We Love Nature

ITO EN, LTD.

June 1, 2016
ITO EN, LTD. Securities numbers: 2593 (Common Stock)
: 25935 (Class-A Preferred Stock)
(URL http:/www.itoen.co.jp)
47-10, Honmachi 3 chome, Shibuya-ku, Tokyo
Representative: Daisuke Honjo (President)

For Immediate Release

Consolidated Financial Results

under Japanese Standards for the fiscal year ended April 30, 2016 (Unaudited)

Scheduled date of general shareholder's meeting: July 27, 2016 Scheduled date of commencement of dividend payment: July 28, 2016
Scheduled filing date of quarterly report: July 28, 2016
Supplementary documents for quarterly results: Yes
Quarterly results presentation (for institutional investors and analysts): Yes

(Figures are rounded down to million yen.)

1. Consolidated Performance for the Fiscal Year Ended April 30, 2016 (May 1, 2015 - April 30, 2016)

(1) Consolidated Results of Operations – cumulative (% changes as compared with the corresponding period of the previous fiscal year)

	Net sales		Operating income		Ordinary income		Profit attributable to owners of parent	
	Million yen		Million yen		Million yen		Million yen	
4/30/2016	465,579	8.1%	17,243	51.4%	15,074	34.2%	8,615	18.1%
4/30/2015	430,541	-1.6%	11,393	-46.0%	11,229	-45.3%	7,292	-39.7%

Note: Comprehensive income 4/30/2016: 6,284 million yen (-44.0%) 4/30/2015: 11,215 million yen (-12.0%)

	Net income per share	Net income per share (diluted)	Return on Equity	Ordinary income / Total assets	Operating income / Net sales
	Yen	Yen			
4/30/2016	67.37	67.21	6.8%	5.3%	3.7%
4/30/2015	56.60	56.46	5.9%	4.1%	2.6%

Reference: Equity in earnings (losses) of affiliated companies 4/30/2016: 77 million yen 4/30/2015: 62 million yen

(2) Consolidated Financial Position

	Total assets	Net assets	Shareholders' equity ratio	Net assets per share
	Million yen	Million yen		Yen
4/30/2016	287,702	127,215	43.9%	1,026.26
4/30/2015	285,947	127,761	44.4%	1,031.19

Reference: Equity 4/30/2016: 126,209 million yen 4/30/2015: 126,822 million yen.
Note: The above information per share pertains to common stock. For information per share of Class-A Preferred Stock, refer to "Reference" below.

(3) Consolidated Cash Flows

	Cash flows from operating activities	Cash flows from investing activities	Cash flows from financing activities	Cash and cash equivalents at end of period
	Million yen	Million yen	Million Yen	Million yen
4/30/2016	30,085	(8,150)	(18,018)	53,259
4/30/2015	17,751	(9,242)	(4,835)	48,922

2. Dividends

	Dividend per share					Total dividend paid	Dividend payout ratio (consolidated)	Dividend on net assets (consolidated)
	First quarter end	Second quarter end	Third quarter end	Fiscal year end	Total			
	Yen	Yen	Yen	Yen	Yen	Million yen		
4/30/2015	–	20.00	–	20.00	40.00	3,546	70.7%	4.0%
4/30/2016	–	20.00	–	20.00	40.00	3,547	59.4%	3.9%
4/30/2017 (Forecast)	–	20.00	–	20.00	40.00		42.9%	

Note: The above "Dividend per share" pertains to common stock. For "Dividend per share" for Class-A Preferred Stock, refer to "Reference" below.

3. Forecasted Consolidated Results for the Fiscal Year Ending April 30, 2017 (May 1, 2016 - April 30, 2017)

(% changes as compared with the corresponding period of the previous fiscal year)

	Net sales		Operating income		Ordinary income		Profit attributable to owners of parent		Net income per share
	Million yen		Million yen		Million yen		Million yen		Yen
10/31/2016	255,400	1.0%	12,100	20.8%	11,000	11.7%	6,700	17.4%	53.16
4/30/2017	471,500	1.3%	20,000	16.0%	19,400	28.7%	11,800	37.0%	93.30

Note: The above "Net income per share" pertains to common stock. For "Net income per share" for Class-A Preferred Stock, refer to "Reference" below.

Notes

(1) Changes in important subsidiaries during the period
(Changes in specific subsidiaries accompanied by a change in the scope of consolidation): None

(2) Changes in accounting policies, changes in accounting estimates, and restatements
ⅰ. Changes in accounting policies associated with in accounting standards: Yes
ⅱ. Changes in accounting policies other than i. above: None
ⅲ. Changes in accounting estimates: None
ⅳ. Restatements: None
Note: For further information, please refer to "5. Consolidated Financial Statements, (5) Notes to Consolidated Financial Statements (Changes in accounting policies)" on page 25 in the Attachments.

(3) Numbers of shares outstanding (common stock)

ⅰ. Numbers of shares outstanding (including treasury stock)	4/30/2016	89,212,380 shares	4/30/2015	89,212,380 shares
ⅱ. Numbers of treasury stock	4/30/2016	535,579 shares	4/30/2015	535,579 shares
ⅲ. Average number of shares during the period	4/30/2016	88,676,801 shares	4/30/2015	88,647,599 shares

Note: The above "Numbers of shares outstanding" pertains to common stock. For "Numbers of shares outstanding" for Class-A Preferred Stock, refer to "Reference" below.

(Reference) Summary of Non-Consolidated Financial Results

1. Non-Consolidated Performance for Fiscal Year Ended April 30, 2016 (May 1, 2015 - April 30, 2016)

(1) Non-Consolidated Results of Operation (% changes as compared with the corresponding period of the previous fiscal year)

	Net sales		Operating income		Ordinary income		Net income	
	Million yen		Million yen		Million yen		Million yen	
4/30/2016	365,276	3.3%	11,934	84.2%	12,821	85.0%	8,941	111.2%
4/30/2015	353,754	-2.7%	6,478	-59.7%	6,929	-57.3%	4,233	-58.2%

	Net income per share	Net income per share (diluted)
	Yen	Yen
4/30/2016	70.02	69.85
4/30/2015	31.70	31.62

(2) Non-Consolidated Financial Position

	Total assets	Net assets	Equity ratio	Net assets per share
	Million yen	Million yen		Yen
4/30/2016	259,453	124,045	47.8%	1,008.32
4/30/2015	254,974	120,580	47.3%	980.28

Reference: Equity 4/30/2016: 124,005 million yen 4/30/2015: 120,569 million yen
Note: The above information per share pertains to common stock. For information per share of Class-A Preferred Stock, refer to "Reference" below.

2. Forecasted Non-Consolidated Operation Results for the Fiscal Year Ending April 30, 2017 (May 1, 2016 - April 30, 2017)

(% changes as compared with the corresponding period of the previous fiscal year)

	Net sales		Operating income		Ordinary income		Net income		Net income per share
	Million yen		Million yen		Million yen		Million yen		Yen
10/31/2016	203,000	1.0%	9,600	40.5%	10,700	12.8%	7,550	11.5%	60.08
4/30/2017	370,000	1.3%	15,500	29.9%	17,100	33.4%	11,900	33.1%	94.11

Note: The above "Net income per share" pertains to common stock. For "Net income per share" for Class-A Preferred Stock, refer to "Reference" below.

*Note: Implementation status of audit procedures
This consolidated financial report is not subject to audit procedures based on Financial Instruments and Exchange Act and the audit procedures for the consolidated financial statements were not being conducted when this report was disclosed.

*Note: Request for appropriate use of the business outlook and other special remarks
The forecasts are based on information available to the management at the time of an announcement. Due to variable factors, actual results may be different from the forecast figures. For the basis of presumption of the forecasted operation results and the notes on its use, refer to "1. Analysis on Results of Operations and Financial Position, (1) Analysis on Results of Operations" on page 2 in the Attachments.

Reference

(1) Net Income per Share – Class-A Preferred Stock

	Net income per share	Net income per share (diluted)	Net assets per share
	Yen	Yen	Yen
4/30/2016	77.37	77.21	1,031.26
4/30/2015	66.60	66.46	1,036.19

(2) Dividends per Share – Class-A Preferred Stock

(Record date)	Dividend per share					Total dividend paid	Dividend payout ratio (consolidated)	Dividend on net assets (consolidated)
	First quarter end	Second quarter end	Third quarter end	Fiscal year end	Total			
	Yen	Yen	Yen	Yen	Yen	Million yen		
4/30/2015	―	25.00	―	25.00	50.00	1,707	75.1%	5.0%
4/30/2016	―	25.00	―	25.00	50.00	1,706	64.6%	4.8%
4/30/2017 (Forecast)	―	25.00	―	25.00	50.00		48.4%	

(3) Net Income per Share – Class-A Preferred Stock in Forecasted Consolidated Operation Results

	Net income per share (Consolidated)	Net income per share (Non-Consolidated)
	Yen	Yen
10/31/2016	58.16	65.08
4/30/2017	103.30	104.11

(4) Numbers of Shares Outstanding – Class-A Preferred Stock

ⅰ. Numbers of shares outstanding (including treasury stock)	4/30/2016	34,246,962 shares	4/30/2015	34,246,962 shares
ⅱ. Numbers of treasury stock	4/30/2016	110,038 shares	4/30/2015	102,678 shares
ⅲ. Average number of shares during the period	4/30/2016	34,140,479 shares	4/30/2015	34,149,268 shares

(5) Information per share of Class-A Preferred Stock in Non-Consolidated Operation Results

	Net income per share	Net income per share (diluted)	Net assets per share
	Yen	Yen	Yen
4/30/2016	80.02	79.85	1,013.32
4/30/2015	41.70	41.62	985.28

Contents of Attachments

1. Analysis on Results of Operations and Financial Position

(1) Analysis on Results of Operations

① Outline of results

During the fiscal year ended April 30, 2016 (May 1, 2015 - April 30, 2016), the Japanese economy began to show signs of recovery fueled by prospects of the government's economic and financial policies and the subsequent impact of those policies, such as an improvement in the business results of exporters and an improvement in the employment situation. Nevertheless, the drop in personal consumption from the period of extraordinary purchasing preceding the consumption tax rate hike, coupled with the delay in recovery, has created an even more severe economic downturn than expected.

In the beverage industry, adverse business conditions persisted amid an unpredictable business environment, a prolonged decline in consumption spending following the consumption tax increase, price declines fueled by increased competition, and stemming from lingering concerns over rising raw material and fuel costs resulting from the yen's depreciation. Also, impact of nationwide inclement climate, started from lack of sunlight, heavy rains, and hitting typhoons around the nation in succession were shown.

Under these business conditions, in keeping with the management principle of "Always Putting the Customer First," the ITO EN Group vigorously engaged in business activities while constantly seeking to identify and address areas of customer dissatisfaction in the beverage market.

As a result, ITO EN recorded consolidated net sales of 465,579 million yen, up 8.1% from the previous fiscal year. On the earnings front, an increase in selling expenses in the face of intensified competition resulted in operating income of 17,243 million yen, up 51.4% year on year, ordinary income of 15,074 million yen, up 34.2%, and profit attributable to owners of parent of 8,615 million yen, up 18.1%.

Net sales	465,579 million yen, up 8.1%
Operating income	17,243 million yen, up 51.4%
Ordinary income	15,074 million yen, up 34.2%
Profit attributable to owners of parent	8,615 million yen, up 18.1%

An analysis of sales by business segment follows.

<Tea Leaves and Beverages Business>

Domestic business, in the tea leaf product category, sales of comparatively highly priced packaged teas are being reinforced through activities that include demonstration sales of tea made with the traditional Japanese teapot "*Kyusu*" and taste testing events by employees who hold "*Tea Taster*" certification based on the internal certification system. Also, convenient tea leaf products that can be made with ease, such as "*Premium Tea Bag Series*" and instant powder-type green teas, are being well received by domestic customers as well as tourists from overseas.

In the beverage products category, ITO EN renewed the mainstay product "*Oi Ocha Ryokucha*" (green tea) and delivered with the successive offering of the "*Sakura* (cherry blossom) package" in spring and the "*Momiji* (autumn color of maple leaves) package" in the fall, seasonal design symbolizing Japan to customers in the same manner as last year.

Mainly in Kyusyu area, we are working to realize a stable and high-quality procurement by aggressively utilizing idle agricultural land under management of the large-scaled tea plantations with productivity and environmental preservation. ITO EN has increased the prescribed amount for preparing "*Oi Ocha Senyo Chayou*" – which cultivated by paying special attention to aroma through the "Tea-producing region development project" – in order to pursue the original fragrance and flavors in teas served from a tea pot, along with continuing to further enhance the value of the "*Oi Ocha*" brand.

In the Japanese Tea /Healthy Tea category, "*Kenko Mineral Mugicha*" (healthy mineral barley tea), "*Oi Ocha Zeppin Hojicha*" (premium roasted green tea) and whilst in the Chinese tea category, "*Relax Jasmine Tea*" continued to perform well. In addition, Food for Specified Health Uses, as represented by "*Double Health Function Catechin Green Tea*", which helps to reduce fat and bad cholesterol, "*Ohgon Oolong Cha*" and Foods with Functional Claims, as represented by "*Oi Ocha Meguri Sarara*", which helps to maintain a healthy blood and supports the reduction of the neutral fat, showed good results.

In the coffee beverages category, the "*TULLY'S COFFEE*" brand series continues to enjoy popularity, achieving even higher sales volumes in every fiscal period.

We continued to work on improving its profitability by injecting advertising, sales and marketing expenses while being mindful of their cost benefits, along with implementing further cost cuts and reviewing all expenses, amid such conditions that are characterized by increasingly fierce competition surrounding sales activities, sluggish consumption, among other factors.

Chichiyasu Company was engaged in aggressive sales of milk and yogurt, mainly in Hiroshima Prefecture, and is expanding its brand synergies through joint development with ITO EN. In addition, with robust sales channels in western Japan, NEOS Corporation is adding further strength to the Group's vending machine business.

In the overseas markets, regarding tea leaf products, ITO EN has proactively grown its business overseas, particularly in the U.S. Australia and Southeast Asia, with the release of *matcha* green tea offered in "*Global Brand*."

For beverage products, ITO EN (North America) INC. steadily increased sales of sugar-free beverages such as *"Oi Ocha"* driven by the global boom of Japanese food and the increasing health trend. In addition, we will pursue synergy effects through sales of our Group's products in the U.S. with Distant Lands Trading Company, which engages in the entire process from cultivation to sales of coffee beans, mainly in that country.

Toward the Tokyo Olympic and Paralympic Games to be held in Tokyo in 2020, we will continue aggressive sales activities for tea leaf products and beverage products and concurrently bring out the best in the Company's unique business model covering the entire process from the tea fields to products to provide new value for a healthy and rich dietary life around the world. Starting from the current "mainly Japanese ITO EN", to that end, we aim at growing up our brands to the level of the "Global ITO EN".

As a result, sales in the Tea Leaves and Beverages Business up 8.0%, to 431,995 million yen, and operating income of 14,904 million yen, up 93.3% from the previous fiscal year.

<Restaurant Business>

Tully's Coffee Japan Co., Ltd. is contributing to earnings growth, with solid sales of drinks led by seasonal products. Also, pasta and other delicatessen items, and danish pastries, including donuts, as well as honey that is being sold at stores, are also popular.

In addition, new coffee shop openings have been smooth, and expansion continues, with the total number of coffee shops at present being 638. Further brand enhancement as a specialty coffee shop will be achieved through revitalization, including the renovation of existing stores and the strengthening of store competitiveness.

As a result, net sales in the Restaurant Business rose 9.1% year on year, to 27,536 million yen, and operating income declined 19.4% year on year, to 2,879 million yen from the previous fiscal year.

<Others>

Net sales rose 13.6% year on year, to 6,047 million yen, and operating income declined 20.6%, to 904 million yen from the previous fiscal year.

② Outlook for the fiscal year ending April 30, 2017

The ITO EN Group will closely adhere to the management principle of "Always Putting the Customers First" and strive to develop products and improve services to increase customers' satisfaction. As we have celebrated the 30th anniversary of ITO EN's launching of green tea beverages, the Group will strive to further improve its business performance by further strengthening "*Oi Ocha,*" the top brand in green tea beverages, enhancing other individual brands including "*Kenko Mineraru Mugicha*" (healthy mineral barley tea), "*TULLY'S COFFEE*," "*Ichinichibun no Yasai*" (a day's worth of vegetables), "*Jujitsu-Yasai*" (mixed vegetable and fruit beverage), "*TEAS' TEA*," and "*evian*." improving sales of leaf products centering on easy-to-use products, as well as establishing a marketing platform for route sales, pursuing comprehensive cost reductions, and creating Group-wide synergies.

For the fiscal year ending April 30, 2017, ITO EN forecasts consolidated net sales of 471,500 million yen, a 1.3% increase from the fiscal year under review, operating income of 20,000 million yen, a 16.0% increase, ordinary income of 19,400 million yen, a 28.7% increase, and profit attributable to owners of parent of 11,800 million yen, a 37.0% increase.

Net sales	471,500 million yen, up 1.3%
Operating income	20,000 million yen, up 16.0%
Ordinary income	19,400 million yen, up 28.7%
Profit attributable to owners of parent	11,800 million yen, up 37.0%

With respect to the vending machines included in tools, appliances and fixtures and lease assets in the possession of the Group, the service life of 6 years has been applied with regard to depreciation. Upon the introduction of the high-performance vending machine that is superior to the previous ones, it has been discovered that the new machine can be used longer than before. Accordingly, on this occasion, to properly reflect the actual economic conditions, the service life shall be changed to 8 years from the following period. Upon this change, the cost will be reduced.

(2) Analysis on Financial Position

① Assets, liabilities and net assets

Assets

Total assets at the end of consolidated fiscal year ended April 30, 2016 stood at 287,702 million yen, increased by 1,755 million yen from the previous fiscal year. These changes in total assets mainly reflected increases of 4,336 million yen in "Cash and deposits," 2,040 million yen in "Notes and accounts receivable-trade," 1,561 million yen in "Deferred tax assets," 1,491 million yen in "Intangible assets (Other)," and a decrease of 7,612 million yen in "Goodwill."

Liabilities

Liabilities at the end of consolidated fiscal year ended April 30, 2016 stood at 160,486 million yen, increased by 2,301 million yen from the previous fiscal year. These changes in liabilities mainly reflected increases of 2,694 million yen in "Income taxes payable," 1,869 million yen in "Accrued expenses," 1,576 million yen in "Net defined benefit liabilities," and 492 million yen in "Provision for bonuses," and a decrease of 4,181 million yen in "Lease obligations."

Net assets

Net assets at the end of consolidated fiscal year ended April 30, 2016 stood at 127,215 million yen, decreased by 545 million yen from the previous fiscal year. The major changes of the net assets were an increase of 8,615 million yen in "Retained earnings" due to "Profit attributable to owners of parent," and decreases of 5,254 million yen due to "Dividends from surplus," 1,618 million yen in "Capital surplus" due to "Changes in the parent company's holdings related to transactions involving shareholders with non-controlling interest," 1,366 million yen in "Foreign currency translation adjustment," and 739 million yen in "Remeasurements of defined benefit plans."

② Cash flows

Cash flows from operating activities

Cash inflows from operating activities were 30,085 million yen (Compared with 17,751 million yen earned in the previous fiscal year). The major factors of cash inflows were 14,925 million yen from income before income taxes, 16,075 million yen from depreciation and amortization, and 1,824 million yen from the amortization of goodwill, while the decrease in income taxes paid was 3,512 million yen.

Cash flows from investing activities

Cash outflows from investing activities were 8,150 million yen (Compared with 9,242 million yen used in the previous fiscal year). The major factor of cash outflow was 8,449 million yen for acquisitions of plant and facility investment.

Cash flows from financing activities

Cash outflows from financing activities were 18,018 million yen (Compared with 4,835 million yen used in the previous fiscal year). The major factors of cash inflows were 11,236 million yen in repayments of finance lease obligations and 5,243 million yen in dividends paid.

As a result, cash and cash equivalents for the consolidated fiscal year ended April 30, 2016 amounted to 53,259million yen, increasing by 4,336 million yen from the previous fiscal year.

(Reference) Financial data regarding cash flows

	4/30/2012	4/30/2013	4/30/2014	4/30/2015	4/30/2016
Equity ratio	47.1%	46.3%	46.3%	44.4%	43.9%
Equity ratio computed at fair market value	75.1%	110.2%	97.4%	100.2%	125.9%
Ratio of cash flows to interest-bearing debt	2.6 years	2.5 years	2.5 years	4.7 years	2.6 years
Interest coverage ratio	18.5 times	19.7 times	19.4 times	15.4 times	27.0 times

Notes: Equity ratio = (Net assets - Stock acquisition rights - Non-controlling interests) / Total assets
Equity ratio computed at fair market value = Equity at fair market value (Treasury stock excluded) / Total assets
Ratio of cash flows to interest-bearing debt = Interest-bearing debt / Cash flows from operating activities
Interest coverage ratio = Cash flows from operating activities / Interest paid

ⅰ.Each indicator is computed based on the consolidated financial data.
ⅱ.The numbers of shares issued adopted to compute equity at fair market value is subtracted treasury stock.
ⅲ. Cash flows refer to cash flows from operating activities in the consolidated statements of cash flows.
ⅳ.Interest-bearing debt refers to all debts with interest payments among debts stated in the consolidated balance sheets.

(3) Basic Policy Concerning Profit Distribution; Dividends in the Current Term and Next Term

Returning profits to shareholders is one of ITO EN's principal management tenets. Our basic policy regarding earnings distribution is to assure dividends based on consolidated business results.

Under this policy, the interim dividend for the fiscal year ended April 30, 2016 was 20 yen per share of common stock and 25 yen per share of Class-A Preferred Stock.

As well, we plan to pay an annual dividend for the fiscal year ended April 30, 2016, which, along with the interim dividend, will amount to 40 yen per share of common stock and 50 yen per share of Class-A Preferred Stock.

As regards the use of retained funds, the Company will retain earnings in order to make needed capital investments in an effort to further increase of corporate value, in other words the increase of investment value of shareholders, and will actively return profits to shareholders through the future development of the business.

(4) Risks Relating to Business

The various risks that could potentially affect the business performance and financial position of ITO EN are summarized below as of April 30, 2016. However, please note that potential risks are not limited to those listed below.

① The Domestic Economy; Consumption Trends

A large part of the Group's business is dependent on developments within Japan's domestic economy. For this reason, economic or financial movements within Japan, and the influence they may have on the Japanese consumer, can exert an influence on the Group's business and financial position.

② Competition in the Beverage Market

Severe competition has been unfolding in the Group's core business beverage market which has been affected by sluggish growth in sales amount due to the intense price competition fueled by strong sales promotions and reflected consumers saving mind.

With changes in consumer preferences, and severe share competition for each category, products in this market have a short lifecycle.

Under current environment, ITO EN has focused on green tea beverages, developing products and services in accordance with its customer's needs. ITO EN delivered impressive results by placing “Route sales system” at the center of our customer service to powerful effect.

As we continue to implement these measures, and the market moves as we forecast, we will develop our ability to withstand the competition. However, if these measures do not sufficiently respond to the changes in the business environment, there is a possibility that the Group's operating results and financial position will be affected.

③ Sourcing and Raw Materials

Tea-related beverages are the Group's core business, with particular emphasis placed on green tea. The decline of the agricultural population and the shrinkage of tea-producing land, accompanied by growing demand for tea leaves, have brought pressure on production volume. In the event, therefore, that the market supply-demand balance deteriorates, and as a consequence, the Group cannot secure supplies of the all-important tea leaves, or that procurement costs rise due to the surge in the prices of such imported ingredients as grains and vegetables, the Group's cost of goods may increase.

Furthermore, within our Beverages division, the share of drinks sold in PET bottles has reached about 72%. It is possible that increases in the price of crude oil, used in the manufacture of PET bottles, will be a factor in our cost of goods. How the Group responds to these changes in the business environment will influence its earnings and financial position.

④ Production System

Much of the Group's production, comprising beverages composed of tea leaves and other raw materials; ingredients used in beverage products; certain ready-to-drink products and yogurt products; is carried out in the Group's own factories. However, the most of production of its ready-to-drink products, and a portion of its tea leaf production, is contracted out to other production facilities.

To ensure that there are no stoppages in production, our own facilities are regularly inspected, and we have adopted measures at numerous external production facilities nationwide to ensure their preparedness in the event of an irregularity.

However, climatic and other natural disasters influencing production cannot be ruled out, and no guarantees can be given. Should such an event occur, it could exert an influence on the Group's sales performance and financial position.

⑤ Climatic and Natural Disasters

As ingredients such as tea leaves, vegetables, fruits, coffee and other agricultural produce are needed in the products that ITO EN emphasizes, the Group's core business of tea leaves and ready-to-drink beverages is susceptible to damage by climatic and other natural events. Especially, a chilly summer or a warm winter, typhoons or prolonged rain causing crop damage or loss can lead to shortages and supply price increases and the loss of sales opportunities. In addition, earthquakes or other natural disasters of greater magnitude than anticipated will also disrupt supplies. Events such as these may have an influence on the Group's sales performance and financial position.

⑥ Dependency on the "*Oi Ocha*" Brand

The sales of the "*Oi Ocha*" brand took a 39% share of sales in the beverages division for the consolidated fiscal year ended April 30, 2016, an exceptionally high proportion. The domestic green tea market is valued at over 415 billion yen making it, the largest category within the cold beverage market in the 2015 calendar year, according to our research. Of this, ITO EN held a 35% share, again according to our research.

We expect the market for green tea to continue its expansion, and accordingly for the "*Oi Ocha*" brand to continue its growth. However, the fierce competition in the market for green tea; the introduction of new, diversifying products; or a slow-down in market growth are all factors which could bring about a decline in market share. How the Group responds to these changes in the business environment will influence its sales performance and financial position.

⑦ Exchange Fluctuations

The Group is engaged in developing overseas business. The Group's overseas subsidiaries submit their financial reports in local currency, which are translated into yen at the exchange rate when the consolidated financial reports are compiled.

Consequently, the Group's performance results and financial position may be influenced by exchange fluctuations.

⑧ Overseas Business

The Group has consolidated subsidiaries overseas, including 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 Washington, ITO EN AUSTRALIA PTY. LIMITED in Victoria, Australia, ITO EN Asia Pacific Holdings Pte. Ltd. in Singapore, Fujian New Oolong Drink Co., Ltd., and ITO EN BEVERAGE (SHANGHAI), LTD. in China.

All the subsidiaries have developed a plan to overcome losses by developing new business relations, achieving greater efficiency in production, and implementing cost savings measures. It is possible that the Group's business performance and financial position will be affected if the subsidiaries do not reach their objectives.

The Group has traditionally focused on domestic business development, but overseas activities will become increasingly important as business development and corporate activities become increasingly globalized going forward. Therefore, any significant political, economic, or legal changes in the countries in which the Group operates or has transactions overseas could affect the Group's business performance or financial position.

These overseas consolidated subsidiaries represent equity investment of 27,790 million yen in the consolidated fiscal year ended April 30, 2016, and all reported a cumulative operating loss, except for Mason Distributors, Inc. and Fujian New Oolong Drink Co., Ltd.

⑨ Legal and Other Regulations

The Group's business must comply with the Food Sanitation Law, the Product Liability Law (PL), the Waste Management Law and various other legal regulations. In addition, under recycling legislation in the state of Hawaii, drinks are subject to a special tax, the proceeds of which are to be used to finance a bottle-recycling plant. The location and structure of the business determines the burden and cost of legal and other requirements.

The Group abides by all laws and regulations. If legal or other regulations become more stringent, or if strengthening regulations increase the cost burden, it is possible that they will exert an influence on the Group's business performance and financial position.

⑩ Information Management

Through its activities in route sales and mail order service, dealings with suppliers, and own consumer-directed marketing activities, such as New Haiku Contest, large amounts of latent client information come into the Group's possession. This confidential client information is managed by the Group, or consigns to a data management company.

The Group takes appropriate security measures for information management including systems to prevent the loss, abuse, alteration and other improper treatment of important information including customer information. Nevertheless, the Group recognizes that its credibility would be damaged in the event this information were lost or leaked to outside parties as a result of a power outage, natural or man-made disaster, software or equipment defect, software virus infection, unauthorized access, or other unforeseen event, and that this could affect the Group's business performance or financial position.

⑪ Food Safety and Hygiene Control

Awareness of food safety and hygiene are the utmost concern of the Group's management, and product quality management offices have been established to this end. These offices conduct product quality inspections under their own direction and they also carry out quality control guidance and regular on-site inspections at the plants of the outsourcers. The Group also holds quality meetings on a regular basis, where the manufacturing management and outsourcing plant managers receive feedback on inspection results in an effort to raise awareness concerning food safety and hygiene. In addition to these activities, we also conduct inspections to prevent the introduction of foreign substances derived from raw materials and the use of prohibited additives.

In light of circumstances following the Great East Japan Earthquake, the Group is performing testing for radioactive substances on all beverage products as well as raw materials of green tea.

Domestic company outlets deal in items that are subject to regulations of the Food Sanitation Law. In addition to compliance with legal ordinances, we conduct thorough sanitary oversight based upon standards of hygiene at each store and based upon the Group manual.

The Group has never committed any violation of food safety and hygiene practices, and has never been subject to official censure or guidance in this regard. However, in the event that problems of food quality were to arise (such as a foreign body being found, or incorrectly labeled produce being distributed, or foreign substances derived from raw materials or prohibited additives being used) of if such problems were harmfully rumored to have arisen, or if there were an outbreak of food poisoning or similar occurrence, this could exert an influence on the Group's business performance and financial position.

⑫ Impairment Accounting

The Group owns various tangible and intangible fixed assets such as real estate used in the business and goodwill. Impairment accounting may have to be applied to these assets and impairment losses may occur, due to declines in their profitability such as declines in their market value or when cash flow can no longer be generated as expected.

2. ITO EN Group Outline

A corporate collective consisting of ITO EN, LTD. (ITO EN), 36 subsidiaries and 3 affiliates (the Company) operate with activities centered on the core business of producing and marketing tea leaves and beverages, as well as being actively engaged in restaurant business other related businesses.

<Tea Leaves and Beverages Business>

ITO EN purchases and manufactures tea leaf products and markets green tea, barley tea and oolong tea leaves throughout Japan with the exception of the Okinawa region, where OKINAWA ITO EN, LTD. markets the products purchased from ITO EN. ITO EN SANGYO, LTD. produces green tea, black tea and barley tea, most of which are purchased by ITO EN. ITO EN KANSAI-CHAGYO, LTD. also produces green tea and barley tea, most of which are purchased by ITO EN.

ITO EN has been in charge of the planning and development of most of its beverage products, and the production of those products is consigned to companies outside of the group. NEOS Corporation markets products purchased from ITO EN through vending machines. ITOEN.ITOCHU MINERAL WATERS CO., LTD. procures third-party products for sale to ITO EN. Chichiyasu Company engages in the processing and sales of milk products and the manufacture and sales of yogurt, and other products and jointly develops products that ITO EN purchases and markets.

The beverage division consigns most of its domestic tea leaves and beverage products distribution to ITO EN SANGYO, LTD.

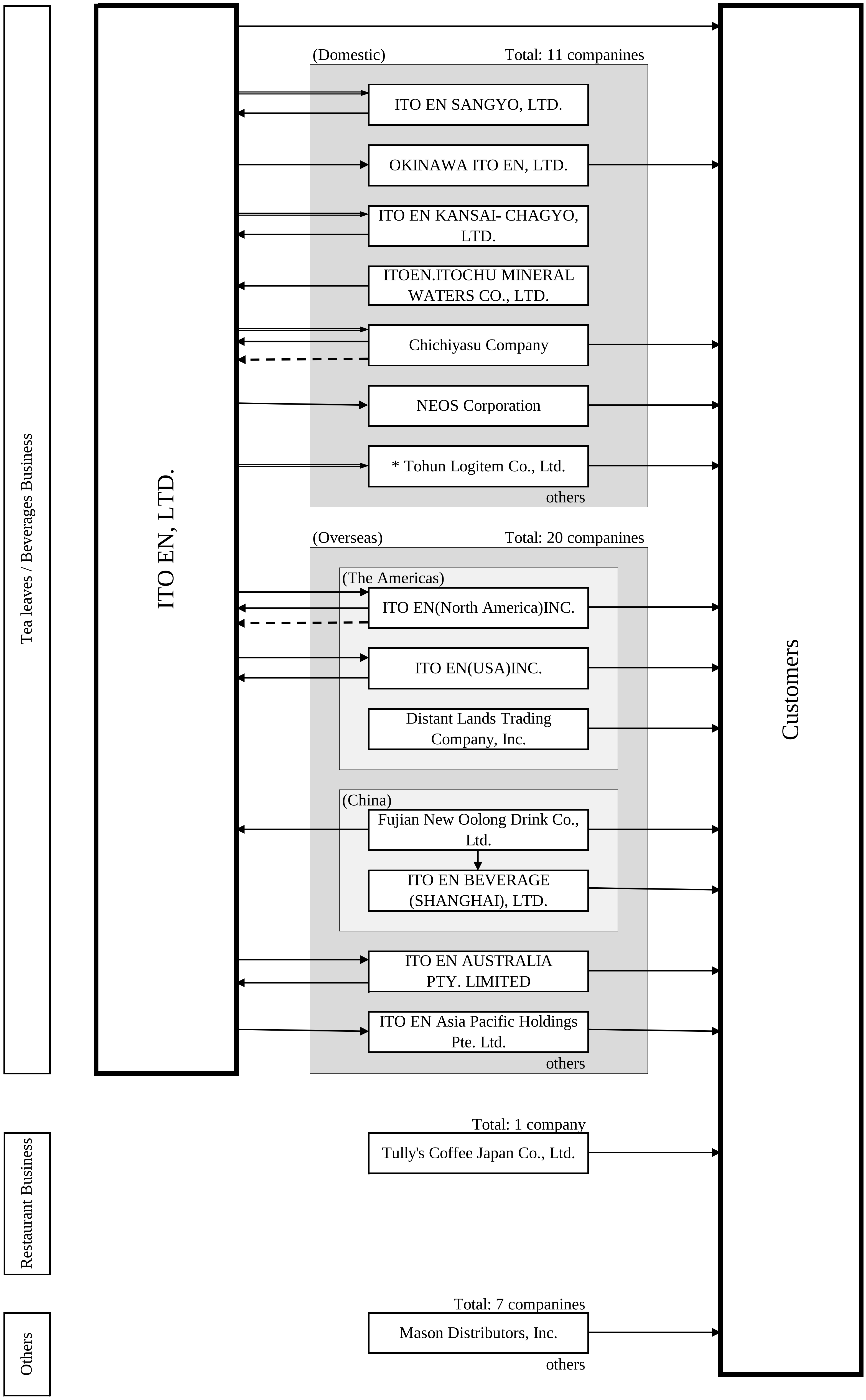
For overseas markets, ITO EN (USA) INC. directly manufactures products and markets them primarily in the state of Hawaii. ITO EN (North America) INC. stocks ITO EN products and markets them mainly in the state of New York. In addition, ITO EN products a portion of its fruit juice, etc. raw materials from both of subsidiaries ITO EN (USA) INC. and ITO EN (North America) INC. Distant Lands Trading Company, Inc. operates from cultivation to sales of coffee beans mainly in the U.S. Fujian New Oolong Drink Co., Ltd. manufactures and sells products, primarily in China and Hong Kong. ITO EN BEVERAGE (SHANGHAI), LTD. purchases products from Fujian New Oolong Drink Co., Ltd. and resells them in China. Ningbo Shunyi Tea products Co., Ltd. produces Chinese tea, most of which is purchased by ITO EN. ITO EN AUSTRALIA PTY. LIMITED is growing tea leaves in order to prepare for growing demand for green tea in the future. ITO EN Asia Pacific Holdings Pte. Ltd. markets products purchased from ITO EN primarily mainly in the Southeast Asia.

<Restaurant Business>

Tully's Coffee Japan Co., Ltd. is engaged in the operation of nationwide specialty coffee shops and franchise development.

<Others>

Mason Distributors, Inc., located in Florida, engages in the manufacture and sales of dietary supplements.



Sales and purchase of products and raw materials
Supply of raw materials / consignment of processing products and distribution management
Lend trademark

Unmarked Consolidated subsidiary
* Equity-method affiliate

Subsidiaries and Affiliates Outline

Name	Location	Capital stock or Investments in capital (¥ million)	Main Business	Voting rights (%)	Transaction Relationship			
					Interlocking Directors	Business transaction (¥ million)	Financial support	Facility leasing
(Consolidated Subsidiaries) ITO EN SANGYO, LTD.	Makinohara-shi, Shizuoka	300	Tea Leaves / Beverages Business	100.0	2	Purchase of products and Consignment of distribution management	1,208	Office leasing
OKINAWA ITO EN, LTD.	Itoman-shi, Okinawa	90	Tea Leaves / Beverages Business	100.0	1	Sales of ITO EN products	550	Office leasing
ITO EN KANSAI -CHAGYO, LTD.	Nishi-ku, Kobe-shi, Hyogo	10	Tea Leaves / Beverages Business	100.0	1	Purchase of products	170	—
Tully's Coffee Japan Co., Ltd.	Shinjuku-ku, Tokyo	100	Restaurant Business	100.0	1	N/A	—	Office leasing
ITOEN.ITOCHU MINERAL WATERS CO., LTD.	Shinjuku-ku, Tokyo	300	Tea Leaves / Beverages Business	65.0	1	Purchase of products	—	Office leasing
Chichiyasu Company	Hatsukaichi-shi, Hiroshima	100	Tea Leaves / Beverages Business	100.0	5	Purchase of products and Lending trademark	3,130	Office leasing
NEOS Corporation	Koto-ku, Tokyo	80	Tea Leaves / Beverages Business	76.7	—	Sales of ITO EN products	—	Office leasing
ITO EN (USA) INC.(*2)	Hawaii, United States	21,500 ($ thousand)	Tea Leaves / Beverages Business	100.0	3	Purchase of raw materials and Sales of ITO EN products	—	—
ITO EN (North America) INC.(*2)	New York, United States	170,800 ($ thousand)	Tea Leaves / Beverages Business	100.0	3	Purchase of raw materials, Sales of ITO EN products, and Lending trademark	—	—
Mason Distributors, Inc.	Florida, United States	0 ($ thousand)	Others	100.0 (100.0)	3	N/A	—	—
Distant Lands Trading Company, Inc.(*2)	Washington, United States	83,755 ($ thousand)	Tea Leaves / Beverages Business	100.0 (100.0)	3	N/A	11,743	—
ITO EN AUSTRALIA PTY. LIMITED(*2)	Victoria, Australia	26,700 (A$ thousand)	Tea Leaves / Beverages Business	100.0	3	Purchase of raw materials	—	—
ITO EN Asia Pacific Holdings Pte. Ltd.(*2)	Singapore	25,500 ($ thousand)	Tea Leaves / Beverages Business	100.0	5	Sales of ITO EN products	—	—
Fujian New Oolong Drink Co., Ltd.	Fujian, China	21,000 (thousand RMB)	Tea Leaves / Beverages Business	65.0	1	Purchase of raw materials	—	—
ITO EN BEVERAGE (SHANGHAI), LTD.	Shanghai, China	40,000 (thousand RMB)	Tea Leaves / Beverages Business	100.0	2	Sales of ITO EN products	—	—
Other 19 companies								
(Equity-method affiliate) Tohun Logitem Co., Ltd.	Saitama-shi, Saitama	100	Tea Leaves / Beverages Business	34.0	1	Consignment of distribution management	—	Office leasing
Other 1 company								

Notes: ⅰ. The section for "Main Business" states the names set forth in the segment information.

*ⅱ. ITO EN (USA) INC., ITO EN (North America) INC., Distant Lands Trading Company, Inc., ITO EN AUSTRALIA PTY. LIMITED, and ITO EN Asia Pacific Holdings Pte. Ltd. are specific subsidiaries.

ⅲ. No companies have submitted a securities registration statement or a securities report.

ⅳ. There is no ownership by close relatives, etc.

ⅴ. The figures shown in parentheses of the ratio of ownership of voting rights indicate the ratio of indirect ownership included in the ownership ratio.

ⅵ. In addition to those described above, two non-consolidated subsidiaries and one affiliated company not accounted for by the equity method are included in the ITO EN Group.

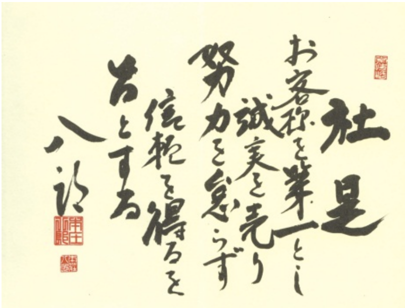
3. Management Policies

(1) Company's Basic Management Policies

Since its inauguration, the ITO EN Group's basic management policy has been “Always Putting the Customers First” to make its customers the Group's foremost priority, and with our “STILL NOW” strategy, seeking to discover what the customers are right now not satisfied with. We are also actively developing and promoting new products that comply with our five key concepts, which are “natural, healthy, safe, well-designed, and delicious” to provide better customer-centered service.

For us, our customers are not only those consumers who purchase our products, but also our shareholders, retailers, suppliers, financial institutions and local communities—in fact anyone who has some form of involvement in ITO EN. We strongly believe that following our “STILL NOW” strategy—listening sincerely to what the customers are right now not satisfied with and placing the highest importance on consistent interaction with our customers—is the best way for the Group to further its business.

Based on its “Always Putting the Customers First” management policy, along with responsible environmental behavior, the Group vows to continually do its best to become a company that can be trusted by the community by increasing its corporate value, managing corporate operations in ways beneficial to shareholders’ value, and marketing products that fully satisfy people.



ITO EN credo
Mission Statement
Our mission is to put the customer first,
make integrity our stock in trade,
spare no effort,
and earn the confidence and trust of society

(2) Management Targets

The ITO EN Group has set the following targets as a consolidated medium- to long-term plan to enhance shareholders' value and to promote the efficiency of its consolidated management.

Management targets	4/30/2016 Actual results	4/30/2017 Forecasted numbers	Medium- to long-term targets projected numbers
Net sales	465.5 billion yen	471.5 billion yen	500.0 billion yen
Return on Equity (ROE)	6.8%	9.1%	Over 10.0 %
Payout ratio (consolidated)	61.0%	44.5%	40.0 %

(3) Medium- to Long-term Management Strategies and Future Tasks

Based on its management principle of “Always Putting the Customers First” as a “Global Tea Company” under its long-term vision, the Group will continue to provide value to customers around the world incorporating both traditions and the latest technologies related to “tea,” with the aim of making lifestyle proposals.

To do this, the Group intends to establish a domestic earnings base that focuses on tea leaf product and beverage products, and achieve continuous growth by strengthening its brands and creating synergies across the Group.

The Group will also continue to make strategic investments toward the establishment of an overseas business base, to establish “*Oi Ocha*” as a global brand and further popularize convenient tea leaf products including tea bags and powdered tea in markets around the world.

Through these initiatives, the Group will work to achieve its medium- to long-term target of “Net sales of 500 billion yen,” and build a solid position as a globally trusted company.

(4) Issues Facing the Company

The ITO EN Group will continue to strive to meet the expectations of consumers regarding its social responsibility as a company, through compliance with laws, regulations, and social norms, and by establishing a quality control structure that ensures product safety, with an unwavering commitment to the management principle of “Always Putting the Customers First” in the pursuit of further enhancing corporate and shareholder value. To this end, the Group will pursue the following initiatives.

① Brand Strategy

1. Product development

ITO EN is actively developing new products embodying the five key concepts “natural, healthy, safe, well-designed, and delicious” and allied to this, ITO EN, using “VOICE” system, a company-wide proposal system by employees and customers, focusing on what we can do now to enhance customer satisfaction, and is making improvements to products already in the market.

ITO EN will continue to use “VOICE” system to develop new products and to improve the existing products in its quest to satisfy customer needs

2. R&D

Based on its fundamental policy for product development, with a particular emphasis on “Healthy” and “Delicious,” the Group’s research and development includes both basic and applied research. The beverages the Group provides undergo various testing for confirmation of their human health benefits, and this information is made publicly available. The Group will also emphasize the development of foods for specified health uses, which are permitted to display their functional properties on the label. The Group also conducts research on ingredients that affect the flavor and aroma of beverages, as well as research related to physical properties, and works on new technologies toward the development of products with superior flavor and aroma.

3. Brand strengthening strategy

With the ITO EN brand at its core, ITO EN is actively promoting several other individual beverage brands such as “*Oi Ocha*” green tea beverage, “*Kenko Mineraru Mugicha*” (healthy mineral barley tea), and “*TULLY’S COFFEE*.” The ITO EN Group is undertaking aggressive sales promotion for its brands, including “*Ichinichibun no Yasai*” (a day’s worth of vegetables), “*Jujitsu-Yasai*” (mixed vegetable and fruit beverage), “*TEAS’ TEA*,” and “*evian*.”

ITO EN’s flagship product, “*Oi Ocha,*” which was launched in 1985, is widely recognized by our customers. ITO EN will continue to provide customers with the authentic taste of green tea that “tastes so natural, with no added flavorings or seasonings.” Also, ITO EN has been trying to serve customers better by enriching its product lineups and diversifying container capacities and PET bottle types. ITO EN leveraged its time-honored traditions that first introduced green tea beverages and its technical capabilities to launch products reflected seasonal tastes and those savory green tea beverages like “*Koicha*” (dark) , “*Gyokuro*” (luxurious green tea) , “*Hoji*” (roasted green tea) , and “*Genmai*” (green tea with roasted rice) which infused with the special characteristics of tea leaves. At the same time, ITO EN avoided becoming complacent with its No. 1 status among tea beverage brands by boosting efforts toward strengthening its brand even further to be the No. 1 beverage brand.

Along with diversifying its product lineups, ITO EN will nonetheless continue serving authentic flavors for full enjoyment.

② Enhancing the Marketing Base

1. Route sales system

The route sales system is an original sales structure that enables prompt responses to customer needs, allows ITO EN to directly link production and retail elements of its organization and tailor its sales promotion activities to specific regions for further expansion. It not only places ITO EN in direct contact with all existing customers, but also with many potential new ones. ITO EN also equipped its route sales representatives with portable terminals. In addition to enhancing communication, these portable terminals deliver improved mobility, which directly contributes more precise information provision and optimal communication with customers.

2. Strengthening customer service

ITO EN has been fully utilizing its route sales system to bring unparalleled levels of service to its customers, but to enhance the marketing base and to enable it to accomplish its consolidated medium- to long-term business plan targets, the Group has been focusing on new business generation and enriching its face-to-face services. These provide invaluable customer feedback, customer-centered manufacturing development and attractive display ideas, suggestions that generally will be incorporated into the route sales system.

③ Across-the-Board Cost Cutting

1. Fabrication-less system

Our Beverage Division's production strategy is based on what is termed a fabless (fabrication-less) system which means that ITO EN does not have its own production. Not only can ITO EN keep capital investment to a minimum, but it can also respond quickly to changes in the market as they arise.

Furthermore, ITO EN has adopts “block production system,” which means ITO EN has divided its domestic business territory into five blocks to keep production facilities as close to markets as possible in order to minimize logistic costs.

2. Strengthening purchasing power of raw materials

As a top manufacturer of green tea, ITO EN handles approximately 25.2% of the green tea leaves harvested in Japan and uses its extremely strong purchasing power to secure a stable supply of high-quality plucked tea leaves that can be purchased at a reasonable price as a result of relationships built on trust with producers over many years. Over those years, ITO EN has also accumulated a high level of production expertise, making it the beverage company that can self-produce high-quality green tea leaves for beverages.

Furthermore, In Japan, the aging of agricultural workers and the lack of young people willing to inherit and carry on work in the agricultural field, resulting shrinkage of a reduction in tea-producing land and growers. ITO EN is cultivating green tea producing areas in Miyazaki, Kagoshima, Oita, and Nagasaki prefectures for mainly green tea used as a beverage ingredient, for which demand is expected to continue increasing. ITO EN's agro-technicians visit these areas, and leads strictly governed cultivation operations based on cultivation management records and plans. Through our business of cultivating green tea growing areas, we are working to revitalize the tea industry and local communities by utilizing idle agricultural land, creating employment and encouraging young people to inherit and take on the work of agriculture.

④ Strengthening Overseas Operations

With regard to overseas strategies, ITO EN (North America) INC. puts efforts into building strong "ITO EN" brand awareness in the U.S. and establishing a market for green tea by introducing authentic green tea, expanding its wholesale area, and focusing on the natural food market and national chain stores throughout the U.S.. By adopting ITO EN's specialty sales structure, the "Route sales system," in Manhattan, N.Y., where nationwide attention of the U.S. gathers, and operating closely to customers, the market share for green tea beverages is expanding steadily and the presence of "ITO EN" is being appealed proactively.

The company has been particularly successful in selling green tea bags through membership-only supermarkets, and will continue to strengthen this business going forward. This high-quality product, which was previously not available in the U.S. market, has proven extremely popular with customers and has made a significant contribution to the growth of the green tea market in the United States. The Group will also strengthen sales in China and Southeast Asia, concentrating on tea-based beverages.

⑤ Approach for CSR (Corporate Social Responsibility)

In keeping with its management principle of "Always Putting the Customer First," ITO EN will aim to attain sustainable growth and development by enhancing corporate value as a company that is sought after by the public. To achieve that, ITO EN will pursue CSR initiatives through business that applies the international standard of ISO26000 and the Japanese standard of JIS Z 26000, ensuring full compliance with laws and regulations to earn the trust of all stakeholders.

To protect the environment, ITO EN has established medium-term goals based on its environmental action guidelines. It is now taking action to achieve those goals. In addition, as an effective means for achieving sustained improvement in its environmental activities, ITO EN is introducing an environmental management system that conforms to ISO14001. In addition, all ITO EN departments are certified by the ISO.

In contributing to society, understanding that the activities a company can conduct are the creation of a better society together with the community, ITO EN will place more emphasis on participation in regional revitalization, sporting, and cultural activities.

(5) Other Important Management Matters Related to the Companies

Not applicable

4. Basic Policies Concerning Selection of Accounting Standards

To allow reliable year-on-year and company-to-company comparisons, the ITO EN Group's policy for the time being is to prepare its consolidated financial statements according to Japanese accounting standards.

In addition, the ITO EN Group is considering the formulation of internal manuals and guidelines and the time for the application thereof to prepare for the future application of IFRS.

5. Consolidated Financial Statements
(1) Consolidated Balance Sheets
As of April 30, 2015 and April 30, 2016

	Million yen	
	4/30/2015	4/30/2016
Current assets:		
Cash and deposits	48,922	53,259
Notes and accounts receivable – trade	51,512	53,553
Merchandise and finished products	26,481	27,074
Raw materials and supplies	8,188	7,981
Accounts receivable-other	13,999	11,990
Deferred tax assets	2,080	2,927
Other	2,560	2,834
Allowance for doubtful accounts	(148)	(105)
Total current assets	**153,597**	**159,517**
Fixed assets:		
Property, plant and equipment;		
Buildings and structures	38,827	41,151
Accumulated depreciation	(20,246)	(21,557)
Buildings and structures, net	18,580	19,593
Machinery, equipment and vehicles	18,403	18,928
Accumulated depreciation	(12,726)	(13,732)
Machinery, equipment and vehicles, net	5,677	5,196
Tools, furniture and fixtures	7,679	10,210
Accumulated depreciation	(4,685)	(5,568)
Tools, furniture and fixtures, net	2,994	4,641
Land	19,413	20,644
Lease assets	62,121	55,071
Accumulated depreciation	(28,930)	(25,917)
Lease assets, net	33,190	29,154
Construction in progress	258	1,787
Subtotal	**80,115**	**81,018**
Intangible fixed assets:		
Goodwill	27,791	20,179
Software	4,323	3,557
Other	1,927	3,418
Subtotal	**34,042**	**27,154**
Investments and other assets;		
Investments in securities	5,116	4,886
Deferred tax assets	2,511	4,073
Other	10,961	11,376
Allowance for doubtful accounts	(396)	(323)
Subtotal	**18,192**	**20,012**
Total fixed assets	**132,350**	**128,185**
Total assets	**285,947**	**287,702**

Consolidated Balance Sheets – Continued

	Million yen	
	4/30/2015	4/30/2016
Current liabilities:		
Notes and accounts payable-trade	33,304	33,353
Short-term loans payable	803	871
Current portion of bonds	—	20,000
Lease obligations	11,255	10,442
Accrued expenses	21,325	23,194
Income taxes payable	1,251	3,945
Accrued bonuses	2,791	3,284
Other	5,306	4,734
Total current liabilities	**76,038**	**99,826**
Non-current liabilities:		
Bonds payable	20,000	—
Long-term loans payable	30,551	30,583
Lease obligations	19,998	16,630
Deferred tax liabilities on revaluation	758	719
Net defined benefit liabilities	8,092	9,668
Other	2,745	3,058
Total non-current liabilities	**82,146**	**60,659**
Total liabilities	**158,185**	**160,486**
Shareholders' equity:		
Capital stock	19,912	19,912
Capital surplus	20,259	18,640
Retained earnings	90,949	94,311
Treasury stock	(1,287)	(1,302)
Total shareholders' equity	**129,833**	**131,562**
Valuation, translation adjustments and others:		
Valuation difference on available-for-sale securities	2,029	1,828
Deferred gains (losses) on hedges	29	(45)
Reversal of revaluation reserve for land	(6,092)	(6,053)
Foreign currency translation adjustments	1,503	137
Remeasurements of defined benefit plans	(480)	(1,219)
Total accumulated losses from valuation, translation adjustments and others	**(3,010)**	**(5,352)**
Stock acquisition rights	**10**	**39**
Non-controlling interests	**928**	**965**
Total net assets	**127,761**	**127,215**
Total liabilities and net assets	**285,947**	**287,702**

(2) Consolidated Statements of Income and Comprehensive Income

For the fiscal year ended April 30, 2015 and 2016 (May 1, 2014 - April 30, 2015 and May 1, 2015 - April 30, 2016)

Consolidated Statements of Income

	Million yen	
	4/30/2015	4/30/2016
Net sales	**430,541**	**465,579**
Cost of sales	223,132	246,761
Gross profit	**207,409**	**218,818**
Selling, general and administrative expenses(*1)	196,016	201,574
Operating income	**11,393**	**17,243**
Non-operating income:		
Interest income	58	69
Dividend income from securities	55	63
Rent income	76	81
Compensation income for damaged goods	68	54
Equity income from an unconsolidated subsidiary and affiliates	62	77
Gain on expiration of prepaid cards	64	85
Foreign exchange gains	479	―
Other	405	298
Total non-operating income	**1,269**	**730**
Non-operating expenses:		
Interest expense	1,153	1,082
Foreign exchange losses	―	1,222
Other	279	594
Total non-operating expense	**1,433**	**2,899**
Ordinary income	**11,229**	**15,074**
Extraordinary gains:		
Gain on sales of fixed assets	1	172
Gain on sales of securities	0	0
Gain on donation of fixed assets	27	9
Eviction income	11	18
Other	8	5
Total extraordinary gains	**49**	**205**
Extraordinary losses:		
Loss on sales of fixed assets	17	0
Loss on abandonment of fixed assets	21	33
Impairment losses(*2)	326	310
Loss on valuation of investment securities	―	3
Other	20	6
Total extraordinary losses	**386**	**353**
Income before income taxes	**10,893**	**14,925**
Income taxes - current	**4,555**	**6,532**
Income taxes - deferred	**(1,041)**	**(305)**
Total income taxes	**3,514**	**6,226**
Net income	**7,378**	**8,699**
Profit attributable to non-controlling interests	**86**	**83**
Profit attributable to owners of parent	**7,292**	**8,615**

Comprehensive Income

	Million yen	
	4/30/2015	4/30/2016
Net income	**7,378**	**8,699**
Other comprehensive income:		
Valuation difference on available-for-sale securities	989	(202)
Deferred gains or losses on hedges	27	(74)
Revaluation reserve for land	78	39
Foreign currency translation adjustment	1,861	(1,413)
Remeasurements of defined benefit plans, net of tax	834	(748)
Share of other comprehensive income of associates accounted for using equity method	44	(13)
Other comprehensive income	**3,836**	**(2,414)**
Comprehensive income	**11,215**	**6,284**
(Breakdown)		
Comprehensive income attributable to owners of parent	11,059	6,273
Comprehensive income attributable to non-controlling interests	155	10

(3) Consolidated Statement of Changes in Shareholders' Equity

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

(Million 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)
Profit attributable to owners of parent			7,292		7,292
Purchase of treasury stock				(17)	(17)
Disposal of treasury stock			(82)	153	70
Change in treasury shares of parent arising from transactions with non-controlling shareholders					
Net changes of items other than shareholders' equity					
Total changes of 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

	Shareholders' equity						**Subscrip -tion rights to shares**	**Non-cont rolling 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**	**Remeasure-ments of defined benefit plans**	**Valuation and translation adjustments**			
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)
Profit attributable to owners of parent									7,292
Purchase of treasury stock									(17)
Disposal of treasury stock									70
Change in treasury shares of parent arising from transactions with non-controlling shareholders									
Net changes of items other than shareholders' equity	1,014	27	78	1,807	838	3,766	(42)	255	3,979
Total changes of 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

For the fiscal year ended April 30, 2016 (May 1, 2015 - April 30, 2016)

(Million 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	90,949	(1,287)	129,833
Cumulative effect of changes in accounting policies					
Restated balance	19,912	20,259	90,949	(1,287)	129,833
Changes during the current period					
Dividends from surplus			(5,254)		(5,254)
Profit attributable to owners of parent			8,615		8,615
Purchase of treasury stock				(15)	(15)
Disposal of treasury stock			0	0	1
Change in treasury shares of parent arising from transactions with non-controlling shareholders		(1,618)			(1,618)
Net changes of items other than shareholders' equity					
Total changes of items during the period	—	(1,618)	3,361	(14)	1,729
Balance at the end of the current period	19,912	18,640	94,311	(1,302)	131,562

	Shareholders' equity						**Subscrip-tion rights to shares**	**Non-controlling 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**	**Remeasure-ments of defined benefit plans**	**Valuation and translation adjustments**			
Balance at the beginning of the current period	2,029	29	(6,092)	1,503	(480)	(3,010)	10	928	127,761
Cumulative effect of changes in accounting policies									
Restated balance	2,029	29	(6,092)	1,503	(480)	(3,010)	10	928	127,761
Changes during the current period									
Dividends from surplus									(5,254)
Profit attributable to owners of parent									8,615
Purchase of treasury stock									(15)
Disposal of treasury stock									1
Change in treasury shares of parent arising from transactions with non-controlling shareholders									(1,618)
Net changes of items other than shareholders' equity	(201)	(74)	39	(1,366)	(739)	(2,341)	29	37	(2,275)
Total changes of items during the period	(201)	(74)	39	(1,366)	(739)	(2,341)	29	37	(545)
Balance at the end of the current period	1,828	(45)	(6,053)	137	(1,219)	(5,352)	39	965	127,215

(4) Consolidated Statements of Cash Flows

For the fiscal year ended April 30, 2015 and 2016 (May 1, 2014 - April 30, 2015 and May 1, 2015 - April 30, 2016)

	Million yen	
	4/30/2015	4/30/2016
Cash flows from operating activities:		
Income before income taxes	10,893	14,925
Depreciation and amortization	15,653	16,075
Impairment loss	326	310
Amortization of goodwill	1,326	1,824
Increase (decrease) in allowance for doubtful accounts	3	(108)
Increase (decrease) in accrued bonuses for employees	(256)	492
Increase (decrease) in net defined benefit liability	676	511
Interest and dividends income	(113)	(132)
Interest expenses	1,153	1,082
Loss (gain) on foreign currency translation	(265)	213
Loss (gain) on valuation of investments securities	—	3
Loss (gain) on sales of investment securities	(0)	(0)
Decrease (increase) in notes and accounts receivable – trade	(1,741)	(2,340)
Decrease (increase) in inventories	(992)	(931)
Decrease (increase) in other current assets	(1,788)	1,294
Decrease (increase) in other fixed assets	(199)	149
Increase (decrease) in notes and accounts payable – trade	(99)	195
Increase (decrease) in consumption tax payable	1,447	(729)
Increase (decrease) in other current liabilities	1,199	2,141
Other	114	(422)
Subtotal	**27,339**	**34,554**
Interest and dividend income received in cash	136	158
Interest expenses paid in cash	(1,154)	(1,114)
Income taxes paid in cash	(8,569)	(3,512)
Net cash flows from operating activities	**17,751**	**30,085**
Cash flows from investing activities:		
Net decrease (increase) in time deposits	1,943	—
Purchase of property, plant and equipment and intangible assets	(3,704)	(8,449)
Acquisition of investments in securities	(15)	(94)
Proceeds from sales of investments securities	0	0
Acquisition of long-term prepaid expenses	(105)	(24)
Acquisition of investments in affiliates	—	(37)
Purchase of shares of subsidiaries resulting in change in scope of consolidation	(7,940)	—
Decrease (increase) in other investments	580	453
Net cash flows from investing activities	**(9,242)**	**(8,150)**

Consolidated Statements of Cash Flows – Continued

	Million yen	
	4/30/2015	4/30/2016
Cash flows from financing activities:		
Net increase (decrease) in short-term loans payable	―	20
Proceeds from long-term loans payable	29,072	477
Repayment of long-term loans payable	(16,424)	(335)
Purchase of treasury stock	(17)	(15)
Proceeds from sales of treasury stock	1	1
Payments from changes in ownership interests in subsidiaries that do not result in change in scope of consolidation	―	(1,739)
Repayment of finance lease obligations	(12,143)	(11,236)
Dividends paid	(5,245)	(5,243)
Dividends paid to minority shareholders	(0)	(88)
Proceeds from stock issuance to minority shareholders	―	153
Other, net	(75)	(10)
Net cash flows from financing activities	**(4,835)**	**(18,018)**
Effect of exchange rate fluctuation on cash and cash equivalents	**631**	**419**
Net increase (decrease) in cash and cash equivalents	**4,305**	**4,336**
Cash and cash equivalents at beginning of period	**44,617**	**48,922**
Cash and cash equivalents at end of period	**48,922**	**53,259**

(5) Notes to Consolidated Financial Statements

(Note Regarding the Company's Position as a Going Concern)

Not applicable

(Basis of Presentation of Consolidated Financial Statements)

1. Consolidation scope

(1) Consolidated subsidiaries－ 34 companies:

The major consolidated subsidiaries are stated in "2. ITO EN Group Outline, Subsidiaries and Affiliates Outline" and thus the statement thereof is omitted.

Of those described above, ITO EN (Hawaii) LLC. is included in the scope of consolidation because it was established during the fiscal year under review.

In addition, DLCR Holdings, LLC and Java Trading Co. International, which were consolidated subsidiaries in the previous fiscal year, are excluded from the scope of consolidation because they were wound up.

(2) Unconsolidated subsidiaries－2 companies:

Ningbo Shunyi Tea products Co., Ltd. and 1 other company

(3) Reasons for exclusion from consolidated subsidiaries

Total assets, net sales, net income and retained earnings of the unconsolidated subsidiary are excluded from financial statements consolidated due to immateriality of those amounts. The equity method is applied for accountings for all unconsolidated subsidiaries and affiliates.

2. Application of equity method

(1) Equity - method applied to unconsolidated subsidiaries－ 2 companies:

Ningbo Shunyi Tea products Co., Ltd. and 1 other company

(2) Equity - method unapplied to affiliated－ 2 companies:

Tohun Logitem Co., Ltd. and 1 other company

Tohun Logitem Co., Ltd. is included in the affiliated companies accounted for by the equity method because the new joint venture was established during the fiscal year under review.

(3) The affiliated company not accounted for by the equity method (Hamano seicha) is excluded from the scope of application of the equity method because the exclusion thereof will have an insignificant impact on the consolidated financial statements given the current term net profit or loss (in proportional terms) and the retained earnings (in proportional terms), among other elements, and no significance thereof is identified as compared to the whole.

(4) Financial statements of equity method applied an unconsolidated subsidiaries and an affiliate, which ITO EN has used, are determined based on their fiscal year

3. Matters relating to fiscal year end, etc. of subsidiaries

PT ITO EN ULTRAJAYA WHOLESALE, Fujian New Oolong Drink Co., Ltd., and ITO EN BEVERAGE (SHANGHAI), LTD., have fiscal year end on December 31. Distant Lands Trading Company, Inc. has fiscal year end on September 30.

For major transactions which occurred between the fiscal year end of those companies and March 31, appropriate adjustments have been made in the consolidated financial statements.

4. Significant accounting policies

(1) Valuation standards and methods for important assets

① Securities

Available-for-sale securities with market value are revaluated at the market value. Differences between revaluated amounts and original purchase prices are presented in net assets and the sales price is determined by the moving-average method is adopted.

Available-for-sale securities without market value are stated at cost determined by the moving-average method is adopted.

② Inventories

Domestic companies－Inventories are stated at cost determined by the average method is adopted.

Overseas companies－Inventories are stated at the lower cost, determined on the first-in first-out or moving-average method is adopted.

(2) Depreciation method for important fixed assets

① Property, plant and equipment (excluding lease assets)

Domestic companies－Property, plant and equipment are depreciated on the declining balance method. For buildings (excluding accompanying equipment) acquired after April 1, 1998, the straight line method is applied.

Overseas companies－Property, plant and equipment are depreciated over estimated useful life on the straight line method.

(The service lives for these major categories)   Building and structures: 31 to 50 years
Machinery, equipment and vehicles: 8 to 10 years
Tools, furniture and fixtures: 4 to 8 years

② Intangible assets (excluding lease assets)
Domestic companies only－Intangible assets are amortized on the straight line method over estimated useful lives. The useful life for "Software" is estimated for five to ten years.

③ Lease assets (finance lease transactions that do not transfer ownership of lease property to the lessee)
The straight-line method is applied to leases, with the lease period set as the useful life and the remaining value as zero. Finance lease transactions that do not transfer ownership, for which the starting date of the lease was April 30, 2008 or earlier, are accounted for as operating leases.

(3) Important reserve

① Allowance for doubtful accounts
Sufficient allowance for doubtful accounts is provided to cover possible losses by estimating uncollectable amounts individually in addition to possible losses based on actual losses on collection in the past.

② Accrued bonus
Domestic companies only－Accrued bonus, which is the proportional amount for the current period is recorded as an estimate for the future payment to employees.

(4) Accounting policy for retirement benefits

① Period allocation methodology for the estimated retirement benefit amount
The retirement benefits obligations calculated by allocating the estimated retirement benefit amount until the end of the current fiscal year on a straight-line basis.

② Amortization of actuarial gains/losses and prior service cost
prior service cost are amortized pro rata in the years from the following fiscal year by the straight-line method based average remaining service years (Mainly 19 years) of the employees when incurred.
Actuarial gains/losses are amortized pro rata in the years from the following fiscal year by the straight-line method based average remaining service years (Mainly 17 years) of the employees when incurred.

③ Application of the simplified method for small businesses
For certain consolidated subsidiaries, a simplified method is applied for the calculation of retirement benefit obligations and retirement benefit expenses in which the necessary retirement benefit provisions for voluntary resignations at the end of the consolidated fiscal year are recorded as retirement benefit obligations.

(5) Conversion of foreign currency and translation of foreign statements

Receivables and liabilities denominated in foreign currencies are translated into Japanese yen on the basis of the fiscal year end rate and translation differences are charged to income or expenses. Financial statements of foreign consolidated subsidiaries are translated into Japanese yen on the basis of the fiscal year end rates. The average rates for the period are used for translation of income and expenses for the period. Translation differences are included in net assets as foreign statements translation adjustments and non-controlling interests.

(6) Important hedge accounting

① Hedge accounting method
Deferred hedge accounting is applied. Designation accounting is used for forward foreign exchange and foreign exchange swaps that meet the requirements for designation accounting, and exceptional accounting is used for interest rate swaps that meet the requirements for exceptional accounting.

② Hedge method: Interest rate swap contracts, forward foreign currency exchange contracts, and foreign exchange contracts.

Hedge target: Interest paid on loans payable, foreign debt or foreign currency contracts, and borrowings.

③ Hedging policy
Forward foreign exchange transactions are used only to cover actual foreign exchange needs, and foreign exchange swaps are made to match the principal amount and tenor of the hedged foreign currency-denominated obligation. Interest rate swaps are entered into for the amount of borrowings only. Commodity swaps are entered into for the trade amount of raw materials. The Company makes foreign currency exchange forward, foreign exchange swaps, and interest rate swaps contract to hedge its exposure on anticipated transactions, in accordance with internal "derivative transaction regulation."

④ Method of evaluating hedge effectiveness
The validity of hedges is evaluated based on a comparison of total fluctuations in the cash flow or fluctuations in the market value of the hedged item with the total fluctuations in the cash flow or fluctuations in the market value of the hedging instrument. However, for items converted by designation or exceptional accounting, the validity of the hedge is not evaluated.

(7) Amortization of goodwill

Goodwill caused by acquisition of affiliates is amortized mainly in eighteen years by using the straight-line method. Some of them are charged or credited to income as incurred due to immateriality of those amounts.

(8) Cash and cash equivalents on the consolidated statements of cash flows

Cash and cash equivalents on the Consolidated Statements of Cash Flows include cash on hand, time deposits and highly liquidated investments with maturities of three months or less with little fluctuation risks.

(9) Accounting for consumption taxes

Consumption tax (including local consumption) received and paid are netted in the consumption tax payable.

(Changes in Accounting Policies)

(Application of the accounting standards, etc. regarding business combination)

ITO EN began applying “Accounting Standard for Business Combinations” (Accounting Standards Board of Japan Statement No.21, September 13, 2013; hereinafter referred to as the “business combination accounting standards”); “Accounting Standard for Consolidated Financial Statements” (ASBJ Statement No.22, September 13, 2013; hereinafter referred to as the “consolidated financial statements accounting standards”); and “Revised Accounting Standard for Business Divestitures” (ASBJ Statement No. 7, September 13, 2013; hereinafter referred to as “business divestitures accounting standards”) starting from the fiscal year ended under review. To this end, ITO EN posted, as capital surplus, the difference that materialized from the change in its holdings for subsidiaries that ITO EN continues to have controlling interest, and also changed the method to posting acquisition-related costs as expenses of the consolidated fiscal year in which the costs were incurred.

As for the merger that is to take place after the beginning of the fiscal year ended under review, ITO EN has changed to adopting a method of reflecting the revised distribution of the acquisition cost – arrived at by finalizing provisional accounting processing – in the consolidated financial statements associated with the consolidated period during which the date of the corporate merger is to occur. In addition, ITO EN has changed the method of presenting net income and other earnings metrics as well as a change in presentation from minority interest to non-controlling interest. In order to reflect the change in presenting the relevant information, ITO EN has reclassified the consolidated financial statements.

As for the application of business combination accounting standards, ITO EN is in compliance with transitional provisions as established in the business combination accounting standards No. 58-2 (4), the consolidated financial statements accounting standards 44-5(4) and the business divestitures accounting standards 57-4 (4), and they have been applied from the beginning of the fiscal year ended under review into the future.

The consolidated financial statements of cash flow for the fiscal year ended under review records the cash flow upon the acquisition or sale of shares of subsidiaries without a change in the scope of consolidation under the category of “cash flows from financing activities.”

As a result, “Capital surplus” as of the end of the current period as stated in the consolidated statement of changes in shareholders’ equity for the consolidated fiscal year ended April 30, 2016 decreased by 1,618 million yen.

(Notes to Consolidated Statements of Income)

*1. Main items of selling, general and administrative expenses

For the fiscal year ended April 30, 2015 and 2016 (May 1, 2014 - April 30, 2015 and May 1, 2015 - April 30, 2016)

	Million yen	
	4/30/2015	4/30/2016
Selling commission	74,468	77,574
Salaries and wages to employees	39,732	41,350
Depreciation and amortization	13,611	13,988
Transportation	11,455	12,184
Advertising	13,759	11,056
Accrued bonuses	2,572	3,222
Research and development expenses	1,788	1,748
Retirement and severance benefit costs for employees	1,587	1,545
Lease expenses	1,402	1,385
Allowance for doubtful accounts	49	(32)

*2. Impairment loss

A consolidated group company recognized impairment losses on the assets group listed below.

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

Location	Use	Type of assets	Impairment losses (million yen)
Hatsukaichi-shi, Hiroshima	Assets for business (ITO EN, LTD.)	Machinery and equipment, etc.	72
Shibuya-ku, Tokyo etc.	Store, etc. (Tully's Coffee Japan Co., Ltd.)	Buildings, etc.	235
Hatsukaichi-shi, Hiroshima	Assets for business (Chichiyasu Company)	Machinery and equipment, etc.	19

In the case of ITO EN, adopting the Management Accounting Classification as standard, Cash Generation Units (CGU, Asset Groups) is formed on an area base, thus being the smallest units generating the cash flow. For the leased assets, CGU are formed using each individual property as basic unit for measurement. An extraordinary loss has been recognized on the CGU (machinery, plant- and delivery equipment) causing continuous deficits in the cash flow generation arising from operating activities. As of the consolidated fiscal year ended April 30, 2015, we had added-up an Impairment Loss amount of 72 million yen, corresponding to the above mentioned CGU and that sum was equal to the total carrying (book) value. The Recoverable Amount was determined through measurement of the Value-in-use, calculated as zero.

In the case of the consolidated subsidiary Tully’s Coffee Japan Co., Ltd., CGU are formed using each shop as a basic unit for measurement, thus being the smallest units generating the cash flow. An extraordinary loss has been recognized on the CGU (buildings and structures, tools, furniture and fixtures) causing continuous deficits in the cash flow generation arising from operating activities. As of the consolidated fiscal year ended April 30, 2015, we had added-up an Impairment Loss amount of 235 million yen (buildings and structures: 206 million yen; tools, furniture and fixtures: 28 million yen) and that sum was equal to the total carrying (book) value. The Recoverable Amount was determined through measurement of the Value-in-use, calculated as zero.

In the case of the consolidated subsidiary Chichiyasu Company, CGU are formed using each manufacturing line as a basic unit for measurement, thus being the smallest units generating the cash flow. An extraordinary loss has been recognized on the CGU (buildings and structures, tools, furniture and fixtures) causing continuous deficits in the cash flow generation arising from operating activities. As of the consolidated fiscal year ended April 30, 2015, we had added-up an Impairment Loss amount of 19 million yen (machinery, plant- and delivery equipment: 14 million yen; tools, buildings and structures: 4 million yen) and that sum was equal to the total carrying (book) value. The Recoverable Amount was determined through measurement of the Value-in-use, calculated as zero.

For the fiscal year ended April 30, 2016 (May 1, 2015 - April 30, 2016)

Location	Use	Type of assets	Impairment losses (million yen)
Shijonawate-shi, Osaka	Store, etc. (Tully's Coffee Japan Co., Ltd.)	Buildings, etc.	290
Hatsukaichi-shi, Hiroshima	Product line (Chichiyasu Company)	Machinery and equipment, etc.	19

In the case of the consolidated subsidiary Tully's Coffee Japan Co., Ltd. asset grouping is conducted with each shop as the basic unit of measurement, as these are the smallest units of cash flow generation. An extraordinary loss has been recognized on the assets group, which incurred continuous deficits in cash flow generation arising from operating activities, amounting to as impairment loss for the total book value was 290 million yen (buildings and structures 252 million yen, tools, furniture and fixtures 34 million yen, and other 3 million yen) as of the fiscal year ended April 30, 2016. The recoverable amount was determined through measurement of the value in use, which is calculated as zero.

In the case of the consolidated subsidiary Chichiyasu Company asset grouping is conducted with each product line as the basic unit of measurement, as these are the smallest units of cash flow generation. An extraordinary loss has been recognized on the assets group, which incurred continuous deficits in cash flow generation arising from operating activities, amounting to as impairment loss for the total book value was 19 million yen (machinery and equipment 13 million yen and buildings and structures 6 million yen, furniture and fixtures 0 million yen) as of the fiscal year ended April 30, 2016. The recoverable amount was determined through measurement of the value in use, which is calculated as zero.

(Business Combinations, etc.)

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

Combination through acquisition

1. Overview of business combination

(1) Name of acquired company and business description

Distant Lands Trading Company, Inc.

Production, procurement, processing, manufacture, roast, wholesales of coffee beans, and etc.

(2) Main reasons for business combination

Distant Lands Trading Company, Inc. (hereinafter referred to as "DLTC") is a specialty coffee company, which sells roasted coffee and green coffee under its own brand and private brands to foodservice and retail customers. Recently, in September 2013 DLTC launched a single serve coffee business within the highest growth segment of the overall coffee industry, which is expected to be a source of further growth. In addition, DLTC owns coffee farms and processing mills in Latin America, engages in production of premium coffee fruit and sources green coffee from the trusted third party farms on a global basis. The vertically integrated system from procurement of raw materials to sales enables DLTC to provide customized coffees and to build the business model distinguished from its competitors.

For the ITO EN group, the acquisition will enable it to reinforce the sales in North America benefiting from DLTC's sales networks and relationships with its customers, and to offer products with wide selection of drinking format besides the RTD beverages in plastic bottles in the tea category, taking advantage of its procurement, technological development, and production power.

ITO EN strongly believes that this acquisition will enable us to continue to grow the overseas business primarily in North America towards our vision of becoming "a global tea company" which contributes to better lifestyles of customers through our tea products.

(3) Date of business combination

February 3, 2015 (share acquisition date)

March 31, 2015 (deemed acquisition date)

(4) Legal form of business combination

Reverse triangular merger under Delaware business combination laws

(5) Post-merger company name

Distant Lands Trading Company, Inc.

(6) Percentage of voting rights acquired

100%

(7) Primary basis of decision to acquire the company

ITO EN's consolidated subsidiary ITO EN (North America) INC. acquired all shares in DLTC with cash compensation.

2. Business term of the acquired company included in the consolidated financial results for the fiscal year

Because the deemed acquisition date is March 31, 2015 and DLTC closed consolidated results based on the financial statements as of March 31, 2015, DLTC's business results are not included in the consolidated statement of income for the fiscal year ended April 30, 2015.

3. Cost of acquisition and price breakdown

Acquisition price: cash	8,335 million yen
Acquisition cost:	8,335 million yen

4. Amount, reason for recognition, method and period of amortization of goodwill

Amount of goodwill is 12,955 million yen and it is mainly due to the excess earning power expected from DLTC in the future. Amortization method and period are straight-line amortization over 15 years.

5. Amount of assets and liabilities received on day of merger and main components

Current assets:	6,428 million yen
Non-current assets:	2,547 million yen
Total assets:	8,975 million yen
Current liabilities:	13,386 million yen
Non-current liabilities:	122 million yen
Total liabilities:	13,509 million yen

Note: Above 4. "Amount of goodwill" is not included in amount of assets and liabilities.

6. Allocation of acquisition cost

The fair value of assets and liabilities was examined at the end of the consolidated fiscal year ended April 30, 2016 and the allocation of acquisition costs has not yet been completed. Thus, accounts were provisionally processed based on the rational data available as at that time.

7. Estimated impact on the consolidated balance sheet for the fiscal year under review assuming that the business combination was completed during the fiscal year under review, and the calculation method used

As it is difficult to estimate the amount, an estimate has not been prepared.

For the fiscal year ended April 30, 2016 (May 1, 2015 - April 30, 2016)

1. Specifics of major revision to the initial allocation of acquisition costs and the amount thereof

With respect to temporary account processing under the rational information, etc. available at the time of the preparation of the consolidated financial statements without the allocation of the acquisition cost because the identification of distinguishable assets and liabilities acquired during the previous fiscal year and the calculation of the current value thereof were not completed as of the date of the business combination involving Distant Lands Trading Company, Inc., the allocation of the acquisition cost was completed for the fiscal year under review.

The amount of goodwill revised upon the review of the allocation of the acquisition cost for the fiscal year under review is as shown below.

Revised Accounting Items	Goodwill's Revised Amount	
Goodwill: (Before Revision)	12,955 million yen	(US$ 107 million)
Current assets:	(430) million yen	
Property, plant and equipment:	(1,482) million yen	
Intangible assets:	(1,354) million yen	
Investments and other assets:	(1,410) million yen	
Adjustments of Acquisition Costs-Other:	(52) million yen	
Total liabilities:	(4,730) million yen	
Goodwill: (After Revision)	8,224 million yen	(US$ 68 million)

2. Amount, reason for recognition, method and period of amortization of goodwill

(1) Amount of goodwill

8,224 million yen (US$ 68 million)

(2) Causes for accrual

With respect to the acquisition cost, the net value allocated to the assets received and liabilities assumed exceeds the acquisition cost, and thus the said excess is processed as goodwill.

(3) Amortization method and period

Equal installments over fifteen 15 years

(Segment Information, etc.)

【Segment information】

1. Outline of reporting segments

The ITO EN Group reporting segments shall be part of our organizational units whose financial information is individually available, and shall be subject to regular review by its Board of Directors for the purpose of deciding the allocation of its managerial resources and evaluating its business performance.

The ITO EN Group is engaged in the manufacture, purchase and sales of products of tea leaves/beverages in both domestic and overseas markets as its mainstay business and also is engaged in restaurant business. As such, our reporting segments consist of "Tea Leaves/Beverage Businesses," "Restaurant Business," and "Others."

2. Basis for calculating sales, profit or loss, assets, liabilities, and other items by reporting segment

Accounting treatment for reporting segments is the same as the treatment described in "Basis of Presentation of Consolidated Financial Statements."

Income of reporting segments is based on operating income.

Sales and transfer of intersegment are based on prevailing market price.

(Application of the accounting standards, etc. regarding business combination)

As stated in "Change in the accounting policy," from the fiscal year under review, the Accounting Standard for Business Combination and other standards are applied and the difference due to the change in the Company's equity of subsidiaries when its control thereof continues is recorded as capital surplus, and the costs related to acquisition are recorded for the fiscal year during which they are incurred. In addition, with respect to any business combination executed after the beginning of the fiscal year under review, the results of the review of the allocation of the acquisition cost upon the settlement of temporary account processing are reflected in the consolidated financial statements for the consolidated fiscal year, including the date of the business combination.

(Change of the depreciation method for facilities attached to buildings and structures)

As stated in "Change in the accounting policy," upon the revision of the Corporation Tax Act, the Company and its consolidated domestic subsidiaries changed the depreciation method for facilities attached to buildings and structures acquired after April 1, 2016 to the method pursuant to the revised Corporation Tax Act from the fiscal year under review.

This change will have an insignificant impact on the segment profits for the fiscal year under review as compared to the previous method.

3. Information regarding amounts of sales, profit or loss, assets, liabilities, and other items by reporting segment.

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

(Figures are rounded down to million yen.)

	Reporting Segment				Adjustment	Total
	Tea leaves /Beverages Business	Restaurant Business	Others	Total		
Net sales:						
(1) Outside	399,986	25,234	5,321	430,541	−	430,541
(2) Intersegment	304	802	2,583	3,691	(3,691)	−
Total net sales	400,291	26,036	7,905	434,233	(3,691)	430,541
Segment earnings (loss)	7,708	3,572	1,138	12,420	(1,026)	11,393
Segment assets (loss)	243,072	12,405	6,780	262,259	23,688	285,947
Others:						
(1) Depreciation	14,605	937	84	15,626	−	15,626
(2) Amortization of goodwill	211	−	55	266	1,059	1,326
(3) Investment in affiliates	285	−	−	285	−	285
(4) Increase in fixed assets	14,997	909	23	15,931	12,955	28,886

Notes: ⅰ.The segment earnings (loss) adjustment (1,026) million yen includes (1,059) million yen in amortization of goodwill and 32 million yen in intersegment transactions.

ⅱ.The segment asset (loss) adjustment 23,688 million yen is unamortized balance of goodwill, and etc.

ⅲ. Segment earnings (loss) are adjusted to the operating income figure on the consolidated statements of operation.

ⅳ. The adjustment sum of 12,955 million yen of the increase amount of "Tangible fixed assets and Intangible fixed assets" is due to the goodwill, appearing from the acquisition of Distant Lands Trading Company, Inc.'s shares.

For the fiscal year ended April 30, 2016 (May 1, 2015 - April 30, 2016)

(Figures are rounded down to million yen.)

	Reporting Segment				Adjustment	Total
	Tea leaves /Beverages Business	Restaurant Business	Others	Total		
Net sales:						
(1) Outside	431,995	27,536	6,047	465,579	－	465,579
(2) Intersegment	358	215	2,590	3,164	(3,164)	－
Total net sales	432,353	27,751	8,638	468,744	(3,164)	465,579
Segment earnings (loss)	14,904	2,879	904	18,689	(1,445)	17,243
Segment assets (loss)	250,584	13,773	6,603	270,961	16,741	287,702
Others:						
(1) Depreciation	15,041	882	152	16,075	－	16,075
(2) Amortization of goodwill	211	－	－	211	1,613	1,824
(3) Investment in affiliates	319	－	－	319	－	319
(4) Increase in fixed assets	13,764	2,318	23	16,106	－	16,106

Notes: ⅰ.The segment earnings (loss) adjustment (1,445) million yen includes (1,613) million yen in amortization of goodwill and 167 million yen in intersegment transactions.

ⅱ.The segment asset (loss) adjustment 16,741 million yen is unamortized balance of goodwill, and etc.

ⅲ. Segment earnings (loss) are adjusted to the operating income figure on the consolidated statements of operation.

(Notes to Per Share Data)

For the fiscal year ended April 30, 2015 and 2016 (May 1, 2014 - April 30, 2015 and May 1, 2015 - April 30, 2016)

	Yen	
	4/30/2015	4/30/2016
Common Stock		
Net assets per share	1,031.19	1,026.26
Net income per share	56.60	67.37
Diluted net income per share	56.46	67.21
Class-A Preferred Stock		
Net assets per share	1,036.19	1,031.26
Net income per share	66.60	77.37
Diluted net income per share	66.46	77.21

Note: The basis for calculating net income per share and diluted net income per share is as follows:

	Yen	
	4/30/2015	4/30/2016
(Net income per share)		
Net income (Million yen)	7,292	8,615
Net income pertaining to common stock (Million yen)	5,017	5,974
Net income pertaining to Class-A Preferred Stock (Million yen)	2,274	2,641
Weighted average number of shares of common stock (Thousands of shares)	88,647	88,676
Weighted average number of shares of Class-A Preferred Stock (Thousands of shares)	34,149	34,140
(Diluted net income per share)		
Adjustments to net income (Million yen)	—	—
Increase in common stock (Thousands of shares)	317	294
(*Stock acquisition rights (Thousands of shares))	(317)	(294)
Net income pertaining to common stock (Million yen)	5,022	5,979
Net income pertaining to Class-A Preferred Stock (Million yen)	2,269	2,635
Summary of potentially dilutive shares not included in the calculation of diluted net income per share due to their anti-dilutive effect	—	—

(Notes to Subsequent Events)

Not applicable

6. Non-Consolidated Financial Statements

(1) Non-Consolidated Balance Sheets

as of April 30, 2015 and April 30, 2016

	Million yen	
	4/30/2015	4/30/2016
Current assets:		
Cash and deposits	36,388	38,734
Notes receivable – trade	178	191
Accounts receivable－trade	45,044	47,418
Merchandise and finished products	19,077	17,976
Raw materials and supplies	6,676	5,807
Prepaid expenses	1,630	1,792
Deferred tax assets	1,354	1,946
Short-term loans to affiliates	2,468	2,985
Accounts receivable-other	12,864	10,821
Other	440	227
Allowance for doubtful accounts	(96)	(43)
Total current assets	**126,025**	**127,858**
Fixed assets:		
Property, plant and equipment;		
Buildings, net	10,187	10,170
Structures, net	247	309
Machinery and equipment , net	1,877	1,609
Vehicles, net	13	28
Tools, furniture and fixtures, net	1,917	3,225
Land	13,583	13,585
Lease assets, net	31,113	27,022
Construction in progress	59	1,626
Subtotal	**59,001**	**57,576**
Intangible fixed assets;		
Right for leasehold land	80	80
Trademark right	0	1,375
Software	4,019	3,300
Telephone rights	89	89
Other	0	25
Subtotal	**4,190**	**4,871**
Investments and other assets;		
Investments in securities	4,841	4,610
Investments in affiliates	39,689	43,944
Capital investments	9	9
Capital investments in affiliates	834	834
Long-term loans to affiliates	14,850	13,816
Claims provable in rehabilitation	303	236
Long-term Prepaid expenses	161	278
Deferred tax assets	840	1,046
Lease and guarantee deposits	2,603	2,559
Insurance premium	245	251
Other	1,764	1,861
Allowance for doubtful accounts	(387)	(301)
Subtotal	**65,756**	**69,146**
Total fixed assets	**128,948**	**131,594**
Total assets	**254,974**	**259,453**

Non-Consolidated Balance Sheets – Continued

	Million yen	
	4/30/2015	4/30/2016
Current liabilities:		
Accounts payable－trade	26,012	26,165
Current portion of bonds	―	20,000
Lease obligations	10,436	9,605
Accounts payable－others	389	311
Accrued expenses	19,597	20,970
Income taxes payable	―	2,947
Income in advance	14	14
Accrued bonuses	2,186	2,585
Other	1,743	1,708
Total current liabilities	**60,381**	**84,307**
Non-current liabilities:		
Bonds payable	20,000	―
Long-term loans payable	29,072	29,072
Lease obligations	18,557	15,140
Allowance for retirement and severance benefits for employees	5,380	5,886
Deferred tax liabilities on revaluation	758	719
Other	243	281
Total non-current liabilities	**74,012**	**51,100**
Total liabilities	**134,393**	**135,407**
Current Net Assets:		
Shareholders' equity		
Capital stock	19,912	19,912
Capital surplus		
Legal capital surplus	20,259	20,259
Total Capital surplus	**20,259**	**20,259**
Retained earnings		
Legal earnings reserve	1,320	1,320
Other earned surplus		
Reserve for reduction of acquisition cost of fixed assets	525	536
Special reserve fund	76,116	76,116
Earned surplus carried forward	7,852	11,528
Total retained earnings	**85,814**	**89,501**
Treasury stock, at cost	(1,287)	(1,302)
Total shareholders' equity	**124,697**	**128,370**
Valuation, translation adjustments and others:		
Valuation difference on available-for-sale securities	1,935	1,733
Deferred gains (losses) on hedges	29	(45)
Reversal of revaluation reserve for land	(6,092)	(6,053)
Total accumulated gains (losses) from valuation, translation adjustments and others	**(4,127)**	**(4,364)**
Stock acquisition rights	**10**	**39**
Total net assets	**120,580**	**124,045**
Total liabilities and net assets	**254,974**	**259,453**

(2) Non-Consolidated Statements of Income

for the fiscal year ended April 30, 2015 and 2016 (May 1, 2014 - April 30, 2015 and May 1, 2015 - April 30, 2016)

	Million yen	
	4/30/2015	4/30/2016
Net sales	**353,754**	**365,276**
Cost of sales	189,464	195,047
Gross profit	**164,289**	**170,229**
Selling, general and administrative expenses	157,811	158,295
Operating income	**6,478**	**11,934**
Non-operating income:		
Interest and dividends income	758	3,047
Other	1,066	499
Total non-operating income	1,825	3,547
Non-operating expenses:		
Interest expense	960	862
Interest on bonds	98	98
Other	314	1,698
Total non-operating expense	**1,374**	**2,660**
Ordinary income	**6,929**	**12,821**
Extraordinary gains:		
Gain on sales of fixed assets	0	1
Gain on sales of investment securities	0	0
Other	0	—
Total extraordinary gains	**0**	**1**
Extraordinary losses:		
Loss on disposal of fixed assets	14	21
Loss on valuation of investment securities	—	3
Impairment losses	72	—
Other	0	2
Total extraordinary losses	**86**	**27**
Income before income taxes	**6,844**	**12,795**
Income taxes - current	**2,224**	**4,502**
Income taxes - deferred	**385**	**(648)**
Income taxes	**2,610**	**3,854**
Net income	**4,233**	**8,941**

(3) Non-Consolidated Statements of Changes in Shareholders' Equity

for the fiscal year ended April 30, 2015 (May 1, 2014 - April 30, 2015)

(Million yen)

	Shareholders' equity							
		Capital surplus		Retained earnings				
					Other retained earnings			
	Capital stock	Legal capital surplus	Total capital surplus	Legal retained earnings	Reserve for advanced depreciation of noncurrent assets	General reserve	Retained earnings brought forward	Total retained earnings
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 of reserve for advanced depreciation of noncurrent assets of 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 of items other than shareholders' equity								
Total changes of 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				Subscription rights to shares	Total net assets
	Treasury stock	Total shareholders' 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 of reserve for advanced depreciation of noncurrent assets of 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 of items other than shareholders' equity			954	27	78	1,060	(42)	1,018
Total changes of 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

for the fiscal year ended April 30, 2016 (May 1, 2015 - April 30, 2016)

(Million yen)

	Shareholders' equity							
		Capital surplus		Retained earnings				
					Other retained earnings			
	Capital stock	Legal capital surplus	Total capital surplus	Legal retained earnings	Reserve for advanced depreciation of noncurrent assets	General reserve	Retained earnings brought forward	Total retained earnings
Balance at the beginning of the current period	19,912	20,259	20,259	1,320	525	76,116	7,852	85,814
Cumulative effect of changes in accounting policies								
Restated balance	19,912	20,259	20,259	1,320	525	76,116	7,852	85,814
Changes during the current period								
Dividends from surplus							(5,254)	(5,254)
Provision of general reserve								
Increase of reserve for advanced depreciation of noncurrent assets of changes in tax rate					13		(13)	―
Reversal of reserve for advanced depreciation of noncurrent assets					(2)		2	―
Net income							8,941	8,941
Purchase of treasury stock								
Disposal of treasury stock							0	0
Net changes of items other than shareholders' equity								
Total changes of items during the period	―	―	―	―	10	―	3,676	3,687
Balance at the end of the current period	19,912	20,259	20,259	1,320	536	76,116	11,528	89,501

	Shareholders' equity		Valuation and translation adjustments				Subscription rights to shares	Total net assets
	Treasury stock	Total shareholders' 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	(1,287)	124,697	1,935	29	(6,092)	(4,127)	10	120,580
Cumulative effect of changes in accounting policies								
Restated balance	(1,287)	124,697	1,935	29	(6,092)	(4,127)	10	120,580
Changes during the current period								
Dividends from surplus		(5,254)						(5,254)
Provision of general reserve								
Increase of reserve for advanced depreciation of noncurrent assets of changes in tax rate		―						―
Reversal of reserve for advanced depreciation of noncurrent assets		―						―
Net income		8,941						8,941
Purchase of treasury stock	(15)	(15)						(15)
Disposal of treasury stock	0	1						1
Net changes of items other than shareholders' equity			(201)	(74)	39	(237)	29	(207)
Total changes of items during the period	(14)	3,673	(201)	(74)	39	(237)	29	3,465
Balance at the end of the current period	(1,302)	128,370	1,733	(45)	(6,053)	(4,364)	39	124,045

7. Other

(1) Change in Officers

For further details, please refer to the “Notice of Relocation of Officers and Corporate Structure Changes” document, disclosed on 26 April 2016 at our Company’s homepage:

http://www.itoen.co.jp/finance_ir/ir-news