



# All for the Smiles of Our Customers



To appropriately convey information to as many people as possible, this annual report uses an easy-to-read universal design font.





Skylark Co., Ltd.  
**Annual Report**  
**2014**

For the Year Ended  
December 31, 2014



## Our Corporate Philosophy

# Creating Richness Value to Society



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

### Regarding the Publication of Annual Report 2014

Because this is the Company's first report to be published since the relisting of its stock, we have presented our corporate social responsibility initiatives and other non-financial information in addition to financial information to provide a better understanding of our business model. Editing was done partly with reference to the International Integrated Reporting Framework Version 1.0 published by the International Integrated Reporting Council (IIRC) in December 2013.

We will continue to make improvements to enhance reporting.

with

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# Skylark by Scale

## Among the Highest Number of Restaurants in the World

The Skylark Group offers tastiness, safety and comfort through food. As our core business, we operate a range of table service restaurants that includes Western, Chinese and Japanese cuisines. We currently have approximately 3,000 restaurants in Japan, making us one of the world's largest chains in the table service restaurant industry. With restaurants in every prefecture of Japan, Skylark's brands enjoy a high level of recognition.

### The Industry Leader in Number of Outlets

Number of Group Restaurants and Shops

# 3,014

Note: As of December 31, 2014 (includes franchise restaurants)

Overseas  
41\*



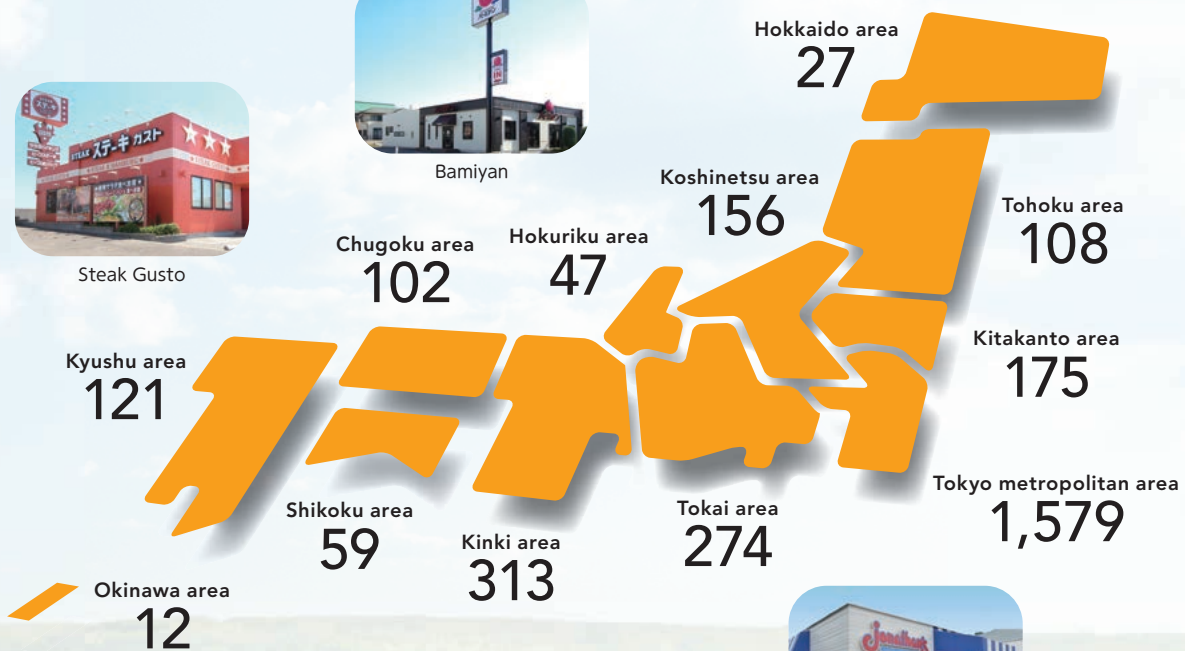
Gusto



Steak Gusto



Bamiyan



Yumean



Jonathan's

\* 39 restaurants in Taiwan and two in Shanghai. In December 2014, Skylark Co., Ltd. decided to begin procedures to dissolve and liquidate its consolidated subsidiary Shanghai Skylark Restaurant & Food Management Co., Ltd. The restaurants in Shanghai closed as of April 30, 2015.



# Skylark by Brand

## Meeting Customer Needs with Diverse Brands

The Skylark Group operates diverse brands in the areas of Western, Chinese and Japanese cuisine, including its main Gusto brand.

By having a wide range of brands, from Gusto, with a format where customers can enjoy various food genres, to restaurants specializing in Chinese, Japanese, Italian and other cuisines, we can capture specific customer needs in a market where consumption is diversifying and fragmenting.



Western food



Western food



Chinese food



Japanese food



Steak



Italian food

### Other Brands

Western food



Quick restaurant



Japanese food



Sushi



Buffet



Yakiniku



Café



Cake/Delicatessen







# Skylark's History

## The Road to Our Relisting: Establishing a Management Foundation for Growth

A pioneer among Japan's family restaurants, the Skylark Group opened its first restaurant in 1970 and marks its 45th anniversary this year. Based on a corporate philosophy of "Creating Richness with Value to Society," we have conducted various structural reforms to establish a management foundation that meets changing customer needs.

In 2008, Makoto Tani became President and CEO and instituted large-scale reforms of unprofitable businesses. Additional enhancements to our management team, including the appointment of Ralph Alvarez as Executive Chairman in 2013, have been geared toward steadily carrying out new initiatives to further strengthen our profit base.

### To 2008

#### Expansion of Scale Leads to a Downturn in Results

During the restaurant industry's growth period from the 1970s to 2000, the Skylark Group grew by operating a large number of restaurants. However, in Japan's long period of deflation following the collapse of the bubble economy, continuing this expansion policy of opening numerous restaurants into the 2000s, as consumption styles and economic conditions changed, led to an increase in unprofitable restaurants and operating losses.

In 2006, recognizing the difficulty of gaining the understanding of its many shareholders while overhauling the business and the temporary hardships it would entail, the company delisted its stock following a management buyout.

#### Adjusted EBITDA<sup>1</sup> and EBITDA Margin<sup>2</sup>

- Adjusted EBITDA
- EBITDA Margin

Note 1. Adjusted EBITDA = EBITDA\* + Loss on disposal of fixed assets + Impairment of non-financial assets + One-time expenses that are not expected to recur after IPO (Advisory fees in accordance with the BCPL management agreement and IPO-related expenses)

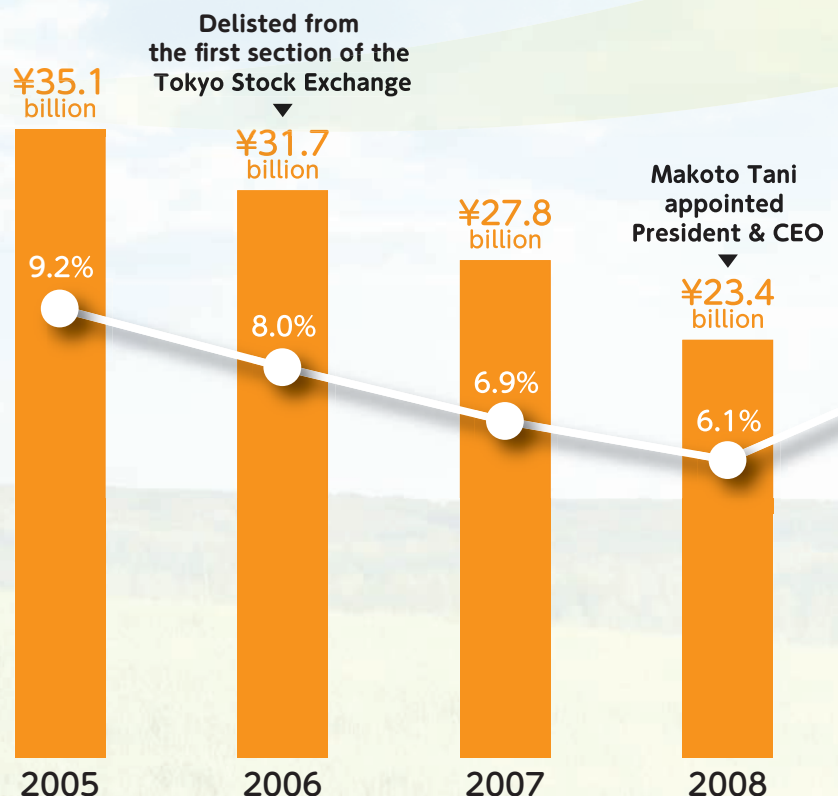
\* EBITDA = EBIT\*\* + Depreciation + Amortization of long-term prepaid expense + Amortization of long-term prepaid expense (deposit)

\*\* EBIT = Net income + Income taxes + Interest expense + Loss on redemption of borrowings before the repayment date + Other expenses - Interest income - Other income

Note 2. Adjusted EBITDA/Revenue

Supplementary Note 1. EBITDA from 2003 to 2011 is based on Japanese generally accepted accounting principles (J-GAAP). Adjusted EBITDA from 2012 to 2014 is based on International Financial Reporting Standards (IFRS).

Supplementary Note 2. 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



## 2008 to 2012

### Makoto Tani Becomes President and CEO and Implements Structural Reforms

In 2008, then-President of subsidiary NILAX Inc. Makoto Tani took office as President and CEO of Skylark Co., Ltd. and began various reforms.

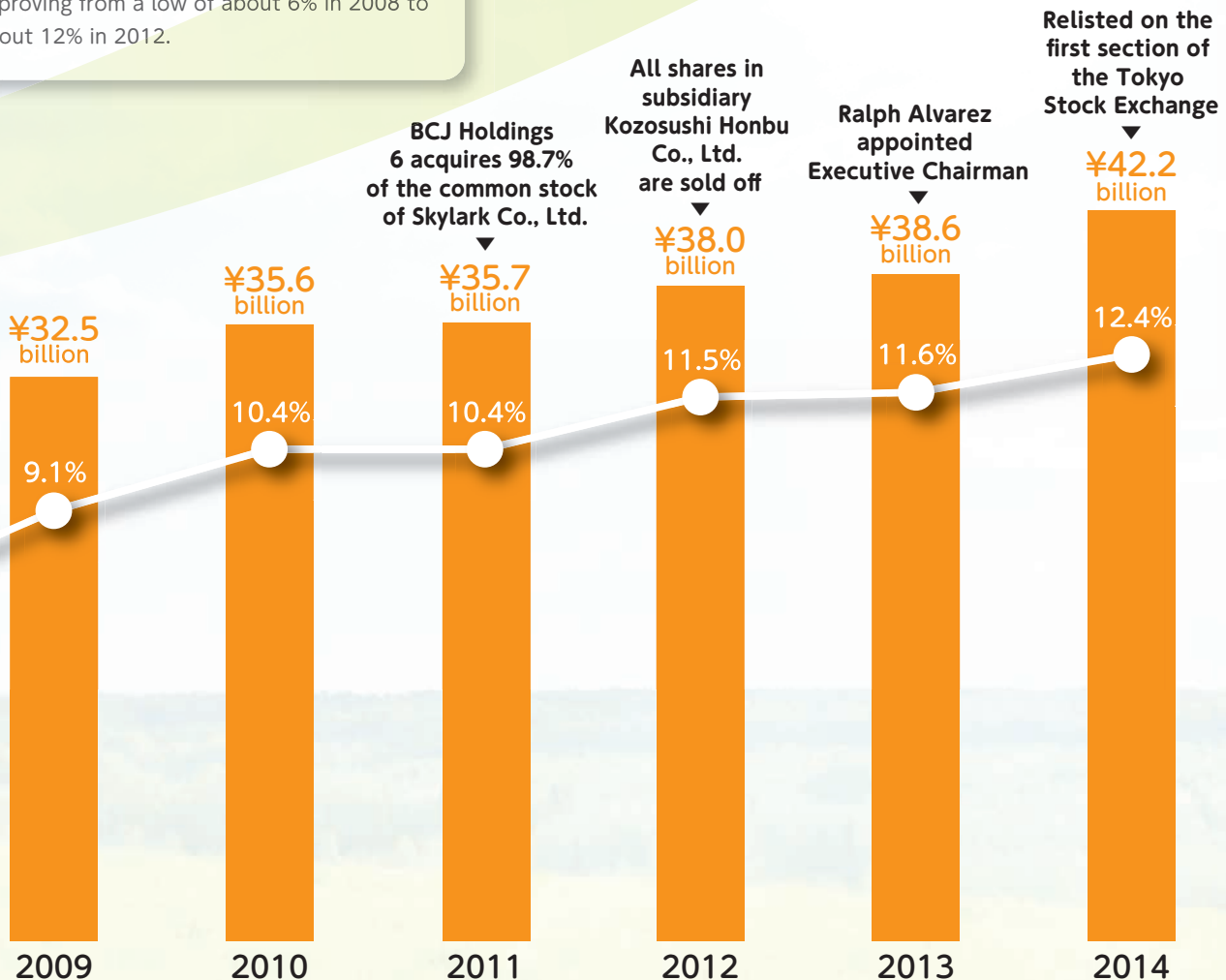
The Skylark Group conducted two types of reform: profitability reforms, which consisted of closing unprofitable restaurants that had been opened in the rush to expand, selling off the growing number of money-losing businesses and reviving core brands by converting unprofitable brands; and organizational reforms, which consisted of changing from a brand-based business structure to organization by function. As a result, we have rebuilt our management foundation, with our EBITDA margin improving from a low of about 6% in 2008 to about 12% in 2012.

## 2012 Onward

### Establishing a Foundation for Sustainable Growth

Through its partnership with Bain Capital Partners, LLC, the Skylark Group has assembled a management team with a proven track record, including appointing Ralph Alvarez as Executive Chairman, and is implementing new management reforms.

Improvements include enhanced profitability at existing restaurants through remodeling and brand conversions, and menu development and marketing based on quantitative data analysis. For new restaurant openings, we have raised our accuracy in analyzing potential areas and optimize the locations. These measures are strengthening our profit base. Making the most of our management team's respective fields of specialization, we are achieving further growth by combining the Skylark Group's many years of experience with scientific management.



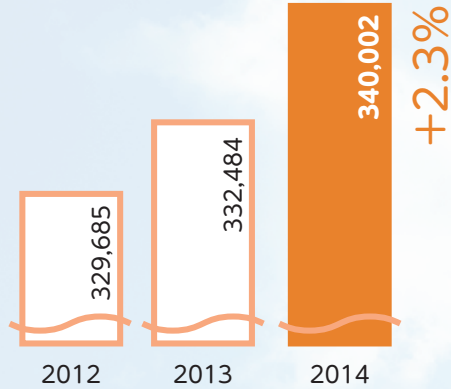




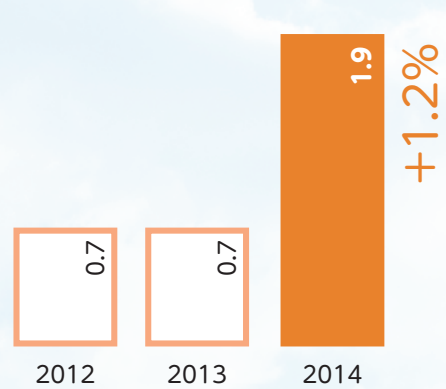
# Skylark in Numbers

## Financial<sup>1</sup> Improving performance

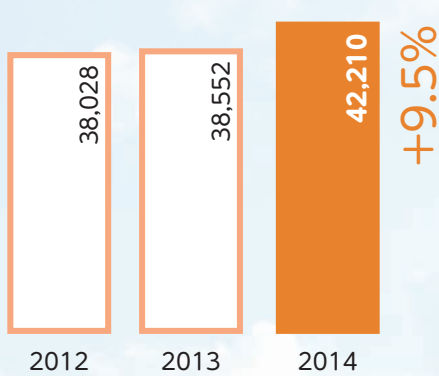
■ Revenue<sup>2</sup> (Millions of yen)



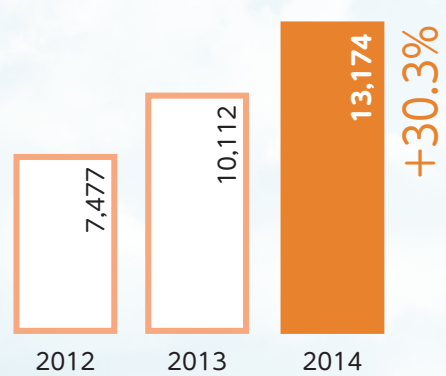
■ Same Store Sales Growth (%)



■ Adjusted EBITDA<sup>3</sup> (Millions of yen)

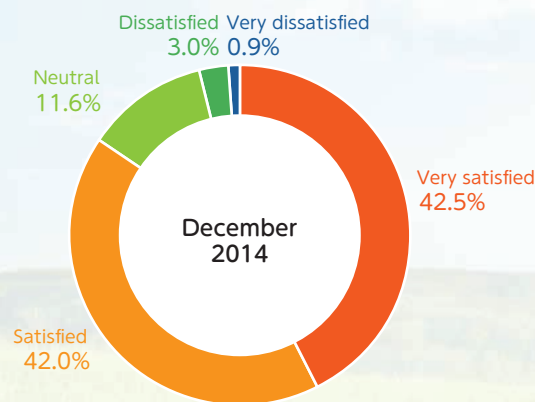


■ Adjusted Net Income<sup>4</sup> (Millions of yen)



## Non-Financial Improving service

■ Customer Satisfaction<sup>5</sup> (%)



■ Highly Experienced Restaurant Staff

Managers with Careers  
of Over 10 Years

Approximately **1,750**<sup>6</sup>

Part-time Workers Employed  
for Over 3 Years

**33%**<sup>6</sup>

Notes: 1. Prepared based on IFRS.

2. Revenue does not include consumption tax.

3. See pages 4-5 for details on adjusted EBITDA.

4. Adjusted net income = Net income + Advisory fees in accordance with the BCPL management agreement + IPO-related expenses + Loss on redemption of borrowings before the repayment date + Tax effects of adjustments

5. Internet customer survey. Responses to each question used these five levels.

6. As of December 31, 2014

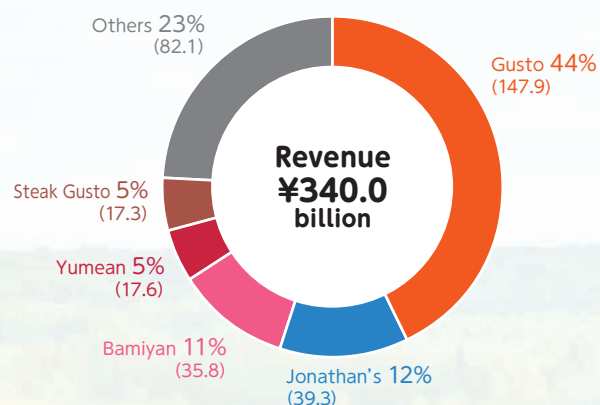
## Financial Highlights (IFRS)

(Millions of yen, except where noted)

| Fiscal Years ended December 31  | 2012     | 2013     | 2014     |
|---|----------|----------|----------|
| <b>Consolidated Operating Results</b>   |          |          |          |
| Revenue . . . . .   | ¥329,685 | ¥332,484 | ¥340,002 |
| Operating profit <sup>1</sup> . . . . .   | 17,345   | 22,563   | 21,642   |
| Income before income taxes . . . . .  | 8,497    | 11,800   | 16,767   |
| Net income attributable to owners of the Company . . . . .                          | 7,006    | 7,087    | 9,469    |
| Basic earnings per share (Yen) <sup>2</sup> . . . . .                               | 36.86    | 37.29    | 49.57    |
| <b>Consolidated Financial Position</b>  |          |          |          |
| Total assets . . . . .  | 304,397  | 306,892  | 312,155  |
| Equity attributable to owners of the Company <sup>3</sup> . . . . .                 | 93,673   | 73,932   | 93,691   |
| Equity per share attributable to owners of the Company (Yen) <sup>2</sup> . . . . . | 492.83   | 388.59   | 482.42   |
| Ratio of equity attributable to owners of the Company to total assets (%) . . . . . | 30.8     | 24.1     | 30.0     |
| <b>Consolidated Cash Flows</b>  |          |          |          |
| Cash flows from operating activities . . . . .                                      | 28,076   | 27,016   | 37,147   |
| Cash flows from investing activities . . . . .                                      | (12,330) | (9,480)  | (11,781) |
| Cash flows from financing activities . . . . .                                      | (15,418) | (15,507) | (15,921) |
| Cash and cash equivalents at the end of the year . . . . .                          | 11,783   | 13,883   | 23,383   |
| <b>Number of Restaurants and Stores at the End of the Year . . . . .</b>            |          |          |          |
| Newly opened restaurants and stores . . . . .                                       | 50       | 27       | 44       |
| <b>Number of Employees</b>  |          |          |          |
| Full-time employees . . . . .   | 5,634    | 5,600    | 5,683    |

Notes: 1. Operating profit in 2014 decreased compared with the previous year due to one-time expenses of ¥6.0 billion for advisory fees in accordance with the management agreement with Bain Capital Partners, LLC and IPO-related expenses.  
 2. 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.  
 3. The decrease in equity attributable to owners of the Company in 2013 was the result of dividends paid out from capital surplus with a record date of June 25, 2013.

### Revenue by Brand in 2014 (Billions of yen)



### Number of Restaurants by Brand (December 31, 2014)

| Brand        | Number of Restaurants | % of Total  |
|--------------|-----------------------|-------------|
| Gusto        | 1,353                 | 45%         |
| Jonathan's   | 300                   | 10%         |
| Bamiyan      | 342                   | 11%         |
| Yumean       | 168                   | 6%          |
| Steak Gusto  | 143                   | 5%          |
| Others       | 708                   | 23%         |
| <b>Total</b> | <b>3,014</b>          | <b>100%</b> |

Note: Revenue and number of restaurants are for directly managed and franchise restaurants as of December 31, 2014. Revenue and number of franchise restaurants are included in Others.

# To Our Stakeholders

## We aim to increase corporate value by working

### From Relisting to a New Start

On October 9, 2014, Skylark Co., Ltd. relisted its shares on the first section of the Tokyo Stock Exchange after eight years. I am deeply grateful for the support of our customers, business partners and other stakeholders.

Since our delisting in 2006, the operating environment of the restaurant industry has been constantly changing. Having gone through a period of low economic growth and a major earthquake, Japanese consumers have become increasingly discerning about value. Lifestyles and ways of using and enjoying restaurants are changing with the times, and the dining styles of restaurant patrons are diversifying.

To respond to the changing times while continuing to be a restaurant customers choose at any time, we have been building a management foundation that maximizes our strengths. We have been working continuously to improve our profit level and to strengthen our finances. In 2008, we overhauled our management structure, making

management reform our foremost objective. In addition to reorganizing, we have undertaken a variety of measures for unprofitable restaurants including closures, brand conversions and initiatives to raise operating efficiency. Today, our powerful management team with a superior track record is driving reforms for growth.

Our path thus far has by no means been easy. However, our restaurant employees, crew, commissaries and headquarters have all continued to work together with a positive attitude. As a result, our performance has rebounded and we now have a resilient organization that will continue to evolve with the times, while being able to secure advantages for success in the coming era.

With our relisting, we are standing at a new starting line. Hereafter, we will continue in our aim to create companies and restaurants, primarily table service restaurants, with the strongest customer support, based on our corporate philosophy of "Creating Richness with Value to Society."

### Performance in 2014

We took on many challenges in 2014. In a restaurant market weakened by a drop in consumers' willingness to spend following an increase in the consumption tax rate, costs rose due to inflation spurred by the depreciation of the yen and high food prices. Despite these factors, we secured revenue and profit by optimizing costs with measures for food procurement, strengthening menu development, and pricing and promotion strategies. Specifically, we developed comparatively high-priced menu items to be able to cater to customer demand for premium offerings. In addition, through remodeling as well as brand conversions and new restaurant openings based on detailed analysis in response to the changing market environment, we were also successful in improving the customer repeat rate and attracting new customers.

As a result, revenue increased 2.3% compared with the previous year to ¥340.0 billion, adjusted EBITDA increased 9.5% to ¥42.2 billion and adjusted net income increased 30.3% to ¥13.2 billion.



President &  
Chief Executive Officer

"Aiming for management that our



# to be “the restaurant with the most smiles.”

## Direction of Future Initiatives

From 2015 onward, we will aim for additional growth by further enhancing and evolving the initiatives we implemented in 2014. Specific ongoing measures will include promoting same store sales growth with interior and exterior remodeling to increase customer traffic,

brand conversions in line with market changes, and development of menus and more effective marketing that meet customer needs; new restaurant openings driven by changes in demographics and market trends; and continuing cost reductions.

## Direction for 2015: Reinforce 2014 Initiatives

|                         |   |   |
|-------------------------|---|---|
| Same store sales growth | Menu innovation and pricing   | <ul style="list-style-type: none"> <li>Continue to develop menu items that cater to consumer tastes</li> <li>Flexible pricing to best respond to changes in the consumer economy and inflation</li> </ul> |
|                         | Promotion   | <ul style="list-style-type: none"> <li>Ongoing implementation of strategic, data-driven promotional initiatives</li> <li>Continued segment and occasion-oriented promotions</li> </ul>                    |
|                         | Remodeling  | <ul style="list-style-type: none"> <li>Incorporate modern design and a comfortable atmosphere to drive traffic</li> </ul>   |
|                         | Brand conversions   | <ul style="list-style-type: none"> <li>Optimize brands for each site based on local market conditions</li> </ul>  |
|                         | Delivery service  | <ul style="list-style-type: none"> <li>Meet growing demand from seniors and women in the workforce</li> </ul>   |
| New restaurant openings | <ul style="list-style-type: none"> <li>New openings tailored to demographic trend of population growth in urban downtown areas. Continue to develop new restaurants in shopping centers and areas near train stations.</li> </ul> |   |
| Cost reductions         | <ul style="list-style-type: none"> <li>Further reduce costs in the supply chain and indirect costs (rent, maintenance, supplies)</li> <li>Reduce utility and energy costs while actively monitoring oil prices</li> </ul>         |   |

## Shareholder Returns

Skylark’s basic policy is to pay stable dividends to shareholders while ensuring an internal reserve to prepare for future business deployment and capital investments to improve corporate value.

Subject to our business performance and our capital needs, we aim to make dividend payments going forward twice yearly and maintain a payout ratio of roughly 40% of our adjusted net income.\*

For 2014, we have declared dividends of ¥13.52 per share. Based on our forecast of results for 2015, we plan to pay an interim dividend of ¥11.80 per share and a year-end dividend of ¥18.20 per share.

\* See page 6 for details on adjusted net income.

## Creating Value

Skylark marks its 45th anniversary in 2015. We will continue to work for growth with the intention of being a constant presence in our customers’ lives. To bring out the smiles of the people who love Skylark, the Skylark

Group aims to help achieve a sustainable society by working for solid value that it can share with all its stakeholders. Our stakeholders include not only our customers and shareholders, but also our employees, business partners, residents of local communities, and the abundant natural environment that provides us with the blessing of food. In addition, the approximately 90,000 employees of the Skylark Group will give their all to be chosen by anyone at any time as “the restaurant with the most smiles.”

The issuance of this annual report is an ideal opportunity to share the Skylark Group’s efforts for “Creating Richness with Value to Society” with our stakeholders. I look forward to hearing your frank opinions, and hope they fuel our growth. Thank you for your continued support.

June 2015

Makoto Tani,  
President & Chief Executive Officer

customers continue to support for its grasp of changing times”

## Concentration into Major Chains in the Restaurant Industry

The restaurant industry in Japan is a massive market of about ¥24 trillion, and its size has remained stable.

In this industry, there has been a long-term, ongoing trend of concentration from single-proprietor outlets to major chains against a backdrop of an increasingly severe operating environment, with rising raw material prices and exchange rate fluctuations, and a lack of individuals willing to take over the businesses. Major chains can take advantage of their extensive capital strength and widely known brands to offer customers clean, comfortable outlets and competitively priced meals. Concentration into these chains is expected to accelerate in the future.

The Skylark Group is one of Japan's largest chains, with over 3,000 restaurants and stores nationwide. Even on a global scale, it is one of the world's largest directly managed table service restaurant chains. With its predominant size, the Skylark Group views the trend of concentration of the restaurant industry as a growth opportunity.

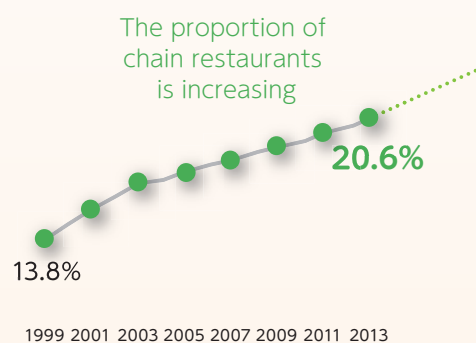
### Scale of Japan's Restaurant Industry Market

(Trillions of yen)  
30



Source: Foodservice Industry Research Institute (April 2015 report)

### Proportion of Chain Restaurants\* in the Restaurant Industry

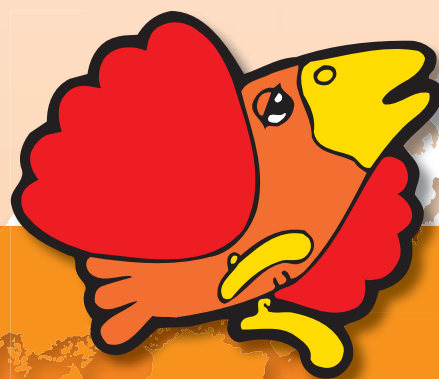


Source: Euromonitor "Consumer Foodservice Statistics" (December 2014)

\* Enterprises with a network of 10 or more restaurants inside and outside Japan

## The Restaurant Market in Japan

The Skylark Group makes various efforts to meet changing customer needs. This section explains those efforts in light of Japan's restaurant market and the Skylark Group's position in it.

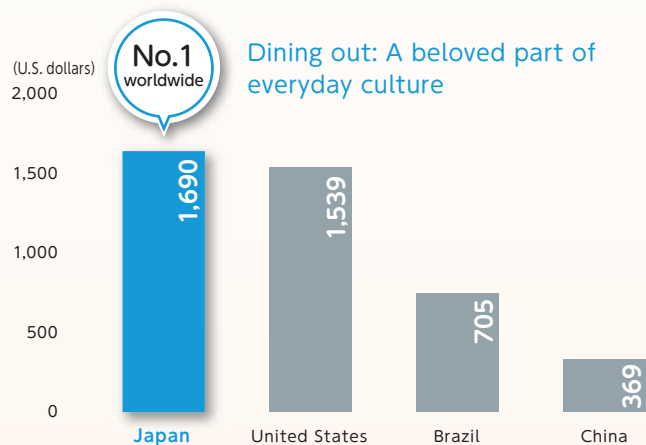


## Global Number One in Restaurant Expenditures per Capita

Japan's restaurant market is third worldwide in term of scale, but is number one in terms of annual expenditures per capita at US\$1,690. Another major feature of the market is its composition centered on the middle class, who are able to eat out routinely.

Dining out accounts for 35.2%<sup>2</sup> of the household budget for food and drink. With a trend among Japanese to view dining out as one aspect of enjoyably relaxing with family and friends, the national predisposition toward eating in restaurants supports the market in Japan.

Per Capita Restaurant<sup>1</sup> Expenditures (2013)

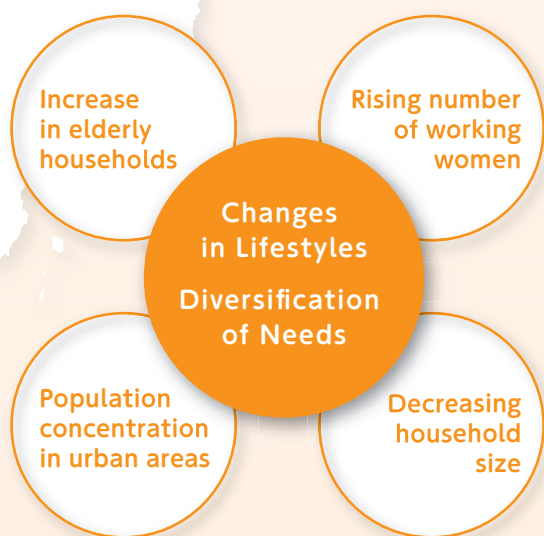


Source: Euromonitor "Consumer Foodservice Statistics" (December 2014)  
 Business Monitor International "2013 Population Statistics" (December 2014)  
 Notes: 1. Per capita restaurant expenditures = Size of restaurant market (Euromonitor) / Population of country (Business Monitor International)  
 2. Fiscal 2013 data (Foodservice Industry Research Institute April 2015 report)

## Changes in Lifestyles

Our customers' lifestyles and needs are constantly changing due to diversifying consumption and demographic changes including decreasing household size, increases in single-person and elderly households, the rising number of working women and population concentration in urban areas. Changes such as the segmentation of needs are another important issue to be dealt with. The Skylark Group sees swift and accurate responses to these changes as opportunities for growth.

The Skylark Group works to optimize its menus and marketing with analysis of various aspects of customer preferences and consumer behavior so that customers from a wide range of generations can enjoy its food.





# Skylark's Value Creation Process

“Creating Richness with Value to Society” is the Skylark Group’s corporate philosophy. We want to add more Richness to our customers’ lives by offering great-tasting food at affordable prices with good service in pleasant surroundings to as many people as possible. We aim to create beloved restaurants rooted in their local communities, all for the smiles of our customers.

## As Many People as Possible

**Menu and Marketing Strategies**

▶ Page 14

We have developed menu, promotion and restaurant strategies to meet changing customer needs.

- ▶ **A Menu Strategy for Targeted Customers**
- ▶ **Effective Promotions**
- ▶ **Meeting Customer Needs with Diverse Brands**
- ▶ **Restaurant Strategies Tailored to Local Market Characteristics**



**1**  
As many people as possible

**2**  
Great-tasting food at affordable prices

## Great-Tasting Food at Affordable Prices

**Skylark's Vertically Integrated Supply Chain**

▶ Page 18

We provide great-tasting food at affordable prices with ingredient procurement that takes advantage of our scale, centralized commissaries and in-house deliveries.

**A Management Foundation for “Creating Richness**



## Good Service in Our Clean Restaurants

### The Human Resources Who Support Skylark

▶ Page 20

# 3

Good service in our clean restaurants

We secure superior human resources with extensive hiring activities and training programs, and maintain a high employee retention rate to provide high-quality services.

- ▶ The Human Resources Who Support Skylark
- ▶ Project to Increase the Retention Rate

“Creating Richness with Value to Society”



- ▶ Skylark's Vertically Integrated Supply Chain
- ▶ Creating Value through Procurement

# 1 As Many People as Possible Menu and Marketing Strategies Based on

## ▶ A Menu Strategy for Targeted Customers

### “Creating Menus That Delight Customers throughout Japan”



**Shimon Kato**  
Director  
Menu Development Group  
Marketing Division

The Menu Development Group handles everything from developing Skylark Group menus to creating prototypes and turning them into products. More than a year before we introduce new products, we get together with data analysis, ingredient procurement and promotion teams to plan out what kind of products we will be selling the next year and what ingredients we will use.

After planning, we make a series of prototypes to develop a new menu of about 750 items for our ten main brands, with as many as ten prototypes for each item. To take the customer’s perspective, we place great value on tests by consumer monitors and the results of test sales in actual restaurants, in addition to data analysis.

The best part of menu development is introducing an unusual dish or ingredient, and then offering a lineup of delicious meals that attract customers to one of our restaurants to enjoy them. We will continue to develop and improve menus that earn our customers’ support.

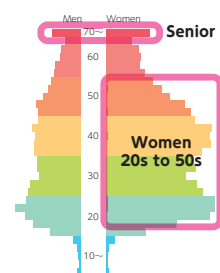
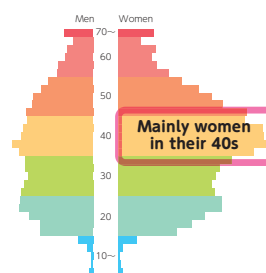
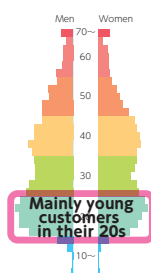
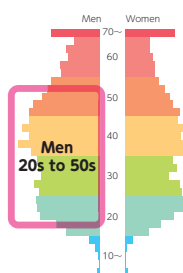
#### Initiatives in 2014

#### Case Study 1: Menu Development Featuring *Misuji* Steak

We earned cross-generational customer support by offering *misuji* steak (top blade steak) as a lunch plate with a fresh salad on the side for women, a steak dish and combination set for men who want a filling meal, and a Japanese-style steak meal set for women and seniors.

#### Menu Innovation Based on Data Analysis to Appeal to Each Customer Segment and Increase Customer Visit Frequency

Data analysis by customer age and gender for each menu item





# Market Conditions

## Initiatives in 2014

### Case Study 2: Menu Strategies by Price Range

For customers with a high average ticket price (ATP) – those who spend more per person – we provided premium products with the introduction of menus that made the most of seasonal and topical ingredients, featuring lobsters from Canada and oysters from Hiroshima. For customers with a mid-range ATP, we offered products at more appealing prices. Measures included a campaign for Cheese-IN Hamburg, a mainstay dish at Gusto, for ¥399, and renewals for ramen and fried rice, which are mainstay dishes at Bamiyan.



Lobster tagliatelle

### Enhancing Our Morning Menu: Attracting Customers in a Wider Range of Time Slots



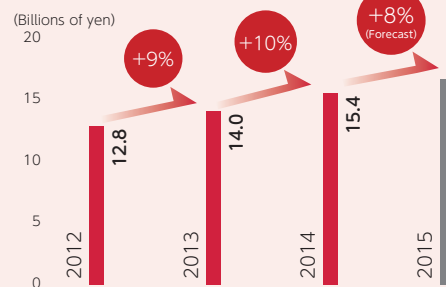
We are focusing on enhancing our morning menu to meet the needs of senior customers and families who want to spend their mornings in a leisurely fashion.

We intend to cultivate new customers by seeking out demand in time slots other than lunch and dinner.

### Delivery Service

As of April 2015, more than 880 Skylark Group restaurants offer delivery service. The delivery service market is expanding in tandem with changes such as the increase in the number of working women, the aging society and the growth of the home replacement meal market.

#### Delivery Sales



2014 delivery sales growth rate

+10%

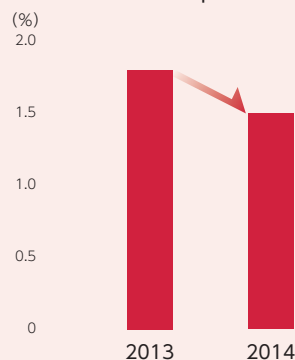


## Effective Promotions

In 2014, we began offering a mobile app for Gusto customers to provide timely information and distribute coupons. Downloads of the app have reached approximately three million as of May 2015. Looking forward, we will encourage restaurant visits by distributing coupons to app users targeting specific customer types.

In addition, based on our consumer research and analysis, we are making improvements to television commercial broadcasts, flyer design and distribution, and discount rates. By using these measures to optimize promotions in 2014, we increased revenue while reducing advertising and promotional expenses.

#### Ratio of Advertising and Promotional Expenses to Revenue



As of May 2015

Approx. 3 million downloads

#### Gusto Mobile App

- More than 2 million downloads in the first 6 months
- Approximately 3 million as of May 2015

# 1 As Many People as Possible Menu and Marketing Strategies Based on

## ▶ Meeting Customer Needs with Diverse Brands

To accurately meet customer needs as consumer diversification and segmentation continue, the Skylark Group operates more than ten different brands that include Western, Chinese and Japanese cuisine.

We provide detailed responses to the desires of a wide range of customers: customers looking for a restaurant with a kids' menu their children will like; customers who want to chat with friends; customers looking for a restaurant where they can have a three-generation meal that brings together the family from grandparents to grandchildren; and customers who just want a steak.

### New Brand Development

The Skylark Group is making ambitious moves to develop new brands that respond to changes in customer needs. In March 2015, the Group opened MUSASHI NO MORI COFFEE, its first café-style brand. In April it opened Miwami, with the concept of a Japanese-style restaurant that all three generations of a family can enjoy together, and Chawan, a Japanese-style restaurant with an extensive menu.



## ▶ Restaurant Strategies Tailored to Local Market Characteristics

### Restaurant Opening Strategy

#### Openings in Line with Market Trends

The Skylark Group used to open primarily roadside restaurants in the suburbs. In line with the demographic change of population concentration in cities, the Group will follow a policy of opening between 45 and 70 restaurants annually, mainly in urban areas.

We ensure profitability before opening new restaurants by using data to analyze the potential of the market area and the economic viability of the restaurants once they open.

In 2014, we opened 44 new restaurants, mainly in city centers and along private railway lines in the suburbs.

2014  
44 new restaurants opened

#### Brand Conversions, Remodeling and New Restaurant Openings in 2014

| Brand        | Brand Conversions* | Remodeling | New Restaurant Openings | [Reference] Number of Restaurants as of December 31, 2014 |
|--------------|--------------------|------------|-------------------------|---|
| Gusto        | 1                  | 189        | 17                      | 1,353   |
| Jonathan's   | —                  | 17         | 4                       | 300   |
| Bamiyan      | 1                  | 37         | 2                       | 342   |
| Steak Gusto  | —                  | —          | —                       | 143   |
| Yumean       | 4                  | 15         | 5                       | 168   |
| Others       | 20                 | 74         | 16                      | 708   |
| <b>Total</b> | <b>26</b>          | <b>332</b> | <b>44</b>               | <b>3,014</b>  |

\* Excluding conversions of franchise restaurants

# Market Conditions

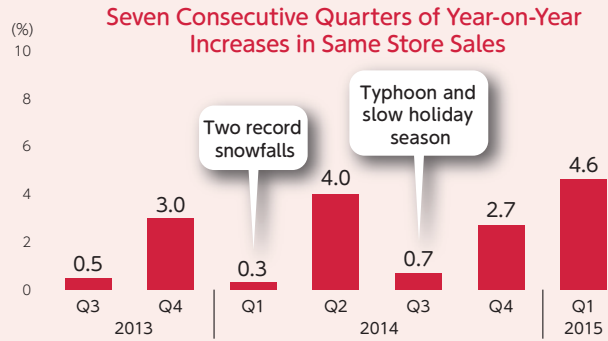
## Same Store Sales Growth Strategy

### Increase Same Store Sales with Precise Market Analysis

A steady increase in sales at our approximately 3,000 restaurants nationwide is essential for the growth of the Skylark Group. Operating in a mature market requires steady implementation of measures to swiftly and accurately respond to changes in demographics and people's lifestyles, as well as changes in market conditions as they occur.

In a severe external environment, we have achieved seven consecutive quarters of year-on-year increases in same store sales since the third quarter of 2013.

■ Year-on-Year Change in Same Store Sales



Note: Same store sales are based on daily turnover at restaurants that have been open for 13 months or longer, including conversions. Figures are not adjusted for consumption tax.

## Brand Conversion Strategy

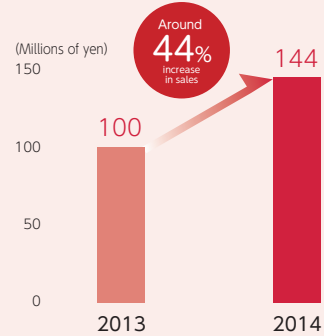
### Brand Conversions in Line with Local Needs

The basic configuration of restaurants, including kitchen layout, is the same for all brands of the Skylark Group, so we can convert restaurants to a different brand in line with local needs. Having a variety of brands gives us the ability to strategically select the best brand for each location in line with market changes.

For example, we proactively carried out conversions to the Shabuyo brand in 2014 for an increase in sales of about 44% compared with pre-conversion sales.

Note: Comparison of average sales for the year before conversion with projected sales three years after conversion.

■ Sales Increase after Converting to Shabuyo



## Remodeling Strategy

### Interior and Exterior Remodeling to Increase Customer Traffic

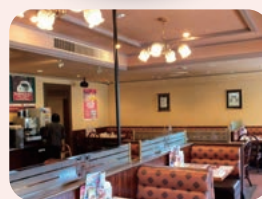
One change in the market is the increase in the number of seniors and women, and we conduct proactive interior and exterior remodeling to provide pleasant surroundings for these customers. Over a period of about five years from 2013, we plan to specify around 1,500 restaurants for remodeling, which we are conducting at a rate of approximately 300 per year.

In 2014, we remodeled 332 restaurants, achieving a sales increase of approximately 5.3% at Gusto compared with sales before remodeling.

Note: In order to exclude the impact on the change in sales from factors other than remodeling, the rate is the difference between the change in pre- and post-remodeling sales, and the change in sales over the same period at a control group of non-remodeled restaurants.

The data aggregation periods are the 180 days before remodeling and the 91st to 120th days after remodeling to exclude the impact of the temporary increase in sales after reopening.

332  
restaurants  
remodeled  
in 2014



Before remodeling



After remodeling



# 2 Great-Tasting Food at Affordable Prices Our System for Providing Safe, Reliable and

## ► Skylark's Vertically Integrated Supply Chain

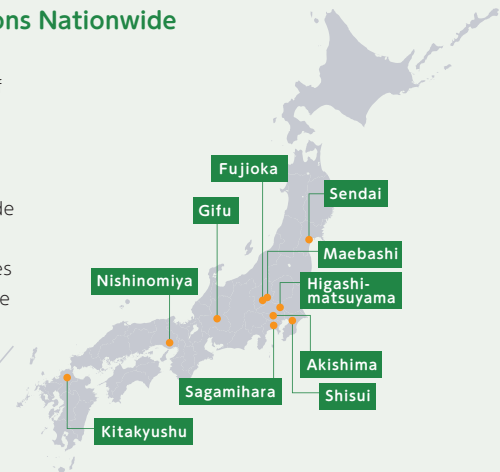


### Ingredient Procurement That Takes Advantage of Our Scale

Taking advantage of a scale of more than 3,000 Group restaurants to purchase ingredients in bulk, Skylark carefully selects high-quality raw materials from around the world for procurement at the optimum price. When food prices rise, we can devise a variety of methods to purchase delicious food at a low price including changing the procurement region, contract period or volume.

### Commissaries at Ten Locations Nationwide

Management and initial processing of ingredients is carried out at ten commissaries throughout Japan. By concentrating preliminaries such as cutting food and preparing homemade sauces in one location, they can be conducted efficiently to provide dishes of reliably high quality that reduce the burden of preparation at restaurants. We also conduct thorough quality control, with as many as 130,000 bacteriological tests annually.



## ► Creating Value through Procurement

### Using Our Organizational Strengths for the Continuing Evolution of Food Procurement

Skylark's advantages in food procurement lie in its predominant scale and the strengths of its three-way organization consisting of the purchasing, production and menu division. With commissaries that underpin diverse brands and in-house processing and distribution, we can offer a variety of menus using ingredients purchased in bulk. Changing the specifications and location for even a single ingredient that a brand uses can reduce the overall purchase price. Frequent discussions among the three divisions to make the most efficient use of ingredients in our menus and efforts to optimize the entire food chain result in menus with high added value previously

unattainable by a family restaurant. For our Fresh Avocado Fair in 2014, we purchased and used seven million Mexican avocados after developing menus for multiple brands with fresh avocado dishes. That means that Skylark bought one out of every 50 avocados imported into Japan. The creation of our menus begins with the relationships of trust our experienced buyers build with our suppliers by emphasizing on-site communication to ensure food safety and a stable supply. In the future, we will derive greater advantages from our supply chain to make procurement a four-way organization that includes improved restaurant operations.

# Delicious Food at Affordable Prices

The Skylark Group conducts all its own operations, from ingredient procurement to commissaries and delivery to restaurants. By using the advantages of our scale in menu planning and other processes, we can optimize costs and set affordable prices. By establishing and complying with strict quality control rules at each step, we can provide safe and reliable food at each of our restaurants.



**Distribution**

**Preparation**

**Service**

## A Distribution Network to Deliver Fresh Ingredients Daily

In cooperation with Group company Japan Cargo Co., Ltd., Skylark has built an in-house distribution network for consolidated delivery of food to all restaurants served by each commissary. Every day, about 400 trucks efficiently make the rounds of the restaurants on their routes to speedily deliver the items the restaurants ordered from the commissaries. This allows us to provide fresh food to each restaurant.

## Standardized Operations to Ensure Preparation Quality

The most important issue in the preparation process at restaurants is providing the same quality at all locations nationwide. We have established a framework for providing delicious food by preparing an easy-to-follow manual that summarizes procedures and instructing prep staff so they can carry out their duties appropriately. We also measure the time from when customers place their order to when their food arrives to ensure that restaurant staff are aware of waiting time.

## Pleasant Customer Service

Wait staff are responsible for the crucial process at the final stage of Skylark's value chain: ensuring that customers enjoy a pleasant, safe meal. We work daily to improve operations such as reception, explanation of specials, and the proper timing for serving food. Employees at all restaurants welcome customers with a smile and provide pleasant service under our motto, "All for the Smiles of Our Customers."

## Ensuring That Customers Enjoy Their Meals with Peace of Mind



**Chizuko Kirita**  
Higashimatsuyama  
Inspection Office Manager  
Sanitary Inspection Team  
Quality Control Group  
Corporate Support Division

The Higashimatsuyama Inspection Office conducts bacteriological tests and provides guidance on sanitation at commissaries and restaurants in our service area. To offer customers safe, reliable food, the 100 or so bacteriological tests the Office conducts each day are important, but deeply rooted sanitary management procedures and awareness on-site are even more important. We don't just make up detailed rules; we patiently and steadily provide ongoing guidance on health and safety through patrols of commissaries and restaurants and educational activities for staff members.

When your work involves the food that sustains customers' lives, accidents can never be allowed. The responsibility of my work is a great pressure, but seeing the rules we have set strictly followed on-site gives me great pleasure. I plan to continue working for health and safety procedures that make the jobs of my colleagues in commissaries and restaurants easier so customers can enjoy their meals with peace of mind.

# 3 Good Service in Our Clean Restaurants Delicious Food and Smiles for All Our



The Skylark Group views the human resources who work in the Group as a valuable asset. With approximately 100,000\* employees, including part-time workers, who work at the more than 3,000 restaurants and stores we operate throughout Japan, we are working to raise the value of our human resources by establishing unique mechanisms to secure superior people and increase the retention rate.

\* Registered employees



## ▶ The Human Resources Who Support Skylark

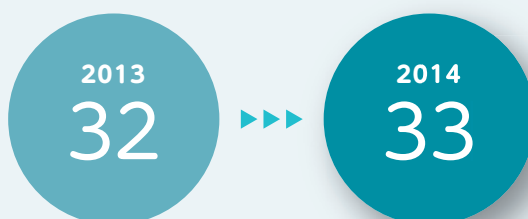
Although the difficulty of securing human resources in Japan's labor market has become an issue in recent years, Skylark has been able to increase the number of its new hires year on year. New part-time employees in 2014 totaled approximately 46,000, up from approximately 43,000 in 2013, and registered part-time employees per restaurant increased from an average of 32 in 2013 to 33 in 2014.

With the ongoing decline in the number of young workers and aging of Japanese society, finding part-time employees for our restaurants may become more difficult in the future. By implementing measures at an early stage, Skylark is building a foundation for the continuing future growth of its restaurants.

### ■ Total Number of Part-Time Employees



### ■ Average Number of Registered Part-Time Employees per Restaurant



## Securing Valuable Human Resources

Moving hiring from individual restaurants to the head office is a measure for effective communication with prospective applicants. By creating a single contact point for hiring, we can search the entire Group for openings and quickly get in touch with applicants with that information for a more effective approach to people looking to work at our restaurants. As of April 2015, interviews at 530 restaurants can be arranged through our centralized application processing system.

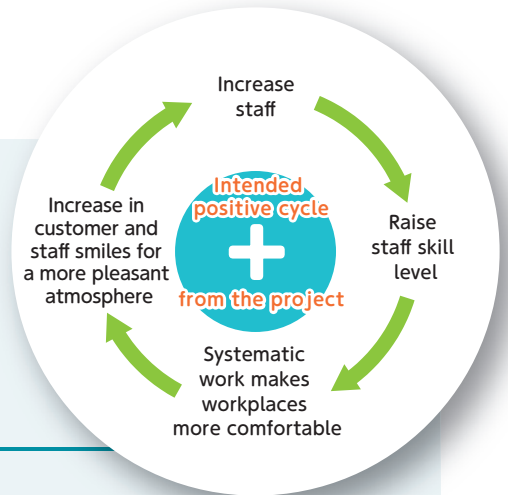




# Customers

## ▶ Project to Increase the Retention Rate

At each of its restaurants, Skylark is working to improve the quality of service and increase its retention rate by enhancing its training program so that customers can enjoy great-tasting food with good service.



### Training Programs

Retaining part-time employees and ensuring their mastery of work operations are essential for a restaurant to grow.

We have established a training program and set up a system for managers and trainers to conduct thorough training so that new staff members quickly become accustomed to their duties and remain in their jobs for a long time. We also create workplace environments that facilitate long-term employment by offering a path to promotion to full-time employment based on employee skill sets and sharing the values and attitudes of Skylark Group employees.



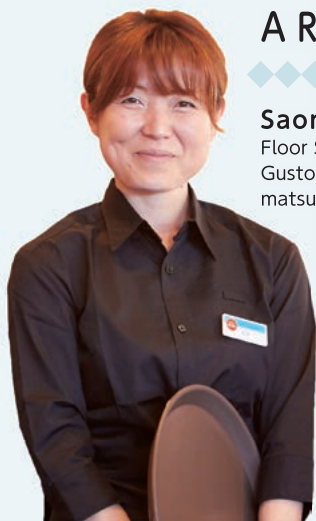
### Respecting Diversity in Working Styles

We offer employees the opportunity to choose from among a wide range of working styles. Options include employment that does not require changing workplaces or moving, such as Community Employees, who work in a specific restaurant without transfers, in principle, to focus on creating outlets closely linked to their region; and Area Employees who can be transferred within an area that does not require them to relocate. Another system offers employees the ability to apply expired vacation time to days off for illness, childrearing or caregiving. Moreover, in cooperation with schools for disabled students, we regularly employ 20 to 30 high school students with intellectual disabilities each year through an internship program.

### A High Staff Retention Rate

With these extensive training programs and company systems, we enjoy a high retention rate compared with other food service companies. More than 1,700 of our managers have had careers of longer than ten years, and about 30% of our part-time employees have been registered for more than three years. Highly skilled, loyal human resources not only increase the value of Skylark restaurants, but also make a major contribution to improving the value of Japan's food service industry.

## A Restaurant Where the Customers and Staff Are Both Smiling



**Saori Ishii**  
Floor Staff  
Gusto Higashi-  
matsuyama

Every morning at 8 a.m., after taking my child to kindergarten, my day at Gusto begins by greeting customers enjoying their morning meals with a smile. We have many regular customers at Gusto, so I often get orders for "the usual." The most important thing when dealing with customers is a feeling of hospitality. Even at peak times, I am thinking back on whether I gave that customer with a small child an extra plate, or what I would have wanted most if I had been the customer. Occasionally we hear some harsh opinions, but I think that the more you deal sincerely and politely with customers, the more repeat customers you are likely to have.

Relationships among staff and teamwork are both good, making it a pleasure to come to work each day. I want to keep working in a restaurant where the customers and staff are both smiling.

## Initiatives for the Environment and Society

# Protecting the Earth That Grows Our Food and

### Reducing Waste and Recycling Kitchen Refuse

The Skylark Group works every day to reduce and recycle the waste produced in its commissaries and restaurants. Recycling of kitchen waste at the Group's ten commissaries throughout Japan is handled by external contractors, and the largest facility in Higashimatsuyama uses its own recycling equipment to produce fertilizer. The volume of waste has been decreasing each year, and in addition to promoting further reductions in the future, the Group is proactively conducting global warming countermeasures such as using waste cooking oil for biodiesel fuel in the trucks that link commissaries and restaurants.



### Recycling Waste from Sugarcane Processing



As much as 100 million tons of bagasse, which is the stalks, leaves and other fibrous matter left over after producing sugar from sugarcane, is produced worldwide annually. In its restaurants and commissaries, the Skylark Group uses paper towels manufactured with pulp made from bagasse that had been disposed of as waste. Reuse of bagasse reduces costs and energy consumption during waste processing as well as the volume of timber used as raw material for paper. Because it helps to preserve forests, bagasse is expected to play various roles in preventing global warming and other environmental preservation activities. The Skylark Group conducts operations with these global environmental issues in mind.

### Formulating a Business Continuity Plan

Under its corporate philosophy of "Creating Richness with Value to Society," the Skylark Group aims to contribute to society by offering great-tasting food at affordable prices with good service in our clean restaurants to as many people as possible. To do so, it is important that we carry out our social mission by continuing operations even in a disaster or other emergency. Based on this fundamental concept, we have formulated a Business Continuity Plan that establishes our response to and systems for emergency situations, in order to continue our business and speedily restore restaurant operations through close contact with local communities and municipalities, giving the highest priority to the lives of our customers and employees.

### Response to Major Disasters

As an enterprise that provides the food essential for life, the Skylark Group aims to contribute to society with food during large-scale disasters. Responding with precision and providing assistance when a disaster occurs require accurate and swift situational awareness and information sharing, as well as cooperation among the departments responsible for sales, products, production, purchasing and business infrastructure. Based on the Business Continuity Plan described above, the Skylark Group has formulated rules for emergency situations to make advance preparations during normal operations. These rules cover the Group's basic approach upon the occurrence of a major disaster or other emergency situation, its basic policy on assistance to disaster areas, its disaster response and its organizational structure.

# Providing Safe, Reliable Meals

## Assistance after the Great East Japan Earthquake

After the Great East Japan Earthquake on March 11, 2011, the Skylark Group used its commissary in Sendai to provide food to neighboring village offices and evacuation centers from the day of the quake. The Group also recruited employee volunteers from throughout Japan to distribute hot meals at evacuation centers in Kesenuma and Onagawa until August 17, 2011. A total of 2,700 employees took part to provide approximately 195,000 meals. In addition, in February 2013 the Group signed a disaster aid agreement with the village of Ohira in Kurokawa, Miyagi Prefecture, the location of its commissary. The Group also provided assistance, including distributing cooked rice and groceries, after the Niigata Chuetsu-Oki Earthquake on July 16, 2007 and the Great Hanshin-Awaji Earthquake on January 17, 1995.



## Contribution to NPO "Action with Lao Children"

Some of the coffee sold in the Skylark Group's restaurants is a blend using coffee beans from Laos. For every kilogram of beans the Group purchases, it donates ¥1 to the non-profit organization "Action with Lao Children." This international non-governmental organization has been active in working to improve educational conditions for Laotian children since 1982. Donations are used to publish study aids on folklore and literature and picture books about the environment for distribution to poor children, and are also used to help eliminate educational disparities in Laos. In 2011, a Skylark Group buyer participated in presentation ceremonies held at two elementary schools in regions populated by ethnic minorities. The Group will continue to provide assistance for the smiles of children in Laos.



## Fundraising Activities

When major disasters strike in Japan and overseas, the Skylark Group takes advantage of its nationwide network of more than 3,000 restaurants and shops to conduct fundraising activities. Donations from our many customers and employees are used in various support activities through the respective institutions handling financial assistance.

### Examples of Fundraising

- **Great East Japan Earthquake**  
¥190,972,097 (March to September 2011)
- **Scholarship for Children Orphaned by the Great East Japan Earthquake**  
¥102,368,283 (September 2011 to December 2014)
- **Emergency Donations for Typhoon Haiyan in the Philippines**  
¥5,781,467 (Late November 2013 to December 31, 2013)

## Establishment of a Customer Relations Office

With the motto "All for the Smiles of Our Customers," the Skylark Group aims to offer customers an experience that exceeds their expectations. Opinions and requests from the customers who use our restaurants represent important input for achieving this objective. Consequently, we have established a Customer Relations Office to reflect our customers' frank comments. The valuable opinions collected every day by the Office are reflected in menu development, higher menu quality and improvements in wait staff service to create better restaurants, thus leading to further growth as a business.



# Corporate Governance

## Promoting Sound, Effective and Transparent

### Basic Policy

Skylark Co., Ltd. (the “Company”) considers continuously increasing its corporate value by contributing to society with food to be its most important management issue, and aims to be a corporate group that is trusted by customers and all other stakeholders inside and outside the Company. To achieve this objective, the Company works to enhance corporate governance by conducting various measures to ensure management soundness, efficiency and transparency.

In the belief that speedy and flexible management decision-making and execution are necessary to deal with the rapidly changing food service market, the Company has established a structure that enables thorough advance sharing of information, discussion and deliberation while keeping the board of directors small. Outside directors and outside corporate auditors who supervise business execution have sophisticated management experience and knowledge, and the Company believes it can achieve both effective management and corporate governance of the Skylark Group.

The Company has submitted a Corporate Governance Report to the Tokyo Stock Exchange.

### Company Organizations

#### Board of Directors

The Company’s Board of Directors is composed of seven directors, three of whom are outside directors. As the Company’s highest decision-making body for management and execution of business, the Board meets at least once a month in principle, and meetings are attended by corporate auditors as well as directors. Extraordinary meetings of the Board of Directors are also held as necessary to quickly and flexibly plan and execute overall policies and strategies.

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|   |    |
|---|----|
| Number of Board of Directors Meetings in 2014 | 25 |
|---|----|

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#### Executive Officers’ Meeting

The Executive Officers’ Meeting, composed of the president and all executive officers (managing directors), is held once a week in principle to conduct adequate reporting, examination and discussion of important matters related to the entire Company. In addition, Group committees

(the Personnel and System Committee and the Policy and Investment Committee) meet once a month to report on, examine and make resolutions on important matters related to the entire Skylark Group, the personnel system, policy and other matters.

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|  |    |
|--|----|
| Number of Executive Officers’ Meetings in 2014 | 42 |
|--|----|

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#### Board of Corporate Auditors

The Board of Corporate Auditors is composed of three corporate auditors, two of whom are outside corporate auditors, and meetings are held once a month in principle based on the board’s regulations. Each corporate auditor monitors management activities to ensure that they are conducted in conformance with laws, internal regulations and other rules while monitoring the situation of the Company by attending Board of Directors and other meetings, examining the status of business operations and through other methods. In addition to conducting extensive exchanges of views on the status of management activities and compliance, the Board of Corporate Auditors determines matters relating to audit policy and duties, appoints and removes full-time auditors, and prepares audit reports.

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|  |    |
|--|----|
| Number of Board of Corporate Auditors Meetings in 2014 | 16 |
|--|----|

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#### Other Committees

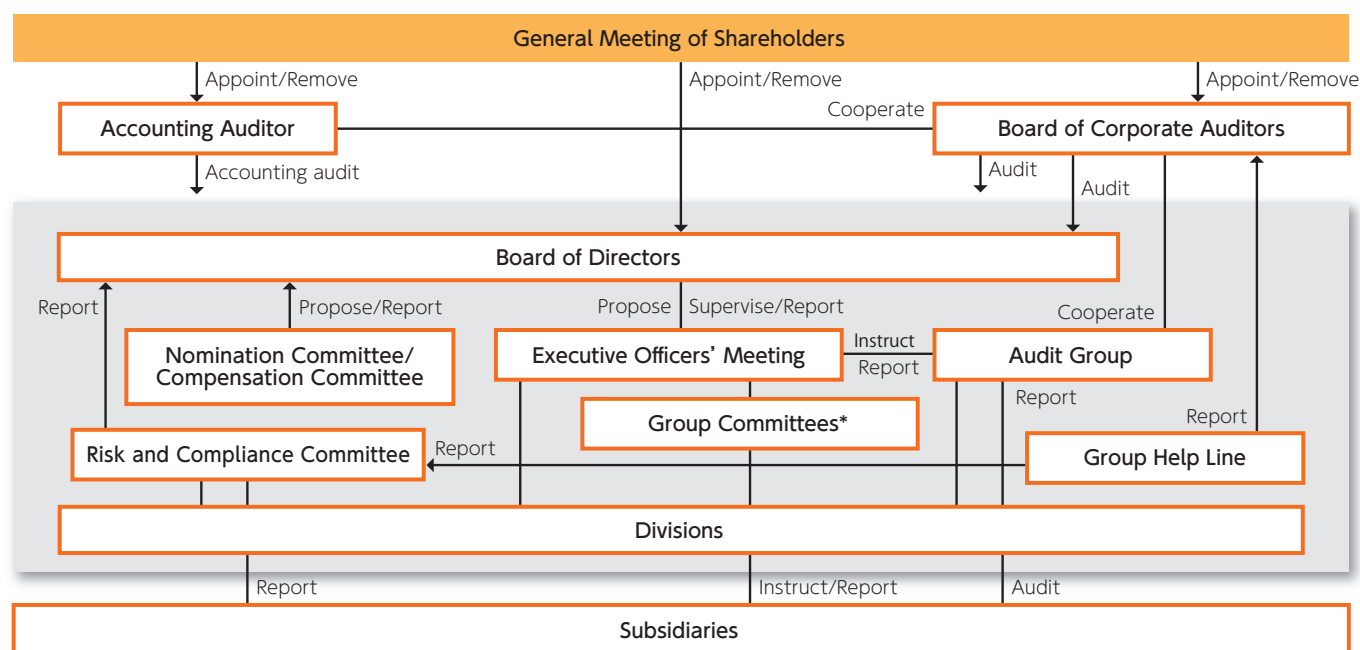
The Company’s Risk and Compliance Committee, which is composed of the president and representative director and all executive officers, meets at least once a year to deliberate on important matters relating to the Company’s compliance and determine basic policies. After such determination, the Group Compliance Conference, which is composed of compliance officers selected from each Group company, meets with a frequency of at least once every six months to confirm and report 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.

#### Accounting Auditor

The Company has entered into an agreement with Deloitte Touche Tohmatsu LLC as its accounting auditor.

# Management

## Corporate Governance Structure



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

## Appropriate Operation of the PDCA Cycle to Further Improve Performance

### A Process for Timely Analysis of Business Results and Swift Implementation of Necessary Responses

#### 1. Performance Meetings for Analysis of Weekly Results and Consensus on and Implementation of Responses

Every Monday, a Performance Meeting is held in which interested parties in the Company, including the CEO, CFO, Field Operations Division, Marketing Division and Finance Division, review preliminary figures for business results for the week up to the previous day. The objectives of the meeting are to clarify issues based on data analysis, reach agreement on necessary responses to resolve the issues and rapidly shift to implementation of specific responses. This creates a process that facilitates understanding of the ever-changing market environment and appropriate, speedy implementation of measures to improve business results.

#### 2. Monthly Performance Reviews and Discussion at the Executive Officers' Meeting and Board of Directors

At the Executive Officers' Meeting at the beginning of month and the regularly monthly meeting of the Board of Directors, the executive officers and directors conduct a detailed review of the preliminary figures for the previous month's business results, check the progress of plans and hold lively discussions on action plans.

# Directors, Corporate Auditors and Executive Officers

## An Experienced Management Team with Diverse Backgrounds

### Directors, Corporate Auditors and Executive Officers

(As of March 30, 2015)

#### Directors



**Ralph Alvarez**  
Executive Chairman

#### Career Summary

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



**Makoto Tani**  
President and Chief Executive Officer

#### Career Summary

|           |   |
|-----------|---|
| Apr. 1977 | Entered Former Skylark 1  |
| Dec. 1987 | Director and General Manager of Sales Division of NILAX Inc.  |
| Jan. 2000 | President and Representative Director of NILAX Inc.   |
| Jan. 2007 | President and Representative Director 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 Representative Director of Former Skylark 2   |
| Sep. 2008 | President and Representative Director and General Manager of Corporate Planning Division of Former Skylark 2                                |
| Feb. 2011 | President and Representative Director and General Manager of Product Division of Former Skylark 2   |
| Jun. 2012 | President and Representative Director of Former Skylark 3   |
| Jul. 2014 | President and Chief Executive Officer of the Company (to present)   |

Note:

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: BCJ Holdings 6 Co., Ltd. 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.

**Hiroshi Teraguchi** Chief Financial Officer  
Managing Director of Finance Division

#### Career Summary

Entered Mobil Oil Corporation in 1982. After serving in positions including Director and Managing Executive Officer of Intelligence, Ltd., he became Managing Director of the Finance Division in 2014. He has served in that post since 2014.

**Yuji Sugimoto** Director

#### Career Summary

Entered Mitsubishi Corporation in 1992. In 2006, he became a Managing Director of Bain Capital Asia, LLC (to present), where he is currently Japan Representative. After serving in positions including Director of Domino's Pizza Japan, Inc., he became an Outside Director of the Company in 2011. He has served in that post since 2014.

**David Gross-Loh** Outside Director

#### Career Summary

Entered NEC Corporation in 1992. In 2008, he became a Managing Director of Bain Capital Asia, LLC. After serving in positions including Director of D&M Holdings Inc., he became an Outside Director of the Company in 2012. He currently holds the post.

#### Reason for Appointment

He has been appointed Outside Director based on the judgment that his extensive knowledge and experience related to improving the business results of various companies at Bain Capital are necessary for the growth of the Company.

**Atsushi Nishijo** 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 SCSK Corporation, he became an Outside Director of the Company in 2014. He currently holds the post. He is also an Outside Director of Brother Industries, Ltd., an Advisor at Sumitomo Corporation and Chairman of Japan Cable and Telecommunications Association.

#### Reason for Appointment

He has been appointed Outside Director based on the judgment that his extensive knowledge and experience gained from his duties as a corporate officer of overseas and domestic subsidiaries of a trading company are necessary for the growth of the Company.

**Atsushi Yokoyama** Outside Director

#### Career Summary

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

#### Reason for Appointment

He has been appointed Outside Director based on the judgment that his extensive knowledge and experience related to improving the business results of various companies at Bain Capital are necessary for the growth of the Company.





CEO Makoto Tani (front row center) and the executive officers

## Corporate Auditors

**Makoto Suzuki** Corporate Auditor

### Career Summary

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

**Fumio Tahara** Outside Corporate Auditor

### Career Summary

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

### Reason for Appointment

He has been appointed Outside Corporate Auditor based on the judgment that his extensive knowledge and experience at the Ministry of Agriculture and Forestry and the Fisheries Agency are necessary for the growth of the Company.

**Osamu Moriya** Outside Corporate Auditor

### Career Summary

Entered the Ministry of International Trade and Industry (currently the Ministry of Economy, Trade and Industry) in 1979. In 2006, became a Managing Director (currently Senior Executive) of Japan Industrial Partners, Inc. After serving in positions including Director of Toyota Caelum Incorporated and Sun Telephone Co., Ltd., he became an Outside Corporate Auditor of the Company in 2015. He currently holds the post.

### Reason for Appointment

He has been appointed Outside Corporate Auditor based on the judgment that he will provide appropriate supervision of the Company's management using his many years of experience at administrative agencies and his experience in management and auditing in a wide range of industries including telecommunications equipment.

## Executive Officers

**Minoru Kanaya** Managing Director of Corporate Support Division

### Career Summary

- Employed for 25 years at Nomura Securities Co., Ltd. in accounting, IT, planning and other departments.
- Executive Officer of the former Nomura Principal Finance Co., Ltd.

**Isao Sakurai** Managing Director of Human Resources Division

### Career Summary

- Employed for 17 years at The Sanwa Bank, Limited, with experience in sales to major corporations, international affairs, personnel and other areas.
- Led large-scale reorganization and reform of organizational culture as General Manager of the Personnel Division of General Electric International Inc. Japan.
- Conducted strategic support for business expansion as General Manager of the Personnel Division of HSBC Japan.

**Sumio Matsumoto** Managing Director of Field Operations Division

### Career Summary

- After entering Bamiyan Co., Ltd., and serving in positions including General Manager of Bamiyan Company and Sales Manager in charge of Bamiyan, became head of departments in charge of all brands other than Gusto in 2012.
- Assumed the post of General Manager in charge of all brands including Gusto in December 2013.

**Nishad Alani** Managing Director of Marketing Division

### Career Summary

- Engaged in consulting business as a principal of A.T. Kearney.
- Responsible for retail operations and supply chain at Starbucks Coffee Asia Pacific Limited.

**Minoru Himeno** Managing Director of Purchasing Division

### Career Summary

- After serving as Representative of Bamiyan Company and President and Representative Director of NILAX Inc., became Managing Director of the Purchasing Division in 2011.

**Toshiaki Aihara** Managing Director of Production Division

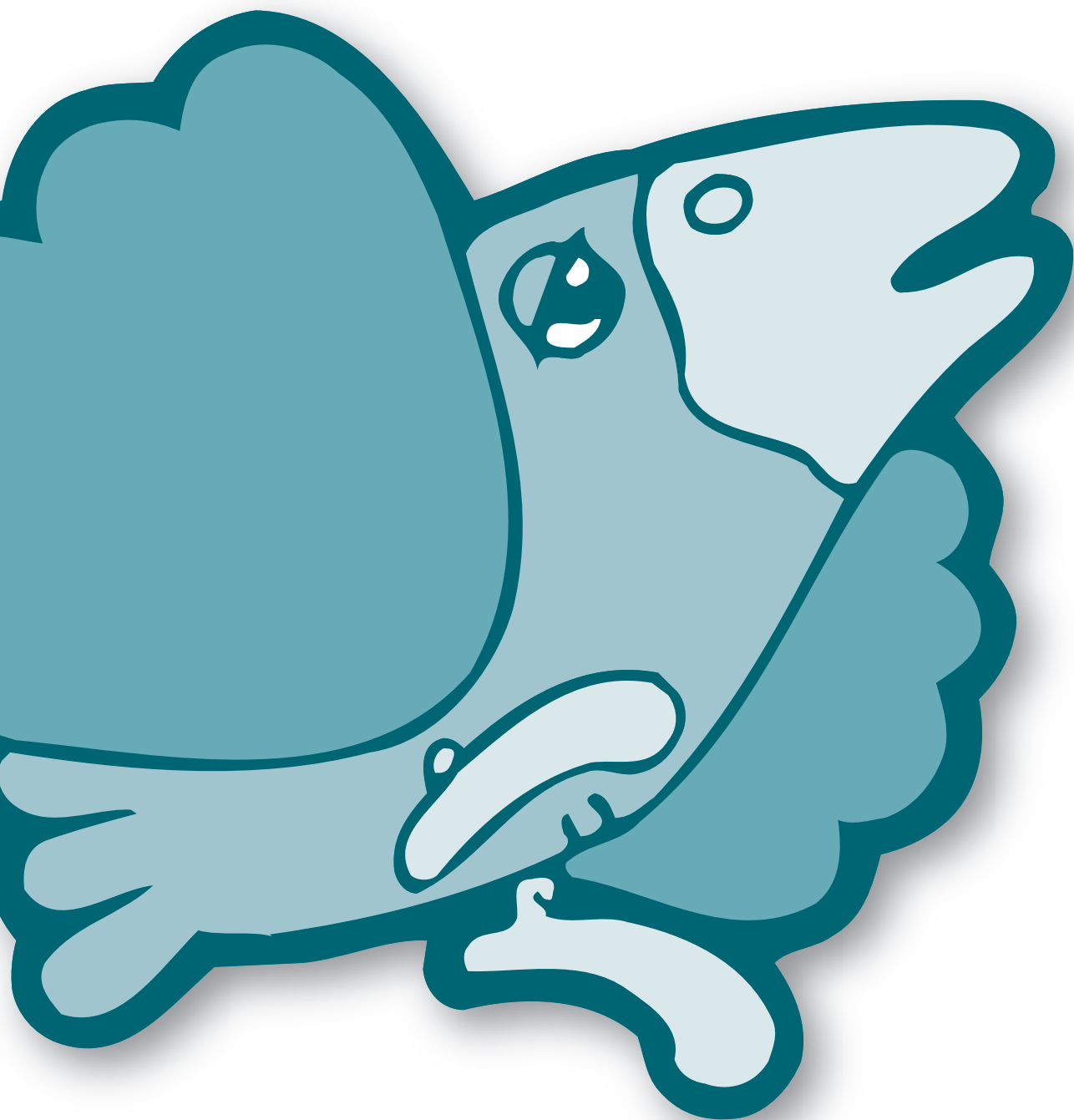
### Career Summary

- 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, became Managing Director of the Production Division in 2012.

**Shigeto Kadowaki** Managing Director of Restaurant Development Division

### Career Summary

- Employed for 20 years at Mitsui Fudosan Co., Ltd., involved in planning, development and operation of outlet malls and commercial facilities.
- Involved in global store development of UNIQLO and other stores as an Executive Officer of Fast Retailing Co., Ltd.



## Financial Section

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# Analysis of Operating Results and Financial Position

## Analysis of Operating Results

The Skylark Group conducted ongoing priority measures under two growth strategies: achieving stable and sustainable growth in sales by strengthening profitability at existing restaurants and opening new ones; and improving its profit margin by further optimizing operations.

The Group aimed to improve customer satisfaction through these measures, and as a result total sales for the year ended December 31, 2014 increased 2.3% compared with the previous year, despite the impact of an increase in the consumption tax rate.

As for improving the profit margin by further optimizing operations, the Group maintained the cost of goods sold (COGS) rate at 30.1%, the same level as the previous year, with ongoing optimization of purchasing, processing and distribution amid the depreciation of the yen and rising market prices for ingredients, mainly meat. The Group also promoted reform of its restaurant operation system and worked to improve and raise the efficiency of restaurant facilities through measures such as adopting new cooking systems and introducing energy-saving equipment.

As a result of the above, revenue was ¥340,002 million, an increase of ¥7,518 million compared with the previous year; operating profit was ¥21,642 million, a decrease of ¥921 million; income before income taxes was ¥16,767 million, an increase of ¥4,967 million; and net income attributable to owners of the Company was ¥9,469 million, an increase of ¥2,382 million.

EBITDA was ¥34,787 million, a decrease of ¥620 million compared with the previous year; adjusted EBITDA was ¥42,210 million, an increase of ¥3,658 million; and adjusted net income was ¥13,174 million, an increase of ¥3,062 million.

## Analysis of Financial Position

Current assets as of December 31, 2014 totaled ¥38,491 million, an increase of ¥2,744 million compared with a year earlier, mainly due to an increase in cash and cash equivalents and decreases in inventories and other current assets. Non-current assets totaled ¥273,664 million, an increase of ¥2,519 million compared with a year earlier, mainly due to an increase in property, plant and equipment.

Total assets were ¥312,155 million, an increase of ¥5,263 million compared with a year earlier.

Current liabilities totaled ¥55,441 million, a decrease of ¥255 million compared with a year earlier, due to a decrease in short-term borrowings and increases in other financial liabilities and other current liabilities. Non-current liabilities totaled ¥162,957 million, a decrease of ¥14,256 million compared with a year earlier, due to a decrease in long-term borrowings.

Total liabilities were ¥218,398 million, a decrease of ¥14,511 million compared with a year earlier.

Total equity was ¥93,757 million, an increase of ¥19,774 million compared with a year earlier, due to a ¥7,836 million increase in capital surplus and a ¥9,469 million increase in retained earnings.

## Analysis of Cash Flows

The balance of cash and cash equivalents as of December 31, 2014 was ¥23,383 million, which was an increase of ¥9,500 million compared with a year earlier.

### Cash Flows from Operating Activities

Net cash from operating activities was ¥37,147 million, compared with ¥27,016 million in the previous year. This was primarily due to income before income taxes of ¥16,767 million and depreciation and amortization of ¥12,964 million.

### Cash Flows from Investing Activities

Net cash used in investing activities was ¥11,781 million, compared with ¥9,480 million in the previous year. This was primarily due to payments for acquisition of property, plant and equipment totaling ¥11,715 million, which included investments in new, converted and remodeled restaurants.

### Cash Flows from Financing Activities

Net cash used in financing activities was ¥15,921 million, compared with ¥15,507 million in the previous year. This was primarily due to repayments of long-term borrowings of ¥14,700 million, repayments of lease obligations of ¥4,194 million and proceeds from issuance of common stock of ¥4,727 million.



# Consolidated Financial Statements

## Consolidated Statements of Financial Position

(Millions of yen)

|  | As of<br>December 31, 2013 | As of<br>December 31, 2014 |
|--|----------------------------|----------------------------|
| <b>Assets</b>  |                            |                            |
| Current assets   |                            |                            |
| Cash and cash equivalents . . . . .                    | ¥ 13,883                   | ¥ 23,383                   |
| Trade and other receivables . . . . .                  | 6,617                      | 7,144                      |
| Other financial assets . . . . .                       | 110                        | 94                         |
| Inventories . . . . .                                  | 5,634                      | 4,108                      |
| Other current assets . . . . .                         | 9,503                      | 3,762                      |
| Total current assets . . . . .                         | 35,747                     | 38,491                     |
| Non-current assets                                     |                            |                            |
| Property, plant and equipment . . . . .                | 86,520                     | 90,498                     |
| Goodwill . . . . .                                     | 146,320                    | 146,320                    |
| Other intangible assets . . . . .                      | 2,402                      | 1,958                      |
| Other financial assets . . . . .                       | 24,726                     | 24,194                     |
| Deferred tax assets . . . . .                          | 10,710                     | 10,058                     |
| Other non-current assets . . . . .                     | 467                        | 636                        |
| Total non-current assets . . . . .                     | 271,145                    | 273,664                    |
| <b>Total assets . . . . .</b>                          | <b>¥306,892</b>            | <b>¥312,155</b>            |
| <b>Liabilities and equity</b>                          |                            |                            |
| Liabilities  |                            |                            |
| Current liabilities                                    |                            |                            |
| Short-term borrowings . . . . .                        | ¥ 14,645                   | ¥ 9,464                    |
| Trade and other payables . . . . .                     | 24,469                     | 23,833                     |
| Other financial liabilities . . . . .                  | 5,332                      | 7,200                      |
| Income tax payable . . . . .                           | 1,992                      | 2,926                      |
| Provisions . . . . .                                   | 73                         | 105                        |
| Other current liabilities . . . . .                    | 9,185                      | 11,913                     |
| Total current liabilities . . . . .                    | 55,696                     | 55,441                     |
| Non-current liabilities                                |                            |                            |
| Long-term borrowings . . . . .                         | 150,111                    | 139,883                    |
| Other financial liabilities . . . . .                  | 14,949                     | 10,267                     |
| Provisions . . . . .                                   | 11,867                     | 12,427                     |
| Deferred tax liabilities . . . . .                     | —                          | 2                          |
| Other non-current liabilities . . . . .                | 286                        | 378                        |
| Total non-current liabilities . . . . .                | 177,213                    | 162,957                    |
| Total liabilities . . . . .                            | 232,909                    | 218,398                    |
| Equity   |                            |                            |
| Share capital . . . . .                                | 100                        | 2,479                      |
| Capital surplus . . . . .                              | 59,838                     | 67,674                     |
| Other components of equity . . . . .                   | 301                        | 376                        |
| Retained earnings . . . . .                            | 13,693                     | 23,162                     |
| Equity attributable to owners of the Company . . . . . | 73,932                     | 93,691                     |
| Non-controlling interests . . . . .                    | 51                         | 66                         |
| Total equity . . . . .                                 | 73,983                     | 93,757                     |
| <b>Total liabilities and equity . . . . .</b>          | <b>¥306,892</b>            | <b>¥312,155</b>            |

## Consolidated Statements of Income

(Millions of yen)

|  | For the year ended<br>December 31, 2013 | For the year ended<br>December 31, 2014 |
|--|---|---|
| Revenue .....                                      | ¥ 332,484                               | ¥ 340,002                               |
| Cost of sales .....                                | (100,242)                               | (102,207)                               |
| Gross profit .....                                 | 232,242                                 | 237,795                                 |
| Other operating income .....                       | 317                                     | 673                                     |
| Selling, general and administrative expenses ..... | (206,969)                               | (209,419)                               |
| Other operating expenses .....                     | (3,027)                                 | (7,407)                                 |
| Operating profit .....                             | 22,563                                  | 21,642                                  |
| Interest income .....                              | 78                                      | 41                                      |
| Other income .....                                 | 577                                     | 320                                     |
| Interest expense .....                             | (7,277)                                 | (5,181)                                 |
| Other expenses .....                               | (4,141)                                 | (55)                                    |
| Income before income taxes .....                   | 11,800                                  | 16,767                                  |
| Income taxes .....                                 | (4,703)                                 | (7,288)                                 |
| Net income .....                                   | ¥ 7,097                                 | ¥ 9,479                                 |
| Net income attributable to:                        |   |   |
| Owners of the Company .....                        | ¥ 7,087                                 | ¥ 9,469                                 |
| Non-controlling interests .....                    | 10                                      | 10                                      |
| Net income .....                                   | ¥ 7,097                                 | ¥ 9,479                                 |
| Earnings per share                                 |   |   |
| Basic (Yen) .....                                  | ¥ 37.29                                 | ¥ 49.57                                 |
| Diluted (Yen) .....                                | 37.29                                   | 49.47                                   |

## Consolidated Statements of Comprehensive Income

(Millions of yen)

|   | For the year ended<br>December 31, 2013 | For the year ended<br>December 31, 2014 |
|---|---|---|
| Net income .....  | ¥7,097                                  | ¥9,479                                  |
| Other comprehensive income:                                     |   |   |
| Items that may be reclassified to profit or loss:               |   |   |
| Exchange differences on translation of foreign operations ..... | 192                                     | 80                                      |
| Total items that may be reclassified to profit or loss .....    | 192                                     | 80                                      |
| Other comprehensive income, net of tax .....                    | 192                                     | 80                                      |
| Total comprehensive income .....                                | ¥7,289                                  | ¥9,559                                  |
| Comprehensive income attributable to:                           |   |   |
| Owners of the Company .....                                     | ¥7,272                                  | ¥9,544                                  |
| Non-controlling interests .....                                 | 17                                      | 15                                      |
| Total comprehensive income .....                                | ¥7,289                                  | ¥9,559                                  |

## Consolidated Statements of Changes in Equity

(Millions of yen)

|   | Share capital | Capital surplus | Other components of equity                                |       |
|---|---------------|-----------------|---|-------|
|   |               |                 | Exchange differences on translation of foreign operations | Total |
| As of January 1, 2013   | ¥ 47,518      | ¥ 39,433        | ¥116  | ¥116  |
| Net income  | —             | —               | —   | —     |
| Other comprehensive income, net of tax                            | —             | —               | 185   | 185   |
| Total comprehensive income  | —             | —               | 185   | 185   |
| Transfer of share capital to capital surplus                      | (47,418)      | 47,418          | —   | —     |
| Dividends   | —             | (27,790)        | —   | —     |
| Share-based payments  | —             | 73              | —   | —     |
| Contribution of management services rendered by owners            | —             | 700             | —   | —     |
| Other increase (decrease)   | —             | 4               | —   | —     |
| Total contributions by and distributions to owners of the Company | (47,418)      | 20,405          | —   | —     |
| Total transactions with owners of the Company, etc.               | (47,418)      | 20,405          | —   | —     |
| As of December 31, 2013   | 100           | 59,838          | 301   | 301   |
| Net income  | —             | —               | —   | —     |
| Other comprehensive income, net of tax                            | —             | —               | 75  | 75    |
| Total comprehensive income  | —             | —               | 75  | 75    |
| Issuance of common stock  | 2,379         | 2,359           | —   | —     |
| Share-based payments  | —             | 61              | —   | —     |
| Contribution of management services rendered by owners, etc.      | —             | 5,542           | —   | —     |
| Other increase (decrease)   | —             | (126)           | —   | —     |
| Total contributions by and distributions to owners of the Company | 2,379         | 7,836           | —   | —     |
| Total transactions with owners of the Company, etc.               | 2,379         | 7,836           | —   | —     |
| As of December 31, 2014   | ¥ 2,479       | ¥ 67,674        | ¥376  | ¥376  |



|   | (Millions of yen) |  |                           |              |
|---|-------------------|--|---------------------------|--------------|
|   | Retained earnings | Equity attributable to owners of the Company | Non-controlling interests | Total equity |
| As of January 1, 2013 .....   | ¥ 6,606           | ¥ 93,673                                     | ¥34                       | ¥ 93,707     |
| Net income .....  | 7,087             | 7,087  | 10                        | 7,097        |
| Other comprehensive income, net of tax .....                            | —                 | 185  | 7                         | 192          |
| Total comprehensive income .....  | 7,087             | 7,272  | 17                        | 7,289        |
| Transfer of share capital to capital surplus .....                      | —                 | —  | —                         | —            |
| Dividends .....   | —                 | (27,790)                                     | —                         | (27,790)     |
| Share-based payments .....  | —                 | 73   | —                         | 73           |
| Contribution of management services rendered by owners .....            | —                 | 700  | —                         | 700          |
| Other increase (decrease) .....   | —                 | 4  | —                         | 4            |
| Total contributions by and distributions to owners of the Company ..... | —                 | (27,013)                                     | —                         | (27,013)     |
| Total transactions with owners of the Company, etc. . .                 | —                 | (27,013)                                     | —                         | (27,013)     |
| As of December 31, 2013 .....   | 13,693            | 73,932                                       | 51                        | 73,983       |
| Net income .....  | 9,469             | 9,469  | 10                        | 9,479        |
| Other comprehensive income, net of tax .....                            | —                 | 75   | 5                         | 80           |
| Total comprehensive income .....  | 9,469             | 9,544  | 15                        | 9,559        |
| Issuance of common stock .....  | —                 | 4,738  | —                         | 4,738        |
| Share-based payments .....  | —                 | 61   | —                         | 61           |
| Contribution of management services rendered by owners, etc. ....       | —                 | 5,542  | —                         | 5,542        |
| Other increase (decrease) .....   | —                 | (126)  | —                         | (126)        |
| Total contributions by and distributions to owners of the Company ..... | —                 | 10,215                                       | —                         | 10,215       |
| Total transactions with owners of the Company, etc. . .                 | —                 | 10,215                                       | —                         | 10,215       |
| As of December 31, 2014 .....   | ¥23,162           | ¥ 93,691                                     | ¥66                       | ¥ 93,757     |

## Consolidated Statements of Cash Flows

(Millions of yen)

|   | For the year ended<br>December 31, 2013 | For the year ended<br>December 31, 2014 |
|---|---|---|
| Cash flows from operating activities  |   |   |
| Income before income taxes.....   | ¥ 11,800                                | ¥ 16,767                                |
| Adjustments for:  |   |   |
| Depreciation and amortization.....  | 12,701                                  | 12,964                                  |
| Loss on impairment of non-financial assets.....   | 1,414                                   | 677                                     |
| Loss on sale and disposal of fixed assets.....  | 925                                     | 768                                     |
| Interest income.....  | (78)                                    | (41)                                    |
| Other income.....   | (577)                                   | (320)                                   |
| Interest expense.....   | 7,277                                   | 5,181                                   |
| Other expenses.....   | 4,141                                   | 55                                      |
|   | 37,603                                  | 36,051                                  |
| Changes in working capital, etc.:   |   |   |
| Increase in trade and other receivables.....  | (321)                                   | (512)                                   |
| (Increase) decrease in inventories.....   | (505)                                   | 1,530                                   |
| Increase (decrease) in trade and other payables.....  | 2,508                                   | (1,579)                                 |
| Other.....  | 405                                     | 7,203                                   |
| Cash generated from operations.....   | 39,690                                  | 42,693                                  |
| Interests and dividends received.....   | 31                                      | 6                                       |
| Interest paid.....  | (6,404)                                 | (4,940)                                 |
| Income taxes paid.....  | (6,391)                                 | (6,289)                                 |
| Income taxes refunded.....  | 90                                      | 5,677                                   |
| Net cash from operating activities.....   | 27,016                                  | 37,147                                  |
| Cash flows from investing activities  |   |   |
| Proceeds from withdrawal of time deposits.....  | 1,000                                   | —                                       |
| Acquisition of property, plant and equipment.....   | (11,677)                                | (11,715)                                |
| Proceeds from sale of property, plant and equipment.....  | 395                                     | 3                                       |
| Acquisition of intangible assets.....   | (296)                                   | (323)                                   |
| Proceeds from collection of loans.....  | 33                                      | 16                                      |
| Payments of lease deposits and guarantee deposits.....  | (469)                                   | (776)                                   |
| Proceeds from collection of lease deposits and guarantee deposits.....                            | 1,547                                   | 1,259                                   |
| Other.....  | (13)                                    | (245)                                   |
| Net cash used in investing activities.....  | (9,480)                                 | (11,781)                                |
| Cash flows from financing activities  |   |   |
| Proceeds from long-term borrowings.....   | 166,582                                 | —                                       |
| Repayments of long-term borrowings.....   | (141,972)                               | (14,700)                                |
| Proceeds from issuance of common stock.....   | —                                       | 4,727                                   |
| Repayments of lease obligations.....  | (3,808)                                 | (4,194)                                 |
| Dividends paid.....   | (27,790)                                | —                                       |
| Payments for redemption of cumulative redeemable preferred shares.....                            | (8,519)                                 | —                                       |
| Payments of commissions related to borrowings.....  | —                                       | (1,754)                                 |
| Net cash used in financing activities.....  | (15,507)                                | (15,921)                                |
| Effect of exchange rate on the balance of cash and cash equivalents held in foreign currency..... | 71                                      | 55                                      |
| Net increase in cash and cash equivalents.....  | 2,100                                   | 9,500                                   |
| Cash and cash equivalents at the beginning of the year.....                                       | 11,783                                  | 13,883                                  |
| Cash and cash equivalents at the end of the year.....   | ¥ 13,883                                | ¥ 23,383                                |

# Shareholder Information/Corporate Data

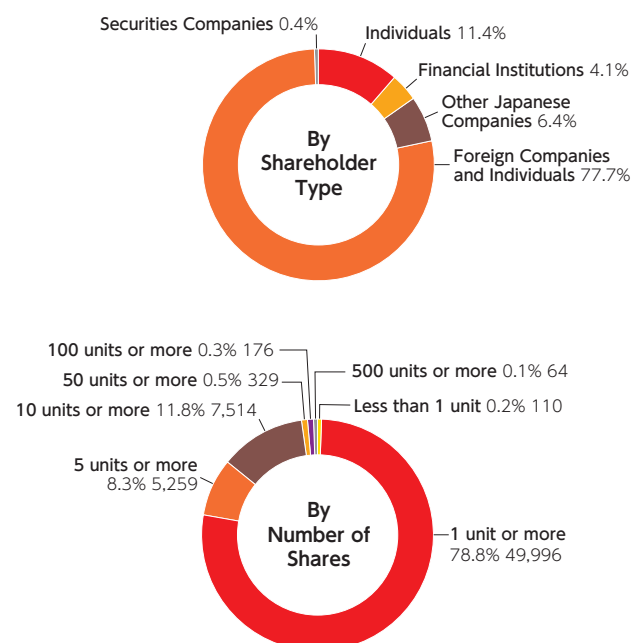
## Basic Information

|   |   |
|---|---|
| Company Name  | SKYLARK CO., LTD.   |
| Founded   | April 4, 1962   |
| Representative  | Makoto Tani, President & Chief Executive Officer  |
| Capital   | ¥2,479 million  |
| Number of Employees (As of December 31, 2014)             | Full-time: 5,683<br>(Non-consolidated: 4,365)<br>Part-time: 92,539  |
| Business Activities                                       | Food services and related businesses  |
| Number of Restaurants and Shops (As of December 31, 2014) | Skylark Group (Japan): 2,973<br>Skylark Group (Japan and overseas): 3,014   |
| Commissaries and Factory                                  | Sendai Merchandising Center, Fujioka Merchandising Center, Higashimatsuyama Merchandising Center, Shisui Merchandising Center, Akishima Merchandising Center, Sagamiyama Merchandising Center, Gifu Merchandising Center, Nishinomiya Merchandising Center, Kitakyushu Merchandising Center, Maebashi Factory |

## Common Stock (As of December 31, 2014)

|                        |                    |
|------------------------|--------------------|
| Authorized             | 600,000,000 shares |
| Issued                 | 194,208,700 shares |
| Number of Shareholders | 63,448             |

### Composition of Shareholders



## Website

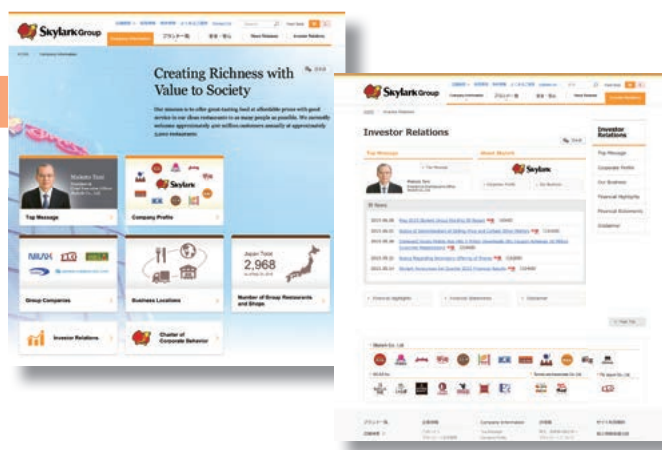
The Skylark Group website features various information related to investor relations and other matters.

- Skylark Group Website

[http://www.skylark.co.jp/company\\_e/](http://www.skylark.co.jp/company_e/)

- Investor Relations Website

<http://ir.skylark.co.jp/english/>



This annual 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 annual 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 annual 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.

This annual report does not constitute an offer to sell or a solicitation of any offer to buy securities in the United States. The Company's common stock has not been and will not be registered under the United States Securities Act of 1933 and may not be offered or sold in the United States absent such registration or an exemption from such registration requirement. If any public offering of securities is made in the United States, it will be by means of a prospectus prepared pursuant to the United States Securities Act of 1933. In such an event, the prospectus may be obtained from the Company or any other party selling the securities, and will contain detailed information about the Company and its management, as well as financial statements.