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May 12, 2015

Summary of Financial Results for the Fiscal Year Ending March 31, 2015 [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>
 Representative: Yoshitaka Shigesato, President & Chief Executive Officer
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 Scheduled date of ordinary general meeting of shareholders: June 26, 2015
 Scheduled date of payment of dividend: June 29, 2015
 Scheduled date of filing securities report: June 29, 2015
 Preparation of supplementary references regarding financial results: No
 Holding the briefing of financial results: Yes (For institutional investors and analysts)

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

1. Financial results of the Fiscal Year Ending March 31, 2015 (April 1, 2014 – March 31, 2015)

(1) Consolidated operating results

(Percentages represent changes from previous year)

| | Net Sales | | Operating profit | | Ordinary profit | | Net profit | |
|--------------------------|-------------|------|------------------|------|-----------------|------|-------------|------|
| | Million yen | % | Million yen | % | Million yen | % | Million yen | % |
| FY Ending March 31, 2015 | 37,969 | 15.9 | 1,183 | 33.1 | 1,330 | 57.2 | 840 | 63.5 |
| FY Ending March 31, 2014 | 32,762 | 27.1 | 888 | 35.5 | 846 | 50.6 | 513 | 60.3 |

(Note) Comprehensive income
 FY Ending March 31, 2015: 974 million yen (93.8%)
 FY Ending March 31, 2014: 502 million yen (10.9%)

| | Net profit per share | Diluted net profit per share | Ratio of net profit to equity | Ratio of ordinary profit to total assets | Ratio of operating profit to sales |
|--------------------------|----------------------|------------------------------|-------------------------------|--|------------------------------------|
| | Yen | Yen | % | % | % |
| FY Ending March 31, 2015 | 29.79 | — | 8.5 | 5.5 | 3.1 |
| FY Ending March 31, 2014 | 18.22 | — | 5.6 | 3.9 | 2.7 |

(Reference) Equity in earnings of affiliated companies: FY Ending March 31, 2015: — million yen
 FY Ending March 31, 2014: — million yen

(2) Consolidated financial position

| | Total assets | Net assets | Equity ratio | Net assets per share |
|--------------------------|--------------|-------------|--------------|----------------------|
| | Million yen | Million yen | % | Yen |
| FY Ending March 31, 2015 | 24,272 | 10,456 | 42.5 | 365.89 |
| FY Ending March 31, 2014 | 23,816 | 9,567 | 39.6 | 334.56 |

(Reference) Shareholders equity: FY Ending March 31, 2015: 10,321 million yen
 FY Ending March 31, 2014: 9,437 million yen

(3) Consolidated cash flow status (△ means decrease)

| | Cash flow from operating activities | Cash flow from investments | Cash flow from financial activities | Balance of cash and cash equivalents |
|--------------------------|-------------------------------------|----------------------------|-------------------------------------|--------------------------------------|
| | Million yen | Million yen | Million yen | Million yen |
| FY Ending March 31, 2015 | 2,721 | △1,220 | △1,597 | 5,532 |
| FY Ending March 31, 2014 | 1,157 | △2,756 | 1,604 | 5,533 |

2. Dividends

| (Record date) | Annual dividend | | | | | Total dividends (consolidated) | Dividend ratio (consolidated) | Ratio of dividends to net assets (consolidated) |
|--------------------------------------|-----------------|--------|--------|----------|--------|--------------------------------|-------------------------------|---|
| | 1Q-end | 2Q-end | 3Q-end | Year-end | Annual | | | |
| | Yen | Yen | Yen | Yen | Yen | Million yen | % | % |
| FY Ending March 31, 2014 | — | — | — | 3.00 | 3.00 | 84 | 16.5 | 0.9 |
| FY Ending March 31, 2015 | — | — | — | 5.00 | 5.00 | 141 | 16.8 | 1.4 |
| FY Ending March 31, 2016 (forecasts) | — | — | — | 5.00 | 5.00 | | 28.8 | |

3. Consolidated performance forecasts for the Fiscal Year Ending March 31, 2016 (April 1, 2015 – March 31, 2016)

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

| | Net sales | | Operating profit | | Ordinary profit | | Net profit attributable to shareholders of parent company | | Net profit per share |
|-----------------------|-------------|-----|------------------|-------|-----------------|-------|---|-------|----------------------|
| | Million yen | % | Million yen | % | Million yen | % | Million yen | % | Yen |
| 2Q (cumulative total) | 19,700 | 5.6 | 400 | △28.2 | 370 | △36.7 | 100 | △67.3 | 3.54 |
| Full term | 40,900 | 7.7 | 1,260 | 6.5 | 1,220 | 8.3 | 490 | △41.7 | 17.37 |

***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) 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
- (3) Number of outstanding shares (common shares)
1) Number of shares outstanding at the end of the period (including treasury stock)
FY Ending March 31, 2015: 28,209,080 shares
FY Ending March 31, 2014: 28,209,080 shares
2) Number of treasury stock at the end of the period
FY Ending March 31, 2015: 163 shares
FY Ending March 31, 2014: 122 shares
3) Average number of shares outstanding during the period
FY Ending March 31, 2015: 28,208,952 shares
FY Ending March 31, 2014: 28,208,981 shares

(Reference) Unconsolidated business results**1. Unconsolidated business results of the Fiscal Year Ending March 31, 2015 (April 1, 2014 – March 31, 2015)****(1) Unconsolidated operating results**(Percentages represent changes from previous year; Δ means decrease)

| | Net Sales | | Operating profit | | Ordinary profit | | Net profit | |
|--------------------------|-------------|-----|------------------|--------------|-----------------|------|-------------|------|
| | Million yen | % | Million yen | % | Million yen | % | Million yen | % |
| FY Ending March 31, 2015 | 29,064 | 8.8 | 735 | Δ 3.1 | 921 | 25.0 | 606 | 27.4 |
| FY Ending March 31, 2014 | 26,712 | 5.8 | 758 | 18.8 | 736 | 32.6 | 476 | 50.5 |

| | Net profit per share | Diluted net profit per share |
|--------------------------|----------------------|------------------------------|
| | Yen | Yen |
| FY Ending March 31, 2015 | 21.51 | — |
| FY Ending March 31, 2014 | 16.88 | — |

(2) Unconsolidated financial position

| | Total assets | Net assets | Equity ratio | Net assets per share |
|--------------------------|--------------|-------------|--------------|----------------------|
| | Million yen | Million yen | % | Yen |
| FY Ending March 31, 2015 | 21,841 | 10,076 | 46.1 | 357.22 |
| FY Ending March 31, 2014 | 21,277 | 9,426 | 44.3 | 334.18 |

(Reference) Own capital: FY Ending March 31, 2015: 10,076 million yen
FY Ending March 31, 2014: 9,426 million yen

2. Unconsolidated forecast for the Fiscal Year Ending March 31, 2016 (April 1, 2015 - March 31, 2016)(Percentages represent changes from previous year; Δ means decrease)

| | Net sales | | Ordinary profit | | Net profit | | Net profit per share |
|--------------------------|-------------|------|-----------------|-----|-------------|---------------|----------------------|
| | Million yen | % | Million yen | % | Million yen | % | Yen |
| 2Q (cumulative total) | 16,200 | 23.0 | 330 | 3.0 | 170 | 3.2 | 6.03 |
| Full term | 33,700 | 15.9 | 970 | 5.3 | 470 | Δ 22.5 | 16.66 |

*** Presentation concerning implementation status of audit procedures**

This summary of financial results are not the subject of an review procedure based on the Financial Instruments and Exchange Act, and at the time of disclosing this summary of financial results, review procedures regarding the financial statements based on the Financial Instruments and Exchange Act has 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. Analysis on operating results and financial position

(1) Analysis on operating results

① Operating results of the current term

Consolidated performance for the current consolidated fiscal year has seen successful increase in both income and profit, with net sales of 37,969 million yen (up 15.9% YOY and increase by 5,206 million yen), operating profit of 1,183 million yen (up 33.1% YOY and increase by 294 million yen), ordinary profit of 1,330 million yen (up 57.2% and increase by 483 million yen), and net profit of 840 million yen (up 63.5% YOY and increase by 326 million yen). As for net sales, although customers decreased in the first half of the period due to such as bad weather, that influence of raising consumption tax rate was more limited than concerned, and that business performance of Foodsnet Corporation having been owned by the Company since July, 2013 has been incorporated, have substantially contributed to increase in income. As for income, in addition to increase in income, effects of proper control over SG&A expenses and of foreign exchange gains have helped increase in profit.

The Group aims to be "the restaurant that brings the highest customer satisfaction", promoting various measures proactively, and has also continued its effort towards accelerated opening of new fast-casual restaurants and increasing profitability of pre-existing restaurant categories in order to achieve its basic policy for the new mid-term management plan, namely "to be an essential social infrastructure and prosper over 100 years to come". Specific measures include adoption of table order system using tablet terminals, which completed at every restaurant of our main category "Washoku Sato" in July, 2014, viewing services with least waiting time as our maximum service. In addition, as one of our efforts to generate synergy with Foodsnet Corporation, logistic integration has been conducted since October, 2014, facilitating efficiency by unifying logistics for the entire group, that has led to logistic cost reduction.

With respect to human resource measures, as part of our personnel system reform to build up environment in which every employee could fulfill his/her potential by being allowed to choose from wide variety of work styles conforming to individual life styles, "short-time regular employee system" allowing shorter working hours has been introduced since October 1, 2014, 300 part-time employees who qualify for social insurance and contract employees were transitioned to regular employees. This system reform made it possible to prevent talented personnel from flowing out and to promote generating willingness to work and utilization of women in regular employment, resulting in further improved satisfaction of employees and customers.

The Group considers its measures for opening new restaurants as highest priority to achieve the new mid-term management plan, and promotes various efforts to achieve its goals of opening new restaurants. In the current consolidated fiscal year, that is, the first year of the new mid-term management plan, total 35 of directly managed and FC restaurants were planned to be opened; in practice, however, 1 directly managed "Washoku Sato" restaurant, 1 directly managed "Sushihan" restaurant, 6 directly managed "Tendon & Tempura Honpo Santen" restaurants, 2 directly managed "Nigiri CHOJIRO" restaurants, 1 directly managed "Nigiri CHUJIRO" (experimentally operated home delivery style Sushi store), 1 directly managed and 4 FC restaurants of "Katsuya" were newly opened, totaling 16 new restaurants among all categories during the current consolidated fiscal year. It should be noted that in addition to the abovementioned restaurants already in operation, contracts have entered into for opening 13 new restaurants (as of March 31, 2015). In considering the fact that goals of opening new restaurants for the current term have not achieved, the following efforts have begun as measures for the next term and onwards.

- Reorganization of group restaurants development division to include development of restaurants operated by Sato Arland Food Service Co., Ltd.
- Expansion of areas for opening new "Santen" restaurants
- More staff put into group restaurants development division

With these measures, the Company will strive to achieve goals of opening new restaurants for the next term with accelerated opening by aggregating property information for "Santen" and "Katsuya" restaurants for wider selection, as well as enhanced and more accurate property information.

As for overseas business, the Group has adopted an approach to establish joint ventures with local partner companies. In terms of its achievement in the current consolidated fiscal year, total 2 restaurants of Taiwanese version of a new category of hot pot menu for one-person, were opened in September, 2014 and in February, 2015 in Taiwan; and in Thailand which shows significant economic growth, "Washoku Sato" J-PARK branch was opened in October, 2014 with its aim to contribute to rich cuisine culture by delivering genuine Japanese cuisine to more and more people at reasonable price zone.

These developments have resulted in 292 directly managed restaurants (increase by 12 YOY) at the end of the current consolidated fiscal year; comprising 198 "Washoku Sato" restaurants, 14 "Sushihan" restaurants, 12 "Santen" restaurants, 52 "Nigiri CHOJIRO" restaurants, 1 "Miyakobito" restaurant, 3 "Nigiri CHUJIRO" restaurants and 12 "Katsuya" restaurants. Meanwhile, the Group also operates total 31 FC stores comprising 20 "Miyakobito" restaurants and 11 "Katsuya" restaurants, and total 6 overseas stores comprising 4 in Taiwan, 1 in Indonesia and 1 in Thailand, that means the Group now operates total 329 restaurants worldwide.

Operational measures for each category include starting sales of event-premium commodities with season specific themes as brushing up "Sato-Shabu", and additionally, a very popular menu of all-you-can-eat style Shabu-Shabu at "Washoku Sato" restaurants, and continued efforts in an attempt to attract more customers more frequently such as proposal for recommending specially arranged menu on the menu book and starting sales

promotion utilizing LINE application for smartphones. In addition, official mascot character "Wassho-kun" of Washoku Sato will continue to be used for sales promotion, and TV commercial featuring well-known talents have been broadcasted, as part of our efforts to acquire new customers. Meanwhile, 9 "Washoku Sato" restaurants were renovated during the period. At "Sushihan" restaurants, in addition to renovation of Houzenji main restaurant, special fair filled with seasonal feeling was taken place pursuing sense of genuineness and high quality unique to "Sushihan" making use of seasonal foodstuff and it received very much popularity. And at "Nigiri CHOJIRO" restaurants, our greatest joy is that customers would say "Delicious!" and they deliver seasonal menu making use of fresh stuff, and in addition 6 of which were renovated.

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

② Forecasts for the next term

For the next term Japanese economy is expected to recover gradually due to increase in income and improvement in employment environment, whereas the environment surrounding company management would remain hard due to raw materials cost staying still at high level because of weaker yen and to increased labor cost caused by rising hourly wage and recruitment cost. In such situations, the Group considers the next term as "period for growth and development" just as the current term, and put efforts into opening new restaurants as highest priority so that its goals of "being an essential social infrastructure and prosper over 100 years to come" as described in the new mid-term management plan could be achieved, planning to open 3 directly managed "Washoku Sato" restaurants, 20 "Tendon & Tempura Honpo Santen" restaurants" (16 directly managed and 4 FC restaurants), 4 directly managed Nigiri CHOJIRO" restaurants, 3 directly managed Nigiri CHUJIRO" restaurants, and 16 "Katsuya" restaurants (6 directly managed and 10 FC), totaling 46 restaurants overall. Moreover, as part of its ongoing efforts to achieve more efficiency by integrating indirect operations and to minimize influence of steep price rise of raw materials, the Group will further promote improved purchasing power by using foodstuff common to multiple restaurants and increase proportion of materials directly imported from overseas. In addition, for higher work efficiency, we have started attendance management by means of vein authentication using terminals to clock in/out so that burdens of in-store operations could be reduced by abolishing time card system, and we will seek higher efficiency in headquarters tasks by outsourcing payroll-related operations.

In such context, consolidated performance for the next term is at present expected as net sales of 40,900 million yen, operating profit of 1,260 million yen, ordinary profit of 1,220 million yen and net profit attributable to shareholders of parent company of 490 million yen.

(2) Analysis on financial position

① Status of assets, liabilities and net assets

Total assets at the end of the current consolidated fiscal year were 24,272 million yen (increase by 455 million yen YOY).

Current assets were 7,526 million yen (increase by 211 million yen YOY). This is mainly due to, for example, increase in accounts receivable by 56 million yen and in current assets-others by 133 million yen.

Fixed assets were 16,742 million yen (increase by 247 million yen YOY). This is mainly due to, for example, increase in leased assets by 305 million yen and in investment securities by 152 million yen.

Current liabilities were 7,284 million yen (increase by 432 million yen YOY). This is mainly due to, for example, increase in accounts payable-other by 149 million yen and in current liabilities-others by 284 million yen.

Fixed liabilities were 6,530 million yen (decrease by 866 million yen YOY). This is mainly due to, for example, decrease in long-term loans payable by 1,009 million yen.

Net assets were 10,456 million yen (increase by 889 million yen YOY).

② Cash flow status

Cash and cash equivalents (hereinafter, "business fund") in the current consolidated fiscal year were 5,532 million yen (decrease by less than a million yen YOY).

Each cash flow status and factors thereof in the current consolidated fiscal year are as follows.

(Cash flow from operating activities)

Business fund resulting from operating activities was 2,721 million yen (whereas it was 1,157 million yen in the previous consolidated fiscal year). This includes mainly net profit before income taxes of 1,281 million yen, depreciation of 1,322 million yen and others.

(Cash flow from investment activities)

Business fund used for investment activities was 1,220 million yen (whereas it was 2,756 million yen in the previous consolidated fiscal year). This includes mainly expense by acquiring tangible fixed assets of 829 million yen, expense by acquiring intangible fixed assets of 237 million yen and others.

(Cash flow from financial activities)

Business fund used for financial activities was 1,597 million yen (whereas it was 1,604 million yen in the previous consolidated fiscal year). This includes mainly net decrease in long-term loans payable by 1,220 million yen and expense by repayment of finance lease obligations of 192 million yen and others.

(Reference) Transition of cashflow-related indicators

| | FY 03/2011 | FY 03/2012 | FY 03/2013 | FY 03/2014 | FY 03/2015 |
|---|------------|------------|------------|------------|------------|
| Equity ratio (%) | 44.1 | 37.1 | 46.3 | 39.6 | 42.5 |
| Equity ratio based on market value (%) | 60.4 | 78.1 | 84.2 | 91.4 | 123.4 |
| Ratio of cash flow to interest-bearing liabilities (year) | 5.6 | 6.1 | 4.6 | 7.9 | 3.0 |
| Interest coverage ratio (times) | 7.2 | 7.4 | 9.3 | 7.5 | 17.7 |

Equity ratio: $\text{Equity} / \text{Total assets}$

Equity ratio based on market value: $\text{Aggregate market value} / \text{Total assets}$

Ratio of cash flow to interest-bearing liabilities: $\text{Interest-bearing liabilities} / \text{Cash flow}$

Interest coverage ratio: $\text{Cash flow} / \text{Interest payment}$

NOTES:

1. Aggregate market value is calculated based on the number of shares issued, excluding treasury stock.
2. Cash flow from operating activities is used.
3. Interest-bearing liabilities include all the liabilities listed on the balance sheet for which interests have been paid.

(3) Basic principle of profit allocation and dividends for the current/next term

Basic idea concerning profit allocation is that in principle it should be determined according to business performance, and the Company does not prefer an idea towards keeping a certain level of dividend ratio but has its policy to retain as much stable dividends as possible. We would like to earmark our retained earnings for investment in opening new restaurants and in renovation of existing restaurants so that the Company's business quality could be enhanced. Under the abovementioned policy, the Company has carried out business reform to enhance its profitability and endeavored to improve its financial strength. These efforts resulted in business performance in the current term surpassing initially published figures, and the Company, taking into account comprehensively its business development in the future and retained earnings, has decided to provide year-end dividend of 5.00 yen per share. And also for the next term, it is expected that year-end dividend of 5.00 yen per share would be paid out.

In accordance with the resolution adopted at the 43rd annual meeting of shareholders held on June 29, 2011, the Company's articles of incorporation include a stipulation that "The Company may provide dividends of surplus upon resolution by its board of directors, pursuant to Article 459, Section 1 of the Company Act of Japan".

Dividend of surplus for the current fiscal year is as follows.

| Date of resolution | Total amount of dividend (thousand yen) | Dividend per share (yen) |
|------------------------------------|--|-----------------------------|
| May 12, 2015 board of directors | 141,044 | 5.00 |

(4) Risk of businesses

Potential risk factors which may have some impact on, for example, the Group's operating results, share price and financial position include the following.

It should be noted that descriptions concerning the future in the text are based on judgement of the Company as of the end of the current consolidated fiscal year.

① Sales fluctuations

The Group operates restaurants as its core business and therefore if sales is substantially reduced due to some events causing significant decline in incentive for consumers to dine out, namely adverse effects such as large scale natural disaster, social disruption caused by war and terrorism, new infectious disease, and abnormal weather during busy season, operating results may be affected.

② Trend of competition

In the food service industry in which the Group does its business, it is predicted that competition with home-meal replacement industry such as convenience stores and delicatessens would be tougher, as well as that with conventional competitors. If the Group fails to provide highly value-added commodities meeting consumer needs, such situation may lead to decline in market share and in brand power of commodities, and eventually operating results may be affected.

③ Dependence on main restaurant category

Majority of consolidated sales of the Group depends on "Washoku Sato" restaurants. In order to grow out of such dependence on a single category, the Group puts its efforts into fostering other categories such as "Santen", "Nigiri CHOJIRO" and "Katsuya" restaurants, but it still depends heavily on "Washoku Sato" restaurants and therefore operating results may be affected by business performance of them.

④ Food safety

The Group operates various restaurants as "restaurant business" based on Food Sanitation Act of Japan. As the highest priority, the Group has organized its internal regime such as appointing persons responsible for "safety and sanitation, SRS Group audit office", and regularly inspects compliance with nationally established criteria, quality control status of foodstuff and sanitary control conditions of the restaurants. However, if ever any severe problem questioning food safety occurs inside or outside the Company, operating results may be affected.

⑤ Purchase price fluctuations and stable procurement

Operating results may be affected in the event of substantial fluctuations in prices of items to be purchased and in supplied amount due to, for example, abnormal weather and large scale natural disaster, international conflict, safety issues such as residual pesticides and food additives, outbreak of infectious diseases of livestock, and exchange rate fluctuations.

⑥ Opening new restaurants

The Group mainly operates Japanese restaurants chains and therefore if appropriate sites for opening new restaurants could not be acquired or if the Company is forced to withdraw due to unexpected change in roads around any planned site for opening new restaurant and/or in development conditions, or due to significant change in location environment caused by any competitor restaurant opening in the neighborhood, operating results may be affected.

⑦ Dependence on leased properties for restaurants

The Group has most of its offices and premises on leased properties. Duration of lease contract can be renewed upon agreement with the lessor, whereas lease contract might be terminated due to some reason on the part of the lessor. Unplanned withdrawal might occur due to early termination of lease contract.

In addition, guarantee deposits have been provided to lessors based on contracts with each of them. Although the Group pays adequate attentions to situations of lessors to ensure recovery of deposits, if such recovery is difficult due to, for example, bankruptcy of a lessor, operating results may be affected.

⑧ Interest-bearing liabilities

The Group raises funds for opening new restaurants and for other purposes from financial institutions and other sources. Although it aims to operate with conservative financial policies including reduction in outstanding interest-bearing liabilities, operating results may be affected in the event of interest rate fluctuations.

⑨ Impairment loss and loss on withdrawal

The Group applies "accounting standard for impairment of fixed assets". In the event of significant decline in profitability in any of the Group's restaurants due to, for example, striking change in external environment, impairment loss may be declared thereby affecting operating results.

In addition, some underperforming restaurants have been closed based on our withdrawal criteria. If any loss on retirement of fixed assets, any penalty and/or subleasing cost for the relevant property occur upon withdrawal, or if some allowance should be allocated for expected loss on such withdrawal, operating results may be affected.

⑩ Control of personal information

The Group endeavors to collect questionnaires and other information from membership and customers for gaining some understanding of customer satisfaction and for service improvement. Despite maximum efforts to control personal information, operating results may be affected in the event of leak of personal information for some reason that could cause compensation for damage and collapse of social trust.

⑪ Retaining human resources

In order to continue smooth operation of the Group's business, retaining and fostering human resources including short-time workers are of importance. The Group puts its efforts into retaining human resources including personnel relocation and mid-career employment. However, operating results may be affected if in the future human resources could not be retained as planned.

⑫ Natural disaster and others

The Group's bases of production, logistics, sales, information control facilities and others may suffer enormous damage from natural disaster such as earthquake and typhoon. Although the Group inspects its out facilities regularly, impacts from these disasters may not be completely prevented or mitigated. In the event of natural disaster such as large scale earthquake and typhoon, operating results may be affected due to interruption of production activities and to delay in product supply.

⑬ Impairment of goodwill

The Group allocates substantial amount of goodwill associated with acquisition of a corporation on the consolidated balance sheets. Such allocation of goodwill is considered as properly reflecting the future profitability, whereas should outcome be less than expected, then impairment loss may be declared for the relevant goodwill thereby affecting financial position and operating results of the Group.

⑭ Risk in overseas business

In developing overseas business, there exist various potential risks including laws, systems, political/economic/social circumstances, cultures, business practices, foreign exchanges in countries where the Group operates, and if it could not proceed with business development as planned because of, for example, being unable to deal with such risks, operating results may be affected by necessity for handling impairment of investment (e.g. handling impairment of investment securities).

2. Corporate group

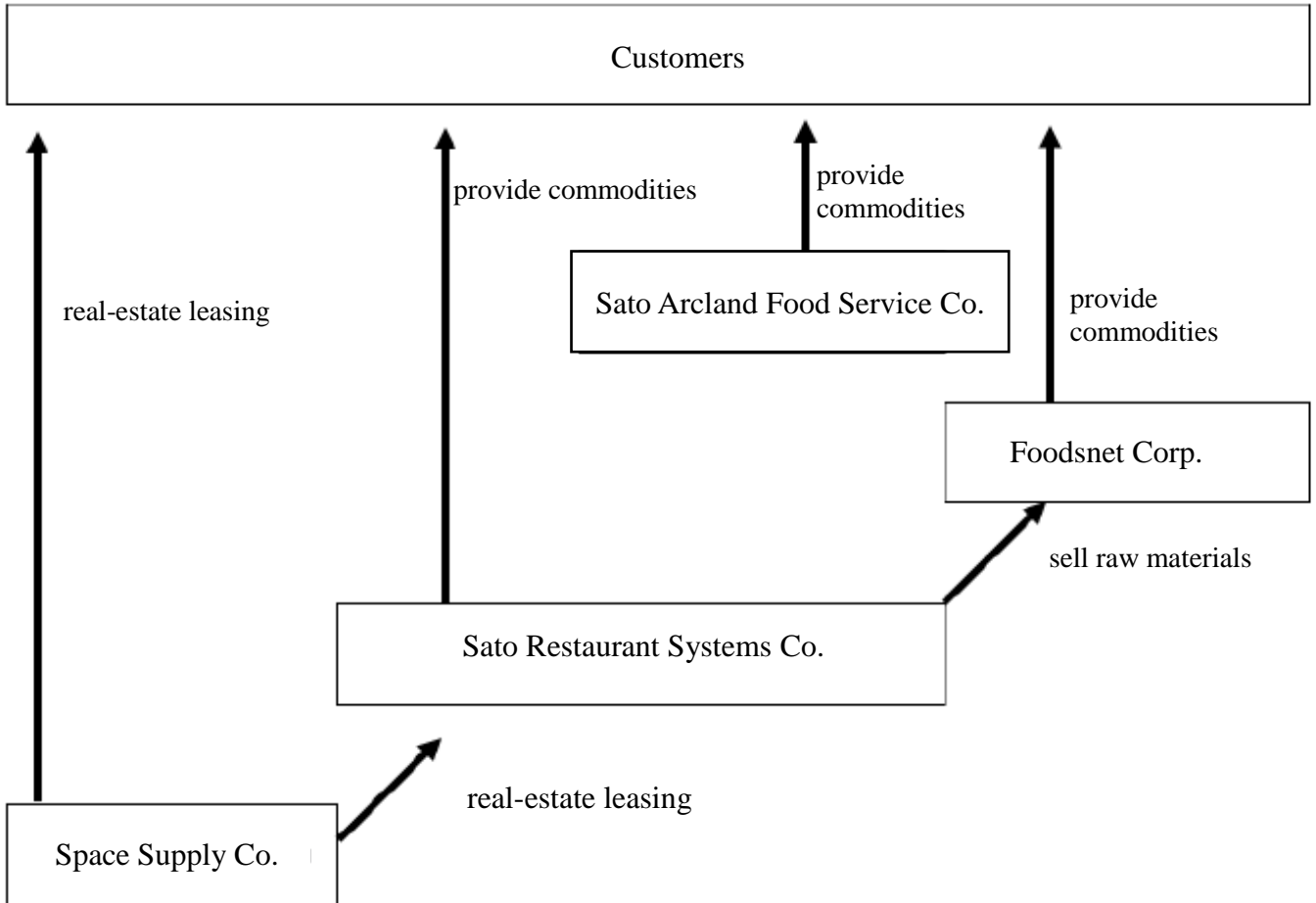
The Group consists of the Company and its three affiliates, main business of which is operating family restaurants. Description of the Group's business, relationship with the Company, and systematic chart of business are as shown below.

(1) Description of the Group's business and relationship with the Company

[Operating family restaurants] The Company operates family restaurants centering on Japanese cuisine. Sato Arcland Food Service Co., Ltd. operates and manages 12 "Katsuya" restaurants in Kansai area. Foodsnet Corporation operates and manages 52 "Nigiri CHOJIRO" restaurants, 1 "Miyakobito" restaurant and 3 "Nigiri CHUJIRO" restaurants in Kansai and Kanto areas.

[Others] Space Supply Co., Ltd. engages mainly in real estate leasing.

(2) Systematic chart of business



3. Management policy

(1) Basic policy of managing the Company

The Group's philosophy is "Contributing to society through food" and aims to realize good life by establishing "food" that is the most important element for people to live as its pillar of business and by providing opportunities to enjoy affluent meals, with its basic policy of being "the restaurant that brings the highest customer satisfaction" as a company which is essential for the community.

(2) Management indicators to be the targets

The Group has set its goal of increasing ratio of ordinary profit on sales, as one of important management indicators towards improved corporate value and enhanced shareholders profit. Also, it has set its goal to achieve ratio of ordinary profit on sales of 5% as its middle-and-long term goal.

(3) Middle-and-long term management strategies

As middle-and-long term management strategies and towards the basic policy of being "the restaurant that brings the highest customer satisfaction", the Group will put its efforts into various business challenges with three important themes of "lowering break-even point by improved productivity", "continued opening new restaurants of conventional categories and accelerated opening new restaurants in new business domain", and "fundamental reform of financial structure".

(4) Issues to be addressed

For achieving its middle-and-long term management strategies, the Group will consider the years to come as "periods of growth and development", bring forward the fast-casual categories of "Santen" and "Katsuya" restaurants as its growth drivers, and put its efforts into various measures so that they would get on track of growth and expansion as early as possible.

Specifically, with respect to "Santen" restaurants, the Group will carry out measures for early formation of dominant areas by accelerated opening new restaurants, for starting penetration into new areas, and for increase in sales and improved profitability at each restaurant aiming to generate surplus in FC business, along with fostering personnel responsible for FC operations. For "Katsuya" restaurants, the Group will accelerate further opening new directly managed and FC restaurants in Kansai area aiming at, like "Santen" restaurants, early formation and expansion of dominant areas.

At "Washoku Sato" restaurants, main category of the Group, it continues to enhance sales of its core menu of "Sato-Shabu" (all-you-can-eat style Shabu-Shabu) and measures for attracting wider range of customers, while for purpose of cost reduction it aims at higher efficiency in restaurant operations by table order system using tablet terminals and functionally strengthened store assistance system. In addition, continued opening new restaurants in potential areas will take place mainly in Chubu region in Japan.

And at "Nigiri CHOJIRO" restaurants, the Group continues to generate synergies, and works on management efficiency centered on cost reduction in purchasing by using common materials and by higher logistic efficiency, along with fostering human resources for opening new restaurants. Proactively opening new restaurants will also be driven within the Group's logistics network.

In terms of finance, the Group will carry out financial structure reform by further reduction in liabilities.

4. Basic idea for the selection of accounting standards

The Group has decided to adopt Japanese accounting standards for the time being, but taking into account the trend in proportion of foreign shareholders and in adoption of International Financial Reporting Standards (IFRS) at other domestic companies, it looks at thinking about when IFRS should be adopted.

5. Consolidated financial statements

(1) Consolidated balance sheets

(Thousand yen; Δ means decrease)

| | Previous consolidated fiscal year (March 31, 2014) | Current consolidated fiscal year (March 31, 2015) |
|---|--|---|
| Assets | | |
| Current assets | | |
| Cash and deposits | 5,533,179 | 5,532,308 |
| Accounts receivable | 485,558 | 541,833 |
| Commodities | 34,632 | 36,395 |
| Raw materials and supplies | 644,900 | 651,647 |
| Deferred tax assets | 236,864 | 250,648 |
| Others | 380,735 | 514,238 |
| Allowance for doubtful accounts | Δ 620 | Δ 477 |
| Total current assets | 7,315,250 | 7,526,595 |
| Fixed assets | | |
| Tangible fixed assets | | |
| Buildings and structures | 16,940,602 | 17,075,451 |
| Cumulative depreciation | Δ 13,957,120 | Δ 14,242,874 |
| Buildings and structures (net) | 2,983,482 | 2,832,576 |
| Machinery, equipment and vehicles | 680,136 | 714,244 |
| Cumulative depreciation | Δ 563,108 | Δ 593,039 |
| Machinery, equipment and vehicles (net) | 117,027 | 121,205 |
| Land | 4,742,506 | 4,742,506 |
| Leased assets | 1,090,882 | 1,601,603 |
| Cumulative depreciation | Δ 278,334 | Δ 483,416 |
| Leased assets (net) | 812,547 | 1,118,187 |
| Construction in progress | 325 | 49,650 |
| Others | 2,892,621 | 3,005,858 |
| Cumulative depreciation | Δ 2,393,719 | Δ 2,500,593 |
| Others (net) | 498,902 | 505,264 |
| Total tangible fixed assets | 9,154,792 | 9,369,391 |
| Intangible fixed assets | | |
| Goodwill | 1,296,192 | 1,206,282 |
| Others | 792,918 | 822,990 |
| Total intangible fixed assets | 2,089,110 | 2,029,273 |
| Investment and other assets | | |
| Investment securities | 669,801 | 822,623 |
| Long-term loan | 635,831 | 698,913 |
| Guarantee deposits | 3,130,625 | 3,051,899 |
| Deferred tax assets | 479,838 | 401,559 |
| Others | 351,650 | 383,435 |
| Allowance for doubtful accounts | Δ 16,295 | Δ 14,665 |
| Total investments and other assets | 5,251,451 | 5,343,765 |
| Total fixed assets | 16,495,354 | 16,742,431 |
| Deferred assets | 5,863 | 3,259 |
| Total assets | 23,816,468 | 24,272,286 |

(Thousand yen; △ means decrease)

| | Previous consolidated fiscal year (March 31, 2014) | Current consolidated fiscal year (March 31, 2015) |
|---|--|---|
| Liabilities | | |
| Current liabilities | | |
| Accounts payable | 1,101,403 | 1,111,667 |
| Bonds payable within one year | 100,000 | 100,000 |
| Current portion of long-term loans payable | 2,613,496 | 2,403,186 |
| Lease obligations | 137,071 | 214,976 |
| Accounts payable-other | 1,536,704 | 1,686,382 |
| Income taxes payable | 234,846 | 297,104 |
| Reserve for bonuses | 413,336 | 471,966 |
| Others | 714,899 | 999,149 |
| Total current liabilities | 6,851,757 | 7,284,433 |
| Fixed liabilities | | |
| Bonds | 150,000 | 50,000 |
| Long-term loans payable | 5,408,383 | 4,398,835 |
| Lease obligations | 750,400 | 989,588 |
| Deferred tax liabilities for land revaluation | 319,828 | 289,282 |
| Deferred tax liabilities | 100,769 | 84,719 |
| Provision for directors' retirement benefits | 31,403 | 31,403 |
| Asset retirement obligations | 454,910 | 478,446 |
| Others | 181,541 | 208,637 |
| Total fixed liabilities | 7,397,236 | 6,530,912 |
| Total liabilities | 14,248,993 | 13,815,345 |
| Net assets | | |
| Shareholders' equity | | |
| Capital stock | 6,361,756 | 6,361,756 |
| Capital surplus | 2,810,575 | 2,810,575 |
| Retained earnings | 779,318 | 1,535,148 |
| Treasury stock | △85 | △129 |
| Total shareholders' equity | 9,951,564 | 10,707,350 |
| Accumulated other comprehensive profit | | |
| Valuation difference on available-for-sale securities | 131,106 | 228,418 |
| Revaluation reserve for land | △644,981 | △614,436 |
| Total accumulated other comprehensive profit | △513,874 | △386,018 |
| Minority shareholders' equity | 129,785 | 135,607 |
| Total net assets | 9,567,474 | 10,456,940 |
| Total liabilities and net assets | 23,816,468 | 24,272,286 |

(2) Consolidated profit and loss statement; and consolidated comprehensive profit statement

(Thousand yen; △ means decrease)

| | Previous consolidated fiscal year (Apr.1, 2013 - Mar.31, 2014) | Current consolidated fiscal year (Apr.1, 2014 - Mar.31, 2015) |
|--|---|--|
| Net sales | 32,762,885 | 37,969,881 |
| Cost of sales | 10,865,534 | 12,979,959 |
| Gross profit | 21,897,351 | 24,989,921 |
| Selling, general and administrative expenses | | |
| Directors' compensations | 141,616 | 143,430 |
| Salaries and allowances | 9,368,096 | 10,721,630 |
| Employees' bonuses | 236,015 | 251,647 |
| Provision for bonuses | 369,395 | 461,972 |
| Welfare expenses | 747,359 | 892,368 |
| Retirement benefit expenses | 198,213 | 206,598 |
| Utilities expenses | 1,722,360 | 1,817,141 |
| Supplies expenses | 993,774 | 1,034,995 |
| Rent expenses | 3,588,391 | 3,935,700 |
| Repair expenses | 390,546 | 408,026 |
| Depreciation | 1,091,256 | 1,314,188 |
| Miscellaneous expenses | 2,108,912 | 2,528,726 |
| Amortization of goodwill | 52,447 | 89,909 |
| Total selling, general and administrative expenses | 21,008,387 | 23,806,336 |
| Operating profit | 888,963 | 1,183,585 |
| Non-operating income | | |
| Interest income | 11,349 | 12,944 |
| Dividends income | 14,219 | 17,082 |
| Rent income | 98,058 | 101,982 |
| Foreign exchange gains | 41,533 | 220,910 |
| Miscellaneous income | 77,584 | 77,904 |
| Total non-operating income | 242,746 | 430,822 |
| Non-operating expenses | | |
| Interest expenses | 154,057 | 153,954 |
| Rent expenses on real estates | 76,902 | 83,883 |
| Miscellaneous loss | 54,423 | 46,477 |
| Total non-operating expenses | 285,384 | 284,315 |
| Ordinary profit | 846,325 | 1,330,092 |

(Thousand yen; Δ means decrease)

| | Previous consolidated fiscal year (Apr.1, 2013 - Mar.31, 2014) | Current consolidated fiscal year (Apr.1, 2014 - Mar.31, 2015) |
|---|---|--|
| Extraordinary profit | | |
| Gain on sales of fixed assets | 3,000 | 4,129 |
| Total extraordinary profit | 3,000 | 4,129 |
| Extraordinary loss | | |
| Loss on retirement of fixed assets | 39,383 | 24,733 |
| Loss on sales of fixed assets | 167 | — |
| Loss on valuation of investment securities | 6,203 | 26,084 |
| Loss on valuation of other investments | 2,250 | — |
| Loss on cancellation of leasehold contracts | 3,365 | 2,400 |
| Impairment loss | 25,681 | — |
| Total extraordinary losses | 77,052 | 53,217 |
| Net profit before income taxes | 772,273 | 1,281,004 |
| Income taxes-current | 269,825 | 417,944 |
| Income taxes-deferred | Δ 913 | 16,780 |
| Total income taxes | 268,911 | 434,724 |
| Net profit before minority interests | 503,361 | 846,279 |
| Minority interests or losses in net profit | Δ 10,579 | 5,822 |
| Net profit | 513,941 | 840,456 |

(Consolidated comprehensive profit statement)

| | (Thousand yen; Δ means decrease) | |
|---|---|--|
| | Previous consolidated fiscal year (Apr.1, 2013 - Mar.31, 2014) | Current consolidated fiscal year (Apr.1, 2014 - Mar.31, 2015) |
| Net profit before minority interests | 503,361 | 846,279 |
| Other comprehensive profit | | |
| Valuation difference on available-for-sale securities | Δ 691 | 97,311 |
| Revaluation reserve for land | — | 30,545 |
| Total other comprehensive profit | Δ 691 | 127,856 |
| Comprehensive profit | 502,669 | 974,135 |
| (detail) | | |
| Comprehensive profit for shareholders of parent company | 513,249 | 968,313 |
| Comprehensive profit for minority shareholders | Δ 10,579 | 5,822 |

(3) Consolidated statements of shareholders' equity

Previous consolidated fiscal year (Apr.1, 2013 - Mar.31, 2014)

(Thousand yen; △ means decrease)

| | Shareholders' equity | | | | |
|--|----------------------|-----------------|-------------------|----------------|----------------------------|
| | Capital stock | Capital surplus | Retained earnings | Treasury stock | Total shareholders' equity |
| Balance at the start of current period | 6,361,756 | 2,810,575 | 321,794 | △63 | 9,494,062 |
| Changes of items during the period | | | | | |
| Dividends from surplus | | | △56,417 | | △56,417 |
| Net profit | | | 513,941 | | 513,941 |
| Purchase of treasury stock | | | | △21 | △21 |
| Changes of items other than shareholders' equity (net) | | | | | |
| Total changes of items during the period | — | — | 457,523 | △21 | 457,501 |
| Balance at the end of current period | 6,361,756 | 2,810,575 | 779,318 | △85 | 9,951,564 |

| | Accumulated other comprehensive profit | | | Minority shareholders' equity | Total net assets |
|--|---|------------------------------|--|-------------------------------|------------------|
| | Valuation difference on available-for-sale securities | Revaluation reserve for land | Total accumulated other comprehensive profit | | |
| Balance at the start of current period | 131,798 | △644,981 | △513,182 | 140,364 | 9,121,244 |
| Changes of items during the period | | | | | |
| Dividends from surplus | | | | | △56,417 |
| Net profit | | | | | 513,941 |
| Purchase of treasury stock | | | | | △21 |
| Changes of items other than shareholders' equity (net) | △691 | — | △691 | △10,579 | △11,271 |
| Total changes of items during the period | △691 | — | △691 | △10,579 | 446,230 |
| Balance at the end of current period | 131,106 | △644,981 | △513,874 | 129,785 | 9,567,474 |

Current consolidated fiscal year (Apr.1, 2014 - Mar.31, 2015)

(Thousand yen; △ means decrease)

| | Shareholders' equity | | | | |
|--|----------------------|-----------------|-------------------|----------------|----------------------------|
| | Capital stock | Capital surplus | Retained earnings | Treasury stock | Total shareholders' equity |
| Balance at the start of current period | 6,361,756 | 2,810,575 | 779,318 | △85 | 9,951,564 |
| Changes of items during the period | | | | | |
| Dividends from surplus | | | △84,626 | | △84,626 |
| Net profit | | | 840,456 | | 840,456 |
| Purchase of treasury stock | | | | △43 | △43 |
| Changes of items other than shareholders' equity (net) | | | | | |
| Total changes of items during the period | | | 755,829 | △43 | 755,786 |
| Balance at the end of current period | 6,361,756 | 2,810,575 | 1,535,148 | △129 | 10,707,350 |

| | Accumulated other comprehensive profit | | | Minority shareholders' equity | Total net assets |
|--|---|------------------------------|--|-------------------------------|------------------|
| | Valuation difference on available-for-sale securities | Revaluation reserve for land | Total accumulated other comprehensive profit | | |
| Balance at the start of current period | 131,106 | △644,981 | △513,874 | 129,785 | 9,567,474 |
| Changes of items during the period | | | | | |
| Dividends from surplus | | | | | △84,626 |
| Net profit | | | | | 840,456 |
| Purchase of treasury stock | | | | | △43 |
| Changes of items other than shareholders' equity (net) | 97,311 | 30,545 | 127,856 | 5,822 | 133,679 |
| Total changes of items during the period | 97,311 | 30,545 | 127,856 | 5,822 | 889,465 |
| Balance at the end of current period | 228,418 | △614,436 | △386,018 | 135,607 | 10,456,940 |

(4) Consolidated cash flow statement

| | (Thousand yen; Δ means decrease) | |
|---|---|--|
| | Previous consolidated fiscal year (Apr.1, 2013 - Mar.31, 2014) | Current consolidated fiscal year (Apr.1, 2014 - Mar.31, 2015) |
| Cash flow from operating activities | | |
| Net profit before income taxes | 772,273 | 1,281,004 |
| Depreciation | 1,099,918 | 1,322,538 |
| Amortization of goodwill | 52,447 | 89,909 |
| Impairment loss | 25,681 | — |
| Increase/decrease in reserve for bonuses (Δ means decrease) | 82,366 | 58,630 |
| Increase/decrease in allowance for doubtful accounts (Δ means decrease) | Δ 1,013 | Δ 1,772 |
| Increase/decrease in provision for loss on store closing (Δ means decrease) | Δ 50,000 | — |
| Interest and dividends income | Δ 25,568 | Δ 30,026 |
| Interest expenses | 154,057 | 153,954 |
| Profit/loss on valuation of investment securities (Δ means profit) | 6,203 | 26,084 |
| Loss on valuation of other investments | 2,250 | — |
| Profit/loss on sales of tangible fixed assets (Δ means profit) | Δ 2,832 | Δ 4,129 |
| Loss on retirement of tangible fixed assets | 39,383 | 24,733 |
| Loss on cancellation of leasehold contracts | 3,365 | 2,400 |
| Increase/decrease in sales credit (Δ means increase) | Δ 8,159 | Δ 56,274 |
| Increase/decrease in inventories (Δ means increase) | Δ 67,955 | Δ 8,511 |
| Increase/decrease in accounts payable (Δ means decrease) | Δ 436,213 | 10,263 |
| Increase/decrease in accrued consumption taxes (Δ means decrease) | 31,137 | 469,638 |
| Others | Δ 74,996 | Δ 118,182 |
| Subtotal | 1,602,345 | 3,220,261 |
| Interest and dividends income received | 14,436 | 16,772 |
| Interest expenses paid | Δ 148,863 | Δ 155,023 |
| Proceeds from insurance income | 5,544 | — |
| Income taxes paid | Δ 316,007 | Δ 360,657 |
| Cash flow from operating activities | 1,157,454 | 2,721,353 |
| Cash flow from investment activities | | |
| Expense by acquiring tangible fixed assets | Δ 1,019,514 | Δ 829,070 |
| Proceeds from sales of tangible fixed assets | 3,142 | 4,239 |
| Expense by purchasing investment securities | Δ 41,420 | Δ 49,932 |
| Expense by acquiring intangible fixed assets | Δ 177,583 | Δ 237,559 |
| Expense by acquiring shares in a subsidiary resulting in change in scope of consolidation | Δ 1,488,676 | — |
| Expense by payment of guarantee deposits | Δ 44,022 | Δ 88,335 |
| Proceeds from collection of guarantee deposits | 163,647 | 125,986 |
| Expense by payment of construction assistance fund receivables | Δ 146,000 | Δ 177,000 |
| Proceeds from collection of construction assistance fund receivables | 80,087 | 91,696 |
| Others | Δ 85,887 | Δ 60,031 |
| Cash flow from investment activities | Δ2,756,227 | Δ1,220,007 |
| Cash flow from financial activities | | |
| Proceeds from long-term loans payable | 5,050,000 | 1,550,000 |
| Expense by repayment of long-term loans payable | Δ 3,151,282 | Δ 2,770,449 |
| Expense by repayment of finance lease obligations | Δ 138,069 | Δ 192,501 |
| Expense by redemption of bonds | Δ 100,000 | Δ 100,000 |
| Expense by acquiring treasury stock | Δ 21 | Δ 43 |
| Dividends paid | Δ 56,417 | Δ 84,626 |

| | | |
|---|-----------|------------|
| Cash flow from financial activities | 1,604,208 | △1,597,621 |
| Effect of exchange rate change on cash and cash equivalents | 53,335 | 95,403 |
| Increase/decrease in cash and cash equivalents (△ means decrease) | 58,770 | △871 |
| Balance of cash and cash equivalents at the start of the period | 5,474,408 | 5,533,179 |
| Balance of cash and cash equivalents at the end of the period | 5,533,179 | 5,532,308 |