, 2018
Annual securities report filing date (as planned)	March 30, 2018
Supplemental material of annual results	Yes
Convening briefing of annual results	Yes (for financial analysts and institutional investors)

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

1. Consolidated Financial Results for the Fiscal Year Ended December 31, 2017

(1) Consolidated Operating Results (Percentages represent year-on-year changes)

	Revenue		Operating profit		Income before income taxes		Net income		Net income attributable to owners of the Company		Total comprehensive income	
	(Millions of yen)	(%)	(Millions of yen)	(%)	(Millions of yen)	(%)	(Millions of yen)	(%)	(Millions of yen)	(%)	(Millions of yen)	(%)
Fiscal year ended December 31, 2017	359,445	1.4	28,103	(10.1)	25,515	(11.9)	16,926	(7.1)	16,926	(7.1)	17,482	(4.7)
Fiscal year ended December 31, 2016	354,513	1.0	31,249	12.4	28,952	17.1	18,216	20.5	18,213	20.5	18,345	30.8

	Basic earnings per share	Diluted earnings per share	Ratio of net income to equity attributable to owners of the Company	Ratio of income before income taxes to total assets	Ratio of operating profit to revenue
	(Yen)	(Yen)	(%)	(%)	(%)
Fiscal year ended December 31, 2017	86.40	85.95	14.1	8.0	7.8
Fiscal year ended December 31, 2016	93.57	92.80	16.8	9.1	8.8

(Reference)

Profit of investments accounted for using the equity method	Fiscal year ended December 31, 2017	－ million yen		Fiscal year ended December 31, 2016	－ million yen	
EBITDA	Fiscal year ended December 31, 2017	41,835 million yen	(-9.0%)	Fiscal year ended December 31, 2016	45,997 million yen	(11.1%)
Adjusted EBITDA	Fiscal year ended December 31, 2017	43,283 million yen	(-9.6%)	Fiscal year ended December 31, 2016	47,890 million yen	(6.8%)
Adjusted net income	Fiscal year ended December 31, 2017	16,942 million yen	(-7.0%)	Fiscal year ended December 31, 2016	18,216 million yen	(13.5%)

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

(2) Consolidated Financial Position

	Total assets	Total equity	Equity attributable to owners of the Company	Ratio of equity attributable to owners of the Company to total assets	Equity per share attributable to owners of the Company
	(Millions of yen)	(Millions of yen)	(Millions of yen)	(%)	(Yen)
As of December 31, 2017	319,065	125,409	125,409	39.3	636.85
As of December 31, 2016	318,317	114,198	114,198	35.9	586.13

(3) Consolidated Cash Flows

	Operating activities	Investing activities	Financing activities	Cash and cash equivalents at the end of the year
	(Millions of yen)	(Millions of yen)	(Millions of yen)	(Millions of yen)
Fiscal year ended December 31, 2017	31,510	(19,606)	(13,078)	15,094
Fiscal year ended December 31, 2016	36,029	(16,662)	(21,344)	16,222

2. Dividends

	Dividends per share					Total dividends	Payout ratio (Consolidated)	Ratio of dividends to equity attributable to owners of the Company (Consolidated)
	First quarter	Second quarter	Third quarter	Year-end	Total			
	(Yen)	(Yen)	(Yen)	(Yen)	(Yen)	(Millions of yen)	(%)	(%)
Fiscal year ended December 31, 2016	―	15.00	―	23.00	38.00	7,401	40.6	6.8
Fiscal year ended December 31, 2017	―	16.00	―	22.00	38.00	7,471	44.0	6.2
Fiscal year ending December 31, 2018 (Forecasted)	―	16.00	―	22.00	38.00		43.5	

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

(Percentages represent year-on-year changes)

	Revenue		Operating profit		Income before income taxes		Net income attributable to owners of the Company		Basic earnings per share
	(Millions of yen)	(%)	(Millions of yen)	(%)	(Millions of yen)	(%)	(Millions of yen)	(%)	(Yen)
Fiscal year ending December 31, 2018	373,800	4.0	28,700	2.1	26,000	1.9	17,200	1.6	87.34

(Reference)

Adjusted EBITDA	Fiscal year ending December 31, 2018 (Forecasted)	44,800million yen	(3.5%)
Adjusted net income	Fiscal year ending December 31, 2018 (Forecasted)	17,200million yen	(1.5%)

*** Notes**

(1) Changes in status of significant subsidiaries during the period (changes in specified subsidiaries accompanying changes in scope of consolidation): No

Number of subsidiaries newly consolidated: -

Number of subsidiaries excluded from consolidation: -

(2) Changes in accounting policies and accounting estimates

(i) Changes in accounting policies required by IFRSs: Yes

(ii) Changes in accounting policies other than those in (i): No

(iii) Changes in accounting estimates: No

(3) Number of issued shares (common stock)

(i) Number of issued shares (including treasury stock)	As of December 31, 2017	196,922,200	As of December 31, 2016	194,834,000
(ii) Number of treasury stock	As of December 31, 2017	–	As of December 31, 2016	–
(iii) Average number of issued shares during the period	Fiscal year ended December 31, 2017	195,914,812	Fiscal year ended December 31, 2016	194,659,498

* This financial report is not subject to audit procedures.

* Notes for using forecasted information and other matters

(1) The Group has adopted International Financial Reporting Standards (IFRSs).

(2) The forecasts above are based on information available at the date of this report and certain assumptions deemed to be reasonable. The Company does not provide any assurance as to achievement of these forecasts. In addition, the actual results may vary materially from the forecasts due to various uncertainties. Refer to page 6 of Appendix "1. Overview of Consolidated Operating Results etc. (4) Forecasts for the Next Fiscal Year" for further details and disclaimer regarding the use of the forecasts and certain assumptions used in developing them.

(3) Refer to page 2 of Appendix "1. Overview of Consolidated Operating Results etc. (1) Overview of Consolidated Operating Results for the Current Fiscal Year" for the details of EBITDA, adjusted EBITDA and adjusted net income.

(4) EBITDA, adjusted EBITDA and adjusted net income are not measures prescribed in accordance with IFRS but are financial measures that the Group believes are useful for investors to assess the operating results of our business. These measures exclude the effect of items which we consider not to be indicative of the results of our normal operations or comparable to our competitors' operating results, such as non-cash or cost items not expected to recur following the listing, including the advisory fees in accordance with the BCPL management agreement, IPO and public offering-related expenses, loss on redemption of borrowings before the repayment date and gain and loss from associated hedge transactions and amount associated with the change in accounting estimates due to qualified listing. (The BCPL management agreement was terminated upon the Company's listing in accordance with the amendment to the agreement dated July 17, 2014.)

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

(Appendix)

1. Overview of Consolidated Operating Results etc.

(1) Overview of Consolidated Operating Results for the Current Fiscal Year

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

In February 2017, the Company announced the mid-term business plan for the three-year period from 2017 to 2019 (“the Plan”), which aimed to achieve an increase in annual growth rates in sales of 3~4%, operating profit of 6~8%, adjusted EBITDA of 6~10%, and adjusted net income of approximately 10%.

The main two strategies were 1) growth by utilizing and expanding existing platforms (strengthening profitability of our existing restaurants, opening new restaurants and optimizing costs) and 2) development of new growth drivers (operating business overseas and M&A) and we are positioned to develop and expand the family restaurants business under unstable economic conditions to improve corporate value.

As an initiative in 2017, we worked on measures to achieve sustainable growth at existing restaurants, opened new restaurants, developed new brands and optimized costs.

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

・By using the Company's vertically integrated platform (Note1), we have actively pursued the development of products meeting customer needs that can also be served safely at affordable prices.
First, in response to the consumption trend referred to as “intangible consumption,” we have introduced various products and promotions to offer our customers attractive in-store experiences. *Gusto* developed and added a dish to the mainstay menu, whereby customers themselves can cook meat on a tabletop mini stove and enjoy a live experience. *Gusto* also offered high quality and affordably priced Roast Chicken, suitable for the party and banquet demands towards the year-end.
With the Japanese brands *Yumean* and *Aiya*, we are in the process of converting store designs to introduce private rooms, so that customers can enjoy banquet and party events in an open comfortable atmosphere. In addition, a new banquet menu was released with various combinations of price settings and selections catering to the specific occasion.
We have been also pursuing the enhancement of the Grand Menu by increasing the menu selections within the main price range of each brand and adding offerings to match customer preferences, with the aim to entice repeat guests to try different dishes. In October 2017, while prices were revised within our main brands, we are able to achieve targeted revenue expectations.

・We remodeled (Note 2) our restaurants to provide more comfortable ambiance to our customers by converting dated designs to current styles, modifying table layouts in response to shifts in customer headcount within each guest group, enhancing separation of smoking versus non-smoking sections, and adjusting to banquet and party demands.
The Company has also converted the brands in an effort to respond to changes in customer preferences, local demographics and market conditions in order to further optimize the position of the respective brands.
The Company remodeled 295 restaurants and converted the brands of 25 restaurants to different concepts in 2017.

・We implemented “Customer Voice Program” (Note 3) to gather feedbacks and requests from our customers and have worked on improving service quality at our restaurants. In addition, we are continuously working on improving store operations and productivity. For instance, we introduced a store management system with tablet terminals, which accelerate employee’s proficiency by understanding the operations visually.

・We have implemented highly successful measures by utilizing digital tools, such as offering mobile apps, and analyzing our big data for menu development, creation of a sales promotion plan and planning opening of new restaurants. Also, by 2018 we plan to introduce an app for the entire Skylark group. By taking advantage of our multi-brand portfolio, we will be able to offer useful information aligned with customer needs with respect to each brand. We anticipate this effort will drastically improve customer traffic at our various brand restaurants.

・The Company achieved 8.8% of sales growth in the delivery service business compared to the same period in the previous year by flexibly responding to new customer demands such as aging society and increasing women's participation into the workplace. Delivery service will continue to be a growth driver in 2018, and we will proceed to make investments in order to improve productivity and to shorten delivery time.

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

・The opening of new restaurants is a core initiative of the mid-term business plan, and during 2017, 97 new restaurants were opened according to plan (approximately 100 restaurants per the mid-term business plan.)
Domestically, the Company opened 12 *Gusto* restaurants, 31 *Syabu-yo* restaurants, 12 *Tonkara-tei*, 8 *chawan* restaurants and 4 *MUSASHI NO MORI COFFEE*, etc. by selecting the most suitable brands for locations such as station-front sites in urban areas, roadside locations, and shopping centers. In Taiwan, the Company opened 6 restaurants including 5 *Syabu-yo* restaurants, which is a rapidly growing brand in Japan.

・We are working on developing new brands under three strategies in response to "intangible consumption," roadside locations in suburban areas and shopping centers, and limited space surrounding train stations. We have opened 12 *MUSASHI NO MORI COFFEE* locations where customers can relax in a modern and tranquil atmosphere (4 new restaurants, 8 brand conversions). There are plans to further expand the number of shops in 2018. In addition, we opened a pilot Hawaiian brand restaurant *La Ohana Yokohama Honmoku*. The opening of this restaurant was widely covered in the press, and based on the experience gained through this pilot-shop, we plan to open a second restaurant that can better meet customer needs and achieve improved profitability.

・As a suburban style brand, 14 locations of the *Tonkara-tei*, specializing in pork cutlets and fried chicken, were opened (12 new openings, 2 brand conversion). In addition, we developed and opened *Karayoshi* restaurants, specializing in fried chicken. In 2018, the features and profitability of both brands will be reviewed in order to achieve optimal expansion. Further, we opened 8 *chawan* restaurants in shopping centers. We will also continue to open new restaurants under this brand in 2018.
With regards to store openings in downtown and train-station surrounding areas, we are currently expanding *Gusto* and *Shabu-yo* by taking over existing Japanese style Izakaya pubs. We are also developing brands suited for operation under limited floor-space, such as the *Yumean-Shokudo* and *Bamiyan-Ken*, which are smaller scale versions of our specialty brands. By leveraging our brand popularity and vertically integrated platform, we are in pursuit of developing high-quality and utility brands that also accommodate the customer's thirst for drink menu items.

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

・In an effort to control costs, the Company continuously optimized purchasing, processing and distribution. In order to further improve our supply chain efficiency, we integrated the delivery to *Syabu-yo* restaurants, which was delivered by its original route, into the delivery routes of existing brands, resulting in reduction of delivery cost in the whole group.
In 2017, cost of sales as a percent of sales was 30.1%, which was an increase of 0.1% compared to the previous year due to the strategic sales promotion for high-value menus.
In 2018, we will continue with our initiatives to reduce costs, curtail staff workload, expand menu selections without burdening operations, increase factory processed items to stabilize quality, and extend company-operated distribution.

・For general expenses, labor costs increased due to the increases in minimum wages and salaries for our regular employees,which were partially offset by the cross-divisional project to reduce the indirect costs. As a result, the ratio of selling,general and administrative expenses to revenue was 61.7%, which was an increase of 1.0% compared to the same period in the previous year.
As labor costs are expected to remain high due to continuously rising costs and difficulty in staff recruitment, multi-faceted measures are considered necessary. However, we consider that reducing workload at the restaurant site and creating an employee friendly working environment will lead to improvement in productivity and staff recruitment, ultimately resulting in the mitigation of rising labor costs. In 2017, as a part of "work-style reforms," we have significantly reduced late-night working hours at 581 restaurants, and as a result, overtime hours have declined. While revenue has dropped by 1% due to reduction of late-night working hours, impact on profit was limited as such late-night

hours were inherently low in profitability.

Based on the above, the Company achieved revenue of 359,445 million yen (an increase of 4,932 million yen compared to the previous year), operating profit of 28,103 million yen (a decrease of 3,146 million yen compared to the previous year), income before income taxes of 25,515 million yen (a decrease of 3,437 million yen compared to the previous year), and net income attributable to owners of the Company of 16,926 million yen (a decrease of 1,287 million yen compared to the previous year) for the fiscal year ended December 31, 2017.

EBITDA (Note 4) was 41,835 million yen (a decrease of 4,162 million yen compared to the previous year), adjusted EBITDA (Note 5) was 43,283 million yen (a decrease of 4,607 million yen and adjusted net income (Note 6) was 16,942 million yen (a decrease of 1,274 million yen compared to the previous year). In addition, the number of restaurants was 3,145(3,068 as of January 1, 2017), including 1 restaurant which is unopened for future conversion of the brands, as of the fiscal year ended December 31, 2017.

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

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

(Note 3) Customer Voice Program is a customer survey. All responses are addressed with sincerity from the headquarters to each restaurant, and are utilized to develop and improve our services.

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

・Other financial expenses are disclosed as "Other expenses" in the Consolidated Statements of Income.

・Other financial income is the amount of "Other income" in the Consolidated Statements of Income from which gain on lapse of statute of limitation of other payables is deducted. During the period from the 3rd term to the 5th term and the 7th term, the amount of "Other income" in the Consolidated Statements of Income equals the amount of other financial income.

(Note 5) Adjusted EBITDA = EBITDA + Loss on disposal of fixed assets + Impairment loss of non-financial assets − Reversal of impairment loss of non-financial assets + Advisory fees in accordance with the BCPL management agreement (including periodic payments) + IPO and public offering-related expenses (including special bonus for initial public offering) + Amount associated with the change in accounting estimates due to qualified listing

(Note 6) Adjusted net income = Net income + Advisory fees in accordance with the BCPL management agreement (including periodic payments) + IPO and public offering-related expenses (including special bonus for initial public offering) + Loss on redemption of borrowings before the repayment date and gain and loss from associated hedge transactions + Amount associated with the change in accounting estimates due to qualified listing + Tax effects of adjustments

(Note 7) The BCPL management agreement represents the management agreement between the Company and Bain Capital Partners LLC. (The agreement was terminated upon the Company's listing in accordance with the amendment to the agreement dated July 17, 2014.)

(Note 8) IPO and public offering-related expenses are one-time expenses incurred at the time of IPO and public offering of the Company's share such as advisory fee and cost associated with purchase of mementoes, etc., which do not include the amount associated with the change in accounting estimates due to qualified listing as noted at (Note 9) below.

(Note 9) As a result of qualified listing (i.e. it refers to an event under which more than 50% of the Company's voting rights are offered to the public or sold for cash consideration following the submission of the registration statement required under the applicable Securities Act or the listing of the Company's stock at the security exchange in Japan), (1) all or a part of equity-settled share-based payments (the first, second and third stock option tranches) (collectively referred to as "SO") granted to the Company's directors and employees ("executives") became exercisable, (2) all or a part of cash-settled share option plans ("Stock Appreciation Right" or "SAR") under the Cash-Settled Stock Appreciation Right Agreement ("SAR agreement") which had been entered into between the Company and the Company's executives became exercisable, and (3) the Company incurred an obligation to pay certain monetary consideration ("DC") as determined in the Deferred Compensation Agreement ("DC agreement") to a counterparty of the DC agreement, which had been entered into between the Company and the Company's certain executives. Satisfaction of the terms and conditions of qualified listing has significant impact on accounting estimates used for SO, SAR and DC. Since the Company's share has satisfied the terms and conditions of qualified listing, it resulted in change in accounting estimates used for the accounting treatments. "Amount associated with the change in accounting estimates due to qualified listing" refers to the amount of the effect on the estimates used for the accounting treatments associated with the change in estimating the vesting period and the number of rights to be forfeited relevant to SO, SAR and DC.

(2) Overview of Consolidated Financial Position for the Current Fiscal Year

Analysis of assets, liabilities, and equity as of the fiscal year ended December 31, 2017 is summarized as follows:

Current assets amounted to 32,960 million yen, which was a decrease of 6,037 million yen mainly due to a decrease in inventories and other current assets compared to those as of the fiscal year ended December 31, 2016. Non-current assets amounted to 286,105 million yen, which was an increase of 6,785 million yen mainly due to an increase in property, plant and equipment and other intangible assets compared to those as of the fiscal year ended December 31, 2016.

Total assets amounted to 319,065 million yen, which was an increase of 748 million yen compared to those as of the fiscal year ended December 31, 2016.

Current liabilities amounted to 54,979 million yen, which was a decrease of 6,737 million yen mainly due to a decrease in other current liabilities and income tax payable compared to those as of the fiscal year ended December 31, 2016. Non-current liabilities amounted to 138,677 million yen, which was a decrease of 3,726 million yen mainly due to a decrease in long-term borrowings and other financial liabilities compared to those as of the fiscal year ended December 31, 2016.

Total liabilities amounted to 193,656 million yen, which was a decrease of 10,463 million yen compared to those as of the fiscal year ended December 31, 2016.

Equity amounted to 125,409 million yen, which was an increase of 11,211 million yen compared to the end of the previous fiscal year. This was primarily due to dividends paid of 7,619 million yen and an increase in net income of 16,926 million yen for the current period.

(3) Overview of Consolidated Cash Flows for the Current Fiscal Year

Cash and cash equivalents as of the fiscal year ended December 31, 2017 amounted to 15,094 million yen, which was a decrease of 1,128 million yen compared to those as of the fiscal year ended December 31, 2016. Conditions and factors for each category of cash flow for the fiscal year ended December 31, 2017 were as follows.

Cash flows from operating activities:

Net cash provided by operating activities was 31,510 million yen (a decrease of 4,519 million yen compared to the previous year). This was primarily due to a decrease in income before income taxes of 3,437 million yen and an increase in payments of income taxes of 1,876 million yen.

Cash flows from investing activities:

Net cash used in investing activities was 19,606 million yen (an increase of 2,944 million yen compared to the previous year). This was primarily due to an increase of 1,260 million yen in payments for acquisition of property, plant and equipment including investments in new, converted and remodeled restaurants, an increase of 473 million yen in payments for acquisition of intangible assets including the investments in IT and an increase of 648 million yen in payments of leased deposits and guarantee deposits. We normally make payments of cash and cash equivalents one or two months after an increase in assets from investigating activities.

Cash flows from financing activities:

Net cash used in financing activities was 13,078 million yen (a decrease of 8,266 million yen compared to the previous year).This was primarily due to proceeds from long-term borrowings of 7,000 million yen and a decrease of 1,165 million yen in repayments of lease obligations.

(Reference) Indexes Related to Cash Flows

	Fiscal Year Ended December 31, 2013	Fiscal Year Ended December 31, 2014	Fiscal Year Ended December 31, 2015	Fiscal Year Ended December 31, 2016	**Fiscal Year Ended December 31, 2017**
Ratio of equity attributable to owners of the Company to total assets (%)	24.1	30.0	32.8	35.9	**39.3**
Ratio of equity attributable to owners of the Company to total assets based on a fair value basis (%)	—	75.2	96.8	94.5	**98.9**
Net leverage ratio (multiple)	4.2	3.3	2.9	2.6	**2.8**
Interest coverage ratio (multiple)	4.2	7.5	14.3	22.5	**22.3**

(Note) Ratio of equity attributable to owners of the Company to total assets: Equity attributable to owners of the Company / Total assets

Ratio of equity attributable to owners of the Company to total assets based on a fair value basis: Total market value of the Company's shares / Total assets

Net leverage ratio: Net interest-bearing liabilities / Adjusted EBITDA

Interest coverage ratio: Cash flows from operating activities / Interest paid

* Each measure is calculated using financial figures on a consolidation basis (IFRSs).
* Total market value of the Company's shares is calculated using share price at the end of the period multiplied by the number of issued shares at the end of the period (after deducting treasury stock).
* Net interest-bearing liabilities are calculated by subtracting cash and deposits from the interest-bearing liabilities.
* The amounts of cash flows from operating activities and interest paid are obtained from "Cash flows from operating activities" and "Interest paid" on the consolidated statements of cash flows.

(4) Forecasts for the Next Fiscal Year

The Company expects to achieve revenue of 373,800 million yen (an increase of 14,355 million yen), operating profit of 28,700 million yen (an increase of 597 million yen), income before income taxes of 26,000 million yen (an increase of 485 million yen), net income attributable to owners of the Company of 17,200 million yen (an increase of 274 million yen), Adjusted EBITDA of 44,800 million yen (an increase of 1,517 million yen) and adjusted net income of 17,200 million yen (an increase of 258 million yen).

Currently, the world's economic environment is changing significantly, with the velocity of such change accelerating ever continuously. Under such uncertain circumstances, the important issues requiring management attention during the period from 2018 to 2020 expected to significantly affect our future growth are discussed below.

(i) Investment in Restaurants and Employees

As a result of accomplishing various reforms, we have built a strong and solid foundation for management with our operating profits remaining at very high levels.

In order to continuously maintain customer satisfaction in the future, we believe there is a need to return to basics of the restaurant business and invest in stores and employees. While sustaining our basic strategy of achieving sales and profit growth, we will continue to invest in customer pleasing restaurants and our valuable company employees.

It is crucial to offer customers the best experience at our restaurants in order build stores that are well received. In 2018, we will remodel approximately 200 restaurants to modern-day designs. In addition, we will further direct investment and spending towards facilities needing repairs, tableware, and employee uniforms etc. We believe that improving operating conditions at each individual restaurant will lead to customer satisfaction, and ultimately result in achievement of sustainable growth.

Our plan to accelerate new store openings during the period from 2017 through 2019, is also expected to result in approximately 100 stores in 2018, with continuous new store openings annually at a similar pace. Also, as the delivery market expands, we will focus on room service (home delivery service) more than ever. In the past, delivery service was mainly provided by Gusto. However, in order to gain maximum utility of the Company's strengths consisting of management resources of approximately 3,000 existing nationwide stores and multi-faceted business operations, we have plans for further growth through IT investment and mixed logistical system development.

(ii) Enhanced Productivity through IT investment and Improved Efficiency in Marketing Promotional Activities

In order to maintain continuous competitive advantage in the eating-out /restaurant market where competition has intensified more than ever, it is essential to improve store productivity by utilizing IT. In the latter half of 2018, we will completely reform the store's core systems for the first time in seven years. We strive to improve user-friendliness for customers and employee productivity through enhancements of customer orders receipt systems, automation of in-store order placement and inventory management systems, and upgrades diversified payment methods.

As for marketing promotional activities, in addition to conventional sales advertisements primarily relying on flyers, we will integrate our company's strengths in customer data analysis capabilities and IT digital promotion systems, in order to deliver customized information to each individual guest.

Moreover, through innovation of mobile apps for each brand such as *Gusto, Jonathan´s, Bamiyan* and *Syabu-yo*, and with the introduction of the multi-brand compatible "Skylark app" in the first quarter, more efficient and effective measures to attract customers will be implemented in order to achieve indigenous sales growth for existing stores.

Our corporate philosophy is "creating richness of life with value to society".

Now that we have taken the first steps towards a new start, we will return to the basics of management to realize our mission of "Offering great-tasting food at affordable prices with good service in our clean restaurants to as many people as possible" by striving to create enjoyable stores that will enrich the life of our customers.

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

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

Subject to the performance of our business and our capital needs, we aim to make dividend payments going forward twice yearly and maintain a total payout ratio of roughly 40% of our adjusted net income. Under this policy, we have declared dividends of 22.00 yen per share for the fiscal year ended December 31, 2017.

For the fiscal year ending December 31, 2018, an annual-dividend of 38.00 yen per share is planned (including an interim dividend of 16.00 yen per share), assuming achievement of the business forecast as discussed in page 6 of Appendix.

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

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

2. Basic Policy Regarding Selection of Accounting Standards

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

3. Consolidated Financial Statements and Notes

(1) Consolidated Statements of Financial Position

As of the Fiscal Years Ended December 31, 2016 and 2017 (Unaudited)

(Millions of yen)

	As of the fiscal year ended December 31, 2016	**As of the fiscal year ended December 31, 2017**
Assets		
Current assets		
Cash and cash equivalents	¥ 16,222	**¥ 15,094**
Trade and other receivables	7,885	**8,691**
Other financial assets	73	**340**
Inventories	6,465	**4,677**
Other current assets	8,352	**4,158**
Total current assets	38,997	**32,960**
Non-current assets		
Property, plant and equipment	96,692	**102,277**
Goodwill	146,171	**146,140**
Other intangible assets	2,503	**3,461**
Other financial assets	23,618	**24,318**
Deferred tax assets	9,415	**8,523**
Other non-current assets	921	**1,386**
Total non-current assets	279,320	**286,105**
Total assets	¥ 318,317	**¥ 319,065**
Liabilities and equity		
Liabilities		
Current liabilities		
Short-term borrowings	¥ 10,458	**¥ 10,957**
Trade and other payables	23,426	**25,264**
Other financial liabilities	3,796	**3,682**
Income tax payable	6,317	**1,904**
Provisions	235	**1,325**
Other current liabilities	17,484	**11,847**
Total current liabilities	61,716	**54,979**
Non-current liabilities		
Long-term borrowings	121,349	**118,267**
Other financial liabilities	6,165	**4,777**
Provisions	14,250	**14,820**
Other non-current liabilities	639	**813**
Total non-current liabilities	142,403	**138,677**
Total liabilities	204,119	**193,656**
Equity		
Share capital	2,670	**3,456**
Capital surplus	57,920	**56,470**
Other components of equity	(559)	**(8)**
Retained earnings	54,167	**65,491**
Equity attributable to owners of the Company	114,198	**125,409**
Total equity	114,198	**125,409**
Total liabilities and equity	¥ 318,317	**¥ 319,065**

(2) Consolidated Statements of Income

For the Fiscal Years Ended December 31, 2016 and 2017 (Unaudited)

(Millions of yen)

	For the fiscal year ended December 31, 2016	**For the fiscal year ended December 31, 2017**
Revenue	¥ 354,513	**¥ 359,445**
Cost of sales	(106,458)	**(108,293)**
Gross profit	248,055	**251,152**
Other operating income	672	**602**
Selling, general and administrative expenses	(215,219)	**(221,814)**
Other operating expenses	(2,259)	**(1,837)**
Operating profit	31,249	**28,103**
Interest income	21	**17**
Other income	454	**2**
Interest expense	(2,749)	**(2,500)**
Other expenses	(23)	**(107)**
Income before income taxes	28,952	**25,515**
Income taxes	(10,736)	**(8,589)**
Net income	¥ 18,216	**¥ 16,926**
Net income attributable to:		
Owners of the Company	¥ 18,213	**¥ 16,926**
Non-controlling interests	3	―
Net income	¥ 18,216	**¥ 16,926**
Earnings per share		
Basic (Yen)	¥ 93.57	**¥ 86.40**
Diluted (Yen)	92.80	**85.95**

(3) Consolidated Statements of Comprehensive Income
For the Fiscal Years Ended December 31, 2016 and 2017 (Unaudited)

(Millions of yen)

	For the fiscal year ended December 31, 2016	**For the fiscal year ended December 31, 2017**
Net income	¥ 18,216	**¥ 16,926**
Other comprehensive income		
Items that are not reclassified to profit or loss		
Financial assets measured at fair value through other comprehensive income	44	**63**
Remeasurements of the net defined benefit liability (asset)	(18)	**5**
Total items that are not reclassified to profit or loss	26	**68**
Items that may be reclassified to profit or loss		
Exchange differences on translation of foreign operations	(56)	**94**
Cash flow hedges	159	**394**
Total items that may be reclassified to profit or loss	103	**488**
Other comprehensive income, net of tax	129	**556**
Total comprehensive income	¥ 18,345	**¥ 17,482**
Comprehensive income attributable to:		
Owners of the Company	18,346	**17,482**
Non-controlling interests	(1)	**－**
Total comprehensive income	¥ 18,345	**¥ 17,482**

(4) Consolidated Statements of Changes in Equity

For the Fiscal Year Ended December 31, 2016

(Millions of yen)

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

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

(4) Consolidated Statements of Changes in Equity－Continued

For the Fiscal Year Ended December 31, 2017 (Unaudited)

(Millions of yen)

	Share capital	Capital surplus	Other components of equity				
			Financial assets measured at fair value through other comprehensive income	Remeasure-ments of the net defined benefit liability (asset)	Exchange differences on translation of foreign operations	Cash flow hedges	Total
As of January 1, 2017	**¥ 2,670**	**¥ 57,920**	**¥ 46**	**¥ －**	**¥ 273**	**¥ (878)**	**¥ (559)**
Net income	－	－	－	－	－	－	－
Other comprehensive income, net of tax	－	－	**63**	**5**	**94**	**394**	**556**
Total comprehensive income	－	－	**63**	**5**	**94**	**394**	**556**
Dividends	－	**(2,012)**	－	－	－	－	－
Exercise of stock options	**786**	**543**	－	－	－	－	－
Share-based payments	－	**19**	－	－	－	－	－
Transfer from other components of equity to retained earnings	－	－	**0**	**(5)**	－	－	**(5)**
Total contributions by and distributions to owners of the Company	**786**	**(1,450)**	**0**	**(5)**	－	－	**(5)**
Total transactions with owners of the Company	**786**	**(1,450)**	**0**	**(5)**	－	－	**(5)**
As of December 31, 2017	**¥ 3,456**	**¥ 56,470**	**¥109**	**¥ －**	**¥ 367**	**¥ (484)**	**¥ (8)**

	Retained earnings	Equity attributable to owners of the Company	Total equity
As of January 1, 2017	**¥ 54,167**	**¥ 114,198**	**¥ 114,198**
Net income	**16,926**	**16,926**	**16,926**
Other comprehensive income, net of tax	－	**556**	**556**
Total comprehensive income	**16,926**	**17,482**	**17,482**
Dividends	**(5,607)**	**(7,619)**	**(7,619)**
Exercise of stock options	－	**1,329**	**1,329**
Share-based payments	－	**19**	**19**
Transfer from other components of equity to retained earnings	**5**	－	－
Total contributions by and distributions to owners of the Company	**(5,602)**	**(6,271)**	**(6,271)**
Total transactions with owners of the Company	**(5,602)**	**(6,271)**	**(6,271)**
As of December 31, 2017	**¥ 65,491**	**¥ 125,409**	**¥ 125,409**

(5) Consolidated Statements of Cash Flows
For the Fiscal Years Ended December 31, 2016 and 2017 (Unaudited)

(Millions of yen)

	For the fiscal year ended December 31, 2016	**For the fiscal year ended December 31, 2017**
Cash flows from operating activities		
Income before income taxes	¥ 28,952	**¥ 25,515**
Adjustments for:		
Depreciation and amortization	13,984	**13,464**
Loss on impairment of non-financial assets	949	**720**
Loss on sale and disposal of fixed assets	976	**719**
Interest income	(21)	**(17)**
Other income	(454)	**(2)**
Interest expense	2,749	**2,500**
Other expenses	23	**107**
	47,158	**43,006**
Changes in working capital, etc.:		
Increase in trade and other receivables	(497)	**(787)**
Decrease (Increase) in inventories	(175)	**1,792**
Increase in trade and other payables	866	**725**
Other	748	**401**
Cash generated from operations	48,100	**45,137**
Interest and dividends received	4	**5**
Interest paid	(1,601)	**(1,414)**
Income taxes paid	(10,536)	**(12,412)**
Income taxes refunded	62	**194**
Net cash from operating activities	36,029	**31,510**
Cash flows from investing activities		
Payments into time deposits	(194)	**(830)**
Proceeds from withdrawals of time deposits	194	**554**
Acquisition of property, plant and equipment	(15,462)	**(16,722)**
Proceeds from sale of property, plant and equipment	—	**9**
Acquisition of intangible assets	(1,059)	**(1,532)**
Payment of loans	(2)	**(5)**
Proceeds from collection of loans	5	**1**
Payment of lease deposits and guarantee deposits	(723)	**(1,371)**
Proceeds from collection of lease deposits and guarantee deposits	867	**740**
Other	(288)	**(450)**
Net cash used in investing activities	(16,662)	**(19,606)**
Cash flows from financing activities		
Proceeds from short-term borrowings	9,500	**15,500**
Repayments of short-term borrowings	(9,500)	**(15,500)**
Proceeds from long-term borrowings	—	**7,000**
Repayments of long-term borrowings	(10,000)	**(10,500)**
Proceeds from exercise of stock options	238	**1,329**
Repayments of lease obligations	(3,852)	**(2,687)**
Dividends paid	(7,033)	**(7,609)**
Payments of commissions related to borrowings	(24)	**(611)**
Payments for acquisition of interests in subsidiaries from non-controlling interests	(665)	**—**
Other	(8)	**—**
Net cash used in financing activities	(21,344)	**(13,078)**
Effect of exchange rate on the balance of cash and cash equivalents held in foreign currency	(46)	**46**
Net decrease in cash and cash equivalents	(2,023)	**(1,128)**
Cash and cash equivalents at the beginning of the year	18,245	**16,222**
Cash and cash equivalents at the end of the year	¥ 16,222	**¥ 15,094**

(6) Notes to Consolidated Financial Statements

(i) Notes on the Going Concern Assumption

No items to report

(ii) Changes in accounting policies

Newly adopted accounting standards and amendments

The Group has adopted the following standards since the fiscal year ended December 31, 2017.

IFRSs	Title	Description of New Standards/Amendments/Transitional Provisions
International Accounting Standard ("IAS") 7	Statement of Cash Flows	･Amendments on disclosure for liabilities associated with financing activities
IAS 12	Income Taxes	･Clarification of the accounting treatment for deferred tax assets associated with unrealized loss

The adoption of the above standards had no material impact on the consolidated financial statements for the fiscal year ended December 31, 2017.

(iii) Segment Information

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

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

1) Revenues and Performance of Segments

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

2) Geographic Information

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

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

3) Information about Major Customers

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

(iv) Earnings per Share

(Millions of yen, except per share amounts)

	For the fiscal year ended December 31, 2016	**For the fiscal year ended December 31, 2017**
Net income attributable to common shareholders of the Company	¥ 18,213	**¥ 16,926**
Net income not attributable to common shareholders of the Company	—	**—**
Net income attributable to common shareholders used for calculation of basic earnings per share	18,213	**16,926**
Adjustment	—	**—**
Net income attributable to common shareholders used for calculation of diluted earnings per share	¥ 18,213	**¥ 16,926**
Weighted-average number of common shares during the period (Share)	194,659,498	**195,914,812**
Increase in number of common shares used for calculation of diluted earnings per share (Share)		
Increased number of common shares by stock options	1,609,255	**1,017,713**
Weighted-average number of common shares used for calculation of diluted earnings per share (Share)	196,268,753	**196,932,525**
Basic earnings per share (Yen)	¥ 93.57	**¥ 86.40**
Diluted earnings per share (Yen)	92.80	**85.95**

(v) Significant Subsequent Events

The Company executed the following loan agreements as of February 2, 2018 to procure refunding of existing loans.

1) Type of Contract — Loan agreement

2) Contracting Parties — Mizuho Bank, Ltd., The Bank of Tokyo-Mitsubishi UFJ, Ltd., Sumitomo Mitsui Banking Corporation, Development Bank of Japan Inc., The Norinchukin Bank and Sumitomo Mitsui Trust Bank, Limited

3) Borrowing Amount — 107,000 million yen
(Tranche A : 8,000 million yen, Tranche B: 99,000 million yen)

4) Loan Execution Date — June 24, 2019

5) Interest Rate — TIBOR plus Spread (Floating rate)

6) Last Repayment Date — December 31, 2024 (Tranche A)
December 31, 2027 (Tranche B)

In addition, the Company executed the following interest rate swap agreements on the same date to hedge the exposure to interest rate.

1) Contracting Parties — Mizuho Bank, Ltd., The Bank of Tokyo-Mitsubishi UFJ, Ltd. and Sumitomo Mitsui Banking Corporation

2) Transaction Period — From June 24, 2019 to December 31, 2024 (Notional Amount : 8,000 million yen)
From June 24, 2019 to December 31, 2027 (Notional Amount : 99,000 million yen)

3) Notional Amount — Total amount 107,000 million yen
Notional amount is reduced according to repayment of the principal of the loan.

4) Type of Transaction — Floating rate receipt and fixed rate payment