

# ITO EN Report 2015 【Financial Report】

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※Please refer to the securities report published on the official website of ITO EN, Ltd. for the details of the consolidated financial statements.

[http://www.itoen.co.jp/finance\\_ir/](http://www.itoen.co.jp/finance_ir/)

# Financial Review (Operating Results)

## 1. Analysis of Operating Results

### [Operating Results for the Fiscal Year under Review]

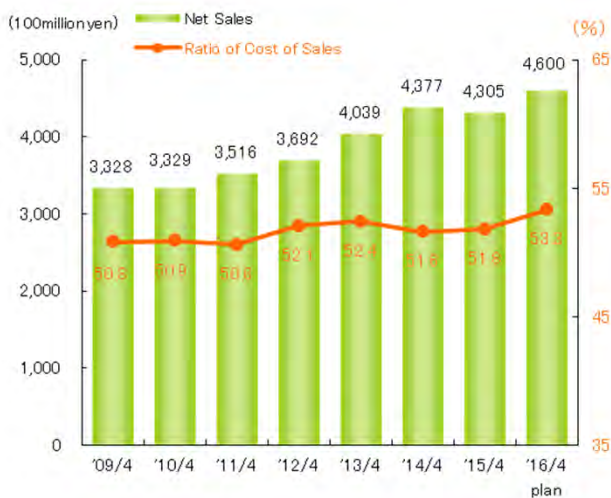
During the fiscal year under review (May 1, 2014 to April 30, 2015), the Japanese economy commenced on a slow recovery track with factors such as improvement in the performance of exporting companies and employment conditions in the background, partially assisted by the economic measures and monetary policies implemented by the Japanese government. In the meantime, a decline in personal consumption in reaction to the last-minute increase in demand ahead of the consumption tax hike and a delay in the subsequent recovery of demand became the main causes of a business downturn that exceeded expectations.

### ● Sales Performance and Plans by Segment

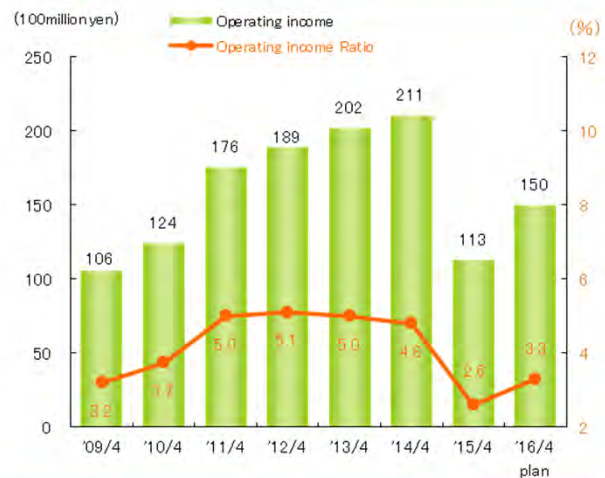
(Unit: million yen)

	Performance in the fiscal year ended April 30, 2014			Performance in the fiscal year ended April 30, 2015			Plan for the fiscal year ending April 30, 2016		
		Ratio of year-on-year change	Component ratio		Ratio of year-on-year change	Component ratio		Ratio of year-on-year change	Component ratio
Sales	363,461	3.3%	100.0%	353,754	-2.7%	100.0%	357,800	1.1%	100.0%
Tea leaves	30,624	6.4%	8.5%	31,025	1.3%	8.8%	32,615	5.1%	9.1%
Beverages (drinks)	329,787	3.1%	90.7%	319,471	-3.1%	90.3%	322,241	0.9%	90.1%
Others	3,049	0.7%	0.8%	3,257	6.8%	0.9%	2,942	-9.7%	0.8%

### Net Sales and Ratio of Cost of Sales



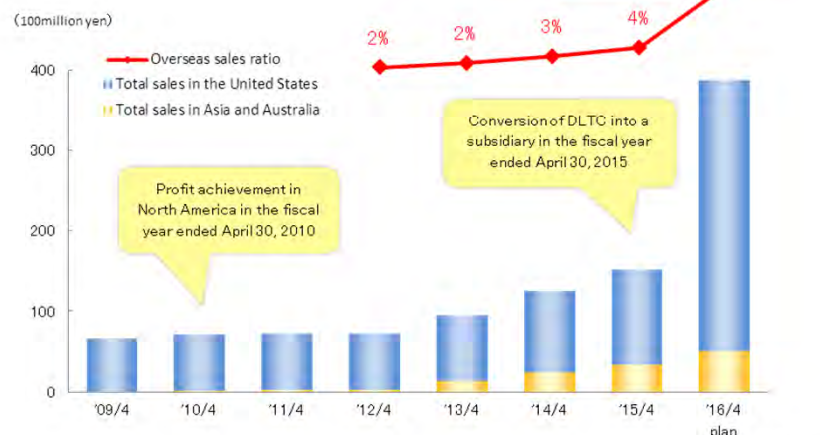
### Operating income and Operating income Ratio



### Net Income and ROE



### Changes in Overseas Sales and Overseas Sales Ratio



## ■ Financial Review (Operating Results)

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### 【Leaf- and Drink-Related Businesses】

Looking at leaf products in Japan, Kaori Kaoru Barley Tea, a tea bag product, performed poorly due to unseasonable weather throughout Japan and other factors. However, convenience-oriented, easy-to-enjoy products, such as premium tea bags and Oi Ocha Sarasara Maccha-iri Ryokucha, continued to post strong results supported by their popularity among consumers in Japan and visitors from abroad.

In beverage products (drinks), the ITO EN Group sold Oi Ocha Ryokucha and Oi Ocha Koicha in special packaging with a design of cherry blossoms, which symbolize Japan, alongside green tea to commemorate the 30th anniversary of sales of Kan-iri Sencha (sencha in a can), the forerunner to its Oi Ocha series of flagship products. The sales in the commemorative packaging commenced in late January 2015. The Group sought to increase the value of the Oi Ocha brand by setting the mood for the 30th anniversary of green tea beverage sales nationwide with designs featuring cherry blossoms, which bloom in spring.

In the crude tea procurement, the ITO EN Group continued its proactive efforts to advance the tea-producing region development project. The Group made positive use of abandoned farmland and achieved the stable procurement of high-quality crude tea under large-scale tea plantation management that achieved both productivity and environmental conservation, mainly in the Kyushu region.

Looking at tea beverages, throughout the fiscal year under review customers supported the ITO EN Group's Japanese tea beverages Kenko Mineral Mugicha (Healthy Mineral Barley Tea) and Oi Ocha Zeppin Hoji-cha, and the Chinese tea beverage Relax Jasmine Tea, maintaining favorable results for these products.

In coffee beverages, a series of ITO EN Group products sold under the TULLY'S COFFEE brand contributed to the improvement of operating results, including sales volumes, backed by their sustained popularity. Sales volumes dropped from the previous fiscal year for vegetable beverages under the adverse effects of the decline in personal consumption that resulted from the consumption tax hike.

Under the difficult conditions stated above, including intensified sales competition and a slump in consumption, the ITO EN Group worked to reduce costs and review various expenses. At the same time, the Group aggressively invested funds in advertising and sales promotions in order to strengthen its brands.

Looking at Group companies in Japan, Chichiyasu Company expanded its brand synergy through joint development with ITO EN, Ltd., in addition to selling milk and yogurt products aggressively in areas focused on Hiroshima Prefecture. In addition, NEOS Corporation attempted to further strengthen the ITO EN Group's vending machine business, using the strong sales channels of the company in western Japan.

Among Group companies overseas, ITO EN (North America) INC. steadily expanded the sales of Oi Ocha and other sugar-free tea beverages, using increased health awareness in the United States and the registration of Washoku (Japanese food) and traditional Japanese food culture on the UNESCO list of intangible cultural heritage in December 2013 as opportunities. The company also achieved favorable results for leaf products, riding on the tailwind of a global boom in matcha powdered green tea. In addition, the ITO EN Group worked aggressively to develop its overseas businesses in the fiscal year under review with the aim of establishing foundations for its operations in China and Southeast Asia.

Distant Lands Trading Company, Inc., a company that grows and sells coffee beans in regions centered on the United States, joined the ITO EN Group on February 3, 2015. The operating results of Distant Lands Trading are not included in the consolidated statement of income for the fiscal year under review because March 31, 2015 is deemed to be its acquisition date and consolidated accounting is performed on the basis of its financial statements as of March 31, 2015. Distant Lands Trading is expected to generate synergy effects in the sales of Group products in the United States in the future.

As a result of the developments reported above, consolidated net sales for leaf- and drink-related businesses amounted to 399,986 million yen in the fiscal year under review, down 2.4% from the previous fiscal year. Consolidated operating income for the businesses came to 7,708 million yen, down 57.0% year on year.

## ■ Financial Review (Operating Results)

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### **[Restaurant-Related Businesses]**

Tully's Coffee Japan Co., Ltd. contributed to the improvement of operating results by substantially expanding the sales of pasta, other delicatessen products and ice cream, in addition to maintaining the strong performance of drinks centered on seasonal products.

In addition, the company increased the number of shops operated to 588. Operating results also remained favorable for existing Tully's coffee shops.

As a result of the developments described above, consolidated net sales for restaurant-related businesses came to 25,234 million yen in the fiscal year under review, up 8.9% from the previous fiscal year. Consolidated operating income for the businesses reached 3,572 million yen, up 12.4% year on year.

### **[Other Businesses]**

Consolidated net sales for other businesses totaled 5,321 million yen, up 9.1% from the previous fiscal year. Consolidated operating income for the businesses amounted to 1,138 million yen, up 12.6% year on year.

### **Forecasts for the Next Fiscal Year**

The ITO EN Group will work to develop products that provide greater satisfaction to customers and to improve its services in the next fiscal year, adhering more closely to its principle of always putting the customer first. In the fiscal year that marks the 30th anniversary of green tea beverage sales, the Group will further bolster its top green tea beverage brand, Oi Ocha, strengthen individual brands such as Catechin Green Tea, Kenko Mineral Mugicha (Healthy Mineral Barley Tea), TEAS' TEA, TULLY'S COFFEE, Ichinichibun-no Yasaki and Jujitsu Yasai, and expand the sales of leaf products with a focus on convenience-oriented ones. Furthermore, the Group will work to improve its consolidated operating results, establishing business foundations and reducing total costs through community-based sales system and generating Group-wide synergy effects.

With these activities, the ITO EN Group forecasts that it will achieve consolidated net sales of 460,000 million yen, up 6.8% from the previous fiscal year, consolidated operating income of 15,000 million yen, up 31.7% year on year, consolidated ordinary income of 14,000 million yen, up 24.7% year on year, and consolidated net income of 8,700 million yen, up 19.3% year on year, in the fiscal year ending April 30, 2016.

## ■ Financial Review (Financial Conditions and Dividend Policy)

### 2. Analysis of Financial Conditions

#### 【State of Assets, Liabilities and Net Assets】

##### ① Assets

Total assets stood at 285,947 million yen at the end of the fiscal year ended April 30, 2015, up 27,127 million yen from the end of the previous fiscal year. The total asset increase mainly reflected growth of 4,588 million yen in notes and accounts receivable-trade, a rise of 1,877 million yen in accounts receivable-other, an increase of 11,808 million in goodwill, and a decrease of 182 million yen in machinery, equipment and vehicles.

##### ② Liabilities

Liabilities amounted to 158,185 million yen at the end of the fiscal year under review, up 19,875 million yen from the end of the previous fiscal year. The expansion of liabilities was mainly due to an increase of 974 million yen in notes and accounts payable-trade, growth of 1,722 million yen in accrued expenses, a rise of 29,001 million yen in long-term loans payable and a fall of 4,625 million yen in short-term loans payable.

##### ③ Net Assets

Net assets came to 127,761 million yen at the end of the fiscal year under review, up 7,252 million yen from the end of the previous fiscal year. The principal factors for the growth of net assets included a rise of 7,292 million yen due to net income and a fall of 5,252 million yen attributable to dividends from surplus.

#### 【State of Cash Flows】

##### ① Cash Flows from Operating Activities

Net cash inflows from operating activities were 17,751 million yen (compared with 24,300 million yen provided in the previous fiscal year). Major causes of the net cash inflows included income before taxes of 10,893 million yen, depreciation and amortization of 15,653 million yen, amortization of goodwill of 1,326 million yen, a rise in notes and accounts receivable-trade of 1,741 million yen and income taxes paid of 8,569 million yen.

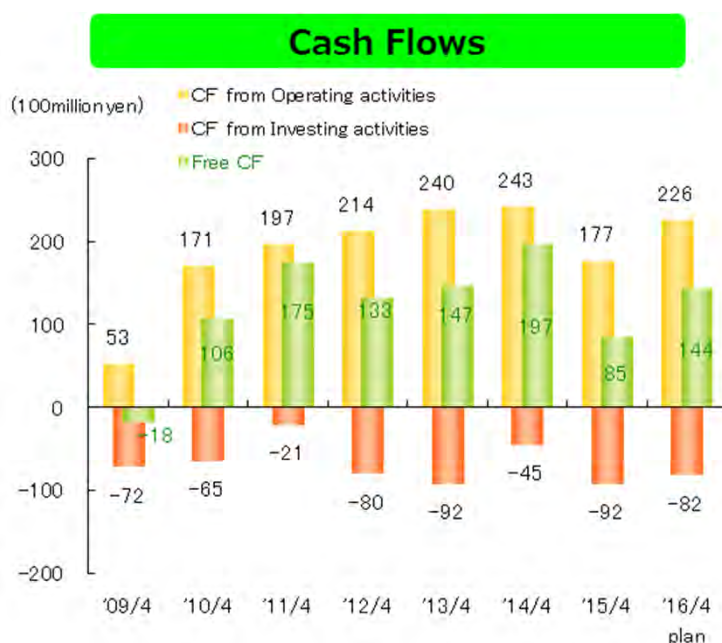
##### ② Cash Flows from Investing Activities

Net cash outflows from investing activities were 9,242 million yen (compared with 4,598 million yen used in the previous fiscal year). The net cash outflows resulted mainly from disbursement for the acquisition of shares in subsidiaries of 7,940 million yen, which caused the scope of consolidation to change, and payments for plant and facility investments of 3,704 million yen.

##### ③ Cash Flows from Financing Activities

Net cash outflows from financing activities were 4,835 million yen (compared with 18,147 million yen used in the previous fiscal year). The main factors for the net cash outflows were proceeds from long-term loans payable of 29,072 million yen, the repayment of long-term loans payable of 16,424 million yen, the repayment of finance lease obligations of 12,143 million yen, and dividends paid of 5,245 million yen.

As a result of the cash flows described above, cash and cash equivalents amounted to 48,922 million yen at the end of the fiscal year ended April 30, 2015, up 4,305 million yen from the end of the previous fiscal year.





## ■ Management Indexes

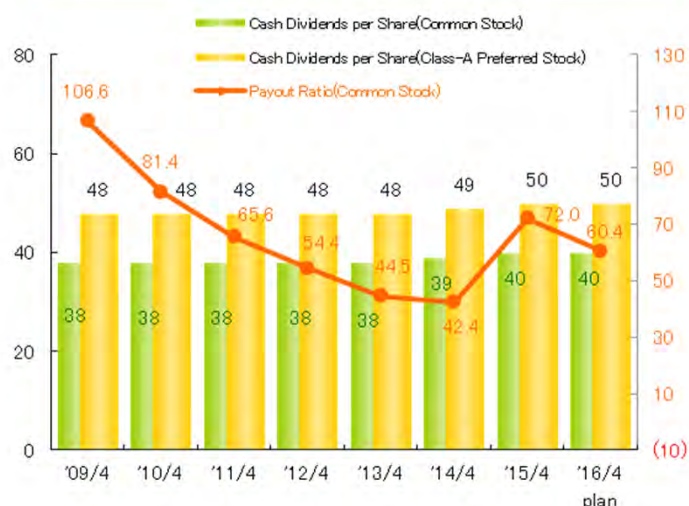
### 【Dividend Policy, Basic Policy on Profit Distribution, Dividends for the Fiscal Year under Review and Dividends for the Next Fiscal Year】

ITO EN considers the return of profit to shareholders to be one of its top priority management issues. The Company adopts stable distribution as a basic policy for profit distribution. Based on this policy, ITO EN has decided to pay interim dividends of 20 yen per share of common stock and 25 yen per share of Class A preferred stock.

The Company plans to pay annual dividends of 40 yen per share of common stock and 50 yen per share of Class A preferred stock in the fiscal year under review, including the interim dividends stated above.

With regard to internal reserves, the Company intends to make the most of them through activities including investments for increasing its corporate value, in other words, its investment value for shareholders, and return profits to shareholders positively through its business development in the future.

#### Cash Dividends per Share and Payout Ratio



### Changes in Dividends per Share (\*) and Dividend Payout Ratio

(Combined Payout Ratio for Common Shares and Preferred Shares)

	Apr.2011	Apr.2012	Apr.2013	Apr.2014	Apr.2015
Common shares	38Yen	38Yen	38Yen	39Yen	40Yen
Preferred shares	48Yen	48Yen	48Yen	49Yen	50Yen
Dividend payout ratio	65.6%	54.4%	44.5%	42.4%	72.0%

(※) twice a year, end of Apr. and Oct.

## ■ Consolidated Financial Statements 【Consolidated Balance Sheets ①】

(Unit: Millions of Yen)

	Fiscal Year				
	4/30/2011	4/30/2012	4/30/2013	4/30/2014	4/30/2015
<b>Assets</b>					
Current assets					
Cash and deposits	23,986	43,872	44,856	46,412	48,922
Notes and accounts receivable - trade	39,538	37,181	40,750	46,923	51,512
Merchandise and finished products	15,709	19,586	21,771	21,764	26,481
Raw materials and supplies	6,607	7,231	7,156	8,198	8,188
Accounts receivable - other	8,859	8,688	9,747	12,115	13,999
Deferred tax assets	2,470	2,688	2,518	2,297	2,080
Other	2,218	2,355	2,388	2,212	2,560
Allowance for doubtful accounts	△86	△54	△164	△118	△148
<b>Total current assets</b>	<b>99,302</b>	<b>121,549</b>	<b>129,025</b>	<b>139,807</b>	<b>153,597</b>
Fixed assets					
Property, plant and equipment					
Buildings and structures	29,819	31,575	34,964	36,993	38,827
Accumulated depreciation	△15,057	△16,179	17,666	△18,609	△20,246
Buildings and structures, net	14,761	15,395	17,297	18,384	18,580
Machinery, equipment and vehicles	8,623	10,888	12,367	15,440	18,403
Accumulated depreciation	△5,196	△7,320	△8,567	△9,580	△12,726
Machinery, equipment and vehicles, net	3,426	3,567	3,800	5,860	5,677
Tools, furniture and fixtures	3,218	4,126	11,490	5,647	7,679
Accumulated depreciation	△2,474	△2,749	△10,159	△3,908	△4,685
Tools, furniture and fixtures, net	744	1,376	1,330	1,739	2,994
Land	13,968	17,359	17,978	18,423	19,413
Lease assets	35,487	44,976	62,819	60,436	62,121
Accumulated depreciation	△10,740	17,046	△29,258	△25,695	△28,930
Lease assets, net	24,746	27,929	33,561	34,741	33,190
Construction in progress	44	839	1,916	178	258
<b>Subtotal</b>	<b>57,692</b>	<b>66,468</b>	<b>75,885</b>	<b>79,326</b>	<b>80,115</b>
Intangible fixed assets					
Goodwill	12,824	14,432	17,258	15,983	27,791
Lease assets	100				
Software	6764	6,171	5,705	4,946	4,323
Other	2,089	1,897	1,839	1,670	1,927
<b>Subtotal</b>	<b>21,778</b>	<b>22,501</b>	<b>24,803</b>	<b>22,600</b>	<b>34,042</b>
Investments and other assets					
Investments in securities	3,083	3,243	3,625	3,782	5,116
Deferred tax assets	1,610	1,612	2,016	3,076	2,511
Other	9,306	9,806	9,994	10,634	10,961
Allowance for doubtful accounts	△310	△337	△380	△407	△396
<b>Subtotal</b>	<b>13,689</b>	<b>14,324</b>	<b>15,256</b>	<b>17,085</b>	<b>18,192</b>
<b>Total fixed assets</b>	<b>93,159</b>	<b>103,294</b>	<b>115,945</b>	<b>119,012</b>	<b>132,350</b>
<b>Total assets</b>	<b>192,462</b>	<b>224,843</b>	<b>244,970</b>	<b>258,820</b>	<b>285,947</b>

## ■ Consolidated Financial Statements 【Consolidated Balance Sheets ②】

(Unit: Millions of Yen)

	Fiscal Year				
	4/30/2011	4/30/2012	4/30/2013	4/30/2014	4/30/2015
<b>Liabilities</b>					
<b>Current liabilities</b>					
Notes and accounts payable – trade	27,027	25,984	29,474	32,330	33,304
Short-term loans payable	310	670	508	5,429	803
Lease obligations	7,428	9,653	11,778	11,681	11,255
Accrued expenses	15,587	17,779	18,023	19,602	21,325
Income taxes payable	5,063	4,882	4,521	4,780	1,251
Provisions for bonuses	2,610	2,999	3,047	3,048	2,791
Other	2,384	2,289	3,526	3,568	5,306
<b>Total current liabilities</b>	<b>60,413</b>	<b>64,258</b>	<b>70,880</b>	<b>80,440</b>	<b>76,038</b>
<b>Non-current liabilities</b>					
Bonds payable		20,000	20,000	20,000	20,000
Long-term loans payable	3,147	5,577	6,602	1,549	30,551
Lease obligations	19,234	19,564	22,214	22,028	19,998
Deferred income tax liabilities on revaluation	976	837	837	837	758
Net defined benefit liabilities	4,892	6,209	7,885	10,604	8,092
Other	2,167	2,386	2,607	2,850	2,745
<b>Total non-current liabilities</b>	<b>30,418</b>	<b>54,575</b>	<b>60,147</b>	<b>57,870</b>	<b>82,146</b>
<b>Total liabilities</b>	<b>90,831</b>	<b>118,833</b>	<b>131,028</b>	<b>138,310</b>	<b>158,185</b>
<b>Net assets</b>					
<b>Shareholders' equity</b>					
Capital stock	19,912	19,912	19,912	19,912	19,912
Capital surplus	20,259	20,259	20,259	20,259	20,259
Retained earnings	74,735	78,954	80,747	87,812	90,949
Treasury stock	△4,865	△4,830	△1,467	△1,423	△1,287
<b>Total shareholders' equity</b>	<b>110,041</b>	<b>114,294</b>	<b>119,451</b>	<b>126,560</b>	<b>129,833</b>
<b>Valuation, translation adjustment and others</b>					
Valuation difference on available-for-sale securities	68	158	925	1,014	2,029
Deferred gains (losses) on hedges	2	3	30	1	29
Reversal of revaluation reserve for land	△6,260	△6,171	△6,171	△6,171	△6,092
Foreign currency translation adjustments	△2,333	△2,388	△745	△304	1,503
Remeasurements of defined benefit plans				△1,318	△480
<b>Total accumulated other comprehensive income</b>	<b>△8,523</b>	<b>△8,398</b>	<b>△5,960</b>	<b>△6,777</b>	<b>△3,010</b>
Subscription rights to shares	7	23	34	52	10
Minority interests	105	90	416	673	928
<b>Total net assets</b>	<b>101,630</b>	<b>106,010</b>	<b>113,942</b>	<b>120,509</b>	<b>127,761</b>
<b>Total liabilities and net assets</b>	<b>192,462</b>	<b>224,843</b>	<b>244,970</b>	<b>258,820</b>	<b>285,947</b>



## ■ Consolidated Financial Statements 【Consolidated Statements of Income】

(Unit: Millions of Yen)

	Fiscal Year				
	5/1/2010-4/30/2011	5/1/2011-4/30/2012	5/1/2012-4/30/2013	5/1/2013-4/30/2014	5/1/2014-4/30/2015
Net sales	351,692	369,284	403,957	437,755	430,541
Cost of sales	177,992	192,213	211,869	225,951	223,132
Gross profit	173,699	177,071	192,088	211,804	207,409
Selling, general and administrative expenses	156,020	158,164	171,837	190,703	196,016
Operating income	17,679	18,907	20,250	21,100	11,393
Non-operating income					
Interest income	13	10	26	29	58
Dividend income from securities	40	45	46	67	55
Rent income	36	37	50	74	76
Insurance income	67	93	45	4	4
Compensation income for damaged goods	56	42	48	102	68
Equity income from an unconsolidated subsidiary and affiliates	58	142	168	74	62
Foreign exchange gains		-	659	181	479
Other	217	276	362	334	465
Total non-operating income	491	647	1,408	870	1,269
Non-operating expenses					
Interest expense	969	1,074	1,235	1,248	1,153
Foreign exchange loss	543	159	-		
Loss on disposal of lease assets	-				
Bond issuance expense		95	-		
Product recall expense		-	227		
Other	130	239	281	205	279
Total non-operating expenses	1,643	1,568	1,744	1,453	1,433
Ordinary income	16,526	17,985	19,914	20,518	11,229
Extraordinary gains					
Gain on sale of fixed assets	-	3	1	205	1
Gain on sale of securities		9	0	2	0
Gain on donation of fixed assets	62	12	7	2	27
Compensation for transfer of property		12	-		
Eviction income				-	11
Gain on bargain purchase				198	-
Gain on termination of golf course membership	80				
Gain on step acquisitions		-	260		
Other	0			9	8
Total extraordinary gains	143	37	270	419	49
Extraordinary losses					
Loss on sale of fixed assets	0	0	2	17	17
Loss on abandonment of fixed assets	57	54	169	28	21
Impairment losses	93	662	463	166	326
Disaster losses	386	22	0		
Loss on valuation of investment securities	1,009	10	12	17	-
Loss on step acquisitions				73	-
Adjustments for changes in accounting standard for asset retirement obligations	244				
Loss on liquidation of subsidiaries	-				
Other	4	84	50	-	20
Total extraordinary losses	1,796	833	700	303	386
Income before income taxes	14,872	17,189	19,484	20,633	10,893
Income taxes - current	7,793	8,264	8,276	8,539	4,555
Income taxes - deferred	△602	△310	△10	△123	△1,041
Total income taxes	7,191	7,954	8,266	8,416	3,514
Income before minority interests	7,681	9,235	11,218	12,216	7,378
Minority interests on income (loss)	5	△13	△25	120	86
Net income	7,675	9,249	11,244	12,096	7,292

## ■ Consolidated Financial Statements 【Consolidated Statements of Comprehensive Income】

(Unit: Millions of Yen)

	Fiscal Year				
	5/1/2010-4/30/2011	5/1/2011-4/30/2012	5/1/2012-4/30/2013	5/1/2013-4/30/2014	5/1/2014-4/30/2015
Income before minority interests	7,681	9,235	11,218	12,216	7,378
Other comprehensive income					
Valuation difference on available-for-sale securities	△238	87	756	77	989
Deferred gains or losses on hedges	△38	0	27	△28	27
Revaluation reserve for land		88	–	–	78
Foreign currency translation adjustment	△595	△67	1,685	436	1,861
Remeasurements of defined benefit plans, net of tax				–	834
Share of other comprehensive income of associates accounted for using equity method	△48	15	35	37	44
<b>Total other comprehensive income</b>	<b>△921</b>	<b>125</b>	<b>2,505</b>	<b>522</b>	<b>3,836</b>
Comprehensive income	6,759	9,360	13,723	12,738	11,215
<b>(Breakdown)</b>					
Comprehensive income attributable to owners of the parent	6,753	9,374	13,704	12,598	11,059
Comprehensive income attributable to minority interests	5	△13	19	140	155

## ■ Consolidated Financial Statements 【Consolidated Statements of Changes in Shareholders' Equity】

For the fiscal year ended April 30, 2015 (May 1, 2014 – April 30, 2015)

(Unit: Millions of Yen)

	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
Balance at the beginning of the current period	19,912	20,259	87,812	△1,423	126,560
Cumulative effect of changes in accounting policies			1,180		1,180
Restated balance	19,912	20,259	88,993	△1,423	127,740
Changes during the current period					
Dividends from surplus			△5,252		△5,252
Net income			7,292		7,292
Purchase of treasury stock				△17	△17
Disposal of treasury stock			△82	153	70
Net changes in items other than shareholders' equity					
Total changes in items during the period	–	–	1,956	135	2,092
Balance at the end of the current period	19,912	20,259	90,949	△1,287	129,833

(Unit: Millions of Yen)

	Accumulated other comprehensive income						Subscription rights to shares	Minority interests	Total net assets
	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Revaluation reserve for land	Foreign currency translation adjustment	Remeasurements of defined benefit plans	Subtotal			
Balance at the beginning of the current period	1,014	1	△6,171	△304	△1,318	△6,777	52	673	120,509
Cumulative effect of changes in accounting policies									1,180
Restated balance	1,014	1	△6,171	△304	△1,318	△6,777	52	673	121,689
Changes during the current period									
Dividends from surplus									△5,252
Net income									7,292
Purchase of treasury stock									△17
Disposal of treasury stock									70
Net changes in items other than shareholders' equity	1,014	27	78	1,807	838	3,766	△42	255	3,979
Total changes in items during the period	1,014	27	78	1,807	838	3,766	△42	255	6,072
Balance at the end of the current period	2,029	29	△6,092	1,503	△480	△3,010	10	928	127,761

(Note) Fractions of one million yen are rounded off.

## ■ Consolidated Financial Statements

### 【Consolidated Statements of Cash Flows①】

(Unit: Millions of Yen)

	Fiscal Year				
	5/1/2010-4/30/2011	5/1/2011-4/30/2012	5/1/2012-4/30/2013	5/1/2013-4/30/2014	5/1/2014-4/30/2015
<b>Cash flows from operating activities</b>					
Income before income taxes	14,872	17,189	19,484	20,633	10,893
Depreciation and amortization	9,011	10,892	13,769	15,140	15,653
Impairment loss	93	662	463	166	326
Loss (gain) on step acquisitions		–	△260	73	–
Amortization of goodwill	931	1,148	1,190	1332	1326
Gain on bargain purchase				△198	–
Increase (decrease) in allowance for doubtful accounts	△8	△12	142	△19	3
Increase (decrease) in accrued bonuses for employees	37	332	△150	△3	△256
Increase (decrease) in net defined benefit liability	624	700	667	681	676
Interest and dividend income	△54	△55	△72	△97	△113
Interest expenses	969	1,074	1,235	1248	1153
Loss (gain) on foreign currency translation	277	129	△438	△116	△265
Loss (gain) on valuation of investment securities	1,009	10	12	17	–
Loss (gain) on sale of investment securities	△0	△9	△0	△2	△0
Decrease (increase) in notes and accounts receivable – trade	△5,197	3,924	△2,455	△6,003	△1,741
Decrease (increase) in inventories	734	△4,184	△226	△835	△992
Adjustments for changes in accounting standard for asset retirement obligations	244				
Decrease (increase) in other current assets	△971	△103	28	△2,093	△1,788
Decrease (increase) in other fixed assets	25	60	△8	△223	△199
Increase (decrease) in notes and accounts payable – trade	2,046	△2,456	175	2,622	△99
Increase (decrease) in consumption tax payable	1,091	△34	344	203	1447
Increase (decrease) in other current liabilities	1,426	1,723	△20	1,367	1,199
Other	△290	△6	67	△193	114
<b>Subtotal</b>	<b>26,873</b>	<b>30,984</b>	<b>33,948</b>	<b>33,701</b>	<b>27,339</b>
Interest and dividend income received in cash	57	59	79	109	136
Interest expenses paid in cash	△972	△1,160	△1,223	△1,250	△1,154
Income taxes paid in cash	△6,245	△8,420	△8,762	△8,260	△8,569
<b>Net cash flows from operating activities</b>	<b>19,714</b>	<b>21,462</b>	<b>24,042</b>	<b>24,300</b>	<b>17,751</b>
<b>Cash flows from investing activities</b>					
Net decrease (increase) in time deposits		△324	△1,406	250	1,943
Purchase of property, plant and equipment and intangible assets	△2,080	△5,637	△6,948	△4,843	△3,704
Acquisition of investments in securities	△14	△30	△155	△5	△15
Proceeds from sale of investment securities	0	85	41	6	0
Acquisition of long-term prepaid expenses	△19	△63	△52	△34	△105
Acquisition of investments in affiliates	–	△84	–	△121	–
Purchase of shares of subsidiaries resulting from change in scope of consolidation		△1,966	△934	–	△7,940
Proceeds from acquisition of shares of subsidiaries resulting from change in scope of consolidation				168	–
Decrease (increase) in other investments	△19	△45	182	△18	580
<b>Net cash flows from investing activities</b>	<b>△2,133</b>	<b>△8,067</b>	<b>△9,272</b>	<b>△4,598</b>	<b>△9,242</b>

## ■ Consolidated Financial Statements 【Consolidated Statements of Cash Flows②】

(Unit: Millions of Yen)

	Fiscal Year				
	5/1/2010-4/30/2011	5/1/2011-4/30/2012	5/1/2012-4/30/2013	5/1/2013-4/30/2014	5/1/2014-4/30/2015
<b>Cash flows from financing activities</b>					
Net increase (decrease) in short-term loans payable		300	△367	50	–
Proceeds from long-term loans payable	–	700	1,469	–	29,072
Repayment of long-term loans payable	△310	△1,115	△478	△824	△16,424
Proceeds from bond issuance		19,904	–		
Purchase of treasury stock	△508	△6	△1,098	△23	△17
Proceeds from sale of treasury stock	1	2	1	2	1
Repayment of finance lease obligations	△6,207	△8,467	△10,979	△12,456	△12,143
Dividends paid	△5,037	△5,021	△5,007	△4,998	△5,245
Dividends paid to minority shareholders	△28	△0	△5	△0	△0
Proceeds from stock issuance to minority shareholders		–	12	121	–
Other, net	△13	△4	2	△16	△75
<b>Net cash flows from financing activities</b>	<b>△12,103</b>	<b>6,290</b>	<b>△16,451</b>	<b>△18,147</b>	<b>△4,835</b>
Effect of exchange rate fluctuations on cash and cash equivalents	△285	△127	859	164	631
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>5,191</b>	<b>19,558</b>	<b>△822</b>	<b>1719</b>	<b>4,305</b>
Cash and cash equivalents at beginning of period	18,795	23,986	43,544	42,897	44,617
Net increase (decrease) in cash and cash equivalents associated with change in scope of consolidation		–	175		
<b>Cash and cash equivalents at end of period</b>	<b>23,986</b>	<b>43,544</b>	<b>42,897</b>	<b>44,617</b>	<b>48,922</b>

Although the information provided in this report regarding the past five fiscal years has been obtained or compiled from sources the Company believes to be reliable, the Company does not guarantee the accuracy, reliability, completeness, etc. of such information because of the different accounting policies applied in part to certain fiscal years. For details regarding each of the items, please refer to the Company's annual securities report pertaining to each fiscal year.



## ■ Non-Consolidated Financial Statements 【Non-Consolidated Balance Sheets】

(Unit: Millions of Yen)

	Fiscal Year				
	4/30/2011	4/30/2012	4/30/2013	4/30/2014	4/30/2015
<b>Assets</b>					
Current assets					
Cash and deposits	19,488	37,219	34,272	34,261	36,388
Notes receivable – trade	229	205	171	176	178
Accounts receivable – trade	38,429	34,573	37,577	43,273	45,044
Merchandise and finished products	14,405	18,120	18,716	17,942	19,077
Raw materials and supplies	5,647	6,051	6,009	7,089	6,676
Prepaid expenses	1,453	1,768	1,638	1,551	1,630
Deferred income tax assets	2,392	2,363	2,038	1,791	1,354
Short-term loans to affiliates	1752	2,553	3,278	4467	2468
Advances to suppliers	9,027	8,644	8,807	11,392	12,864
Other	231	361	362	162	440
Allowance for doubtful accounts	△79	△55	△159	△103	△96
Total current assets	92,980	111,807	112,715	122,003	126,025
Fixed assets					
Property, plant and equipment					
Buildings	22,349	22,586	22,616	10,504	10,187
Accumulated depreciation	△10,960	△11,501	△12,000		
Buildings, net	11,388	11,085	10,616		
Structures	1,190	1,216	1,214	252	247
Accumulated depreciation	△942	△975	△971		
Structures, net	247	241	242		
Machinery and equipment	4,838	5,058	5,163	2,204	1,877
Accumulated depreciation	△3,005	△3,396	△3,804		
Machinery and equipment, net	1832	1,662	1,358		
Vehicles	82	74	75	8	13
Accumulated depreciation	△66	△64	△60		
Vehicles, net	15	10	14		
Tools, furniture and fixtures	2227	2,857	2,980	1130	1917
Accumulated depreciation	△1,764	△1,864	△2,139		
Tools, furniture and fixtures, net	463	993	841		
Land	12698	13,469	13,469	13,517	13,583
Lease assets	35,245	44,541	56,581	32,683	31,113
Accumulated depreciation	△10,649	△16,836	△25,283		
Lease assets, net	24,595	27,705	31,298		
Construction in progress	1	126	784	46	59
Subtotal	51,242	55,293	58,625	60,347	59,001
Intangible fixed assets					
Right for leasehold land	80	80	80	80	80
Trademark right	1	0	0	0	0
Software	6,642	6,047	5,388	4,652	4,019
Lease assets	100	56	15	0	0
Telephone rights	89	89	89	89	89
Other	36	19	0	0	0
Subtotal	6,950	6,293	5,574	4,823	4,190

## ■ Non-Consolidated Financial Statements 【Non-Consolidated Balance Sheets】

(Unit: Millions of Yen)

	Fiscal Year				
	4/30/2011	4/30/2012	4/30/2013	4/30/2014	4/30/2015
<b>Investments and other assets</b>					
Investments in securities	3034	3,131	3,457	3565	4841
Investments in affiliates	24,680	25,973	31,625	31,635	39,689
Capital investments	9	9	9	9	9
Capital investments in affiliates	138	195	301	499	834
Long-term loans to affiliates	2,150	2,650	2,900	1,378	14,850
Claims provable in rehabilitation	209	193	148	167	303
Long-term prepaid expenses	125	109	125	157	161
Deferred income tax assets	1551	1,555	1,544	1746	840
Lease and guarantee deposits	2,772	2,676	2,628	2,637	2,603
Insurance premiums	207	200	220	221	245
Golf course membership	2092	1,916	1,588		
Other	253	395	255	2,003	1,764
Allowance for doubtful accounts	△281	△301	△323	△376	△387
<b>Subtotal</b>	<b>36,942</b>	<b>38,705</b>	<b>44,483</b>	<b>43,645</b>	<b>65,756</b>
<b>Total fixed assets</b>	<b>95,135</b>	<b>100,293</b>	<b>108,684</b>	<b>108,817</b>	<b>128,948</b>
<b>Total assets</b>	<b>188116</b>	<b>212,100</b>	<b>221,399</b>	<b>230820</b>	<b>254974</b>
<b>Liabilities</b>					
<b>Current liabilities</b>					
Accounts payable – trade	25605	22,920	24,173	26653	26012
Lease obligations	7378	9,562	10,743	10,872	10,436
Accounts payable – other	204	353	166	140	389
Accrued expenses	15,436	17,363	17,392	18,793	19,597
Income taxes payable	4658	3,580	3,530	3361	–
Advances received	0	2	1		
Deposits payable	236	245	264		
Income in advance	13	13	13	14	14
Accrued bonuses	2407	2,702	2,527	2434	2186
Other	1,290	446	654	940	1,743
<b>Total current liabilities</b>	<b>57,231</b>	<b>57,189</b>	<b>59,469</b>	<b>63,210</b>	<b>60,381</b>
<b>Non-current liabilities</b>					
Bonds payable		20,000	20,000	20,000	20,000
Long-term loans payable				–	29,072
Lease obligations	19,122	19,411	20,756	20594	18557
Allowance for retirement and severance benefits for employees	4,675	5,316	5,934	6,563	5,380
Asset retirement obligations	89	95	97		
Deferred tax liabilities on revaluation	976	837	837	837	758
Other	145	154	135	231	243
<b>Total non-current liabilities</b>	<b>25,009</b>	<b>45,814</b>	<b>47,760</b>	<b>48227</b>	<b>74012</b>
<b>Total liabilities</b>	<b>82,240</b>	<b>103,003</b>	<b>107,229</b>	<b>111,437</b>	<b>134,393</b>

## ■ Non-Consolidated Financial Statements 【Non-Consolidated Balance Sheets】

(Unit: Millions of Yen)

	Fiscal Year				
	4/30/2011	4/30/2012	4/30/2013	4/30/2014	4/30/2015
Net assets					
Shareholders' equity					
Capital stock	19,912	19,912	19,912	19,912	19,912
Capital surplus					
Legal capital surplus	20,259	20,259	20,259	20,259	20,259
Total capital surplus	20,259	20,259	20,259	20,259	20,259
Retained earnings					
Legal earnings reserve	1,320	1,320	1,320	1,320	1,320
Other earned surplus					
Reserve for reduction of acquisition cost of fixed assets	468	505	503	501	525
Special reserve fund	66,116	67,116	70,116	71,116	76,116
Earned surplus carried forward	8844	10,808	8,736	12832	7852
Total retained earnings	76749	79,750	80,676	85770	85814
Treasury stock, at cost	△4,865	△4,830	△1,467	△1,423	△1,287
Total shareholders' equity	112054	115,091	119,380	124518	124697
Valuation, translation adjustments and others					
Unrealized holding gains on securities, net of tax	71	154	904	981	1,935
Deferred gains (losses) on hedges	2	△0	20	1	29
Reversal of revaluation reserve for land	△6,260	△6,171	△6,171	△6,171	△6,092
Total accumulated gains (losses) from valuation, translation adjustments and others	△6,186	△6,017	△5,245	△5,188	△4,127
Subscription rights to shares	7	23	34	52	10
Total net assets	105,875	109,096	114,169	119,382	120,580
Total liabilities and net assets	188,116	212,100	221,399	230,820	254,974

**■ Non-Consolidated Financial Statements**  
**【Non-Consolidated Statements of Income】**

(Unit: Millions of Yen)

	Fiscal Year				
	5/1/2010-4/30/2011	5/1/2011-4/30/2012	5/1/2012-4/30/2013	5/1/2013-4/30/2014	5/1/2014-4/30/2015
Net sales	328,733	332,297	351,807	363,461	353,754
Cost of sales	171,331	177,104	189,816	194,266	189,464
Gross profit	158,300	155,192	161,990	169,194	164,289
Selling, general and administrative expenses	142,652	139,061	145,156	153,134	157,811
Operating income	15,648	16,131	16,834	16,060	6,478
Non-operating income					
Interest and dividend income	573	764	799	753	758
Other	369	511	1,190	752	1,066
Total non-operating income	944	1,276	1,991	1,505	1,825
Non-operating expenses					
Interest expense	921	986	1,038	1,018	960
Interest on bonds		18	98	98	98
Other	773	616	549	223	314
Total non-operating expenses	1,696	1,622	1,688	1,340	1,374
Ordinary income	14,896	15,784	17,138	16,225	6,929
Extraordinary gains					
Gain on sale of fixed assets	0	0	-	199	0
Gain on sale of investment securities		9	0	0	0
Other				-	0
Total extraordinary gains	80	9	0	199	0
Extraordinary losses					
Loss on disposal of fixed assets	34	44	38	19	14
Loss on valuation of investment securities	984	9	12	7	-
Impairment loss	-	50	-	-	72
Other	28	46	3	-	0
Total extraordinary losses	141	1,189	94	27	86
Income before income taxes	13,566	14,604	17,044	16,397	6,844
Income taxes - current	7,061	6,636	6,552	6,253	2,224
Income taxes - deferred	△751	△63	116	18	385
Total income taxes	6,310	6,572	6,668	6,271	2,610
Net income	7,256	8,032	10,376	10,125	4,233

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## ■ Non-Consolidated Financial Statements 【Non-Consolidated Statements of Changes in Shareholders' Equity】

For the fiscal year ended April 30, 2015 (May 1, 2014 – April 30, 2015)

(Unit: Millions of Yen)

	Shareholders' equity							
	Capital stock	Capital surplus		Legal retained earnings	Retained earnings			Total retained earnings
		Legal capital surplus	Total capital surplus		Other retained earnings			
					Reserve for advanced depreciation of noncurrent assets	General reserve	Retained earnings brought forward	
Balance at the beginning of the current period	19,912	20,259	20,259	1,320	501	71,116	12,832	85,770
Cumulative effect of changes in accounting policies							1,145	1,145
Restated balance	19,912	20,259	20,259	1,320	501	71,116	13,977	86,915
Changes during the current period								
Dividends from surplus							△5,252	△5,252
Provision of general reserve						5,000	△5,000	–
Increase in reserve for advanced depreciation of noncurrent assets associated with changes in tax rate					25		△25	–
Reversal of reserve for advanced depreciation of noncurrent assets					△2		2	–
Net income							4,233	4,233
Purchase of treasury stock								
Disposal of treasury stock							△82	△82
Net changes in items other than shareholders' equity								
Total changes in items during the period	–	–	–	–	23	5,000	△6,125	△1,101
Balance at the end of the current period	19,912	20,259	20,259	1,320	525	76,116	7,852	85,814

	Shareholders' equity		Valuation and translation adjustments				Subscripti on rights to shares	Total net assets
	Treasury stock	Total shareholder s' equity	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Revaluation reserve for land	Total valuation and translation adjustments		
Balance at the beginning of the current period	△1,423	124,518	981	1	△6,171	△5,188	52	119,382
Cumulative effect of changes in accounting policies		1,145						1,145
Restated balance	△1,423	125,663	981	1	△6,171	△5,188	52	120,528
Changes during the current period								
Dividends from surplus		△5,252						△5,252
Provision of general reserve		–						–
Increase in reserve for advanced depreciation of noncurrent assets associated with changes in tax rate		–						–
Reversal of reserve for advanced depreciation of noncurrent assets		–						–
Net income		4,233						4,233
Purchase of treasury stock	△17	△17						△17
Disposal of treasury stock	153	70						70
Net changes in items other than shareholders' equity			954	27	78	1,060	△42	1,018
Total changes in items during the period	135	△966	954	27	78	1,060	△42	52
Balance at the end of the current period	△1,287	124,697	1,935	29	△6,092	△4,127	10	120,580

(Note) Fractions of one million yen are rounded off.



## ■ Financial Summary

### Key financial indicators (Over the past 5 years)

	(Unit)	April 2011	April 2012	April 2013	April 2014	April 2015
<b>P/L</b>						
Net sales	(Million yen)	351,692	369,284	403,957	437,755	430,541
Year-on-year	(%)	+5.6	+5.0	+9.4	+8.4	-1.6
<b>Details of main sales</b>						
Non-consolidated	(Million yen)	329,631	332,297	351,807	363,461	353,754
ITO EN (North America) INC.	(Million yen)	5,405	5,476	6,487	7,933	9,340
Tully's	(Million yen)	15,336	19,383	21,071	23,865	26,036
Chichiyasu	(Million yen)	—	10,628	11,076	12,750	13,186
Cost rate	(%)	50.6	52.1	52.4	51.6	51.8
Selling, general and administrative expenses	(Million yen)	156,020	158,164	171,837	190,703	196,016
Sales ratio	(%)	44.4	42.8	42.5	43.6	45.5
Operating income	(Million yen)	17,679	18,907	20,250	21,100	11,393
Profit ratio	(%)	5.0	5.1	5.0	4.8	2.6
<b>Details of main profits</b>						
Non-consolidated	(Million yen)	15,648	16,131	16,834	16,060	6,478
ITO EN (North America) INC.	(Million yen)	334	394	471	530	95
Tully's	(Million yen)	1,212	2,008	2,681	3,178	3,572
Chichiyasu	(Million yen)	—	61	△119	217	87
Ordinary income	(Million yen)	16,526	17,985	19,914	20,518	11,229
Profit ratio	(%)	4.7	4.9	4.9	4.7	2.6
Extraordinary income	(Million yen)	143	37	270	419	49
Extraordinary losses	(Million yen)	1,796	833	700	303	386
Net income	(Million yen)	7,675	9,249	11,244	12,096	7,292
Profit ratio	(%)	2.2	2.5	2.8	2.8	1.7
<b>B/S</b>						
Total assets	(Million yen)	192,462	224,843	244,970	258,820	285,947
Current assets	(Million yen)	99,302	121,549	129,025	139,807	153,597
Cash and deposits	(Million yen)	23,986	43,872	44,856	46,412	48,922
Accounts receivable	(Million yen)	39,538	37,181	40,750	46,923	51,512
Non-current assets	(Million yen)	93,159	103,294	115,945	119,012	132,350
Property, plant and equipment	(Million yen)	57,692	66,468	75,885	79,326	80,115
Intangible assets	(Million yen)	21,778	22,501	24,803	22,600	34,042
Total liabilities	(Million yen)	90,831	118,833	131,028	138,310	158,185
Current liabilities	(Million yen)	60,413	64,258	70,880	80,440	76,038
Non-current liabilities	(Million yen)	30,418	54,575	60,147	57,870	82,146
Net assets	(Million yen)	101,630	106,010	113,942	120,509	127,761
Retained earnings	(Million yen)	74,735	78,954	80,747	87,812	90,949
Current ratio	(%)	164.4	190.1	182.0	173.8	202.0
Equity ratio	(%)	52.7	47.1	46.3	46.3	44.4
Liability ratio	(%)	89.5	112.2	115.5	115.5	124.7
<b>Statement of cash flows</b>						
Net cash provided by (used in) operating activities	(Million yen)	19,714	21,462	24,042	24,300	17,751
Cash flows from investing activities	(Million yen)	(2,133)	(8,067)	(9,272)	(4,598)	(9,242)
Free cash flow	(Million yen)	17,581	13,394	14,769	19,702	8,509
Cash flows from financing activities	(Million yen)	(12,103)	6,290	(16,451)	(18,147)	(4,835)
Amount of capital investment	(Million yen)	2,100	4,031	6,639	4,889	3,732
Depreciation	(Million yen)	9,011	10,892	13,769	15,140	15,653
Depreciation of goodwill	(Million yen)	931	1,148	1,190	1,332	1,326
<b>Other</b>						
ROE	(%)	7.6	8.9	10.3	10.4	5.9
ROA	(%)	4.1	4.4	4.8	4.8	2.7
PER (Common stock)	(Time)	24.1	20.1	26.5	22.8	44.0
PER (Preferred stock)	(Time)	15.1	14.2	18.4	16.2	28.9
PBR (Common stock)	(Time)	1.7	1.7	2.5	2.2	2.4
PBR (Preferred stock)	(Time)	1.3	1.3	2.0	1.8	1.9
EPS (Common stock)	(Yen)	59.31	72.18	88.64	95.77	56.60
EPS (Preferred stock)	(Yen)	69.28	82.18	98.64	105.77	66.60
BPS (Common stock)	(Yen)	821.36	856.76	923.24	974.36	1031.19
BPS (Preferred stock)	(Yen)	826.36	861.76	928.24	979.36	1036.19
Dividend per share (Common stock)	(Yen)	38.0	38.0	38.0	39.0	40.0
Dividend per share (Preferred stock)	(Yen)	48.0	48.0	48.0	49.0	50.0
Payout ratio (Common stock)	(%)	64.1	52.6	42.9	40.7	70.7
Payout ratio (Preferred stock)	(%)	69.3	58.4	48.7	46.3	75.1
Payout ratio (Total of common stock and preferred stock)	(%)	65.6	54.4	44.5	42.4	72.0
Ratio of Foreign Shareholders	(%)	8.4	6.5	12.5	13.3	14.3
Outstanding shares	(1000 shares)	125,459	125,459	123,459	123,459	123,459
Common stock	(1000 shares)	91,212	91,212	89,212	89,212	89,212
Preferred stock	(1000 shares)	34,246	34,246	34,246	34,246	34,246
Year-end stock price (Ex-rights adjusted)	(Yen)	1,431	1,448	2,345	2,185	2,490

## ■ Business Risks

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### **【Business Risks】**

The following are risks that could significantly affect the Group's operating results and financial position. Forward-looking statements included in the following text are judgments of the Group at the end of the fiscal year under review (as of April 30, 2015). Business risks are not limited to those described below.

#### **(1) Trends in the domestic economy and consumption in Japan**

Most of the Group's operations are operations in Japan. Changes in economic trends reflecting financial conditions and natural disasters, among other factors, and changes in consumer spending, which is affected by economic trends, could affect the Group's operating results and financial position.

#### **(2) Competition in the market**

In recent years, sales in the market of beverages, the main products of the Group, have seen sluggish growth, reflecting falling retail prices against a backdrop of cooling consumer confidence. There is fierce competition between competitors in terms of conducting sales promotions, including marketing campaigns. In the beverages market, the lifecycle of products is short due to competition for the market shares of different categories and changes in the tastes of consumers.

In this market environment, the Group has been providing products, primarily green tea products, in line with customer needs, and has been endeavoring to enhance customer service, primarily the route sales system. As a result, operating results have been strong.

The Group will continue to take these and additional steps to defeat its competitors, anticipating market trends. However, failure to respond adequately to changes in the market environment through these steps could adversely affect the Group's operating results and financial position.

#### **(3) Purchases of raw ingredients and materials**

The Group's main products are tea beverages, among other beverages, and a rise in costs could be caused by a rise in sourcing costs, which in turn could be caused by two factors: (i) deterioration in the supply-demand balance if the Group cannot secure the tea leaves needed due to a decrease in the tea leaf production volume caused by a decrease in the number of tea-producing farmers and in tea cultivation land, on the one hand, and by an increase in demand for tea leaves for beverages, on the other hand, and (ii) a rise in the costs of imported raw ingredients (including grains and vegetables).

PET bottles account for 74% of the containers for beverages sold by the Group, and a rise in the price of oil, which is a raw material for PET bottles, could lead to a rise in costs. The Group's failure to respond adequately to the changes in the market environment described above could adversely affect the Group's operating results and financial position.

#### **(4) Production system**

The Group manufactures ingredients for beverages and most of its tea leaf products at its factories and outsources the manufacturing of most of its beverages and part of its tea leaf products to factories outside the Group.

The Group checks the equipment in its factories on a regular basis so that the production equipment will not stop unexpectedly. The Group has factories nationwide to which it can outsource production in case of contingencies. However, there is no guarantee that the Group can completely avoid the effects of natural disasters and other contingencies on production, and contingencies could adversely affect the Group's operating results and financial position.

## ■ Business Risks

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### **(5) Weather and natural disasters**

The raw ingredients for the Group's main products are agricultural products, including tea leaves, vegetables, fruit, and coffee. Tea leaves and beverages, the Group's main products, can be affected by the weather and natural disasters. The following can have an impact on sales: adverse weather conditions, such as unusually cool summers, unusually warm winters, typhoons, and long rains, rises in the prices of raw ingredients in the case of poor harvests due to bad weather in the places of production, and losses of sales opportunities due to the lack of necessary raw ingredients. Problems can be caused in the Group's headquarters functions and production and distribution systems if natural disasters that are more severe than expected occur, such as earthquakes. The Group's operating results and financial position could be adversely affected by the weather and natural disasters.

### **(6) Dependence on the Oi Ocha brand**

In the consolidated fiscal year under review, sales of the Oi Ocha brand accounted for a substantial 39% of the Company's sales of beverages. The Japanese green tea beverages market is a 401 billion yen market (from January through December 2014; based on information available to the Company), and the Company has a share of 35% (based on information available to the Company).

The Group expects that the green tea beverages market will continue to grow and that the Oi Ocha brand will also grow, given the expansion of the market. However, the Group's operating results and financial position could be adversely affected by a decline in the Group's market share due to fierce competition in the green tea beverages market, a slowdown in growth in the green tea beverages market due to launches of products that will replace green tea beverages, and the Group's failure to respond to changes in the market as described above.

### **(7) Changes in exchange rates**

The Group has overseas operations. Group companies overseas prepare their financial statements in local currencies, and the amounts in the financial statements are converted into amounts in yen when consolidated financial statements are prepared. The Group's operating results and financial position are affected by changes in exchange rates when amounts in local currencies are converted to amounts in yen.

### **(8) Overseas operations**

The Group's main consolidated subsidiaries overseas are ITO EN (North America) INC. in New York, ITO EN (USA) INC. in Hawaii, Mason Distributors, Inc. in Florida, Distant Lands Trading Company, Inc. in Delaware, ITO EN AUSTRALIA PTY. LIMITED in Victoria, Australia, ITO EN Asia Pacific Holdings Pte. Ltd. in Singapore, and Fujian New Oolong Drink Co, Ltd. and ITO EN Beverage (Shanghai), Ltd. in China.

The Group operates mainly in Japan, but its overseas operations are becoming more and more important as it develops and its globalization progresses. The Group's operating results and financial position could be affected by significant changes in overseas operations due to political, economic, and legal factors that are unique to the countries where the Group operates.

At the end of the consolidated fiscal year under review, the cumulative amount of investment stood at 25,312 million yen. The consolidated subsidiaries overseas except Mason Distributors, Inc. and Fujian New Oolong Drink Co., Ltd. have a cumulative loss.

### **(9) Legal regulations**

The Group's business is subject to legal regulations, including the Food Sanitation Act, Product Liability Act, Waste Management and Public Cleansing Act, Act on Promotion of Recycling and Related Activities for Treatment of Cyclical Food Resources, and Act on the Promotion of Sorted Collection and Recycling of Containers and Packaging.

The Group aims to comply with all of these legal regulations, but its operating results and financial position could be adversely affected by extreme difficulty in complying with legal regulations and an increase in costs due to the tightening of regulations.



## ■ Business Risks

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### **(10) Information management**

The Group has a considerable amount of customer information that has been obtained through transactions, including sales in the community-based sales system and online shopping, and sales promotions, including sales campaigns. In addition, the Group has information on potential customers obtained through the New Haiku Contests it holds. Customers' personal information is managed by the Group or an information management company to which the Company outsources information management.

The Company has established a reliable management system to manage important inside information, including the personal information described above. However, losses or leaks of information caused by unexpected circumstances, including power outages, disasters, failures of software and equipment, infection by viruses, and unauthorized access, could erode trust in the Group, which in turn could adversely affect the Group's operating results and financial position.

### **(11) Food safety and hygiene management**

The Group regards food safety and hygiene management as a high-priority management issue, and the Company has established the Quality Control Department, which is responsible for food safety and hygiene management. The Quality Control Department has set voluntary standards and tests the quality of product safety. The department also conducts regular on-site inspections of factories to which the Group outsources production. At quality assurance meetings that are held on a regular basis, the Group provides feedback on the results of inspections to its staff members who are responsible for production and the staff members of outsourced factories to boost their awareness of food safety and hygiene management. In addition to the abovementioned activities, the Group takes action to prevent contamination stemming from raw ingredients and the use of prohibited additives.

In light of radiation contamination after the Great East Japan Earthquake, the Group has established a system to conduct testing and monitoring using radiation meters to confirm that there are no problems with the quality of all beverages. The Group has also established a similar inspection system for the raw ingredients for green tea.

Certain operations at directly managed specialty stores in Japan are subject to the Food Sanitation Act. In these operations, the Group complies with the applicable laws and regulations and undertakes comprehensive hygiene management under specialty stores' hygiene standards and the Company's manual.

The Group has not been sued or received administrative guidance in association with food safety or hygiene management. However, the Group's operating results and financial position could be adversely affected by contamination, the distribution of products with poor quality or inaccurate descriptions, the use of prohibited additives stemming from raw ingredients, pesticide residue problems (including reputation damage), and hygiene problems, including food poisoning.

### **(12) Impairment accounting**

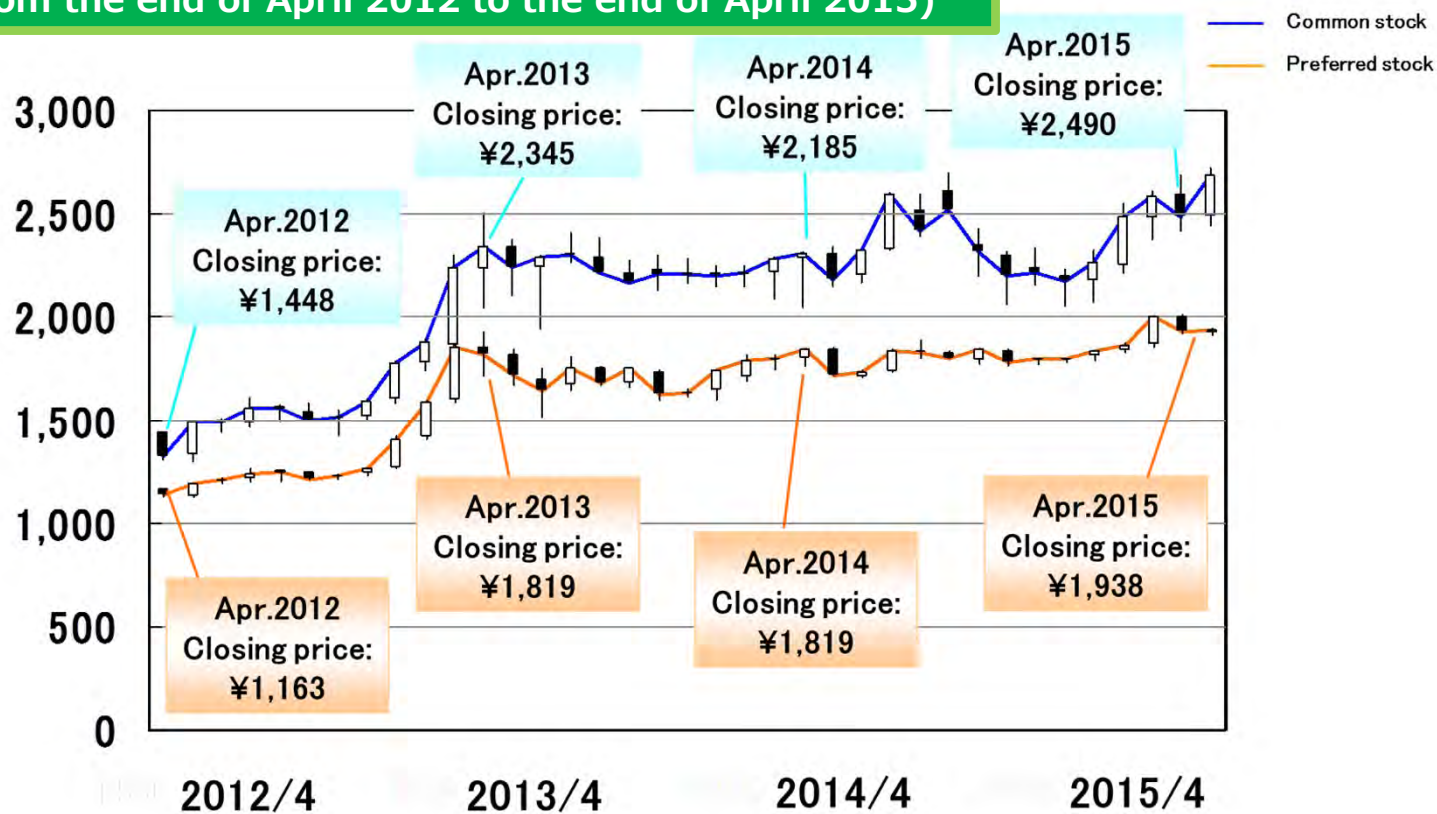
The Group owns non-current assets, including real estate for business and goodwill. Impairment accounting can be applied to these assets if their profitability declines, for example if their market value falls or if they do not generate expected cash flows. Impairment losses could adversely affect the Group's operating results and financial position.

**This document is intended to achieve a deeper understanding of ITO EN, and not to solicit investment.**

**The market data and other data included in this document are based on information that the Company believes to be reliable and accurate. Projections and data regarding the past may be changed without notice.**

## ■ Trends in the Price of ITO EN's Stock and Turnover

### Trends in the price of ITO EN's stock (from the end of April 2012 to the end of April 2015)



	Common stock (Securities code: 2593)	Class A preferred stock (Securities code: 25935)
Share unit	100 shares	
Voting right	○	×
Dividend	○	◎ (125% of the dividend for the common stock)
Right to claim the allocation of residual assets	○	○
Stock split	○	○
Shareholder incentives	○	○

The preferred stock has a higher claim on dividends, the allocation of residual assets, or both than the common stock. In September 2007, the class 1 preferred stock of the Company was listed on the First Section of the Tokyo Stock Exchange. The Company issued the preferred stock to increase the options for financing and raise funds flexibly, seizing growth opportunities, and to provide new investment destinations for its shareholders. In principle, the preferred stock does not have any voting rights, but preferred dividends are paid for the preferred stock. If all or part of the preferred dividends are not paid, the preferred dividends that are not paid are accumulated. If the Company is liquidated, the preferred stock has the same claim on the allocation of residual assets as the common stock, except for cumulative preferred dividends that are not paid. The holders of preferred stock do not have any conversion rights to convert preferred stock into common stock.