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August 2, 2016

Summary of Financial Results of the First Quarter of the Fiscal Year Ending March 31, 2017 [Japanese standards] (Consolidated)

Company name: SATO RESTAURANT SYSTEMS COMPANY LIMITED Stock Exchange listings: Tokyo
 Securities code: 8163 URL: <http://www.sato-restaurant-systems.co.jp>
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 Scheduled date of filing of quarterly report: August 10, 2016
 Scheduled date of payment of dividend: N/A
 Preparation of supplementary references regarding quarterly results: No
 Holding the briefing of quarterly results: No

(All amounts are rounded down to the nearest million yen)
 (△ means negative)

1. Financial results of the First Quarter of the Fiscal Year Ending March 31, 2017 (April 1, 2016 – June 30, 2016)

(1) Consolidated operating results (cumulative total)

(Percentages represent changes from previous year)

	Net sales		Operating income		Ordinary income		Income attributable to owners of parent	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
1Q FY03/2017	9,572	2.0	△261	—	△407	—	△586	—
1Q FY03/2016	9,386	5.3	35	△41.0	5	△83.6	△43	—

(Note) Comprehensive income 1Q FY03/2017: △ 635million yen (—%)

1Q FY03/2016: 23 million yen (3.6%)

	Net income per share		Diluted net income per share	
	Yen		Yen	
1Q FY03/2017	△17.67		—	
1Q FY03/2016	△1.47		—	

(2) Consolidated financial position

	Total assets		Net assets		Equity ratio		Net assets per share	
	Million yen		Million yen		%		Yen	
1Q FY03/2017	26,743		13,730		51.0		410.57	
FY03/2016	27,820		14,531		51.8		434.35	

(Reference) Shareholders equity: 1Q FY03/2017: 13,634 million yen

FY03/2016: 14,424 million yen

2. Dividends

	Annual dividend per share				
	1Q-end	2Q-end	3Q-end	Year-end	Total
	Yen				
FY03/2016	—	—	—	5.00	5.00
FY03/2017	—	—	—	—	—
FY03/2017 (forecasts)	—	—	—	5.00	5.00

(NOTE) Revisions to dividend forecasts published most recently: None

3. Consolidated performance forecasts for the Fiscal Year Ending March 31, 2017 (April 1, 2016 – March 31, 2017)

(Percentages represent changes from previous year; △ means negative)

	Net sales		Operating income		Ordinary income		Income attributable to owners of parent		Net income per share	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Yen	
2Q (cumulative total)	20,900	6.1	310	△38.5	330	△22.9	△20	—	△0.60	
Full term	43,400	8.3	850	56.8	940	160.1	400	—	12.04	

(NOTE) Revisions to performance forecasts published most recently: None

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***Notes**

- (1) Changes in important subsidiaries during the current period
(changes in specific subsidiaries resulting in modifications of the consolidation scope): None
New company: None
Excluded company: None
- (2) Application of special accounting methods to the preparation of quarterly consolidated financial statements: None
- (3) Changes in accounting principles, changes and restatements of accounting estimates
 - 1) Changes in accounting principles caused by revision of accounting standards: None
 - 2) Changes other than 1): None
 - 3) Changes in accounting estimates: None
 - 4) Restatements: None
- (4) Number of outstanding shares (common shares)
 - 1) Number of shares outstanding at the end of the period (including treasury stock)

1Q FY03/2017:	33,209,080 shares
FY03/2016:	33,209,080 shares
 - 2) Number of treasury stock at the end of the period

1Q FY03/2017:	212 shares
FY03/2016:	212 shares
 - 3) Average number of shares outstanding during the period (quarterly cumulative)

1Q FY03/2017:	33,208,868 shares
1Q FY03/2016:	29,458,917 shares

*** Presentation concerning implementation status of quarterly review procedures**

These quarterly financial results are not the subject of a quarterly review procedure based on the Financial Instruments and Exchange Act, and at the time of disclosing these quarterly financial results, review procedures regarding the quarterly financial statements based on the Financial Instruments and Exchange Act had not been completed.

*** Explanation regarding appropriate use of the earnings forecast and other special notes**

Descriptions about the future such as performance forecasts contained in this document are based on information currently available to the Company and certain presumptions considered to be reasonable, and therefore actual business performance and other elements may differ substantially due to various factors.

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1. Qualitative Information regarding the Current Quarter**(1) Descriptions regarding operating results**

① Consolidated performance

(million yen; △ means negative)

	1Q FY03/2016			1Q FY03/2017		
	Actual results	+/- amounts YoY	+/-% YoY	Actual results	+/- amounts YoY	+/-% YoY
Net sales	9,386	468	5.3%	9,572	185	2.0%
Operating income	35	△24	△41.0%	△261	△296	—
Ordinary income	5	△26	△83.6%	△407	△412	—
Income attributable to owners of parent	△43	△30	—	△586	△543	—

During the current first quarter consolidated cumulative period, net sales increased due to increase in number of restaurants in operation. However, income significantly decreased because of decline in net sales at existing restaurants as compared to the previous year, and rise in ratio of SG&A expenses to sales mainly due to increase in labor cost associated with arranging working environment, as well as allocation of foreign exchange losses due to progressively stronger yen.

② Measures for opening new restaurants

(numbers of restaurants)

Category	As of end of the previous consolidated fiscal year	Newly opened restaurants	Closed restaurants	As of end of the current second quarter consolidated fiscal period	Planned to open during the current consolidated fiscal year
Washoku Sato	201 (—)	— (—)	— (—)	201 (—)	4 (—)
Sushi-han	14 (—)	— (—)	— (—)	14 (—)	— (—)
Tendon & Tenpura restaurant Santen	22 (—)	1 (—)	— (—)	23 (—)	25 (5)
Nigiri Chojiro	53 (—)	1 (—)	— (—)	54 (—)	6 (—)
Nigiri Chujiro	6 (—)	— (—)	— (—)	6 (—)	4 (—)
Katsuya	28 (14)	4 (2)	— (—)	32 (16)	11 (6)
Miyakobito	18 (17)	— (—)	1 (1)	17 (16)	— (—)
Domestic total	342 (31)	6 (2)	1 (1)	347 (32)	50 (11)
Overseas restaurants	6 (5)	1 (—)	— (—)	7 (5)	— (—)
Worldwide total	348 (36)	7 (2)	1 (1)	354 (37)	50 (11)

NOTE: Numbers in parentheses represent FC restaurants (domestic) and joint venture restaurants (overseas).

Newly opened restaurants during the current first quarter consolidated cumulative period were as follows: 1 directly managed "Tendon & Tenpura restaurant Santen" restaurants, 1 directly managed "Nigiri Chojiro" restaurant, and 4 "Katsuya" restaurants including 2 directly managed and 2 FC restaurants, totaling 6 restaurants were newly opened in all categories domestically.

As for overseas development, "Washoku Sato Jung-Li branch" was newly opened in Taiwan, which means the Company operates currently 7 overseas restaurants; 2 in Taiwan, 2 in Indonesia and 3 in Thailand.

These developments have resulted in 354 restaurants of the entire Group in operation domestic and overseas at the end of the current first quarter consolidated fiscal period.

③ Other measures

As operational measures at "Washoku Sato" restaurants, variation of the all-you-can-eat style Shabu-Shabu became wider by adding "Buta-Shabu course (pork)" to "Sato-Shabu" menu at the end of March, 2016, followed by continuous sales enhancement efforts for our core menu of "Sato-Shabu", including half-price draft beer campaign in May offered for those who ordered "Sato-Shabu". In addition, facilities renovations were carried out at 2 restaurants.

At "Santen" restaurants, Narumi branch (Aichi pref.) that is the first restaurant in Chubu area was newly opened, and net sales of this category has maintained good performance at higher level than planned.

At "Nigiri Chojiro" restaurants, Chojiro's 15th anniversary special events started and various dishes using seasonal fresh materials, including Madai (red seabream) as spring seasonal harvest festival, were offered and enjoyed much popularity.

It should be noted that the Group is a single segment of food service business and therefore description of segmental performance is omitted.

(2) Descriptions regarding financial position

(Status of assets, liabilities and net assets)

Total assets at the end of the current first quarter consolidated fiscal period was 26,743 million yen (decrease by 1,076 million yen from the end of the previous consolidated fiscal year).

(Assets)

Current liabilities was 9,587 million yen (decrease by 1,178 million yen from the end of the previous consolidated fiscal year). It comprises mainly decrease in cash and deposits by 1,104 million yen.

Non-current assets was 17,145 million yen (increase by 91 million yen from the end of the previous consolidated fiscal year). It comprises mainly increase in investment securities by 89 million yen.

(Liabilities)

Current liabilities at the end of the current first quarter consolidated fiscal period was 6,897 million yen (decrease by 455 million yen from the end of the previous consolidated fiscal year). It comprises mainly decrease in current portion of long-term loans payable by 185 million yen and decrease in accounts payable-trade by 123 million yen.

Non-current liabilities was 6,116 million yen (increase by 179 million yen from the end of the previous consolidated fiscal year). It comprises mainly decrease in long-term loans payable by 470 million yen and increase in bonds payable by 640 million yen.

(Net assets)

Net assets at the end of the current first quarter consolidated fiscal period was 13,730 million yen (decrease by 801 million yen from the end of the previous consolidated fiscal year).

(3) Descriptions regarding future prospects such as consolidated performance forecasts

There is no change in consolidated performance forecasts for the second quarter consolidated cumulative period and for the full term, as announced in the Summary of Financial Results on May 11, 2016.

It should be noted that on August 2, 2016, the Company executed a share transfer agreement with UG Utsunomiya Corporation concerning acquisition of business (affiliation) of "Meshiya Miyamoto Munashi" (a restaurant chain), and a share transfer agreement with TWO SIX Corporation concerning acquisition of its entire shares. Effects of these actions on the Company are under close investigation at present, and details are expected to be disclosed at the occasion of releasing summary of financial results of the 2Q FY03/2017.

2. Matters regarding summary information (Notes)**(1) Changes in important subsidiaries during the current quarterly consolidated cumulative period**

Not applicable.

(2) Application of special accounting methods to the preparation of quarterly consolidated financial statements

Not applicable.

**(3) Changes in accounting principles, changes and restatements of accounting estimates
Additional information**

(Application of Implementation Guidance on Recoverability of Deferred Tax Assets)

The Company has applied the "Implementation Guidance on Recoverability of Deferred Tax Assets" (Accounting Standards Board of Japan Guidance No. 26 of March 28, 2016) since the current first quarter consolidated fiscal period.

3. Summary of important information for going concern assumption

Not applicable.

4. Quarterly Consolidated Financial Statements**(1) Quarterly Consolidated Balance Sheets**

(Thousand yen; △ means negative)

	Previous consolidated fiscal year (March 31, 2016)	Current first quarter consolidated fiscal period (June 30, 2016)
Assets		
Current assets		
Cash and deposits	8,616,381	7,511,900
Accounts receivable - trade	603,001	541,540
Merchandise	41,279	41,176
Raw materials and supplies	710,854	748,493
Deferred tax assets	312,739	222,471
Other	481,583	521,967
Total current assets	10,765,840	9,587,550
Non-current assets		
Property, plant and equipment		
Buildings, net	2,456,152	2,514,935
Land	4,742,506	4,742,506
Other, net	2,174,772	2,232,896
Total property, plant and equipment	9,373,431	9,490,338
Intangible assets		
Goodwill	1,116,373	1,093,896
Other	977,751	933,406
Total intangible assets	2,094,124	2,027,303
Investment and other assets		
Investment securities	805,407	894,582
Long-term loans receivable	833,744	844,818
Guarantee deposits	3,039,010	3,022,035
Deferred tax assets	445,963	425,030
Other	475,766	454,876
Allowance for doubtful accounts	△ 13,505	△ 13,121
Total investments and other assets	5,586,386	5,628,222
Total non-current assets	17,053,942	17,145,864
Deferred assets	649	10,051
Total assets	27,820,432	26,743,467

	(Thousand yen; △ means negative)	
	Previous consolidated fiscal year (March 31, 2016)	Current first quarter consolidated fiscal period (June 30, 2016)
Liabilities		
Current liabilities		
Accounts payable - trade	1,179,980	1,056,442
Current portion of bonds	50,000	160,000
Current portion of long-term loans payable	2,437,500	2,252,000
Accounts payable-other	2,137,639	2,048,361
Income taxes payable	230,746	128,558
Provision for bonuses	272,916	159,487
Other	1,043,361	1,092,244
Total current liabilities	7,352,143	6,897,094
Non-current liabilities		
Bonds payable	—	640,000
Long-term loans payable	3,759,945	3,289,593
Deferred tax liabilities for land revaluation	274,908	274,908
Deferred tax liabilities	83,745	81,966
Provision for directors' retirement benefits	29,578	29,578
Asset retirement obligations	510,772	526,752
Other	1,277,478	1,273,337
Total non-current liabilities	5,936,428	6,116,136
Total liabilities	13,288,571	13,013,231
Net assets		
Shareholders' equity		
Capital stock	8,532,856	8,532,856
Capital surplus	4,981,675	4,981,675
Retained earnings	1,400,978	648,083
Treasury shares	△173	△173
Total shareholders' equity	14,915,337	14,162,441
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	108,976	72,118
Revaluation reserve for land	△600,061	△600,061
Total accumulated other comprehensive income	△491,085	△527,943
Non-controlling interests	107,608	95,737
Total net assets	14,531,860	13,730,235
Total liabilities and net assets	27,820,432	26,743,467

(2) Quarterly Consolidated Statements of Income and Statement of Comprehensive Income
(Quarterly Consolidated Statements of Income)
(First quarter consolidated cumulative period)

	(Thousand yen; △ means negative)	
	Previous first quarter consolidated cumulative period (April 1, 2015 - June 30, 2015)	Current first quarter consolidated cumulative period (April 1, 2016 - June 30, 2016)
Net sales	9,386,985	9,572,819
Cost of sales	3,222,149	3,273,103
Gross profit	6,164,836	6,299,716
Selling, general and administrative expenses	6,129,596	6,561,407
Operating income or loss (△)	35,239	△261,691
Non-operating income		
Interest income	3,298	3,505
Dividend income	7,038	6,924
House rent income	25,480	17,666
Foreign exchange gains	21,384	—
Miscellaneous income	13,733	10,390
Total non-operating income	70,934	38,486
Non-operating expenses		
Interest expenses	35,244	31,229
Rent expenses on real estates	20,686	14,394
Share issuance cost	28,261	—
Foreign exchange losses	—	126,134
Miscellaneous loss	16,833	12,484
Total non-operating expenses	101,025	184,243
Ordinary income or loss (△)	5,147	△407,448
Extraordinary losses		
Loss on retirement of noncurrent assets	3,101	5,800
Loss on closing of stores	—	888
Total extraordinary losses	3,101	6,689
Income or loss (△) before income taxes and minority interests	2,046	△414,137
Income taxes - current	106,854	76,132
Income taxes - deferred	△50,508	108,460
Total income taxes	56,345	184,592
Net loss (△)	△54,299	△598,729
Net loss (△) attributable to non-controlling interests	△10,936	△11,870
Net loss (△) attributable to owners of parent	△43,362	△586,859

(Quarterly Consolidated Statement of Comprehensive Income)
(First quarter consolidated cumulative period)

(Thousand yen; △ means negative)

	Previous first quarter consolidated cumulative period (April 1, 2015 - June 30, 2016)	Current first quarter consolidated cumulative period (April 1, 2016 - June 30, 2016)
Net loss (△)	△54,299	△598,729
Other comprehensive income		
Valuation difference on available-for-sale securities	77,682	△36,858
Total other comprehensive income	77,682	△36,858
Comprehensive income	23,383	△635,588
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	34,320	△623,718
Comprehensive income attributable to non-controlling interests	△10,936	△11,870

**(3) Notes on Quarterly Consolidated Financial Statements
(Going concern assumption)**

Not applicable.

(Notes in case of significant changes in the amount of shareholders' equity)

Not applicable.

(Segment information, etc.)

The Group is a single segment of food service business and therefore description of segment information, etc. is omitted.

(Significant post-balance sheet events)

(acquisition of companies by share acquisition)

The Company resolved at its board meeting held on August 2, 2016, that it would acquire the entire shares of Miyamoto Munashi Corporation for the purpose of having the business of "Meshiya Miyamoto Munashi" transferred from its operator, UG Utsunomiya Corporation, and on the same day executed a share transfer agreement.

It should be noted that, after UG Utsunomiya Corporation effectively transfers its business operation of "Meshiya Miyamoto Munashi" to Miyamoto Munashi Corporation being one of its subsidiaries by absorption and separation, then business transfer of "Meshiya Miyamoto Munashi" will be carried out by the Company acquiring 100% shares of Miyamoto Munashi Corporation.

Meanwhile, at the same board meeting, the Company resolved that it would acquire 100% share of TWO SIX Corporation, which holds the premise of "Miyamoto Munashi JR Nagoyaekimae branch", to become its subsidiary, and on the same day executed a share transfer agreement with Mr. Toshiyuki Fujimura, President and 100% shareholder of TWO SIX Corporation.

(1) Purpose of share acquisition

"Meshiya Miyamoto Munashi" is a restaurant chain serving set meals at reasonable prices for general population, and has at present 71 restaurants in operation mainly in Kansai area, mostly located at downtowns in front of train stations.

This acquisition corresponds to the Company's mid-term management policy of enhancing low-price restaurant category, which would supplement the Company's location strategy to open new restaurants mainly comprised of suburban ones, and at the same time synergy creation may be anticipated in purchase and logistic aspects, contributing significantly to reinforcement of the Company's revenue base.

Moreover, it is also consistent with the societal trends such as declining birthrate and aging population, individuals eating alone, and downtown regression, all of which would further proceed, and "Meshiya Miyamoto Munashi" would be able to offer more attractive items under the umbrella of the Company that considers it having potentials to grow substantially. This is why the Company decided to acquire the shares.

In addition, the Company decided also to acquire the shares of TWO SIX Corporation because the Company considered such action essential to ensure control over operational retention and other factors in "Miyamoto Munashi JR Nagoyaekimae branch", being the flagship of "Meshiya Miyamoto Munashi" restaurant business.

(2) Name of the former shareholder

Miyamoto Munashi Corporation: UG Utsunomiya Corporation

TWO SIX Corporation: Toshiyuki Fujimura

(3) Name, business activities and scale of the company to be acquired

(Miyamoto Munashi Corporation)

Principal business activities: Management of restaurants

Scale (FY02/2016)

Capital stock: 1,000,000 yen

Net Sales: 3,365,375,000 yen

NOTE: Net sales has been calculated as that of "Meshiya Miyamoto Munashi" business operated by UG Utsunomiya Corporation

(TWO SIX Corporation)

Principal business activities: Leasing commercial buildings and any business associated therewith

Scale (FY02/2016)

Capital stock: 1,000,000 yen

Net Sales: 12,643,000 yen

(4) Time of share acquisition

September 1, 2016 (planned)

(5) Number of shares to be acquired, acquisition cost and equity ratio after acquisition

(Miyamoto Munashi Corporation)

Number of shares to be acquired: 101 shares

Acquisition cost: 1,850,000,000 yen for common shares, and 90,000,000 yen for advisory expenses (approx.)

Equity ratio after acquisition: 100%

(TWO SIX Corporation)

Number of shares to be acquired: 100 shares

Acquisition cost: 550,000,000 yen for common shares, and 23,000,000 yen for advisory expenses (approx.)

Equity ratio after acquisition: 100%

(6) Funding for acquisition

Mainly borrowing from financial institutions and other funding will be appropriated.